A Cross-Cultural Perspective on Strategic Management: An Islamic Outlook

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There is a growing debate in the literature about the impact of the culture on management theories and practices. One imperative component of the Arabian cultural structure is the religion. Islam is the core religion in the entire Arabian countries in the Middle East region. The significance of Islam among academics in business and economics is evident; however, the issue of evaluating organizational decision-making theories from an Islamic perspective was not addressed in the existing body of knowledge. Therefore, this conceptual and analytical paper attempts to underline the importance of Islam to management field by reviewing and analyzing the assumptions of the most dominant theoretical premises to making strategic decisions within the Islamic context. As a result, this paper represents a preparatory point for future research in the area of managerial decision-making from an Islamic perspective

Field of Research: Management

1. Introduction

The decision-making behaviour has important consequences on the quality of our life in general and on the success or failure of business organizations in particular (Hale and Whitlam, 1997). In the organization context, decision-making is unquestionably the most important activity in all organizations regardless of their types (Harrison, 1999) and decisions vary in their importance and become more vital, complex and, therefore, strategic when their outcomes are critical and have a direct effect on the organization's success or failure (Bass, 1983; Harrison, 1992; Harrison and Pelletier, 1998; Johnson and Scholes, 2002).

Furthermore, organizational strategy researchers have argued that our academic understanding of managerial decision-making is still incomplete (Jennings and Wattam, 1994; Kleindorfer, Kunereuther and Schoemaker, 1993) and strategic decisions generally have significant impact on the firm performance (Fredrickson, 1985). Hence, that gives a significant indication and growing interest towards providing more insight into understanding decision-making behaviour.

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Islam is acknowledged among Muslims not merely as a way of worshiping Allah (God) but also as a comprehensive integrated life system which contains and treats all aspects and specifics of human life from birth to death (Athar, 2005). In point of fact, various contemporary scientific discoveries relating to natural sciences confirm the revelation in the Noble Qur'an which is regarded as a complete book revealed from God to Prophet Muhammad, Peace upon him (Mir, 2004). Similarly, the Qur'an contains rich information and knowledge about other important aspects of knowledge such as business and economics. Therefore, it is unsurprisingly that many business scholars in the general field of business have turned to examine various streams of this field from an Islamic perspective (e.g., Al-Buraey, 1985; El-Ashker, 1987; Hamwi and Aylward, 1999; Kahf, 2000; Mannan, 1970; Mills and Presley, 1999; Sulaiman, 2001; Wilson, 1999).

The main purpose of this analytical and review paper is to review and analyze assumptions and, consequently, the appropriateness of the most dominant strategic decision-making theories within the Islamic context and perspective. The paper begins with the discussion of the assumptions of the rational choice and bounded rational theories. Next, the issue of how Islam perceives these assumptions is underlined. Finally, concluding remarks about the importance of Islam as a main source of knowledge as well as the appropriateness of the former decision theories within the Islamic perspective is provided.

2. Theoretical Approaches to Making Strategic Decisions

The extant body of literature on organizational or managerial decision-making has concentrated on two dominant decision theories; i.e., the rational choice and the bounded rational positions. The rational choice or economic decision theory is known also in the literature by other various terms such as *normative, rational action, classical, economic, maximizing approach, classical economic theory, perspective, rational decision theory*, *theory of profit and utility maximization* and *purposive actor theory*. Likewise, the bounded rational theory has other names such as *behavioural decision theory, descriptive, satisficing approach* and *satisfying behaviour theory*.

More specifically, in the context of strategic decision-making, the rational choice decision theory is widely known as *maximizing behaviour*, while the bounded rational decision theory is recognized as *satisficing behaviour* (Harrison and Pelletier, 1997). The assumptions of each theory are discussed in detail in the next sub-headings.

2a. The Rational Choice Theory

The rational choice or economic decision theory is the first decision theory to be introduced in the decision-making literature and it is described as the

quantitative method of decision-making (Harrsion, 1993; Llori and Irefin, 1997). The foundations of the rational choice theory go back to the intensive work on the mathematical theory of 'games of strategy' originally developed by Von Neumann and Morgenstern (1953) and continued by Luce and Raiffa (1957). According to Straffin (1993) game theory is the rational analysis of situations of conflict and cooperation. A game is viewed to be any situation which meets four requirements. At first, there are at least two players and a player may be an individual or company, a nation, or even a biological species. Secondly, each player has a number of possible strategies and courses of action. Thirdly, the outcome of the game will be determined by the strategies selected by each player. Finally, numerical payoffs are assigned to each possible outcome of the game, one to each player. These payoffs represent the value of the outcome to the different players.

In line with Von Neumann and Morgenstern (1953) and Luce and Raiffa (1957) the theory of games relies on several assumptions. First, it is assumed that the possible outcomes of any given situation are well-identified and each individual has a consistent pattern of action and preference among them; these can be represented numerically by utility functions. Based on the utility functions, it is assumed that the player selects the lottery with the largest utility. Put another way, an individual prefers the outcome with highest utility or payoff. Second, it is also assumed that the variables that control possible outcomes are well identified; that is, all the variables and the values of given alternatives can be identified precisely.

As a result, game theory assumes that game players are rational in their decision-making and may be relevant to decision-making in organizations. Likewise, each player knows the preference pattern of the other players and strives to maximize his utility or payoff. According to Allison (1971), the rational decision model implies that the decision-maker thoughtfully defines the problem and determines one's own preferences as represented in numerical terms of the value of payoff or utility of a given set of alternatives. Another assumption is that the decision-maker gathers information about the specified alternative courses of actions, considers the possible outcomes of each alternative, determines the relative likelihood of occurrences, evaluates and ranks all outcomes according to the predetermined preferences and, finally, selects the optimal alternative which has the maximized payoff.

The assumptions and ideologies of the economic rationalist have received great acceptance among the managers in business organizations, wherein their main goals are profits, sales and growth in resources (Kaufman, 1990). Levin and Kirkpatrick (1975) claim that the rational decision approach is appropriate when the problem situation is new and complex and managers have no prior experience to rely on. Thus, it is unlikely they can reach a good solution without the assistance of a quantitative analysis such as provided by

the rational model. However, experienced organizational strategy scholars argue that the rational decision model is more suitable when the problem is repetitive, well-defined and made under certainty (Cyert, Simon and Trwo, 1956).

2b. Bounded Rational Theory

In spite of the fact that the rational choice decision approach is fundamental to several economic models and theories, organization behaviour scholars and, particularly, in the field of strategic decision-making have not acknowledged this approach as an appropriate mode to decision-making (Eisenhardt and Zbaracki, 1992). The organizational theorists have criticized and challenged the assumptions of the economic rational school from different angles. Consequently, that has led to the emergence of the bounded rational or behavioural decision school. Cyert and his associates (Cyert, Simon and Trwo, 1956) criticized the economic rational decision model and identified other important components that are missing from the economic rational model. In fact, Cyert, Simon and Trwo (1956) required four elements to be incorporated into that model. Initially, alternatives are not generally 'given', but should be researched; hence, it is essential to include the search for alternatives as an important part of the process. Secondly, information as to what consequences are attached to each alternative; which they are rarely 'given', the search for consequences is an important segment of the decision-making task. Thirdly, evaluation for alternatives is not usually made in terms of one clear, single, criterion such as profit; thus, other intangible criteria also need to be considered. Making an evaluation based only on profit is difficult, if not impossible. Instead of searching for the 'best' alternative, the decision maker is usually concerned with finding a *satisfactory* alternative-one that will achieve a specified goal and at the same time satisfy a number of assisting conditions. As a final point, in the real world, it is hard to recognize that the problem itself is 'given' and well-defined; thus, exploring significant problems that organization should consider is an important organization's task. Furthermore, Simon (1955; 1957a) avers that the rational decision approach requires a complete knowledge and expectation of the consequences while, in reality, knowledge of consequences is always fragmentary. Likewise, in real decision-making behaviour not all alternatives are known and specified as assumed by the rationalist. However, only a few possible alternatives come to mind. Moreover, the classical criterion of rationality suggested by the rational decision model is not applicable to situations which involve uncertainty (Simon, 1957b).

These perceptions have led to the concept of *bounded rationality* or *satisficing approach*, proposed by Hebert Simon (March and Simon, 1958; Simon, 1957b) which represents the heart of the behavioural decision theory. Simon's bounded rationality approach (Simon, 1957b) assumes that the capacity of

human sense for creating and solving complex problems is very limited compared with the size of the problems that require objective rational behaviour to reach solutions. Therefore, decision-makers often lack complete information about the problem situation, the relevant criteria and the system of preferences. Time, cost and cognitive limitations hamper the decision-makers' efforts accurately to estimate the optimal choice from the available information. Often, these limitations do not allow decision-makers to reach the best or optimal decisions assumed in the rational decision model.

In their recent book '*Economics, bounded rationality and the cognitive revolution'* (Simon et al., 1992), Simon and his colleagues explained the concept of the bounded rationality as it does not mean that human behaviour is intentionally irrational despite that it is sometimes; rather it is not based on a complete knowledge and humans statistically are not capable of choosing the optimal alternative with maximized payoff or utility. In effect, they select a satisfying choice rather than optimal one; that is, they are 'bounded rational' rather than 'boundless rational' as described in the economic rational decision theory. Simon (1979, p.503) called this mode or strategy of decision-making the "*satisficing mode of selection".*

Earlier critiques and empirical findings identified the rigid grounds of the field of behavioural decision theory, which adopts the descriptive decision-making approach and describes how decisions are actually made rather than how they should be made, as adopted by the economic rational decision theory. Behavioural decision theorists have challenged the rational decision school by arguing that humans are limited cognitive information processors and they do not utilise available information; they do not follow the assumptions of normative theory in responding to uncertainties and likelihoods, nor they do not make rational trade-off among conflicting values, nor they do not always follow the maximizing or rational decision approach process (Cyert and March, 1963; Simon, 1978). Because humans do not possess the required knowledge and statistical skills that are unnecessary to behave rationally, as proposed by the economic rational decision models, they develop a number of cognitive 'heuristics' that enable them to behave and make decisions that are definitely reasonable despite their own cognitive limitations (Kahneman and Tversky, 1982). According to Bazerman (1986) *heuristics* refers to simplifying strategies or rules of thumb that people confide in when they make decisions. Further, they are the fundamental rules that substantially guide the people in their judgments and they are significant tools for facing the complex nature of the environment surrounding decision-making.

In the context of strategic decision-making, the *satisficing behaviour* approach or the *bounded rationality theory* assumes that, in the organization, the managerial objectives are well-defined and the rational decision-maker collects information about the objectives from various environmental sources.

The collected, specified information within the organization is used to identify a set of appropriate alternatives from which to make a satisficing choice. But the amount of information and consequent number of alternatives are bounded: first, by the lack of complete information; second, by inevitable time and cost constraints; and, finally, by the cognitive limitations of the decision-maker (Harrison, 1999; Harrison and Pelletier, 1997). Hence, the strategic decision-maker should consider these constraints thoughtfully because they affect significantly the success of a strategic decision in any organization (Harrison, 2000).

Extraordinary recognition for the satisficing behaviour approach has been found among the scholars in the strategic decision-making literature. For instance, the study by Mintzberg, Raisinghani and Theoret (1976) contributed significantly to the academic body of knowledge on strategic decision-making in organizations. In the case study oriented research, they examined twenty five strategic decision processes for the purpose of understanding the structure of the decision processes. They challenged the rational model by concluding that not all alternatives were known, not all the consequences were mindfully considered and not all preferences are used by decision-makers as claimed by the economic rational approach; thus, decision-makers were bounded with constraints. Similarly, the behavioural scholars argue that making decisions under uncertainty is fundamental to organizational life; indeed, dealing with uncertain situations is a common problem that all organizations share (Mintzberg, 1983). Hence, it is practically impossible to choose the best alternative when uncertainty exists and consequences are ambiguous. As a result, high levels of uncertainty tend to suggest that maximizing behaviour suggested by the satisficing concept is an unrealisable choice (Tarter and Hoy, 1998). Accordingly, Petit (1966) alerted researchers to the fact that effective managerial decision-making requires a clear cognition of several boundaries and the rational decision-maker has distinctly limited boundary within which socially responsible decisions must be selected from among alternatives. Evidence from Katona (1951) confirms this idea inasmuch as, in the face of complexity, managers usually struggle to reach for satisfactory levels of profits or payoffs rather than maximum profits.

3. The Islamic Perspective on Decision-Making Theories

In brief, founded on the former debate, the rational decision theory assumes that organizations behave rationally when making strategic decisions; that is, decision-makers have complete knowledge and information about the problem situation and the consequences of all alternatives and, thus, they select the best or the optimal alternative with highest value. On the other hand, the bounded rational approach argues that strategic decisions are characterized with high levels of uncertainty and ambiguity (Harrison and

Pelletier, 1997; Mintzberg et al., 1976; Mintzberg, 1983; Tarter and Hoy, 1998). Consequently, decision-makers in organizations have incomplete and limited information and knowledge about the uncertain decision situation and the consequences of all alternatives and thus they select the satisfactory alternative with acceptable value.

Islam as a complete religion was established fourteen hundred years ago when the Nobel Qur'an (the book and the final message of Allah (God) to all mankind) was revealed to the prophet Mohammed, peace be upon him, in 622 A.D. (Tahlawi, 2005). According to the Qur'an, human being is a creation of Allah (God) and Allah is the first source of knowledge and the absolute guide of humanity (Akhtar, 2005). This premise is expressed explicitly in verse "And surely, We created man and We know what his soul whispers to him, and We are nearer to him than the jugular vein (Qur'an, 50:16). It is also believed that Allah has taught the first man and prophet 'Adam', peace be upon him, 'all the Names' as stated in the Qur'an "And He taught Adam all the names, then presented them to the angels and said, `tell Me the names of these, if you are truthful. They said, `glory be to Thee, we have no knowledge except what Thou hast taught us; Thou art the Knowing, the Wise. He said, `O Adam, tell them their names.' Then, when he had told them their names, He said, `did I not say to you, I know the unseen of the heavens and the earth, and I know what you reveal and what you were hiding" (Qur'an, 2:31-33). The word 'names' means the knowledge of all aspects in creation.

Accordingly, these former verses provide clear evidence that human being has a limited and imperfect knowledge and, as a result, can not reach optimal or perfect outcome of a judgment, especially with the case of situations involved high levels of uncertainty which can not be accurately and absolutely controlled by an individual with limited knowledge and bounded capability of anticipation and prediction. This assertion is addressed clearly in the Noble Qur'an in many verses "And if thou asks them, 'who created the heavens and the earth,' they will surely say, 'God'. Say, 'praise be to God'. No, but most of them have no knowledge" (Qur'an, 31:25), "And they ask thee concerning the Spirit. Say, 'the Spirit is of the command of my Lord, and you have not been given of the knowledge but a little" (Qur'an, 17:85), "And over every man of knowledge is one knowing more" (Qur'an, 12:76).

4. Concluding Remarks

The chief goal of this analytical paper was to highlight the importance of Islam to management science through reviewing and assessing the assumptions of the most dominant theoretical perspectives to making strategic decisions within the Islamic context. Based on the former discussion and debate, Islam established the concept of incomplete knowledge of human being, which is the spirit of the bounded rational theory, fourteen hundred years ago and

hence confirms the bounded rational standpoint, which dominates most of the strategic decision-making literature, as an appropriate approach to make strategic decisions. That in turn, provides additional support to the importance of Islam to the business field in general and to management science in particular. Furthermore, it supports the premise that Islam, as the religion of the Creator (Allah) which was brought to all mankind, is the first and the main source of knowledge for all types of sciences as well as the absolute guide for humankind since mankind is the creation of Allah (God) and He is the only One who knows about all details of His creation. As a result, this paper represents a preparatory position for future research in the area of managerial decision-making from an Islamic standpoint.

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