

# The rational and dynamic approaches to strategic management



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Strategic management is not a new concept. It has been defined as a management system which links strategic planning and decision making with the day-to-day business of operational management (Gluck, Kaufman, and Walleck, 1982). Strategic management is not a simple, step by step process, but a complex and iterative process which needs hard work and dedication from many people in an organization to implement it toward the objective. It is the process for the leading members of an organization to forecast its future and develop the necessary procedures and operations to achieve its future (Goodstein, Nolan, and Pfeiffer, 1992). Strategic management is usually found in high levels of management to help organization gather, analyze and organize useful information to keep up with industry and competitive trends. The rational and dynamic approaches to strategic management are two different schools of thought. The rational approach is well-planned and more prescriptive on strategy selection. However, the dynamic approach is opposite.

This paper falls into three parts, which starts with major theories underlying the rational and dynamic approaches. The second part uses cases to analysis the advantages and disadvantages of these two different approaches to strategic and state a critical evaluation of the two approaches. The last section relates to the ultimate conclusion of the paper and a integrated approach to strategic management.

## **2. 0 Major Theories Underlying the Rational and Dynamic Approaches**

### **2. 1 Major Theories of the Rational Choice Model**

‘ From the design and plan school in the 60s to the dominant position of location school in the 80s, until the rising of core school in the 90s, all emphasized the rational character of strategic management’ (Guo, 2009, 92). The rational choice model of strategic management is a principal responsibility of upper-level management. It has a deep-rooted tradition in organization management. Once management decides on the Strategic Plan, lower-level managers should implement the Strategic Plan through an Operating Plan. The rational model provides a structured and sequenced approach to strategies making. The rational approach is included on the corporate agenda and approached in a systematic manner (O’Regan and Ghobadian, 2002). In rational approaches, objectives and main elements are always defined before strategy commences. It is propitious in a stable and predictable environment. The rational approach normally focuses on the ability of an organization to realize its goals. The goals of an organization are identified by establishing the general goal, discovering objectives for its accomplishment and defining a collection of strategies for each objective. The explicit objectives have been regarded as a major aspect of the rational approach and led to greater participants in organizations (Katerberg, 1980). The rational model requires unambiguous knowledge and consequences of the alternatives. The theory of rational choice begins by considering alternatives facing the strategic managers. The determination of the alternative should be precisely and the definition of the alternative should be clearly. Preference among alternatives has a binary relation (Doyle, 1998). <https://assignbuster.com/the-rational-and-dynamic-approaches-to-strategic-management/>

Such as the notation  $X \succsim Y$  means that alternative Y is at least as acceptable as alternative X. Given a complete preordering of alternatives, the rational model requires selecting maximally acceptable alternatives. The rational model requires the decision theory on preferences and choices to produce an ideal rarely but useful result (Kahneman, D. Slovic, P. & Tversky, A, 1982). Once the alternative is definite, the alternative strategies come into being. These strategies should be written in plenitudinous detail to consider an explicit evaluation. Moreover, the generation of the strategies should be completed before evaluation begins (Norman, 1963). The rational model also requires a systematic procedure for evaluating the strategies and monitoring system.

## 2. 2 Major Theories of Dynamic Approaches

It is important of a manager to build and conserve resources of business. These resources may include cash, plant, customers, products, staff or soft factors, such as product quality, staff morale, or service standards. These resources are intangible and interdependent. Once a principal resource is in bad form, the whole business is in danger. In ordinary, a firm is just look like a dynamic resource system. The dynamic approach can indirectly or directly be linked to the environment in which the organization engage in or certain organizational factors that influence the choice of strategic management. Mintzberg (1978, 75) recognizes that an organization can find itself in a steady environment for a long period of time, without the need to change its strategy. But sometimes the environment can become turbulent that even the best planning techniques are useless because of the high level of

unpredictability. The dynamic approach recognizes that the strategic-making is dynamic, large changes, high uncertainty and high complexity.

Emergent strategy is one advanced dynamic approach. Emergent strategy means strategy is the product through the rough and tumble of everyday work (Mintzberg, 1987). Moncrieff (1999) recognized that emergent strategies result from the emergence of opportunities and threats in the environment. Several researchers also think that luck is one kind of emergent strategy and it plays an important role in whether an organization can succeed or not (Hamel, 1996). Emergent strategy includes the traditional approach of vision and mission formulation. It is not the responsibility of management, but close to people from all levels and areas of the company. It is the best way to understand what is really happening on a daily basis by choosing a section of people across various levels and functions in the company. In order to get and keep customers and make a company remain competitive in its industry, the organization must define the fitness criteria. But the fitness criteria are not the most important part of emergent strategy. The fitness criteria need to change in response to the market. Emergent strategy is not abandonment of strategic planning, the power of managers in addition. The managers play a role of using information and opportunities to face the changing environment and internal issues. As the power of analysis of information is extremely important in strategic management, the traditional tools of strategy are also helpful in analyzing the external and internal factors of an organization.

### **3. 0 Evaluation of the Rational and Dynamic Approaches**

The choice for any of the two approaches can indirectly or directly be linked to the environment in which the organization operates or certain organizational factors that effect the application of strategy management approach. In this paper, the favour is inclined to the dynamic approach because of the changing factors in the external environment.

#### **3. 1 The disadvantage of the rational approach in developing strategy in organizations**

The rational approach can help an organization resolve the complexities of its environment. Comparatively, however, it is too linear, rational and unrealistic. It is a structured view of strategy which is known as a top-down approach to strategy. The dynamic approach is a less structured view of strategy and more about the process of management. Hamel (1996, 71) states the creative aspect of strategic management is not an inflexible process that can be carried out in neat systems, but a 'quest' which must be a subversive revolution to improve the performance of an organization. The rational model is not a way of making future decisions. Due to the incapacity of predicting the future, the directions and strategies made by the management are based on what the upper-level management think will happen. It is because there are too many changes happening – the demand of market is changing, customer preferences are changing, new competitors, new technologies, new opportunities, economic downturn, business environment, etc. Strategic management is a dynamic process, which is receptive to unknown changes. So the rational model cannot resolve critical changes threatening the organization and may become a straightjacket

which harms the performance of the organization. Sometimes, the rational model can even replace excellent intuitive judgments. In normal, the rational approach is planning definite objectives for a short time. It is seldom comes down to the long-term development of the organization. Apart from this, the rational approach to strategic management is just analyzing the strategic, not a synthesis.

Before the 1980s, Kodak was the big boss of the photographic film industry in the world. Fujifilm was beneath the notice of Kodak. However, in the 1980s, by the protection of the Japanese government in home market, Fujifilm rose abruptly and stealthily, plundering the 25% market share of Kodak. When Kodak realized the change, the throne of photographic film industry turned into belongs to Fujifilm. The old fashioned institutional structure caused the downfall of Kodak. In a long time, Kodak was blind-sided, resistant in change, inadaptable to the market that insisted on changing. The remained management modes made Kodak only pay close attention to the rational strategy - increase of production and neglect the development of rival. A strategic cannot predict what will happen in the market place, it is the grand fallacy of an organization commits itself to a predefined strategy. The rational approach emphasizes on strategic planning, however, strategic planning is not strategic making. Strategic making is a dynamic process. The rational model concentrates on the consistence much more than the flexibility. The supports of the rational approach think strategy stability can minimize uncertainty in an already uncertain environment and the changing strategy may lead to unnecessary capital outlays. But on the contrary, a strategy should tend to change with

the organization environment. Without the flexibility of strategy, an organization is incompetent to adapt to its changing external environment. Changes in human, physical, capital, informational and technical resources can all happen beyond thought.

Under some circumstances, when the environment of the organization faces huge changes, the future development of the organization can be changed. In 1980s, the computer memory chip was the main business of Intel. While the Japanese manufacturer wanted to occupy the memory chip market, they lower the price of 10% compared with Intel and the other memory chip manufacturers. At first, Intel fought with the Japanese manufacturer on price and expanded the scale of production. The strategy taken by Intel looks rational and active. But the president of Intel - Andrew Grove thought the strategy was incapable to bring about long-term prospects for the company and decided to give up the memory chip business which accounted for 70% revenue of Intel (Jackson, 1998). And then, Intel committed itself to exploit more powerful microprocessor and finally became the largest personal computer microprocessor supplier in the world. The adventurous strategy made by Andrew Grove brought about a new strategic vision to the company. His excellent intuitive judgment achieved complete success. The irrational strategy makes Intel become the industry giants in personal computer microprocessor and the incontestable leader of the personal computer technology. If Intel still involved deeply in the price war with the Japanese memory chip manufacturer, maybe Intel has become a forgotten history. The rational strategic management is irrelevant with the long-term program of an organization. But the dynamic approach can give more



opportunity and flexibility to an organization. Comparing with the strategic management differences of the United States and Japanese after the 1970s, we can find that the United States frustrated in the competition of operation and management with Japanese, which showed the predicament of rational approach in modern organization strategic management. The operation and strategic management of Japanese shocked the United States (Guo, 2009). The traditional approach completely cowed by Japanese industrial success, which benefits from the best ideas on how to survive in the new competitive environment. The Japanese companies do not focus on short-term plan, but set up faith in long-term strategy.

### **3. 2 The advantage of the dynamic approach in strategic management**

Managers with strategic responsibility for commercial business are basically with the purpose for sustainable advantage. In fact, ' advantage' for commercial organization concerns earnings, and ' sustainable' means a concern with development into the future. A valuable approach to strategic management should not just explain day-by-day results, but show how to build performance through considerable time. Success to the future is the critical point. The dynamic approach is the approach which concern with the development into the future, which has uncertain character. Meanwhile, the dynamic approach is the cumulative effect of day-to day prioritization decisions. Because circumstances may alter the day after the decision is formulated. Adherence to a plan finalized yesterday, may in fact assure failure tomorrow by use of the inflexibility of the rational approach. Dynamic factors play a key role in the entire process of strategic management. The

dynamic approach emphasizes on the speed of reaction and flexibility to enable the organization to function best in the fast-changing and unpredictable environment. And it ' means the spirit property of no conscious, tuition, emotion and belief which not belongs to the rational factor and corresponding with rationality, it is a natural part of human nature' (Guo, 2009, 92). The dynamic model can all the same deal with soft factors. Soft factors are important, such as staff skills, investor confidence, customer loyalty, reputation, morale and so on. These soft factors often make the managers feel lacking of means of altering company performance. The dynamic approach points out how to define and measure all such soft factors and how to assess the influence on the ability of the organization to build resources for the future. If managers neglect to take account of these soft factors, the strategy must be inevitably fragmented.

When the information what the managers face is complex and troublesome before they making decision, the managers need to find information by rich experience and exceptional insight (Guo, 2009). Dell is a front manufacturer in personal computer industry. Its strategy is distinctly different with the other manufacturers. Dell focus on direct distribution to customers by selling customized personal computer. Dell takes hold of the special need of customer which can reduce the risk of stockpile. As its direct distribution model, the cost of distribution can be reduced. This strategy is much cleverer in cost control because it not only reduces the distribution cost, but also keeps a lower production cost due to the frequently changing price of computer parts. These excellent strategies make Dell provide attractive products and service to the customers at an extremely competitive price.

Meeting the preferences of customers and reducing cost are very important elements in dynamic approach. The managers of Dell succeeded in their exceptional insight and true judgment of the market place. The former president of Intel Andy Grove has a penetrating experience summary, ' Sometimes, the experience tells you that some factor is very weak now, and is insignificant in data analysis, but it has great development potential, and you will change your management rule in the future. In other words, in the process of treating the impact of budding trend, you should go out of the rigid data analysis, and depend more on perception and knowledge to decide' (Guo, 2009, 93). Furthermore, they take notice of the soft factors. This special strategy paves the future for Dell.

Each organization must strengthen its competitive strength in competition. However, to complete the task of capturing competitive strength requires accurate and comprehensive information of the dynamics of the rivals. The dynamic approach makes the strategy performers participate in the battle of industry dynamics. The dynamic approach expands the information of how a single organization operates, to explain the relative performance of companies as they engage in these competitive processes. This can enable strategic management to identify precisely where opportunities exist to both boost the resource-building performance of their own organization and to disrupt the efforts of the rivals. Once the core factor of competition has been captured, it is relatively straightforward to expand the framework to put the rival out of the way. In 1970s, NIKE noticed that the strong rivals - ADDIDAS and PUMA were not realizing the fashion trend of jogging shoes, so, it seized the golden opportunity, jogging into this trend. After developing new

technology of sole, the success of NIKE became to an irreversible trend. The information of the dynamics of the rivals is the dynamic resource. Building and maintaining each resource are the management challenge of strategic management. Managers usually want more resources, so watching the industry dynamics is a practical approach to get more resources.

## **4. 0 Conclusion**

The thought of rational strategic management supposes the environment of the organization facing is stable, small changes, and expectant, so, the organization can look forward to the market and the future. But today, the environment of the organization facing is not only complex, but also less and less expectant. If the organization emphasizes the rational model, it may only concern with management efficiency and forming strategic management excessively, which will create a kind of logjam of strategic management. The option of the dynamic approach is advanced with the times and takes the whole situation into account and plan accordingly.

The disadvantage of the rational approach does not mean this approach is useless. No one can say the dynamic approach is useful to all strategies. The rational model promotes to consider the available alternatives, evaluate all of the consequences of every alternative and choose the appropriate alternative. The positive impact on organization performance exists, but the organization can not only rely on the rational approach for positive performance. Therefore, some researchers suggest and integrated approach - hanging the rational approach and the dynamic approach together.

Mintzberg (1987) argues that realized strategy is always a combination of the rational approach and the dynamic approach. As the strategic  
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management is a complex synergy of strategy, the integrated may result a remarkable performance.

Strategic management is a science which is closely related to social science. The methodology of strategy formulation requires adapting to the nature of science discipline. Only the organization practice some form of strategic making can survive, anticipating the unpredictability of external influences in environment.