

# Conceptual Development on Strategic Management for Organizational Improvement

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## Abstract

The objective of this paper is to present a theoretical model for strategic business management. There are three basic models that deal with the notion of business strategy: an Input/ Output model, a resources-based model, and an agency model of the organization. The models are a result of the strategic management paradigm. Knowledge management (KM) was then developed to significantly define knowledge as a valuable strategic resource for businesses. The agency model indicates more promise having the potential to incorporate both of the other models, but current approaches are passive and do not embrace complexity. The collective agency, a new form of this model that embraces these attributes, will be presented.

**Keywords:** Knowledge cybernetics; Strategic management paradigm; Business strategy; Collective agency theory

## **Introduction**

The business environment in which an organization operates is highly competitive and unpredictable. Most excellent companies do not believe in excellence, they focus in constant improvement and constant change. Peters (1987, 3) admitted that ‘there were no excellent companies’, as well. Consequently, the models that we will use here will provide an understanding of the development of the strategic management paradigm from its early use of SWOT, through its acquisition of economic/utility theory, its development through the resource-based view, and finally knowledge management and viable systems paradigms. Therefore, knowledge management and viable systems paradigms can be coupled with the new field of knowledge, such as cybernetics, to illustrate the development of potential the field. .

## **Strategic Business Management**

There are three basic models that deal with the perceived need to maximize returns that arise from sustainable organizational improvement (Lado et al, 1992). These are 1) Input/Output model, which is grounded in neoclassical economics and deals with optimal outcomes in an external environment, 2) A resources-based view of an organization which is the notion of organizational improvement, and 3) An agency model of an organization, which has arisen with the development of the strategic management paradigm.

When an organization sustains returns that exceed the average for its industry, it is said to possess an organizational improvement over its rivals in a given marketplace. Indeed, the goal of business strategy is to achieve such a sustainable organizational improvement. Porter (1985) defined two types of organizational improvement, cost advantage and differentiation advantage. Cost advantage occurs when an organization can deliver the same benefits as competitors but at a lower cost, while differentiation advantage occurs when benefits are delivered that exceed those of competing products. These types of advantage are known as positional advantages because they can describe an organization’s industrial position as a leader in either cost or differentiation.

### **A Resource-Based View of the Organization**

A new strategic view of competition that appears to follow the ideas of Peters (1987) was called the resource-based view (e.g. Barney, 1991; Mahoney & Pandian, 1992; Priem & Butler, 2001). There are three such 'capital' inputs: physical, human, and organizational. The use of these resources is determined by characteristics inside the company. When these characteristics are appropriate, an organization can achieve both organizational improvement and a sustainable superior performance – usually expressed in terms of relatively high level of return on investment.

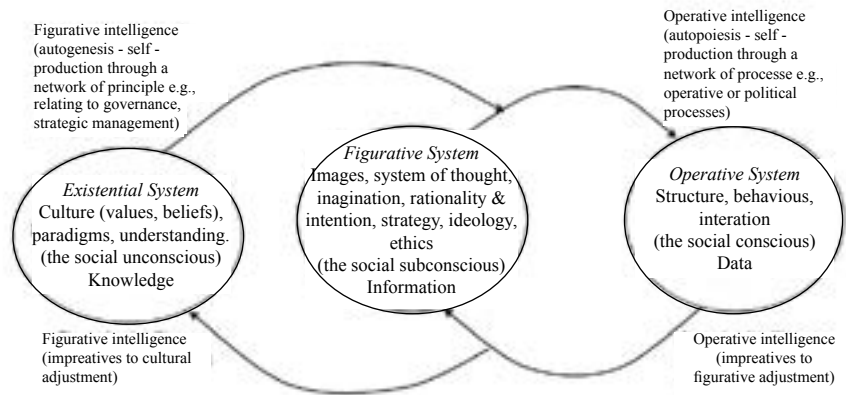
In particular the resource-based view centre on the idea of economic rent or Economic Value Added (EVA) that the organization earns beyond cost of the capital employed in their business, and it is used as a measure of organizational improvement. The objective of a company is to increase its economic rent, a consequence of which is an expected increase in return. The organization operates as a collection of assets/capabilities, providing a capacity for a set of resources to effectively perform activities and tasks.

This collection of assets/capabilities can be defined as 'intangible', if they are used to contribute to sustainable organizational improvement. According to Wade and Hulland (2004), competitive advantage also occurs through rare and valuable resources. It needs to be distinctive, having attributes which competitors are unable to reproduce. A capability might also be proprietary, thus making it unique to one organization. Organizational improvement can be made sustainable by making the organization responsive to rapidly changing market conditions by both maintaining the development of existing resources and capabilities, and creating new ones. One aspect of the resources and capabilities in a globalized and accessible world is that knowledge is deemed to be the most important value-creating asset.

### **Collective Agency Theory**

It is clear from the strategic management literature that there is a relationship between organizational structure, culture and strategic processes (e.g. Dobson, Starkey & Richards, 2004; Nutt, 2006). However, according to Freeman and McVea (2006) modern stakeholder theory has a potential role

to play in collective agency theory. There have been a number of attempts to develop stakeholder theory into a complete and coherent theory as opposed to a set of fragmented parts by connecting such approaches as transaction, cost, contract theories and in particular, agency theory, into a coherent whole (Jones & Wicks, 1999). Following Labatkin et al (2006), agency theory emerged in the 1970s to explain economic relationships under conditions of uncertainty and less-than-perfect information. It has become a widely used theoretical lens in strategic management research, encompassing research on corporate governance, CEO compensation, firm performance, firm risk and strategic decisions such as diversification and mergers. The term agency refers to an agent that is able to act independently and to make its own free choices subject to environmental constraints. The collective agency theory can be shown in following model.



**Figure 1** The collective agency theory

Figure 1 presents the collective agency theory in the model. The use of the term collective implies a social psychology orientation to organizations (Yolles, 2009). A collective agency is a complex, socio - cognitive, purposeful, autonomous, adaptable, and self - organizing and self - referential entity, and it can be modeled through the use of cybernetic principles (Bandura, 1991 & 1997). For Bandura (2006) it also has intentionality (e.g., making action plans and strategies collectively through shared intention and which affects corporate performance, and includes principles of adaptation and self - organization),

forethought (e.g. goal setting and anticipation of likely outcomes of prospective actions to guide and motivate effort, and which provides direction, coherence and meaning), self-reactiveness (e.g., self-regulation that includes the ability to construct appropriate courses of action and to motivate and regulate their execution), and self-reflectiveness (e.g., self - examination of their own functioning through functional self-awareness, identity, and recognition of their efficacy, the soundness of their thoughts and actions, and the meaning of their pursuits). In addition, knowledge cybernetics is principally concerned with the development of agents like autonomous social collectives that survive through knowledge and knowledge processes in relation to behavior and thought. Collective agency is also connected to a structure through which behavior is both facilitated and constrained/amplified, and a culture which facilitates and constrains/amplifies strategic, ideological and ethical possibilities.

According to Figure 1, the three systems of collective agency are analytically distinct classifications of being, and they each have properties that are manifestations of knowledge. The operative system is phenomenal, and maintains social interests (Habermas, 1971). The properties of the other domains arise as an extension of this and draw on both systemic and cybernetic notion sin the same way put forward in Yolles (2003). There is a connection here to Schutz and Luckmann (1974) in that the epistemological content of each of the 3 domains can be defined in terms of narrative relevancies. The existential system has thematic relevance that determines the constituents of an experience; the figurative system has interpretative relevance that creates direction through the informational manifestation of relevant aspects of a stock of knowledge that can formulate revisions, images or a system of thought and in particular strategic patterns; and the operative system is associated with motivational relevance that causes a local conclusion through action. The notions of the conscious, the subconscious and the unconscious, derived from Freudian psychology, are connected to the ideas of Wollheim (1999), and also related to the ideas of organizational psychology as promoted, for instance, by Kets de Vries (1991). The domains of knowledge related too, a notion that comes by linking to work of Marshall (1995) to that of Schutz and Luckmann (1974).

Figure 1 presents the nature of autopoiesis and autogenesis is of particular interest in collective agency. The two together constitute a necessary and sufficient indicator of autonomy. The former was introduced into the literature by Maturana and Varela (1979). Here autopoiesis is a term that can now be simply seen as a network of processes that enables noumenal activity to become manifested phenomenally, and in autonomous systems this is conditioned by autogenesis – a network of principles that create a second order form of autopoiesis that guides autopoietic processes. Autopoiesis may be thought as a process of operative management, a term coined by Schwaninger (2001), and autogenesis as process of strategic management. Following Yolles (2009) autopoiesis and autogenesis can be replaced by the psychological terms figurative and operative intelligence which were originally used by Piaget (1950).

According to Figure 1, figurative intelligence is responsible for the representation of reality, and derives meaning from its operative counterpart. It involves any means of representation used to keep in mind the states that intervene between the transformations that inform perception and mental imagery. It is also concerned with the past. It is related to operative intelligence which rather refers to the present and future. Hence, figurative intelligence refers substantively to the patterns of knowledge that drive autogenetic processes, where the figurative intelligence that arises from the existential system is referred to as figurative existential intelligence, and that connecting the strategic personality to the operative system is referred to as the operative social system. The figurative system can itself be seen as a living social system in its own right, and referred to here as a collective personality.

Referring to figure 1, operative intelligence is concerned with the representation and manipulation of the transformational aspects of reality, and involves all actions that are undertaken so as to anticipate, follow or recover from phenomenal transformations. It also refers to a highly integrated and generalized set of actions that are adaptive in nature (Schoenfeld, 1986). It can thus be thought of as the effective capacity to create a cycle of activity that manifests virtual images phenomenally. In conclusion, these intelligences may be subject to breaks that inhibit the manifestation of types of intelligence

between the systems. These are referred to as generic organizational pathologies (Yolles & Fink, 2011), and they likely generate cases of misconduct in the operative system.

## **Conclusion**

The development of strategic theory began with SWOT analysis and then embraced Porter's five forces model and its extension to six (6) forces. These strategies were developed outside an organization, and the next development, through the resource - based view, occurred with the recognition that there was also a need for an examination of the internal processes of an organization. So far, all the theory had its base in economic/utility theory and optimal results, enhancing the notion of disposability and quite a step from qualitative exploration of organizations. This evolutionary development of strategic management has recently incorporated knowledge management that has suffered from a lack of an endogenous exploration of the organization to improve its capacity to deliver a competitive advantage, which cannot be facilitate solely through the use of technology. Moreover, extending beyond knowledge management to viable systems theory, more can be said about the relationship between the capacities of the organization to develop knowledge, core competencies and competitive advantage, conditioned as it must be by its pathologies.

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