

STRATEGIC DECISION-MAKING IN A PROFESSIONAL SERVICE FIRM

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Strategic management research within construction has neglected the professional service firm (PSF). Mintzberg *et al.*'s (1976) general model of the strategic decision process is applied to the decision to 'restructure' a cost and project management consultancy. The study focuses upon the activities to reach the initial decision to 'restructure' and not the implementation of the decision itself. The research is a pilot study in the first year of a part-time PhD and was carried out in an inductive and ethnographical manner, in order to develop a greater understanding of PSFs for future hypothesis generation and testing within the PhD. Conceptual modelling of the decision is achieved but the model is considered to lack identification of critical implicit activities in the process. It is suggested that the model confuses reaching a decision with implementing a decision and that the identification of the numerous subsequent interrelated decisions becomes difficult. It is also suggested that a top-down strategy within a PSF is not acceptable. The diagnosis of the problem was considered too vague and consequently it became difficult to see what the real driver for change was at all. Future research questions for the development of the PhD are proposed.

Keywords: professional service firm, strategic decision-making, pilot study.

INTRODUCTION

Strategic management theory across all industries is predominantly focused upon industrial or product based companies rather than professional service firms (PSFs). As a result it has been questioned whether existing management theory can be generalized to PSFs (Maister, 1993, Løwendahl, 2000). Within the construction industry, management research has tended to focus upon the 'project' or 'individual' rather than the 'firm', and the research into strategic management of the firm is consequently limited. Specifically, research in the field of PSFs is limited (Langford and Male, 1991, Winch and Schneider, 1993, Boxall, 1999, Côte *et al.*, 1999) and generally, the research is dominated by the application of competitive advantage theory (Male and Stocks, 1991, Betts and Ofori, 1992 and 1994, Öz, 2001).

Within the UK construction industry PSFs include architects, engineers and surveyors. These firms are collectively referred to as consultants and are most commonly unlimited liability partnerships. At the end of 1996 (CCCIS, 1997) the PSF sector, within the UK construction industry, had an annual fee income of five billion, one billion of which was from overseas. The largest practices, typically with fee income exceeding five million, represented one percent of the total number of practices. These top practices employed forty percent of the 150,000 human resources in the sector and received forty eight percent of the total income.

This research applies a general model of the strategic decision process (Mintzberg *et al.*, 1976) to investigate a strategic decision within a PSF. The author of this paper is a

manager within the PSF and the approach adopted is 'inductive' and 'ethnographic'. Given the limited research into the field of strategic management in PSFs, this research offers an insight into strategic decision-making in a large cost and project management consultancy and is a step in developing a greater understanding of PSFs for future hypothesis generation and testing. The research investigated the decision to 'restructure' the company in organizational and legal form. It focused upon the activities to reach the initial decision to 'restructure' and not the implementation of the decision itself.

MINTZBERG'S GENERAL MODEL OF THE STRATEGIC DECISION PROCESS

In their paper *The structure of "unstructured" decision processes* (Mintzberg *et al.*, 1976), Mintzberg *et al.* define the characteristics of strategic decisions as novel, complex and open ended with decisions not so much made under uncertainty but within a continuous state of ambiguity, where almost nothing is given or easily determined. Strategic in this sense "simply means important, in terms of action taken, the resources committed, or the precedents set"(p246). A 'decision' being a commitment to action and a 'decision process' being "a set of actions and dynamic forces that begins with the identification of a stimulus for action and ends with the specific commitment to action" (p246). 'Unstructured' relates to "decision processes that have not been encountered in quite the same form and for which no predetermined and explicit set of ordered responses exists in the organization" (p246)

Mintzberg's *et al.*'s (1976) field study of twenty-five 'strategic decision processes' across a range of organizations suggests that there is a basic structure underlying these 'unstructured' processes. A general model of the strategic decision process was constructed, see Figure 1, which tries to show that whilst strategic decisions are immensely complex and dynamic, it is possible to give them conceptual structuring. Mintzberg *et al.* find that the structure can be described by twelve elements comprising three 'central phases', three sets of 'supporting routines' and six sets of 'dynamic factors'. The general model describes the interrelationships among them and the decision processes studied are shown to fall into seven types of 'path configurations'. Three decision stimuli sit in a continuum, namely 'opportunities' at one end (voluntary decisions to improve a secure position), 'crises' at the other (decision responses to intense pressures) and 'problems' in the middle; each capable of integrating or moving along the continuum. The study found evidence to suggest that strategic decision-making includes "both the exploitation of opportunities and the reaction to problems and crises, perhaps with the latter more prevalent" (p254).

Mintzberg *et al.* (1976) identify three 'central phases' of the model. The first 'central phase' is the 'identification' phase, where it is realized that decisional activity is required. This phase includes two routines, namely 'decision recognition' and 'diagnosis'. 'Decision recognition' is the identification of stimuli that create decisional activity. 'Diagnosis' is how management seeks to comprehend the stimuli. Their study suggests that formal diagnosis is most common in the mild problem range of the opportunity-problem-crises continuum.

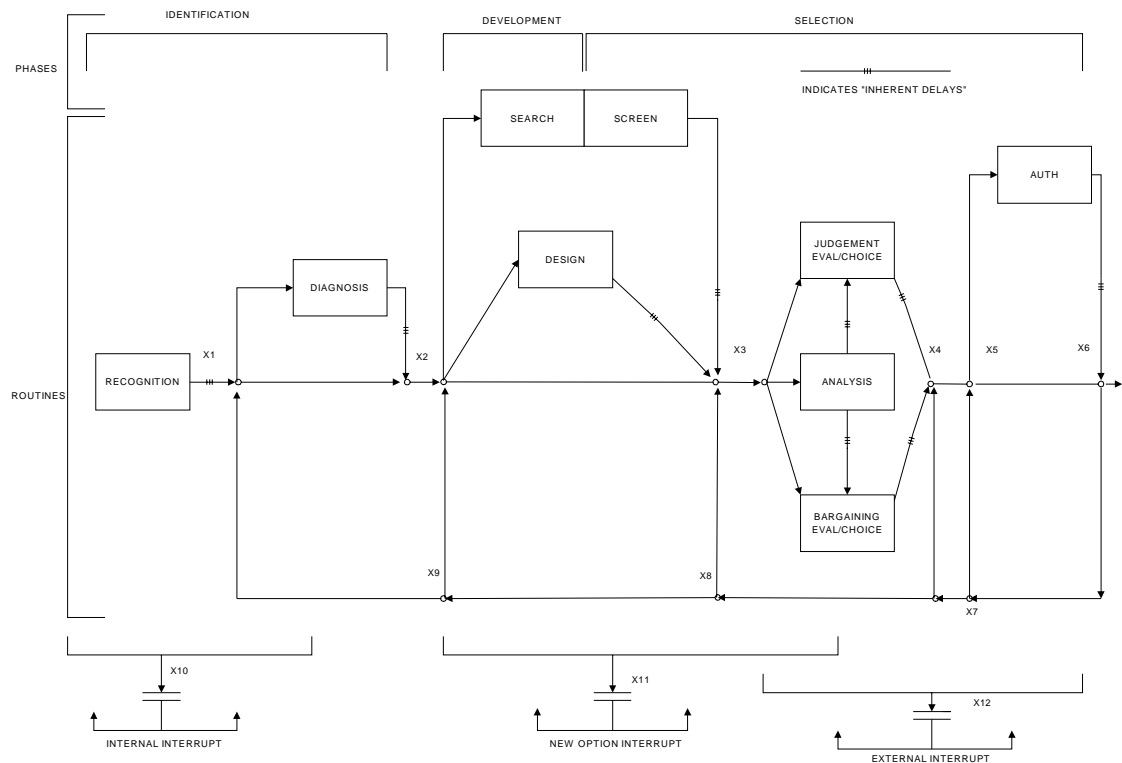


Figure 1: A general model of the strategic decision process (Source: Adapted from Mintzberg *et al.*, 1967)

The second 'central phase' is the 'development' phase, which is considered to be the heart of the process and Mintzberg *et al.*'s (1976) study revealed that it tends to demand most of the decision-making resource. This phase contains the 'search routine', being the convergent thinking for ready-made solutions and the 'design routine' being the divergent thinking for developing custom made solutions. Their study revealed that organizations would tend to consider custom-made solutions only after repeated failure in search of a ready-made solution. Having done so the organization will only design one fully developed custom-made solution. Evidence was also found that selection is a multistage and iterative process with progressively deepening investigation of alternatives.

The third 'central phase' is the 'selection' phase and consists of the 'screen routine', the 'evaluation/choice routine' and the 'authorization routine'. The 'screen routine' is the filtering of alternatives, but little evidence was found by Mintzberg *et al.* (1976) and was therefore considered to be implicit in the process. The 'evaluation/choice routine' uses three modes of selection: 'judgment' by the individual, 'bargaining' within groups and 'analysis' of facts. Their study revealed that judgement is the favoured mode, whereas bargaining was most prevalent when there were outside influences of a contentious issue. Analysis was found to be used very little despite the importance of the decisions studied. The 'authorization routine', commits the organization to a course of action and was generally binary in nature; acceptance or rejection. Their study also found that, as it was typically at the end of the process it became time challenged and that the authorizers tended to lack the in-depth knowledge of the developers.

The three 'central phases' are supported by three sets of 'supporting routines'. The 'decision control routine' that guides the decision processes itself, or the decision on

how to go about the decision. Mintzberg *et al.* (1976) note that these activities are hard to study because they tend to be informal and implicit. The second 'supporting routine' is the 'decision communication routine' which provides the input and output information necessary to maintain decision-making. 'Decision communication' comprises an 'exploration routine' of general scanning and conceptualization and an 'investigation routine' which is focused search which their study notes is most active at the diagnosis and evaluation-choice phases. It also includes a 'dissemination routine' and Mintzberg *et al.* found that the greater the number of interested parties the more time required for dissemination of progress. Generally their evidence supported that the communication pattern was most active at the beginning and end of the process. The final 'supporting routine' is the 'political routine', which enables the decision maker to work to a solution in an environment that may include influential or hostile forces. Mintzberg *et al.* found evidence that political activities are the key element in strategic decision-making and the study suggested a relationship between political activity and the duration of the process. Political activity manifests itself in the use of 'bargaining' at the beginning and end (such as trying to get the principals to all agree there is a problem) and as a pre-emptive strike to late resistance to a decision, the use of 'persuasion' and 'cooption'.

Mintzberg *et al.* (1976) considers that the strategic decision process is not a steady and undisturbed process, but dynamic and operating in an open system, where it is subjected to interferences. These interferences or 'dynamic factors' acting upon the process are the most characteristic and distinguishing features of decision processes of a strategic nature. These factors cause the process to delay, stop, restart, speed up, and branch off into other cycles. The first 'dynamic factor' is the 'interrupt' caused by environmental forces and can be internal, external or the identification of a new option. Mintzberg *et al.* found that 'interrupts' were most common in high-pressure environments and that interrupts tend to lead to more interrupts, also finding a strong relationship with delaying the process. The next set of 'dynamic factors' include 'scheduling delays' and 'timing delays and speedups' and are inevitable within complex decisions, but Mintzberg *et al.* also found that delays can be actively used during the process. The decision process itself tends to create the last set of 'dynamic factors' and comprise 'feedback delays', 'comprehension cycles' and 'failure recycles'. Their study found that the complexity of the decisions have a relationship with feedback if the decision included outsiders and the greatest incidence of comprehension cycles.

The decision processes studied were shown to fall into seven types of 'path configurations', that is ordered models that represented a certain type of decision. These appeared to depend on the type of solution and the nature of dynamic factors involved (Mintzberg *et al.*, 1976). Four of the seven types were found to reflect the nature of the decision outcome e.g. Type 4 was a new equipment procurement issue. The seven are identified below in Mintzberg *et al.*'s order of complexity, Type 1 being the least complex:

Type 1: Simple impasse decision processes – simple decisions close to the main line of the model subject to interrupts

Type 2: Political design decision processes – as Type 1 but the nature of the interrupts require political solutions

Type 3: Basic search decision processes – clear guidelines for solution requiring simple search for best ready-made solution

Type 4: Modified search decision processes (equipment) – as Type 3 but ready-made solution required limited design modification

Type 5: Basic design decision processes (marketing) – complex and innovative solutions

Type 6: Blocked design decision processes (public works) – as Type 5 but found to incur objection late in the selection phase

Type 7: Dynamic design decision processes (facilities) – as Type 4 and 5 but with multiple interrupts

Mintzberg *et al.*'s (1976) paper is a key text in decision-making research, and is widely cited in other work in that field. However, no further models have been identified that have purported to represent the overall strategic decision-making process and no evidence has been found of development or criticism of the model they proposed.

RESEARCH METHOD

This research was undertaken as a pilot study in the first year of a part-time PhD. The author is a manager within the research target and the opportunity arose to investigate a strategic management decision that had been made by the owners of the company (note that the author is not an owner in the firm). The timing of this opportunity did not allow the scientific method to be adopted, such as the literature review in the field, generation of hypothesis and testing (Silverman, 2000). Instead, the decision was taken to use a general model of the strategic decision process and to 'get on and investigate' the decision in an inductive and ethnographical manner. It is accepted that the research will not satisfy the hypothetical-deductive requirements of the scientific method of research, but nonetheless it will offer the first step into developing a greater understanding of PSFs for future hypothesis generation and testing within the PhD.

The research target was a cost and project management consultancy, in traditional UK terms a chartered quantity surveying partnership. It is ranked in the top ten of UK quantity surveying practices (Osborne, 2000) and as such is typical of the top one percent of PSF practices referred to in (CCCIS, 1997). The research investigated the practice's strategic decision to 'restructure' themselves in organizational terms and to transfer from a partnership to a limited liability company in the process. The decision to 'restructure' was generated by the stimuli of a 'problem'. A joint senior partner (JSP) of the practice defined the problem facing the partners as:

"It is our responsibility to ensure that the organization and structure continues to evolve to suit our growth and the changing business environment in which we operate and to allow us to develop strategies which will enable the group to operate successfully in a fast changing world"

The research was undertaken as the practice neared the end of the implementation of the decision to 'restructure'. The process of change had been an unpleasant experience for the practice, and many further interrelated and difficult decisions remain to be encountered. This pilot study only investigates the initial decision phase and excludes the implementation phase after March 1998. As part of the current change process the managing director (MD) had found it necessary to produce a brief document (Document 6, see Table 1) outlining in chronological order the strategic history of the practice up to current date. The production of this document had forced the MD to

consider the strategic decision in a reflective manner and he was as a result happy to articulate the decision to others.

Table 1: Formal records of the decision to restructure

Document Nr. and Title	Author	Purpose	Publication Date
Document 1: Options for Change Report	Joint Senior Partner	Set out the current state of the practice in organizational and business terms, together with a list of key issues to be faced in the future	October 1996
Document 2: Report from Option for Change Task Group	Task Group	Report from one of three task groups established to investigate specific issues identified in Document 1	July 1997
Document 3: Report on Options for Change – Comments and Recommendations Following Discussions with the Options for Change Groups	Joint Senior Partner	A report of personal observations and thoughts of the issues facing the practice, suggestions regarding change management and identification of dominant themes	October 1997
Document 4: Memorandum to all Partners – Options for Change	Joint Senior Partner	Issue of the summary of proposals from task groups, for debate and agreement at the partners' meeting in the following month	February 1998
Document 5: Options for Change	Joint Senior Partner	Record of the debate and decisions made at the Partners' meeting of the proposals issued in Document 4	March 1998
Document 6: Past, present and future	Current Managing Director	Chronological brief history of the strategic decisions/events in the company (document used for contextual purposes only)	March 2001

The first part of the research was a semi-structured interview with the current MD of the practice using Document 6 as an informal structure around which to describe the strategic decision. The purpose of the interview was to develop an understanding of the past, present and future context of the practice and to gain an insight into the implicit parts of the decision. Whilst this is only one perspective of the decision, it is considered that the MD is likely to have the greatest capacity for taking the holistic view and is not expected to take an unnecessary bias.

Following the interview, the MD passed copies of five strategic management documents (Table 1) that were the formal records of reports, minutes and debate of the decision to 'restructure'. These documents were offered by the MD and not selected by the researcher, and as a result cannot be relied upon as the only relevant information. It is acknowledged that these are unlikely to represent the informal modes of communication in the process such as conversation, but alongside the semi-structured interview offer a satisfactory representation of the process for the purpose of a pilot study. Cross reference to Mintzberg *et al.*'s (1976) paper shows that the issue of these documents over a four-year period is comparable with the timings of the strategic decisions they studied.

The matrix in Table 2 identifies the 'routines', 'supporting routines' and 'dynamic factors' of Mintzberg's general model. The five documents were analysed, using the matrix as a checklist to find examples of the components of the model within the text. The intention was for the analysis to allow the production of a conceptualized model of the decision to 'restructure' and subsequently identify its 'path configuration'.

Table 2: Matrix of ‘routines’, ‘supporting routines’ and ‘dynamic factor’ occurrences

Routine	Document	Document	Document	Document	Document
	1	2	3	4	5
Recognition	x	-	-	-	-
Diagnosis	x	x	-	-	-
Search	x	-	-	-	-
Design	x	x	-	-	-
Screen	-	-	-	-	-
Evaluation/choice	x	x	-	x	x
Authorization	x	x	x	-	x
Decision Control	x	x	x	x	x
Decision Communication	x	x	x	x	x
Political	x	x	x	x	x
Interrupts	-	x	-	-	x
Scheduling delays	-	-	-	-	-
Timing delays and speed ups	-	x	x	-	-
Feedback delays	-	x	x	-	-
Comprehension cycles	-	x	x	x	x
Failure recycles	-	-	-	-	-

RESULTS AND DISCUSSION

Results of the document analysis

In late 1996 one of the two JSPs issued Document 1, which set out the organizational and business problems (stimuli) facing the company (recognition), which included a summary of the twelve key issues facing the organization in the future (diagnosis). Within Document 1 the twelve issues were summarized and the main arguments of each were presented (search, design and evaluation/choice). Document 1 concluded with the request (authorization) to establish small groups of partners as task groups to bring forward proposals by early 1997 (decision control). Much of the content of Document 1 included ‘decision communication’ references such as “We also have to ensure that they (the changes) are understood and accepted not only by the Partners but throughout the Group as a whole” (dissemination). Extensive reference of a ‘political’ nature was also included such as “We all have to buy into them (the changes), accept them and not subsequently seek to undermine them” (persuasion). The overall perception of Document 1 was that it paints a clear picture of the JSP’s position, intended decision strategy and that the other partners should carry out their review, but will almost certainly come to the same conclusions. The document appears to represent the identification, development and selection phases all in one.

A partners’ meeting had been held in January of 1997 (minutes not available) and the decision was made that the existing partnership move towards incorporated status by becoming a ‘holding partnership’ trading through three private limited companies offering cost management, project management and consulting services.

The authorization to establish the task groups was given and in July 1997 (timing delay) the three task groups issued their reports (decision control). Document 2 is the report of one of these groups, who at three meetings (feedback delays, comprehension cycle) were investigating the future organizational changes. The report identified the key issues (diagnosis), namely the separation of ownership and management by the creation of an Executive Board, defining the role of the Executive Board and the Holding Partners Board and suggesting composition of the Executive Board (design,

evaluation/choice, decision communication and political). The document was presented to the partners to allow review before moving to the next phase (authorization). However, the concerns relating to this recommendation, due to the impact upon the power structure in the firm, led to a need for greater definition of the problem (interrupt).

In October 1997 (timing and feedback delays), Document 3 was issued, probably in response to the interrupt of Document 2, which summarized the JSP's "observations/thoughts on the issues facing the company and suggestions as to how the partnership might change" (political). The document emphasizes that there was still a lack of "clear idea of what the problem is" amongst some partners (comprehension cycle). As a result the report identified the "next steps" by requesting that they "Get responses Yes/No to key questions" (decision communication, decision control, political and authorization). Whilst the report is essentially written as a summary of events to date and an opportunity for all to reflect and comprehend the decision, there is significant emphasis upon the need to drive the process to a conclusion.

A memorandum (Document 4) issued in February 1998 tabulated a list of twenty-three recommendations derived from the previous documents and included three columns in which the other partners could "agree/disagree/comments" (decision control, evaluation/choice, decision communication and comprehension cycle). Again the rhetoric of the report suggests a systematic evaluation of options to reach a shared conclusion, but the memorandum is laced with 'political' overtones such as "adopt a philosophy of disagree and commit; in other words, however much we disagree with a proposal, once it has been agreed by the majority, then everybody must commit".

In March 1998 Document 5 recorded the debate and decisions made at the partners' meeting that voted off the twenty-three recommendations (evaluation/choice, authorization, decision control, decision communication and comprehension cycle). All but three of the issues were unanimous and those who disagreed were clearly named in the records. It is not clear if this was necessary for accurate record keeping or marginalization of those not in agreement (political).

It is interesting to note that in Document 5 against one of the twenty-three decisions was a record stating, "The key message is that the Holding Partners (or owners) will have as much of a say as before". This statement suggest that whilst the partners were agreeing to the changes suggested, they fundamentally did not see the ownership and management philosophy changing at all. The difficulties encountered in the implementation phase of the decision, described by the MD in the interview, reinforce this view.

Throughout the decision-making process the PSF had used the services of an independent facilitator to ensure transparency in the process and to achieve consensus in the vision. In the interview, the MD reflected that the independence of the facilitator became increasingly questioned as the process evolved.

In summary, Document 1 identified the need for change to the company (recognition) and the key issues (diagnosis) facing the company. It was reviewed by the partners (evaluation/choice) and agreement reached to establish the 'holding partnership' and the task groups (authorization). Document 2 created task groups to investigate the issues further (diagnosis and design) leading to the recommendation to establish an 'Executive Board' (evaluation/choice). At this point in the process it is clear that acceptance of the Executive Board would sacrifice the power situation and therefore

the process was interrupted. Document 3 was issued purely to spur on the process and to re-focus the partners' attention to the decision (political). The JSP then sees that the decision must be broken down into small decisions that can be agreed and the use of a 23-point questionnaire is issued. Document 5 recorded the debate, which was largely unanimous and the decision was authorized.

CONCLUSION

The study has revealed four significant issues for discussion. Firstly, it has been possible to conceptually model the decision to 'restructure' and the decision may be seen to fit with a 'path configuration' of a Type 2: Political design decision process (Figure 2). As such the model gives the impression of a relatively straightforward, iterative and systematic decision. Nonetheless, it is considered that the complexity of the decision process is not well represented. The model in itself does not explicitly identify 'dynamic factors' or the 'supporting routines' that in the case of this decision were critical implicit issues and as such requires further development.

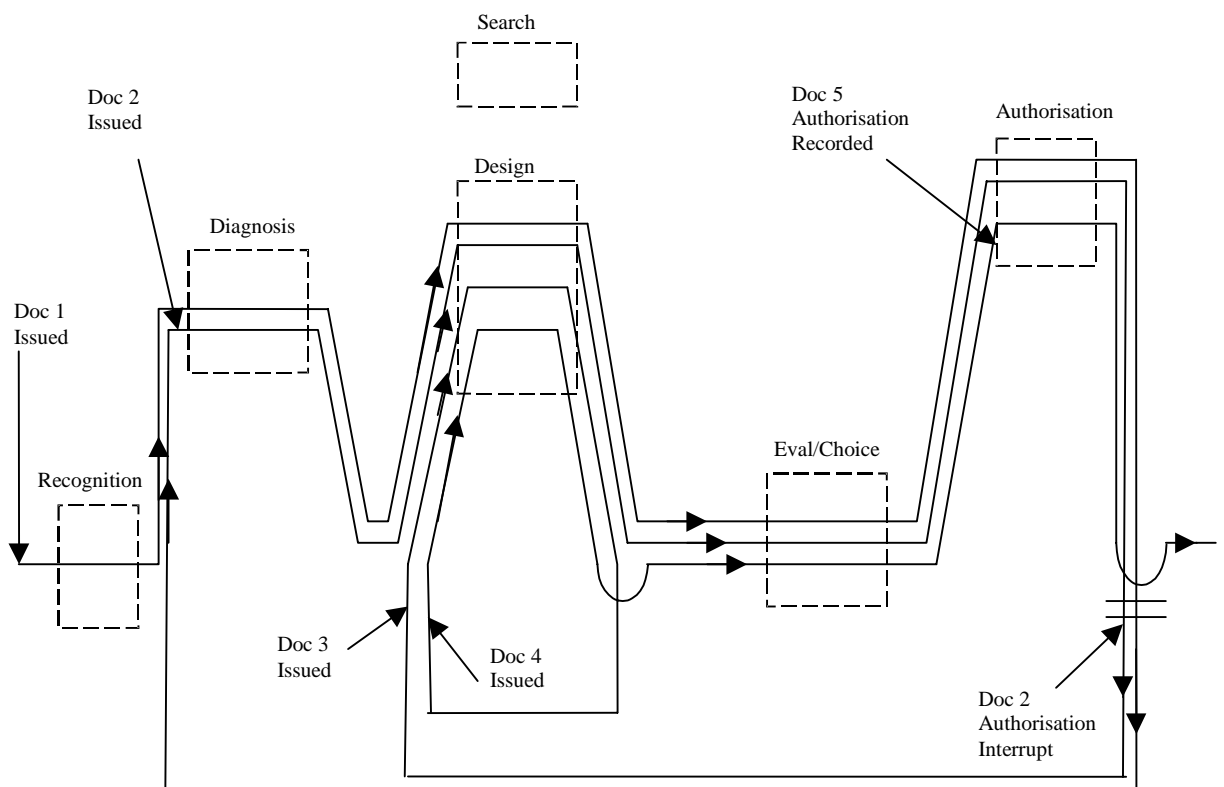


Figure 2: A political design decision process – the decision to 'restructure a professional service firm

Secondly, a Type 2 'path configuration' suggests that the strategic decision is less complex than a decision to build a new facility (Type 7). It is suggested that the Mintzberg *et al.* (1976) model confuses the process of making and implementing the decision. As a result it becomes difficult to identify the numerous subsequent interrelated decisions. For example, the decision to 'restructure' the practice led to twelve points of diagnosis, that led to a further twenty-three points of diagnosis. Taking Mintzberg *et al.*'s (1976) definition of strategic as 'important' each one of these decisions could in themselves be construed as strategic.

The third issue relates to the apparent top-down approach to strategy within the PSF. This is evidenced by the dominance, or arguably leadership, of the JSP in the original diagnosis, the control of the decision process itself and the manner and philosophy of the discussions. The final document agreeing the twenty-three points but caveated with the statement that the partners retain as much say as before, may suggest that top-down strategies are not acceptable within a PSF. Dictating the decision process, greater in-depth knowledge, the use of an independent facilitator and political manoeuvring did not ensure the decision was accepted.

The final finding was that the diagnosis of the problem appears to be too vague. It is overly simplistic and arguably irrefutable; the need for change in order to survive. Consequently it became difficult to see what the real driver for change was at all. It may be analogized with a doctor saying that a patient is ill. Although correct it does not in itself constitute a diagnosis.

FUTURE RESEARCH

This pilot study has provided groundwork for the future development of the PhD. It has identified a number of questions that may be developed in the future as hypothesis for testing as part of the PhD:

Can a strategic decision be adequately conceptualized without investigation of the implementation phase?

How many interrelated decisions follow a strategic decision?

Can group decision theory offer greater insight into strategic decision-making within a PSF?

How does the quality of the diagnosis relate to the success of the implementation of a strategic decision?

The next phase of the research will develop a critical awareness of the existing strategic decision-making literature. Given the tentative criticisms of Mintzberg *et al.*'s (1976) model, it is proposed that the PhD be developed as research of a 'testing out' nature (Phillips and Pugh, 1994) by applying the model to the entire duration of the decision to 'restructure' this particular PSF. In so doing, it will test and develop the generalizations of existing theory.

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