

Activity 7.1 What does 'decision-making' mean?

Before reading the chapter, write some notes on what you think 'decision-making' means. Choose the organisation or people who may be able to help you to learn about the topic. You may find it helpful to discuss it with a manager you know, or use an activity you have managed.

- Identify a decision to use for this activity, and describe it briefly.
- Was it an easy decision to make, or complex and messy? Why was that?
- Can you identify the conditions in which people made the decision?
- Do they believe they made it through a logical, rational process, or by some other route?

Keep your notes as you will be able to use them later.

7.1 Introduction

The chapter case study outlines the recent history of one of Europe's biggest and most successful companies, which is now a global player in the home furnishing market. To develop the business from a Swedish general retailer to its present position, senior managers at IKEA had to decide where to allocate time, effort and other resources. Over the years, their decisions paid off and they now face new issues, such as how to attract customers and well-qualified staff against competition from other companies. They also face critical comments from environmental campaigners about their sources of timber, and need to decide how to respond. How they do so will shape IKEA's future. A constant dilemma for managers is how much to base decisions on quantitative, structured data – 'evidence' – and how much to rely on qualitative, unstructured ideas and hunches – 'judgement'. Both approaches have their place – the skill is to recognise the conditions when each is suitable.

The performance of every organisation reflects (as well as luck and good fortune) the decisions which people at all levels of an organisation make as they see problems that need attention, or ideas they can use. Resources are limited, there are many demands and people have different goals. Choices relate to all aspects of the management task – inputs (how to raise capital, who to employ), outputs (what products to make, how to distribute them) and transformations (how to deliver a new service, how to manage the finances). In 2011, Nokia decided to form an alliance with Microsoft to develop a new mobile phone operating system, rather than with Google – which would have allowed it to use the successful Android system. This was a critical decision, with significant risks for the company, which will affect whether it adds sufficient value to ensure survival. Choice brings tension as we worry about 'what if' we had selected the other option. Speed is sometimes more important than certainty – the chief executive of Eli Lilly (pharmaceuticals) recalled that when he took over, he realised the company needed to make decisions more quickly:

We've had the luxury of moving at our own pace. Sometimes you can think for so long that your competitors pass you by. We need to act with 80 per cent, not 99.5 per cent, of the information.

He gives the example of a biotech company for which a rival company made a take-over offer, triggering a rapid and ultimately successful counter-bid from Lilly.

We had them on our radar, and we had no premonition the other company would bid. But we were well-prepared and, within a couple of days, we convinced ourselves that we should get into the process. (From an article by John Lechleiter, *Financial Times*, 6 April 2009)

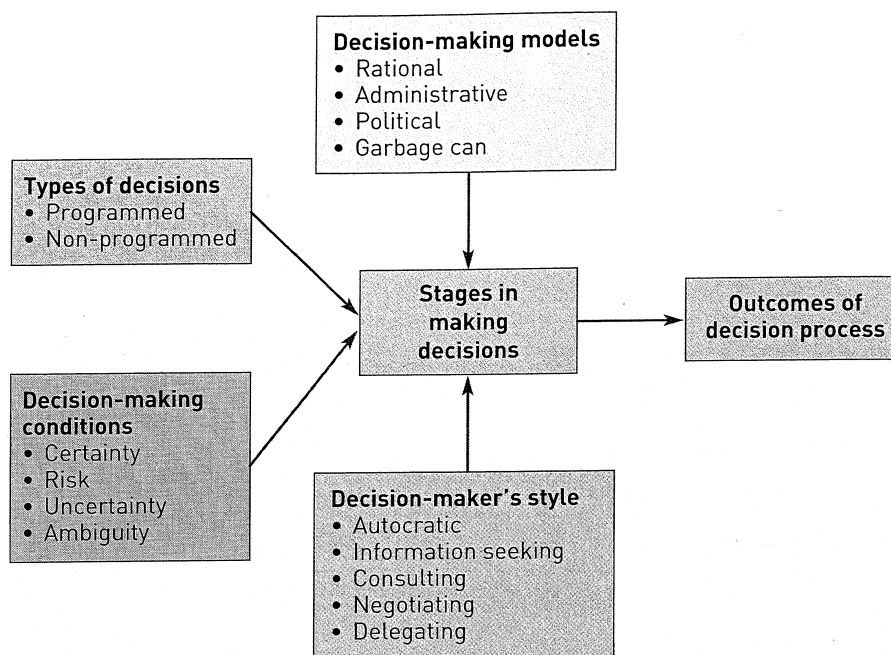


Figure 7.1
Overview of
decision-making
in organisations

Figure 7.1 illustrates the themes of the chapter, showing that decision-making involves:

- identifying the type of decision;
- identifying the conditions surrounding the decision;
- using one or more models to guide the approach;
- selecting a decision-making style; and
- working through the stages in making a decision.

The chapter outlines the iterative steps in any decision process, and explains the difference between 'programmed' and 'non-programmed' decisions. It identifies four 'conditions' surrounding a decision, compares four models of the process, shows how bias affects decisions and finally examines how managers can shape the context of decision-making.

7.2 Stages in making decisions

A **decision** is a specific commitment to action (usually a commitment of resources).

A **decision** is a specific commitment to action (usually a commitment of resources). People make such choices at all levels – some affecting the business significantly (Barclays Bank deciding during the 2008 banking crisis to raise capital privately, rather than accept support from the UK Government – The Royal Bank of Scotland and HBOS made the opposite decision). Others affect local operations – whether to recruit staff, how much to spend on advertising next week.

Management in practice

Deciding which treatment to provide www.nice.org.uk

Expenditure on health care is limited by competing demands for public funds, while scientific advances bring new treatments to prolong life – and so increase the demand for services from an aging population.

This means that managers at all levels in the health service decide how to ration care; which patients or conditions should receive treatment, and which not. People at the centre do most of this implicitly, when they

Case study **IKEA** www.IKEA.com

At the end of 2010 there were 316 IKEA home furnishing stores in 38 countries (up from 301 a year earlier). The company recorded total sales in 2010 of 23.8 billion euros, up from 22.7 billion in 2009. In that year, management had decided to slow the rate at which they would open new stores, and to reduce the 130,000 staff by about 5,000.

The IKEA Concept is founded on a low-price offer in home furnishings. It aims to offer a wide range of well-designed home furnishing products at prices so low that as many people as possible can afford them. The way IKEA products are designed, manufactured, transported, sold and assembled all contribute to transforming the Concept into reality.

The Concept began when Ingvar Kamprad, a Swedish entrepreneur had the idea of offering well-designed furniture at low prices. He decided to achieve this not by cutting quality, but by applying simple cost-cutting solutions to manufacture and distribution. IKEA's first showroom opened in 1953 and until 1963 all the stores were in Sweden. In that year, the international expansion began with a store in Norway – it has entered one new country in almost every year since then.

The objective of the parent company, Inter IKEA Systems BV, is to increase availability of IKEA products by the world-wide franchising of the IKEA Concept through very large stores near to major cities. IKEA employs its own designers, though other companies manufacture most of the products. It is renowned for modern innovative design and for supplying large products in a form that customers must assemble themselves. An example of its innovative approach is 'Children's IKEA', introduced in 1997. The company worked with child psychologists to develop products that would help children develop their motor skills, social development and creativity. Children helped to make the final selection of the range.

The company employs about 130,000 staff – whom it calls co-workers. In 1999, Ingvar Kamprad initiated the Big Thank You Event as a millennium reward for the co-workers. The total value of all sales on that day was divided equally among everyone in the company – for most it was more than a month's pay.

The company vision is to create a better everyday life for many people, and acknowledges that it is the co-workers who make that possible. They aim to give people the possibility to grow both as individuals



IKEA Ltd

and in their professional roles 'we are strongly committed to creating a better life for ourselves and our customers'. The company tries to recruit staff who share its values – including togetherness, cost-consciousness, respect and simplicity. The website explains that, as well as being able to do the job, it seeks people with many other personal qualities such as a strong desire to learn, the motivation to continually do things better, simplicity and common sense, the ability to lead by example, efficiency and cost-consciousness:

These values are important to us because our way of working is less structured than at many other organisations.

In mid 2009, the founder of IKEA warned that the Swedish retailer must lose more jobs after the recession squeezed sales of flat-pack furniture. Ingvar Kamprad believed that the 5,000 jobs that the company had already shed would not be enough to deal with the tougher economic climate.

We need to decrease the number of staff further, particularly within manufacturing and logistics. It's about adjusting to sales being a lot less and becoming more efficient.

The Swedish billionaire revealed that sales were running at about 7 per cent below its target, adding that the company could no longer match its recent rate of expansion when up to 20 stores had opened every year. Kamprad said:

The forecast is that our margins and profits are decreasing substantially this year. This is proof that we have been too negligent in how we take care of our existing stores. Actually, I have long

tried to warn about our excessive focus on expansion, and now the board has decided to hit the brakes,

A spokeswoman confirmed that there may be further job cuts, but insisted that the company was also hiring at its new stores, and was committed to opening between 10 and 15 stores a year. It had, however, suspended its investment in Russia, a major target, blaming the 'unpredictability of administrative processes'.

In June 2009, the company announced it was abandoning efforts to set up stores in India, after failing to persuade the Indian government to ease restrictions on foreign investment. It has tried to do this for over two years, and had believed the change was imminent – but it did not happen. IKEA's Asia-Pacific retail manager said:

We still face a very high level of uncertainty. It is a very sensitive political issue in India and it may take a new government more time to negotiate with the different parties and agree the changes that are required to open up and develop the retail sector.

More generally, managers in IKEA have placed great emphasis on developing a strong culture within the company, transmitting this to new employees and reinforcing it with events for existing ones. The belief is that if co-workers develop a strong sense of shared meaning of the IKEA concept, they deliver good service wherever in the group they are. As Edvardsson and Enquist (2002) observe:

The strong culture in IKEA can give IKEA an image as a religion. In this aspect the *Testament of a Furniture Dealer* [written by Kamprad and given to all co-workers] is the holy script. The preface reads: 'Once and for all we have decided to side

with the many. What is good for our customers is also good for us in the long run.' After the preface the testament is divided into nine points: (1) The Product Range – our identity, (2) The IKEA Spirit. A Strong and Living Reality, (3) Profit Gives us Resources, (4) To Reach Good Results with Small Means, (5) Simplicity is a Virtue, (6) The Different Way, (7) Concentration of Energy – Important to Our Success, (8) To Assume Responsibility – A Privilege, (9) Most Things Still Remain to be Done. A Glorious Future! (p. 166)

Sources: Edvardsson and Enquist (2002); *Guardian*, 7 July 2009; company website.

Questions

- 1 Visit the company's website, and note examples of recent decisions that have shaped the company.
- 2 Which of the decisions in the case study, or which you have identified on the website, seem to be 'programmed', and which 'non-programmed'? (See Section 7.3.)
- 3 Reflect on IKEA's decision to invest in Russia, and its attempts to enter India. What risks, uncertainties or ambiguities were probably associated with these situations? (See Section 7.4.)
- 4 In which decisions mentioned in the case study might managers have been guided by one or more of the models described in Section 7.5? Try to match at least two of the models with a decision.
- 5 What insights does the case give into decision-making processes at IKEA? (See Section 7.7.)