Approaches to the strategy-making process

https://www.wisdomjobs.com/e-university/hr-management-tutorial-69/approaches-to-the-strategy-making-process-8731.html

This topic uses the four distinctive approaches to strategy-making identified by Whittington (1993, 2001) as a model of analysis. These are the classical or rational planning approach, the evolutionary approach, the processual approach and the systemic approach. As you will see, an organisation's approach to its 'strategy-making' process has implications for our understanding and application of strategic human resource management.

The classical or rational-planning approach

This view suggests that strategy is formed through a formal and rational decision-making process. The key stages of the strategy-making process emphasise: firstly, a comprehensive analysis of the external and internal environment, which then enables an organisation to evaluate and choose from a range of strategic choices, which in turn allows for plans to be made to implement the strategy. With this approach, profitability is assumed to be the only goal of business, and the rational-planning approach the means to achieve it.

Alfred Chandler (1962), a business historian, Igor Ansoff (1965), a theorist, and Alfred Sloan (1963), President of General Motors, identified these key characteristics of the classical approach in their work and writings. Chandler defined strategy as:Grant (2002) highlighted the classical approach in his model of common elements in successful strategies: where clear goals, understanding the competitive environment, resource appraisal and effective implementation form the basis of his analysis.

Within the classical perspective, strategy can be and often is viewed at three levels: firstly, at the 'corporate' level, which relates to the overall scope of the organisation, its structures, financing and distribution of key resources; secondly, at a 'business' level, which relates to its competitive positioning in markets/products/services; thirdly, at an 'operational' level, which relates to the methods used by the various functions: marketing, finance, production and of course human resources to meet the objectives of the higher-level strategies.

This approach tends to separate out operational practices from higher-level strategic planning; this is not always helpful in reality, as it is often operational practices and effective systems that are 'strategic' to success in organizations (Boxall and Purcell, 2003). This prompted Whittington (2001: 107) to comment that 'the rigid separation of strategy from operations is no longer valid in a knowledge-based age'.

This is not to suggest that external analysis and planning should be ignored, but proposes a recognition that operational practices or 'tactical excellence' may provide sustainable competitive advantage by ensuring that an organisation is adaptable and can flex with the environment. This becomes significant in contributing to our understanding of SHRM later in the chapter.

Common elements in successful strategies

The classical approach, however, forms the basis of much of our early understanding of how organisations 'make strategy' and define competitive advantage. It is worth spending time on the

activity below, which will enable you to understand and apply the strategic management process from a classical rational-planning perspective.

Drawing on Johnson and Scholes (2002), it focuses on strategic analysis, which requires you to analyse the external and internal environment of an organisation and identify its key source of competitive advantage, which will then enable you to identify and evaluate the range of strategic choices open to the organisation. This in turn will enable you to consider the implementation stage of the strategy-making process in the organisation. In this activity, you have probably raised more questions than answers, and you have probably identified some of the shortcomings of the classical approach.

Mintzberg (1990) clearly identified the 'basic premises' of the classical approach as being the disciplined 'readiness and capacity of managers to adopt profit-maximising strategies through rational long-term planning' (Whittington, 2001: 15). He questioned the feasibility of adopting this approach as either a model for prescription of best practice or as a model of analysis, as he considered it to be an inflexible and oversimplified view of the 'strategymaking' process, relying too heavily on military models and their assumed culture of discipline.

Mintzberg (1987) argued that making strategy in practice tends to be complex and messy, and he preferred to think about strategy as 'crafting' rather than 'planning'. The classical approach is, however, the basis for much strategy discussion and analysis, and, as we will see later, underpins much strategic HRM thinking, particularly the 'best-fit' school of thought and the notion of vertical integration. If, however, we accept that devising and implementing strategies in organisations is a complex and organic process, it highlights the complexity of both defining and applying strategic human resource management.

The evolutionary approach

An alternative view of the strategy-making process is the evolutionary approach. This suggests that strategy is made through an informal evolutionary process in which managers rely less upon top managers to plan and act rationally and more upon the markets to secure profit maximisation. Whittington (2001) highlights the links between the evolutionary approach and the 'natural law of the jungle'. Henderson (1989: 143) argued that 'Darwin is probably a better guide to business competition than economists are', as he recognised that markets are rarely static and indeed likened competition to a process of natural selection, where only the fittest survive.

Darwin noted that more individuals of each species are born than can survive, thus there is a frequently recurring struggle for existence. Evolutionarists, therefore, argue that markets, not managers, choose the prevailing strategies. Thus in this approach, the rational-planning models that analyse the external and internal environment, in order to select the most appropriate strategic choices and then to identify and plan structural, product and service changes to meet market need, become irrelevant. The evolutionary approach suggests that markets are too competitive for 'expensive strategizing and too unpredictable to outguess' (Whittington, 2001: 19). They believe that sophisticated strategies can deliver only a temporary advantage, and some suggest focusing instead on efficiency and managing the 'transaction costs'.

The processual approach

Quinn (1978) recognised that in practice strategy formation tends to be fragmented, evolutionary and largely intuitive. His 'logical incrementalist' view, therefore, while acknowledging the value of the rational-analytical approach, identified the need to take account of the psychological, political and behavioural relationships which influence and contribute to strategy. Quinn's view fits well within

Whittington's processual approach which recognises 'organisations and markets' as 'sticky, messy phenomena, from which strategies emerge with much confusion and in small steps' (2001: 21).

The foundations of the processual school can be traced back to the work of the American Carnegie School, according to Whittington (2001) and the work of Cyert and March (1956) and Simon (1947). They uncovered two key themes: first, the cognitive limitations of human action, and secondly, that human beings are influenced by 'bounded rationality' (Simon, 1947). Thus no single human being, whether the chief executive or a production worker, is likely to have all the answers to complex and difficult problems, and we all often have to act without knowing everything we would like to know.

Thus complexity and uncertainty become facts of life in strategic management and consequently in SHRM (Boxall and Purcell, 2003). It is important for organizations to recognise this to avoid falling into a fog of complacency or the 'success trap' (Barr et al., 1992), and it also highlights the limitations of some of the prescriptions for success advocated in both the strategic management and SHRM literature. In practice, an organisation's approach to SHRM has considerable influence here on the strategic management process, as to effectively manage the environment better than their competitors, some writers would suggest that the organisation needs to adopt a learning and open systems perspective.

Mintzberg (1987) recognised this in his ideas on 'crafting strategy', and the fluid and organic nature of the strategy-making process. He compared the skills required of those involved in the process to those of a traditional craftsperson – traditional skill, dedication, perfection, mastery of detail, sense of involvement and intimacy through experience and commitment. Thus he recognised that planned strategies are not always realised strategies, and that strategies can often emerge and evolve .

Thus the classic sequence of plan first, implementation second can become blurred, as 'strategy is discovered in action' (March, 1976). Secondly, the processualists noted the significance of the micro-politics within organisations, a theme since developed by Pettigrew (1973, 1985) and Wilson (1992). This approach recognises the inherent rivalries and conflicting goals present within organisations, and the impact this can have on strategy implementation. As we will see later in the chapter, it is these pluralist tensions that are sometimes ignored in certain branches of the SHRM literature, most notably the best-practice approach.

Emergent strategy

The systemic approach

This leads us on to the final perspective identified by Whittington (1993, 2001), the systemic approach. The systemic approach suggests that strategy is shaped by the social system within which it operates. Strategic choices, therefore, are shaped by the cultural and institutional interests of a broader society.

So, for example, state intervention in France and Germany has shaped HRM in a way that is different from the USA and the UK. A key theme of the systemic approach is that 'decision-makers are not detached, calculating individuals interacting in purely economic transactions' (Whittington, 2001: 26) but are members of a community 'rooted in a densely interwoven social system'. Therefore, in reality, organisations and their members' choices are embedded in a network of social relations (Whittington, 1993).

Thus according to this approach, organizations differ according to the social and economic systems in which they are embedded. The four approaches to strategy identified differ considerably in their implications for advice to management. Understanding that strategy formulation does not always occur

in a rational-planned manner, owing to complexities in both the external and internal environment, is significant for our understanding of strategic human resource management.

Whittington (1993) summarised his four generic approaches of classical, evolutionary, systemic and processual, discussed above, in Figure.

By plotting his model on two continua of outcomes (profit maximisation–pluralistic) and processes (deliberate –emergent), Whittington (1993, 2001) recognises that the strategy process changes depending upon the context and outcomes. In terms of strategic human resource management, therefore, the term 'strategic' has broader and more complex connotations than those advocated in the prescriptive 'classical' strategy literature. As turbulence in the environment increases, organisations are recognising the importance of human resources to the competitive performance of the organisation, and therefore its role at a strategic level rather than an operational one.

Whittington's model

By now you should be familiar with different approaches to understanding the nature of strategy, and have gained an appreciation of the complexities involved in the strategic management process. You may have realised that our understanding and interpretation of SHRM will, to a certain extent, be influenced by our interpretation of the context of strategic management. It is to the definition and the various interpretations of strategic human resource management that we turn next.