Rational perspective and approaches to strategic management

The word “ strategy” mainly takes for granted the historical and geo political conditions under which management precedence’s are determined and executed. Strategic Management is not just restricted to the business world rather it can be seen in the ever widening circle of problems which are suitable for its application- from public sector and NGOs to regional economic development.

In this essay we try to explore the rationalities to help managers improve organizational effectiveness and corporate profitability. The dynamic approach seeks to explore the nature of strategic management as an organizational process. The rational approach exposes the contradictions between the idealised myth of ‘ perfect competition’ and the more realistic ramifications of market power as explored by business school strategists (Porter, 1980). But at the end of the day, for both approaches, it has been seen that managers are the only players within the organisational structure of the market who have any power in the real strategic process. This eventuality has been criticised by such eminent scholars as Whittington (1993), who proposes mechanisms to ensure that the strategy process remains objective rather than being captured by a particular management faction; moreover, he suggests that managers can draw from broader, less visible sources of power, such as ‘ the political resources of the state, the network resources of ethnicity, or, if male, the patriarchal resources of masculinity’ (1993: 38).

Moving away from managers

One limitation of the dearth of literature available on the analysis of strategic planning is an account of how a faction of global managerial staff came to assume and maintain a stronghold on the strategic processes in the larger scheme of the market. There, however, have been individuals who have addressed this issue, notably among them Shrivastava, who, in a landmark critique in 1986, sought for emancipation in the ‘ acquisition of communicative competence by all

subjects that allows them to participate in discourse aimed at liberation from constraints on interaction’ (1986: 373). He also called on researchers ‘ to generate less ideologically value-laden and more universal knowledge about strategic management of organisations’ (1986: 374).

Post modern critiques, such as that by Knights and Morgan (1991), take a leaf out of Shrivastava’s book and similarly propound a more constitutive and inclusive approach to strategic planning. They ‘ see corporate strategy as a set of discourses and practices which transform managers and employees alike into subjects who secure their sense of purpose’ (1991: 252). So they are saying that managers cannot stand at a passive distance from ideology and impose their personal rationales on an unaware workforce. But for all practical purposes, that is what takes place in the actual workplace – a core group of elite members, often known as the ‘ executive board’, are the only participants of strategic discourse, with more actual manual labour deployed on workers as we go further down the line. This norm looks like it is here to stay, at least for a while. This is because even in the contemporary business scenario, mid0level managers, even if they assume any strategic responsibility, are possibly living an illusion if they feel that they have any decisive say in the actual decision-making process. If we draw from Sun Tzu’s seminal work on military strategy, The Art of War

(1983), we find echoes of this theory, where, as in a military structure, it is the field marshall who is behind the drawing board and the foot soldier who is out there on the ground fighting. The captain, or the mid-level manager, does have a say on the functioning of the troops on the ground. But in actual effect, all he is doing is relaying the strategy of those above him, or ‘ the executive board members’.

The rational and dynamic approaches

Before we move on further and investigate the pros and cons of the two approaches under discussion – rational and dynamic – let us start by taking a brief look at both.

The rational approach

This is concerned with an organisation’s ability to achieve the goals that it has set for itself. For this, the organisation must first identify a goal for itself, then define a set of means or objectives that can be employed to achieve this goal, and then set in place a list of activities that help put the objectives in action. An evaluation of the organisation is then based on the number of objectives it achieves in comparison to the number it had planned.

The primary motivating factor in this model is profits for the company. As such, the top echelon of decision making under such a system can tend to be more autocratic in nature than in other models. Managers who are inspired by financial statements alone in turn tend to leave their workforce uninspired. In a critical study for his PhD, C. P. Washburn says, “ What we found is that executives emphasizing rationality in their decision making are less likely to be seen as visionary by their subordinates and more likely to be seen as autocratic. But the more holistic executives are seen as more visionary and less autocratic.”

But as things stand today, despite the non-holistic nature of a rational approach (Washburn, 2006), it still predominates in the global workplace. This is possibly because of the logical framework that defines a rationale approach. Managers who follow it believe that a precise end to an objective should be sought through equally precise and calculated means, and that focusing their energies on quantifiable activities that can be observed and measured is the best way forward. Even if not quite, in a sense, the rational approach can be summarised in the famous sentence from the 1987 movie Wall Street, ‘ Greed, for the want of a better word, is good’.

The dynamic approach

The dynamic approach to strategic planning is aimed more at smaller businesses that lack the necessary revenue to implement all the complicated strategies that a larger organisation can. It was conceived by Edward Pierce, who was at the School of Business and Entrepreneurship at Nova Southeastern University until he retired in the early 2000s.

The need for a new approach that moved away from the traditional rational approach was instigated primarily for the benefit for smaller firms. Apart from a basic strategy that is absolutely essential for a line of sustained credit, anything else is a luxury, not least because strategic managers are usually prohibitively expensive for such firms to hire. Moreover, it is not within the financial realm of these smaller organisations to develop a complicated strategy (which in all possibility only a handful of people in the organisation are competent enough to fully comprehend) and then let it gather dust. Unlike the larger organisations that have the means and the resources to leave strategic planning to the hands of a few select individuals in the executive board, these smaller organisations have a more hands-on approach across all levels of management, with even mid-level managers sometimes given a free hand to take decisions.

The common necessity for a ‘ vision’ and ‘ mission’

Whether it be a large scale MNC or a small-scale non profit organisation, each must have a vision for the company. Essentially, the vision of an organisation is the single statement that will be able to guide the enterprise across its several strategic business units (SBUs) (What’s In a Vision Statement, 2003). Talk of SBUs brings us to the consideration of another critically important component of strategic planning – a mission. There has been much debate over whether vision is more important that mission and it is not our prerogative to enter further debate here. Instead, we can simply define vision as an enterprise view and mission as an SBU view (What’s In a Vision Statement, 2003).

Of course, the vision and mission of a particular company are determined by its positioning in the market context. The larger a company, the more complicated is its vision statement and more tedious is the process of achieving its mission. For instance, if we take LG as an example, the parent company has one single vision, but it is modified to suit the needs of its various SBUs such as those for phones, wireless equipment and other electronic appliances. It would not be feasible to assume that this vision statement would apply equally across all the different SBUs within the company. The same would hold true even in the case of a small company, say one that specialises only in making carpets. The vision statement would remain fundamentally the same, but would be applied in different avatars across the different departments that the company might have, such as carpet-manufacturing, the sales division, the training department and so on.

Basic differences between the two approaches

As we have seen so far, a maximisation of profits is the founding principle behind an organisation’s rational approach. It is the more traditional way of functioning, and due to its emphasis on increasing revenues as the most important objective, it finds support – and has for a long time – in Wall Street. But given the vagaries of the market situation not just right now post the financial crisis, but for a while now, there had been the need for a more theoretical approach to strategic planning than simply a ‘ total profit = total revenue – total cost’ way of thinking. This is where, apart from the previously discussed need for a ‘ holistic’ approach, Edward Pierce stepped in with his dynamic approach. The rational approach was an all-encompassing one that looked at business through a one-light prism of profit. The dynamic approach, at least according to me, represents a better view of the complex market scenario that is prevalent at present. Large businesses have taken the biggest hit in 60-odd years. Small businesses on the other hand are continuing to face the future with a bright prospect. In such a situation, a low-cost, direct-result-oriented approach to strategic planning suits the needs of a market that is thriving more for smaller businesses than for large conglomerates.

But even while saying this, the benefits of a rational approach – despite its disadvantages – are there for all to see, and have been for many years now. The main amongst these benefits are an improvement in sales and profitability. It should follow then that productivity would see a similar surge through the rational model. This might have held true earlier more than it does now. Right now, it is possibly the inclusive nature of the dynamic approach that can be best utilised to increase productivity. And this increased productivity today – apart from a more harmonious working relationship between the different levels of management – would lead to more sales and profitability later down the line.

The problem that I have with the rational model is that to an extent, it is behind the credit crisis that we faced as a world a couple of years ago. The greed that operated in Wall Street – the same greed that is the basis of the rational approach – filtered down to Wall Street. The world at large lost its humane characteristic to a degree and hankered after immediate financial returns and benefits, which is what led to the crisis that we faced.

The other problem with the rational approach is its non-inclusive nature. If we take the example of any global financial institution that was affected in the crisis – be it Lehman Brothers or the Royal Bank of Scotland – how much of it was due to the middle-income banker who sits at his terminal in Canary Wharf for example? How much of an idea did he or she have as to what was afoot in the top rungs of the ladder? More significantly, if such people did indeed have an idea of how harmful the trend of borrowing from mortgage brokers was becoming – and were not party to it and had feasible arguments to counter and tackle it – were their voices heard? I am guessing not, because it takes a middle-income banker with tremendous guts to walk through the door of, say, the vice-president and tell him or her that what he or she is doing possibly for greed – if not on a personal level then on the company’s behalf – could later have ramifications that the entire world at large would reel under.

Another advantage that the dynamic approach has over the rational approach is that because it is more human-oriented than the rational approach, which is more finance-oriented, there is a reduced resistance to change. This is of critical importance since in the rapidly evolving global market scenario, continually changing to adapt to situations is the need of the hour.

Moreover, since larger multinationals have been exposed post the financial crisis (which is a necessary standpoint for any study of strategic planning in the present scenario) smaller organisations are seeing the light of day more than in the recent past. This means that evolving approaches to strategic planning should be geared in such a way that it suits the needs of these lesser organisations so that they can play their inevitably crucial role in getting the world back to where it was. That is possible more through a dynamic approach to the problem than a profit-oriented rational approach. In fact, the very word, ‘ dynamic’, is a literary representation of the zeitgeist of our times.