A Behavioural Approach to Strategic Management

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SUMMARY

The concepts, methods and practices of strategic management have evolved significantly since the beginning of the 20th century. In the 1950s and 60s the use of long-term planning was characteristic. Until the end of the 1980s strategy was perceived as a response to environmental changes. During the 1990s strategy formulation was perceived as a process based on internal resources and capabilities of firms. This radical change with the previously applied concepts was influenced by the accelerated rate of environmental changes. Companies – especially large firms – were unable to change their strategies parallel with changes in their environment. They needed a more stable starting point for developing their strategies. Strategic decision makers intended to make optimal strategic decisions until the end of the 70s. Due to the newly emerged theory of limited rationality it has become accepted as a strong influencing factor of strategic decision-making. Parallel with the above mentioned changes the role of managerial behavioural characteristic had emerged as a more broadly accepted factor in strategic decision-making. In the present paper our intention is to present this development process.

In preparing the paper the author has relied on his previous publications in the field.

Keywords: strategic management, behavioural theory, decision-making, limited rationality, meaning

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INTRODUCTION

The history of using strategy in management of organisations – especially in business firms – goes back to the beginning of the 20th century. The first strategies were born in large enterprises during the 1st world war. Alfred Chandler wrote about it in his seminal book Strategy and Structure (Chandler, 1962). Strategy emerged as a response to environmental changes, and resulted in the development of new products and entering into new markets.

The next phase of development emerged after the 2nd world war, specifically during the 1950s and 60s in the US and West European companies. Strategies emerged during the 1950s and 1960s in the form of long range planning. Environments of firms in this period were relatively fast growth and it was possible to use longer term forecasting. The new strategies aimed at increasing production and sales based on diversification of markets and responding to increasing demand of both corporate and individual customers.

From the beginning of the 70s – as a consequence of economic crises – the timeframe of forecasting the future decreased to 3 to 5 years. Strategies in this period concentrated on giving answers to the new environmental conditions. Instead of growth new strategies aimed at adaptation to new market demands. Sales income of most companies decreased compared to the level realized during the 50s and 60s. Competition became stronger as existing companies had to share limited sales possibilities and many companies collapsed.

In this period companies introduced formalized strategic planning and developed their strategies in details. Strategic decisions aimed at making optimal decisions based on rational decision-making processes. Managers of firms intended to solve the problems which emerged as a consequence of disadvantageous environmental changes by optimising their decisions.

The limits of rational strategic decision-making were not recognised in this period.

A concept of strategic management emerged at the beginning of the 1980s. In the new approach emphasis were not only on strategic planning, but implementation of strategies as well. The later was seen as equally important as strategy development. Another characteristic of strategic management was that strategies concentrated on rapid answers to accelerated environmental changes. Detailed strategic plans – sometimes as long as many hundreds of pages – became not capable of supporting strategic decision-making of top managers. Using strategic concept became the newly emerging practice of strategy development. Parallel with it large departments of strategic analysis and development of alternatives became reduced in number of personnel, and their work started to be moderately formalised. This new approach to strategy development concentrated of shorter strategic concepts which could be updated within short period of time. Strategies helped strategic decision-makers to react newly emerged environmental conditions. Adaptation became the new focus of strategies instead of growth which characterized the strategies of the 50s and 60s.

The above summarized characteristics were described in details in the landmarking books of Michael Porter. His two publications: Competitive Strategy (1980) and Competitive Advantage (1985) described the theoretical foundations and methodology of developing successful strategies. The basic concept of Porter is that strategy formulation starts with analysis of environment, then developing business strategies, and after it designing the organisation which leads to lasting competitive advantage (Porter, 1980). The „structure conduct performance" logic was the bible of strategic planning until the end of the 1980s.

At the beginning of the 1990s radical change started to emerge in the theory and practice of strategy formulation. While during the previous period – between the early 50s and the end of the 80s – the basic idea of strategy formulation was: how firms can adapt to environmental conditions and its changes, the new thinking about strategy emphasised the importance of resources and capabilities in strategy development (Prahalad & Hamel, 1990; Teece, Pisano, & Shuen, 1997). The above characterised change was partially due to increased difficulty to follow the more and more accelerated environmental changes. There was a need for stable influencing factors, that are characteristics of the organisation dealing with developing its strategy.

As a response to the changes in environments and also within the organisations, a dynamic approach was necessary in the research and capability based approach as well. This resulted in the concept of dynamic capabilities and the incorporation of knowledge into the framework of strategy formulation (Grant, 1996).

The changes in concepts of strategies resulted in modifications of content and process of strategic decisions. In the present paper the central issue is the analysis of factors that led to incorporation of behaviour oriented characteristics into strategic decision-making processes of organisations.

CHARACTERISTICS OF STRATEGIC DECISION PROCESSES

The perceptions and analysis of corporate decision-making was strongly influenced by the development and application of the results of operation research. Operations research had its heyday during the 1960s. Proponents of the field intended to develop methods for managers which help them to deal with large volume of information and use them in arriving at decisions. This process was supported by the beginning application of computers in business life providing previously unimaginable capabilities for data processing. Management Information Systems (MIS) were developed, which made it possible to compare alternatives of strategic decisions, and selection of optimal strategies. It seemed to be possible to solve the largest barrier of optimal decisions, that is shortage of information.

Analysis of possibilities for optimal strategic decision-making lasted for limited time horizon. During the mid-seventies papers were published in international literature on limits of operations research. It was a revealing example that Russel Ackoff, one of the fathers of operations research published a paper in 1974 with the title: Management Misinformation Systems (Ackoff, 1974).

Nobel Prize winner Herbert Simon emphasized that studying strategic decision processes it is necessary to make distinction between so called programmed and non-programmed decisions (Simon, 1982, 48). The new rarely reoccurring decisions with important consequences belong to the category of non-programmed decisions, and strategic decisions typically bare these characteristics. Among managers programmed decisions mainly occur at lower levels in the hierarchy, where complexity is lower than in higher level decision-making. While optimal, routine type decisions may be possible at lower level, at higher level the non-programmed decisions are mainly characteristic for strategic decision-making, where intuition and innovative solutions have an important role.

EMERGENCE OF BEHAVIOURAL CHARACTERISTICS IN STRATEGIC DECISION-MAKING

Approaches based on behavioural theory emerged as a critic of rationality in strategic decision-making. Rational approach to decisions deals with optimal decisions. This approach is based on neoclassical economics. The assumption supposes that values are clearly defined, goals and all information is available, all possible alternative are known and they can be ordered, and the best option to realize the goal can be selected (Bromiley, 2005, 41-42).

Among the first scholars following the behavioural approach – among others – were Herbert Simon, James March and Chester Barnard had outstanding role. Barnard's theory of contribution and reward regarded it a precondition of long term successful functioning that members of organizations perceived recognition of their efforts by managers, and in return adequate rewards were provided for them concerning e.g. level of wages, working conditions, promotion into higher positons in the organization (Barnard, 1938). As realizing long term survival and success are basic criteria of strategic management, Barnard's concept may be understood that behaviour of members of organizations are the key factor to realize it.

Cyert and March argued that the first decision in connection with functioning of an organization is were made by an individual person when decided to become a member of the organisation. This state will be staying until the employee has the opinion that being a member of the present organization is not worse for himself/herself than leaving the organization and enter as employee into another firm (Cyert & March, 1963).

Based on his research Simon arrived to the conclusion that in case of complex, hardly understandable and important situations decision-makers' intention was not to make optimal, - as it is impossible - but satisfying decisions (Simon, 1982). Limited rationality does not mean that decision-makers do not intend to arrive at optimal decisions. Intended rationality may be observed in case ill-structured problems as well. The problem is that in case of complex problems (and strategic decisions typically belong into this category) cannot be realised due to lack of information, limits of information processing, the ambiguity of preferences and limited time available for making decisions.

Understanding the strategic decision-making process is regarded to be a crucial question in behaviour-oriented decision theory. In his book titled „A Primer on Decision Making" (March, 1994), the author gave the subtitle „How Decisions Happen? The book discusses many issues which are absolutely necessary to understand the decisions of managers. Such issues are identity, power, ambiguity, meaning, loosely coupled connections between elements of organizations.

In theories of limited rationality attention is regarded to be one of the lack of resources. This problem is discussed in nearly each field of social and behavioural sciences, such as psychology, sociology, political science. Limited attention is related to complexity of decisions. When making strategic decisions many factors have (or should) to be taken into consideration, e.g. what is the consequence of decisions for stake-holders, what is the influence on short long run. To take into consideration all influencing factors is impossible due to limited information available, the barriers of individual information processing, and lack of enough professional knowledge. Due to the above mentioned characteristics the success of decision-making processes depends on rationalisation of attention (March, 1994, 23-28).

Strategic management integrated many approaches into the field of studies, which resulted in broad variety of strategic analysis. Mintzberg and his co-authors distinguished ten different schools of strategy, each of them describing one variation observable in practice (Mintzberg et al., 1998). From among the strategic schools the cognitive, the learning, and the cultural schools are close to the field of the present paper.

The cognitive school perceives strategy formulation and a process of thinking. This approach emphasizes that decision-makers formulate their viewpoint based on processing information on the world surrounding them. It means that decision makers construct their reality which is the basis of their decisions (Mintzberg et al., 1998). This social constructivist theory does not perceive the category of optimal decision. The reality is not objective and independent from the decision-maker, as reality constructed by him/her, that is how they see the world surrounding them. Disposition, experience, information processing activity of decision-makers are those factors, which are decisive influencing factors of decisions. It provides explanation why decisions show a lot of differences even in case of the same environmental conditions. Leavitt named managers following unique, innovative approaches in their decision-making „path-finders" of the organisation (Leavitt, 1986).

The learning school distinguishes intended and emerging strategies. Intended strategy concentrates on control and want to be sure the intentions of managers will be realized in practice. Emerging strategies are the results of organizational learning processes (Mintzberg et al., 1998, 206-207). Understanding strategic decision-making behaviour may be supported by relying on the typology of March (1991) which distinguishes learning by exploration and learning by exploitation. Learning from past experiences provides capability for arriving at more effective solutions used by organizations. This learning process leads to rationalization, refining solutions, reduce costs or to improving quality. These changes may be useful in case of stable business environments, when there is moderate need to use new approaches. It may be dangerous however and may result in limited capability for survival in periods of radical changes in markets, technologies, economic and social conditions. Small improvements – incremental changes – leave the organization on the past development pathway.

In case of learning by experimentation organizations rely on new initiatives, which may be in technology, market or other areas (March, 1991). Let us take the example of introducing new product or service. The company sells them on market. In the next period it monitors the reception of customers and market information connected to it. The firm analyses market success of the new product/service. If the reception of market shows that buyers are not satisfied with certain characteristics of the product, it is developed further to achieve satisfaction of buyers. Learning contributes to development of future oriented activities to assure longer term success on market.

March emphasized that a balance was necessary between the two types of learning (March, 1991). Learning by exploitation may be useful in improving short term efficiency, but may be disadvantageous for longer term prosperity. Learning by exploration in itself may be risky because possible success involves risk which may result in lower level efficiency of the organization. Development and innovation result in increased level of costs on the short run, but return on longer term is unsure. That is the often observable case that managers with short term orientation disfavour radical changes. Studies in the US have revealed that shareholder companies have shorter strategic time horizon – especially when small investors have majority ownership – than firms with concentrated ownership structure (Hayes & Abernathy, 1980).

The basic concept of the cultural school is that strategy formulation is a process of social interaction, which is based on mutually admitted and followed interpretations by organizational members. These characteristics are formulated during socialization, when new members after entering the company learn and internalize the values followed by the organization. These values formulate behaviour of decision-makers during the strategy development processes (Mintzberg et al., 1998, 267-268).

Another important role of culture is that it has an influence on limiting strategic changes. Commitment toward values of the company leads to consistent organizational behaviour and disprefer strategic changes. Before strategic learning could take place, unlearning of old values connected to the previous dominant logic of the firm is necessary to realise (Mintzberg et al., 2005).

WHOSE STRATEGY IS ORGANIZATIONAL STRATEGY?

In market economies today it is a generally accepted view that without strategy it is impossible to realise successful company activities. Practice tells us that decisions on organizational strategy are made by top managers. In large organisation however many employees of organisation participate at the decision processes and individuals and organisational units and have different roles. In such situation the question arises: who and to what extent can influence the strategy development process. Formal approach suggests that those members have possibility to influence strategic decisions who are in direct connection with persons or bodies who make final decisions. From this point of view, we have to make distinction between individual and council decisions. In business firms, according to their organisational regulations, shareholder companies' board of directors are authorised to make strategic decisions. Professional knowledge, business experience, values and interests reveal themselves during decision-making processes. At first sight we may give the answer to the above raised question that those individuals and/or boards are the owners of strategies who make the final strategic decisions. Taking into consideration the above mentioned opinion of Barnard and March, it is reasonable to question that members of organizations accept the decisions of top managers? Legally the answer is yes, but we have to take into consideration that formal rules and regulations do not follow the emerging realities of organisational and social relationships. Such examples may be observed in tense conflict situations. In organisations built on participation and empowerment it is a reasonable question that what type of strategic decisions are acceptable for employees at bottom level?

Following the above way of thinking we may argue that management style applied in an organisation has strong influence on whose strategy is the strategy of an organisation. In case of participative management style employees may take part in strategic decisions, e.g. by suggesting alternatives, commenting them, or by using group decisions. Today many companies use brain storming, or Nominal Group Method, which are based the capabilities of organisational members to utilise their knowledge, business experiences, and their interest in evaluating and formulating possible alternatives. Empirical studies of strategy formulation have shown that innovative ideas often emerge at lower level of the organisation. Initiative for strategic renewal may originate from those organisational members who were not participants of development of the previous strategy of the firm (Burgelman, 1991).

Members of organisations regularly have examples showing that strategy formulation processes are not only determined by formal rules of strategy formulation, but the participating persons' interests and their values have relevant influence in the process. When studying strategy formulation in organisations it is reasonable to take into account the interests of formal and informal groups, coalitions. According to the opinion of the well-known English professor John Child, strategic decisions are made by the dominant coalition. Members of a dominant coalition are those persons who – based on their formal or informal positions – have possibility to influence strategic decision-making processes. Strategic choices of dominant coalitions are made by taking into consideration the environmental conditions and the internal characteristics of firms.

DECISION ON STRATEGIC DIRECTION OF THE ORGANISATION

Harold Leawitt, a professor of organisational behaviour at Sanford University published an influential book with the title Corporate Pathfinders (Leawitt, 1986). The author identified three phases of leadership process: pathfinding, problem-solving and implementation. Pathfinding means setting the longer term future direction of the organization. Problem-solving deals with collecting and analysing data, and formulating alternatives for decisions based on the available information. Implementation in concentrating on perceiving and motivating people to accept and implement the decisions of top managers.

The three phases of leadership are connected to three type of managers, so pathfinders, problem solvers and implementers can be identified in organisations (Leawitt, 1986).

Pathfinder managers hardly deal with short term, operative problems of the organization. They leave such tasks for lower level people. They analyse future possibilities, and search for longer term perspectives. They are the intuitive and innovative persons, who bring new way of thinking into the organization. Creativity, innovation, and entrepreneurship are characteristic for their personality and behaviour. They are often described as entrepreneurial managers. Pathfinders are especially necessary in top management of firms. In periods a rapid environmental changes they are those who can introduce novel attitude and help proactive adaptation to new conditions.

Problem solver managers work with large amount of data, and try to find solutions in decision situations. Structuration, relying on detailed rules and procedures are characteristic for their daily managerial work. Their behaviour concentrates mainly on short term problems, search for optimal decisions, which is described as procedural rationality in literature.

Implementer type managers have outstanding capabilities for convincing and motivating their subordinates. They are capable to get their initiatives accepted. They provide support for their manager and influence others to do so as well. They do not have capabilities for novel strategic initiatives. They are rather useful members of organizations as their activity is necessary to implement strategies of firms.

In market economies there is need for internally driven managers who perceive they role as being those who push the organization ahead. Pathfinder managers may fulfil such roles. Practice however shoes that they are often missing in managerial roles. Among the reasons behind it management education, especially the teaching of business schools has to be mentioned. All over the world courses of business schools concentrate on teaching analysis, methods and techniques. Market analysis, financial analysis, cost analysis, return on investment analysis, inventory analysis – all these topics are present in curriculums of business schools. So graduates know how to analyse the business but have limited capabilities to create new business opportunities and formulate innovative strategies.

THE ROLE OF SENSEMAKING IN STRATEGIC DECISIONS

During the last 20 years sensemaking has got increased attention in organization studies. Sensemaking includes those processes in which members of firms intend to clarify ambiguous, chaotic and ill-structured situations and actions (Brown et al., 2015). Sensemaking means not only passive internalisation, but active behaviour in a given situation as well, in order to be capable of providing adequate reactions to newly emerged problems or possibilities. In this process perception, overview and action are all present. Sensemaking has a central role in theory development and in formulation of concepts and solutions (Weick et al., 2005). It incorporates evaluation of past events and future oriented, strategy formulating activities as well (Corley & Gioia, 2011). Sensemaking intends to understand the followings (Weick, 1995):

- How do organizations adapt to changing environmental conditions, and how do they contribute to transforming it;
- What type of organisational structures and mechanisms help or hinder this adaptation;
- How do these structures and processes make it possible for organisations to rich a level of operating certainty when they are faced with ambiguous situations.

These sensemaking processes formulate the knowledge of organisations, which builds of past experiences (Carvalho, 2021).

The above interpretation of decision situations explains learning by exploitation (March, 1991). In this learning process organizations rely on past information as well, when they develop future initiatives, evaluate their reception and evaluation, and improve their decisions. Sensemaking process connects learning processes by exploitation and exploration.

Due to its nature sensemaking contains not only objective elements, but its decisive characteristic is subjective sensing and evaluation. Sensemaking in this way is connected to interpretative and social constructivist organizational researches (Brown et al., 2015). Knowledge emerging in this way provides basis for strategic decisions, which are value- and interest-dependent. Strategic decisions are formulated jointly by participation of individuals and organisations.

Closing Remarks

In this short paper it was not my intention to discuss in details the behaviour-oriented approach to strategic management. The aim was to raise and characterise in short those approaches to strategy formulation which have emerged during the last decades and which may contribute to a deeper understanding of strategy formulation. We may see that development of strategic thinking and practice emphasises the values, interests and power positions of decision-makers contrary to previous focus on optimal strategic decision-making.

In the next phase of studying strategic behaviour my intention is to conduct empirical research by involving PhD students.

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