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Strategic Leadership and Decision Making in Family Businesses

**Research Report Submitted in Partial Fulfillment
of the Requirements of EMBA**

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Dedication

To my wife

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CHAPTER I

INTRODUCTION

One of the critical requirements for effective leadership is sound decision making. This is especially true as managers soar ever higher into the ranks of middle and upper management. Typically, as this progression occurs, leaders become more focused on strategic decisions.

Strategic decision making is the process of selecting alternatives among the existing situation to make decision that have long term implication for the organization performance. Good decision making, will increase the overall organizational health and effectiveness. Organizations are shaped by the stream of strategic decisions its managers make over time and by how they make those decisions.

Garvin and Roberto wrote the article, "What You Don't Know About Decision Making," which was published in the Harvard Business Review in September 2001. They state, "Decision making is arguably the most important job of the senior executive and one of the easiest to get wrong."

Leaders usually perform decision making functions involving varying degrees of *volatility, complexity, uncertainty, and ambiguity*. Some of these decisions use explicit, systematic procedures designed to ensure that relevant variables are included, while other decision making procedures are largely intuitive and perhaps even "off the top of the head." The estimate of the situation and mission area analysis are two widely used procedures for systematic decision making. At the strategic level, something else is needed. As problems get more complex, multiple perspectives and more elaborate frameworks are required to accommodate the multidisciplinary and often inter-related decision inputs.

In a dynamic and uncertain environment, strategic decision making is important because it can provide managers with a systematic and comprehensive means for taking into account the external environment, focusing on an organization's strength, minimizing weaknesses, and identifying opportunities in which an organization can have a competitive advantage. However, the decision may still fail if it is not implemented properly.

Implementation causes the chosen course of action to be carried out within the organization. It is that moment in the total decision-making process when the choice is transformed from an abstraction into an operational activity.

Implementation of a strategic decision includes conveying the decision to those affected and getting their commitment to it. It is an integral component of successful decision making and attaining managerial objectives. No matter how

effective strategic planning has been, it cannot succeed if it is not implemented properly. Without effective implementation of a decision, the outcome may not be according to desired results.

1.1 THE IDEA OF STRATEGIC DECISIONS

Strategic decisions are far reaching and consequential for the organization and typically involve the commitment of vast resources. Strategic decisions should be made within the context of a long-term view or vision, of both the desired end-state and potentially undesired end-states brought about by the contemplated course of action.

Strategic decisions often must be made under conditions of substantial uncertainty, particularly when complex policy objectives must be reformulated in the face of a dynamic, sometimes volatile strategic environment. Initial assumptions about the environment and other players may be incorrect or incomplete. The range of factors relevant to strategic decisions is seldom fully known, at least to any one player in the decision process.

The strategic decision making process usually deal with four barriers (*VUCA*): rate of environmental change (*volatility*), unpredictability of change (*uncertainty*), the intricacy of key decision factors (*complexity*), and vagueness about the current situation and potential outcomes (*ambiguity*).

Many key events are ambiguous, especially when dealing cross-culturally, leading to differences in interpretation and contextual meaning. Such conditions foster ideological biases, special interests, and tensions between organizational subcultures. Thus, a strategic leader must know how to identify sound inputs embedded in a swamp of biased arguments.

The decision making process must ensure that all competing views are heard and that priorities among them are sorted out. More importantly, the process must ensure some reasonable level of agreement or consensus about the intended end-state and a commitment to the course of action. Without agreement on goals, there can be little hope of collective effort.

There also is the dilemma of assumptions. Some assumptions taken as incontrovertible may in fact be questionable.

Vroom and Searle in their article "Educating managers for decision making and leadership (2003) discussed the importance of participation in decision making based on the results of Professor Paul Nutt (2002) from a study of over 400 decisions that had been made by managers in medium to large organizations in the USA, Canada and Europe. He had interviewed key participants (including the managers making the decision) over a two-year period after the decision was made. Surprisingly, over half of the decisions failed. The decisions were never implemented or subsequently unraveled during the two-year observation

period. What was the cause of these failed decisions? To answer these questions, Professor Nutt collected data on many aspects of the decision process which were subsequently used to predict the ultimate success or failure of the decision.

Some of the predictors of decision success pertained to deficiencies in the technical aspects of the decision process. Inadequate framing of the problems and premature closure on a solution are typical examples, but the best predictors of success or failure could be found not in cognitive processes but in social ones. *The most important is the degree of involvement and participation of key stakeholders in the development of the problem solution.*

Decisions that used participation to foster implementation succeeded more than 80 per cent of the time. Nutt's findings remind us that effective decision making is not merely a matter of decision quality but also of ensuring that the decision will have the necessary support and commitment for its effective implementation. In this sense decision making merges with issues of leadership, particularly the degree and manner in which a leader involves others in the decision-making process.

A strategic leader can utilize decision-making teams as a powerful asset in successfully coping with the environment. Such teams improve their decision making by using *a process of consensus*, a process useful when developing strategy. Knowing how to *forge consensus* for policy development and implementation is critical to successful management and leadership.

Consensus decision making offers the benefit of using more fully the experience, judgment, perceptions, and thinking of a team of people. To those who have not participated in consensus decision making, the process may seem frustrating. But, mastery of small group consensus decision making processes may be the key to achieving a successful resolution of whatever crisis appears in this complex environment. Because of the nature of modern issues in the global environment, strategic decision makers must rely on teams to solve problems and to make policy recommendations. A high performing team can be a positive force in assessing strategic situations.

Effective strategic leaders employ a strategic team to help them in the visioning process. This team "sees" the strategic environment from various frames of reference, visualizing the effectiveness of proposed strategies over time. Teams help leaders to understand a complex situation and gain insight into how to achieve long-term objectives, allocate resources and integrate operational and tactical decisions into strategic plans.

A team leader has two overriding responsibilities: First, the leader is accountable for the effective functioning of the team. The leader monitors team performance and takes action to improve team effectiveness. Teams tend to perform best when responsibilities are shared and leadership tasks are

distributed among members. Empowered team members are more likely to take responsibility for team success. Second, the leader is responsible for developing a stable leadership structure. Many decision-making teams tend to be more effective when the framework for leadership is clear. These teams tend to work more efficiently, have fewer interpersonal problems, and produce better outputs.

1.2 DECISION MAKING IN FAMILY BUSINESS

Small and medium sized family business enterprises (SMEs) play a key role in the modern market economy. The success of small firms/family business is to a large extent dependent upon strategic decision-making practices (Robinson & Pearce, 1983). Strategic decisions made by small and medium sized enterprises family business entrepreneurs (owners/directors of family businesses) form the heart of entrepreneurship and can therefore be considered as essential for the dynamics in the economy.

Past strategic decision-making research focuses mostly on the 'procedural rationality' of decisions in large multinational firms. These processes are often complex, involve multiple actors and are frequently the result of politics (e.g. Eisenhardt & Zbaracki, 1992). However, there is a feeling among many researchers (e.g. Papadakis et al., 1998, Brouthers, 1998; Gilmore and Carson, 2000) that the decision-making processes of independent entrepreneurs and managers of large firms may differ, which implies that many of the strategic decision-making models may not be directly applicable suitable for explaining strategic decisions in SMEs. Busenitz & Barney (1997) assert that entrepreneurs are more susceptible to the use of decision-making biases and heuristics than managers in large organizations, which implies that there is indeed a different decision-making process present in small family owned firms. Other studies focused on the distinction between entrepreneurs and non-entrepreneurs in terms of cultural differences, the degree of comprehensiveness between entrepreneurs and professional managers, or the differences of strategic decision-making processes between entrepreneurs and owner managed firms (Mador, 2000).

Usually family businesses benefit from an informed, experienced Team/Board managing risk and decision making more effectively by having a governance structure that monitors management of investments, succession planning and strategic planning for the family. So, using a board of professionals and family members with a clear and intimate knowledge of the family's goals to consider issues and help make appropriate strategic decisions.

With respect to a definition of family business, there is no common definition that can be adopted. This is due to the wide scope of family business ranging from small shops to large family-controlled corporations. Mustakallio (2002) categorizes different definitions according to six themes: (1) *ownership*, (2)

management, (3) generational transfer, (4) the family's intention to continue as a family business, (5) family goals, and (6) interaction between the family and business.

Different types of owners have different types of involvement in the business and its board. Long-term owners that often engage themselves in the development of the business strategies will often be more involved in the board, which is often the case for family businesses (Huse, 2003b). Studies show that ownership structure is a main determinant of board activity (Huse and Gabrielsson, 2002). They found that in family businesses there were several types of boards, both active and passive ones, and they also found that *ownership structure influence the various roles the board.*

Detailed reviews of definitions indicate that there is no clear separation between family and non-family businesses and that no single definition can capture the difference between the two types of entities. Another definition of a family business is according to Mustakallio (2002) "a kinship group of people related by blood or marriage or comparable relationship". This research uses the definition which will be based on the responses from CEOs of Egyptian firms to the questionnaire survey (Appendix I) and the percentage of how many of these answered yes on the statements for the main definition ("*I perceive the business to be a family business*").

1.3 RESEARCH OBJECTIVES

The present research will focus on *group decision-making*. Since the board of directors has a central position in companies and organizations and plays an active role, indicating that it is faced with making decisions on a frequent basis, it is natural to chose the board room as the context of where decisions are being made.

Family businesses often have board members that are part of the family or that protect the family's interests. They are often not aware that this might damage the business, since the business then might be narrow in its approach towards different situations. At the same time it can be positive for the business, because family members tend to have a long-term focus for what is best for the business. Hence, *this case study looks into Egyptian family businesses and explores how decision-making culture affects board performance.*

1.4 RESEARCH QUESTION

As a case study, the present research report will explore board decision-making processes in Egyptian family businesses to answer the following question:
How Egyptian board Decision-making culture affect the board performance in family businesses?