

RATIONALITY AND PERFORMANCE IN BUSINESS DEVELOPMENT

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Abstract:

The rationality consists in the fact that a person will always choose the best alternative possible, acting to maximize his own usefulness. The economy itself was defined as a science of the efficient choices, "the science which studies human behavior as a relation between his objectives and limited ways, having an alternative usage." Therefore, regarding from the point of view of this theoretic perspective, the economic agent, producer or consumer acts in order to maximize his own usefulness (regarded as the result of his actions) in a context that generates opportunities and compulsions, the rational behavior being oriented towards a maximization of the usefulness under the pressure of compulsion. The question is whether the maximization is the only economic "rational" behavior because beyond the maximization a certain performance and a certain result are expected, capable to ensure a sustainable development of the business.

Key words: *rational economic behavior, decisional process, rational choice, search of performance*

JEL classification: D20, M10

1. Rationality – determiner of the decisional process

To comprehend the social phenomena which take place within groups, collectivities it is necessary to comprehend first of all the individual behavior: why individuals behave the way they do?

The economic pattern built upon this methodological premise presupposes the next answer. The individuals' behavior is a rational behavior determined by rational thinking associated with the increased interest for the tasks (to be accomplished)[1]. What makes a behavior to deserve the name of rational is the fact that individuals act guided by a purpose. It is necessary to mention that in the end we are not talking about one purpose, but about a succession of purposes headed regularly towards a final purpose – the change of a situation.

The theory of rational choice operates with a technical sense of the concept "rationality". Rational means that type of behavior which is motivated and coordinated only by the reach of an already proposed purpose[2]. Rational behavior is, therefore, that type of behavior which aims adequately and continuously at reaching the proposed purposes, especially those concerning the profit. It seems a selfish approach but from this point of view, the behavior of the business man[3] is justified only when the main purpose is the monetary gain, and the economic activity is rational so that it brings personal profit to the individual involved in business (a business that is not oriented towards profit or disappears in the end or stops being a proper business).

The individual acts rationally, basing upon knowledge as long as he chooses the action that he correctly calculates as being the most useful for the satisfaction of his needs. In another words, the rational individual is capable of calculating his costs of certain enterprises that he might do to reach his purposes and to choose (being aware of the fact) the action tract with the smallest costs. Using the terms of the economic model[4], the action of the rational agent can be described as a maximization of

usefulness when the choice of the alternative is made with the smallest cost. Therefore, the economic man represents a human type whose behavior is oriented by an economic principle: to obtain maximum results with minimum effort.

What needs to be mentioned is the fact that this principle does not exclude and it is not infirmed by the presence of error or mistake. In another words, the individual is not less rational if he is mistaken when choosing his ways – if he doesn't choose though the action with the most diminished costs or those which bring maximum usefulness–because it is not presupposed to have access to the entire knowledge. The pretention of rationality as maximization of costs and usefulness regards the individual's possibility of optimization in the field of knowledge at a certain moment in the measure in which this is relevant for the purpose chosen by the respective individual.

In organizational environments the problem of rationality is in connection with the efficiency because the problem of rationality is represented in the organizations that aim at obtaining monetary profit or efficiency.

The organizations are “rational arrangements” of people, proposals of activity gathered in plans. (H.Mintzberg)

The principles that are the basis of any organizations are:

- The organizations exist to reach pre-established purposes and objectives
- The organizations function the best when rationality prevails to personal preferences and external pressures
- The structures must be realized according to the organizational circumstances (environment, technology and purposes)

The neoclassic theory of the firm defines the enterprise as a unity of production in which factors of production are used and as a centre of decision, where the manager decides only depending on the optimization process which concerns the maximization of the profit. This way we reach the conclusion that the decision is taken in a perfect rationality context, meaning that the manager takes the best decision which ensures the maximization of the usefulness.

But, such a pattern can be contested because the administrators ascertain that, in fact, diverse behaviors within the enterprise can be pretty incoherent between them. The pattern of perfect rationality of the individual and implicitly of the manager in the decisional act was seriously questioned with the papers of Herbert Simons who introduces the notion of “limited rationality” explained by the limited cognitive capacity of the individuals.

Limits

Is there maximization the only rational economic behavior?

Milton Friedman sustains that the pursuit of profit is a moral duty (the minimal condition is to be realized legally). In contradiction to his point of view comes the one of Amartya Sen[5] who emphasizes the fact that a reasonable behavior is only partially justifiable in terms of cost/benefit.

In other words, real rational behavior does not identify with that theorized by economists arguing that real people take into account purposes of ethic nature not only of economical nature.

To these opinions comes the reason that in fact incomplete rationality and satisfying levels of the results define the real economic behaviors. This because the objectives of the economical organizations starting with the global ones and ending with the most detailed are formulated upon some procedures partially rational and strongly marked by the interactions between organizational forces, exponents of some specific interests, values and aspirations. The preferential orientation towards certain objectives to the prejudice of others, in other words the establishment of the mixture of objectives such as the ways of pursuit of the selected objectives is localized in the “thicket” of

relations, interests, attitudes, behaviors, individual and group strategies, which define the dynamics of power within the economic organization.

The individual is not always meant for calculation, because the variables presupposed by him, among them these purposes, are not at hand explicitly. On the other side, preferences are in a certain dynamic which does not always concur with the dynamic of their awareness under the form of concise purposes. Regarding from another perspective, that of the relative context in which the individual must, as it is sustained, be able to make calculations of optimizing the resources, of maximizing the usefulness, the environment (under natural or social environment) is in a certain dynamic, and suffers a certain change.

Therefore, the individual – in order to satisfy the economical pattern – must be the processor of the optimization of the information (taking into account both what comes from the environment and what comes from the world of personal preferences), having a large power coating and a considerable speed. In fact, most of the times, due to its natural limits, the individual comes to ignore a part of the information, to keep selectively only what he finds relevant or, to be overwhelmed and to remain in the shadow of the facts that he owes to analyze.

What could be reproached to this economic pattern from this point of view it would be a presupposition to close of rationality. It is obvious the fact that social actors are rational beings, that they are equipped a machine of choice (will) and a machine of calculation (knowledge) but the measure in which these guide them is a partially one, often remaining space for hazard concerning the action level.

2. The performance and the behavior of the entrepreneur

What is wanted is in fact the delimitation of a certain type of behavior (rational or in search of performance) so that the results of the action ensure a sustainable development of the business.

As it was presented until now, in a microeconomic conception, the firm's behavior appears as being dictated by the maximization of the profit, this being considered a synthetic indicator of the economical financial performances of the firm, reflecting eloquently the efficiency of the resources used by the firm for the production of goods and services which are specific to it. Therefore, the realization of the profit, together with that of a performance component becomes a behavior problem.

Therefore, beyond definitions, as Ludwig von Mises[6] affirms, the entrepreneurial decision is the one which creates profits or losses. The latter origin of profits is in the mental act, in the mind of the entrepreneur. The profit is a profit of the mind, of success in anticipating future configurations of the market. The appearance of profit is the consequence of this spiritual and intellectual act.

The performance was always a controversial concept and also a coveted reality. In all domains, all organizations and people aim at a high level of performance, but performance as a fact is hard to define and, more than that it is extremely hard to operationalize.

Classic management literature defines performance as being a conjunction of two concepts, meaning : the efficacy and the efficiency of the organization.

The efficiency expresses in this context the measure of results of some activities reported to the efforts made in this way, its increase presupposing the maximization of results with the minimization of costs. An efficient activity is that which presupposes a certain actionable, technique, procedural skills, a certain science of execution.

Efficacy is the measure in which an activity, a product or a service satisfies certain necessities, realize certain objectives or functions.

The performance flows from the interaction between consumers (perfect rational in their wish to maximize their economic satisfaction) and producers (perfect rational in

their wish to maximize their profits) presupposing the realization of a maximum of production and consumption.

The rationality of every system of management consists in the desire to obtain a controllable, predictable, preferable constantly increasing performance and this is why the actual concept of performance of the enterprise knows different interpretations, being defined as: the aptitude to reach the objectives, the capacity to create value for the clients and society or the aptitude to prolong the existence on long and medium term.

Some specialists talk about the distinction between performance and result, but the experience has shown that this problem cannot occur categorically besides conditioners and context. The relationship performance – result represents an indissoluble “whole”, obviously excepting the case in which the result of the action is emphasized without putting and evaluating it on a scale values.

Thus, the performance as action must be understood as a behavioral capacity (no matter about what system we are talking about) to obtain a certain result situated to the reference levels to be defined depending on its value (the levels of the activity sectors, concurrence, possible values in similar cases or even other parameters).

The results measure the performance and even define it when it is situated at levels meant to express performance.

The issues of this paper (the relation rationality-performance) obliges us to underline the fact that the report cost-performance is not the same with the report price-performance, meaning that the last report is connected with the notion of competitiveness of prices having as meaning the capacity of the product to defeat concurrence through the level of the market prices.

The producer’s behavior will be, evidently, a different one depending on the place given by this report but equally consequence and premise of some decisions, determining the success or the licking of a business.

Nowadays, performance presupposes the capitalization of internal resources, of external opportunities for the satisfaction of both interested parts but also for survival and development of the enterprise on long term.

The classic period of rationality was that of the '60 and '70's. Post-modernist theories are more interested in the creativity of the individual. The truth is that taking certain effective decisions in the contemporary business environments – predominantly marked by complexity, incertitude and increasing importance of human capital – presupposes more and more the harmonious combination of the rational approach with that intuitive and the harmonious combination of the concern for tasks with the care for people.

3. Changes in the managerial practice

Britannic specialist Charles Hardy names the turbulent period that we cross “the era of incertitude”. But, more than that, it could be called “the era of high performances”. The change became a way of life, and the organizations and the individuals must act quickly to this. The performance is imposed in the new economical conditions as a main objective of the organizations. The employees are requested to find new ways of increasing the productivity, to manifest involvement when realizing the firm’s objectives, to demonstrate creativity and self-satisfaction when accomplishing the tasks. They need to show team spirit, to understand the needs and objectives of the organization and to use the new technologies at their maximum potential.

Today, strong companies do not base exclusively upon the rational instruments of the scientific management to realize certain productivity, a certain level of efficiency. It is used especially the organizational culture – strong beliefs, common values and the heroes that embody them, various rituals and ceremonies etc. – so that most of the strategies and politics be formulated and sustained.

Conclusions

One of the reference ideas of post-modernity[7] refers to diminishing the importance given to instrumental rationality.

Evidently, these principles affect profound the well known ways of building and control of the organizations, inclusively those of the economic ones. First of all, this change is characterized by the integration of rationality in a larger process of inter-relate and communication, together with spontaneous human emotiveness and sociability, which appear as almost equal partners of rationality. In post-modern conception the organizations represent open, organic or natural systems, real human communities, strongly connected to their external environment and simultaneously governed not by one but by more structurative forces. This change of view attracts other profound changes in the ideology and practice of the organizations' management.

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