
Raymond Matthew Kinnunen
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The Louisiana State University and Agricultural
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A THEORETICAL FRAMEWORK
FOR CORPORATE STRATEGY WITH
EXPLORATORY RESEARCH ON STRATEGY FORMULATION

A Dissertation

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Business Administration

in

The Department of Management

by

Raymond M. Kinnunen
B.S.M.E., Northeastern University, 1969
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August, 1974
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ABSTRACT

The general purpose of this research was to contribute both theoretical and empirical research to the field of corporate strategy. The objective of the theoretical work was to develop a framework for corporate strategy that would form a basis for not only this research, but for future research in the field as well. An objective of the empirical work was to utilize concepts developed in the theoretical framework to obtain data describing how corporate strategy is formulated in the real world.

The empirical research was conducted via structured personal interviews with five third level executives heading operating units in five large divisionalized corporations. Answers to questions posed to the executives, comments by the executives, and examination of relevant company documents provided the data for subsequent analysis concerning strategy formulation.

A major concept developed in the theoretical framework and used as part of the empirical research was that there exists a finite set of decisions that define corporate strategy. This decisional orientation provided the nucleus for questions posed to the
executives. The research was also patterned after the idea that external and internal information inputs are necessary for these decisions to be made. The empirical portion of this investigation examined how strategic information inputs were received, what people were involved in obtaining the inputs, how often the inputs were sent to the executives interviewed, the degree of assistance that models were in providing strategic information, what people made the final strategic decisions, what criteria were used to make the decisions, how often the decisions were re-evaluated, and the agreement or disagreement that the executives felt toward the particular decisions used to define strategy.

A final objective of the empirical work was to utilize the findings obtained from data gathered to develop hypotheses and guidelines for future research in the field of corporate strategy. This objective was fulfilled with the presentation of sixteen hypotheses that will help to guide future research attempts in this complex and relatively unexplored area.

The findings and hypotheses developed all contribute in some way to the empirical research objective of finding out how strategy is formulated. Some findings led to the development and/or corroboration of some contemporary thoughts concerning various phenomena that occur during the process of formulating
company strategy. Certain ideas brought forth included (1) the existence of firms in different stages of strategy development, (2) the possible relationship between stages of development and modes of scanning used to secure strategic information, and (3) the notion that chief executive officers tend to ratify and may not be the actual formulators of strategy in some firms.

The research project was justified on the basis of the field of strategy needing research that would (1) contribute to the development of theory for the field, and (2) contribute empirical research to the relatively unexplored topic of strategy formulation. To this extent, this research offers a theoretical framework, empirical data, research findings, and hypotheses that contribute to clarifying the topic of corporate strategy.
CHAPTER I

INTRODUCTION

This paper is devoted to the complex and relatively unexplored topic of corporate strategy. Unlike most other areas of business, the field of strategy requires familiarity with many functional specialties, including marketing, production, finance, accounting, economics, statistics, organizational behavior, and management. In addition, when seeking a balance between the internal characteristics of the firm and the opportunities and constraints in the environment, the firm and its functional specialties must be viewed as a system of interrelated parts. This, in turn, requires that the field of corporate strategy take a multi-functional point of view. The general purpose of this paper will be to contribute both theoretical and empirical research to the complex field of strategy. The first part of this introduction will provide a brief overview of the theoretical work. This will be followed by a similar treatment of the empirical part of the study.
Theoretical

Most scholars would agree that organized and substantive research efforts in a field must be founded on a sound theoretical framework. \(^1\) A major purpose of this dissertation is to provide such a framework, not only for this study, but for future research in the area of corporate strategy. Since at this time such a framework does not exist, the theoretical portion of this paper can be viewed as a contribution to the development of the field.

In order to achieve this purpose, the first part of this paper (Chapters II, III, and IV) presents and discusses a unique model of enterprise decision making. The discussion focuses on three classes of decision variables in that model (strategic, implementation, and multi-functional). These chapters are based on literature reviews in the respective areas. This primarily includes a review of strategy formulation and implementation, management and accounting, and marketing, production and finance. A result of this review is a framework that describes the relationship between the firm and the environment (strategic variables), how the intended relationship is achieved (implementation variables), the interaction that takes place and the interdependencies that exist among functional areas.

\(^1\)See, for example, William F. Glueck, "Business Policy: Reality and Promise" (professional paper presented at the National Meeting of the Academy of Management, Division of Business Policy and Planning, Minneapolis, 1972).
(multi-functional variables), and how strategic decisions serve to
guide all subsequent lower order decisions in the enterprise.

The lack of empirical work in the area of corporate
strategy has been expressed by a number of authors.\(^2\) This concern
is well founded for empirical work is necessary for the field to
proceed in terms of underlying discipline and knowledge. However,
the point should be made that sound theory is also necessary to take
substantial strides in the direction of empiricism.\(^3\) As one author
has pointed out:

> At its essence good theory states its basic
> propositions in the simplest, most general form
> possible, and in a form which makes abundantly
> clear the relationship among key assumptions
> and the manner in which the theory bears on
> evidence. Good theory cries for empirical
> corroborations or refutations and beyond this,
> good theory stimulates experiments which extend
> the theory.\(^4\)

---

\(^2\)See, for example, Dan E. Schendel and Kenneth J. Hatten, "Business Policy or Strategic Management: A Broader View for an
Emerging Discipline," p. 7; Henry Mintzberg, "Research on
Strategy-Making," p. 1; and William F. Glueck, "Business Policy:
Reality and Promise," p. 4 (professional papers presented at the
National Meeting of the Academy of Management, Division of
Business Policy and Planning, Minneapolis, 1972). Also, see
William D. Guth, A Memorandum to the members of the Division of
Business Policy and Planning, Academy of Management, February

\(^3\)Paul R. Rigby, Conceptual Foundations of Business

\(^4\)J. L. Bower, "Strategy as a Problem Solving Theory of
Business Planning," Case Clearing House, BP 894, Harvard
The amount of empirical evidence now existing seems to place some doubt on the existence of "good" theory in the field of Business Policy and Strategy. A result of the theoretical portion of the dissertation (Chapters II, III, and IV) is a framework that has the potential of becoming a foundation for future development of theory for corporate strategy. In this manner, the framework makes a contribution in the direction of filling a void that now exists in the literature. Furthermore, the contribution of a theoretical framework will stimulate empirical research over many years to come. Recent widespread concern over the fact that an empirical data base is lacking in the field cannot be alleviated through organized research efforts until theoretical frameworks (such as the one presented in this study) are developed.

The statement that the theoretical framework developed in this paper will stimulate future research is at least partially supported by the empirical work that was completed for this study. The portion of the framework upon which the empirical work was based provided a methodology for gathering data on the virtually unexplored topic of strategy formulation. Many similar methodologies and research questions are offered by the framework for future research.

---

A theoretical framework for the field of Business Policy and Strategy will contribute to teachers and practitioners, as well as researchers. As a pedagogical device, the framework will help the student to develop analytical ability; to consider problems and issues in relation to one another; to view the firm as a system of interrelated parts; to consider the firm in relation to the environment; to take a top management point of view; and so on. Acquiring such skills is a somewhat difficult task. Utilizing as part of the process of analysis of policy situations a theoretical and conceptual framework that has been built upon and necessitates the use of these skills will be a step toward fostering their development.

Presumably, the successful executive understands and has acquired the skills that policy courses attempt to instill in students. However, by interjecting an analytical approach to strategy formulation, the framework developed in this paper offers a consistent way of thinking about and adding some structure to what has been proposed as a somewhat unstructured concept. In this manner, the framework to be presented offers a more analytical and systematic means of relating the firm to its environment.

---

In addition to a set of strategic decisions, the framework also identifies the decision areas that must be treated for successful implementation of strategy. The remaining decision classes in the framework are those that exist in task areas of the firm and are required to operationalize a firm's strategy. The total framework (four classes of decision variables) represents a holistic view of enterprise decision making. This view is consistent with a general management perspective indicative of the chief executives that guide business enterprises. It is an analytical scheme that should be of use to the general manager in both formulating and implementing strategy. In addition, it should be useful as a "starting point for (a) determination of the placement of decision authority throughout the firm, (b) identification of areas of frequent and crucial interaction, (c) definition and design of horizontal and vertical information flows, and (d) overall coordination of organizational activities." 7

**Empirical**

The empirical portion of the dissertation is an exploratory study of strategy formulation in five industrial firms. 8 As noted

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8 The exploratory research conducted in this study had as an objective to develop hypotheses. Consequently, it was not concerned with testing predictive or causal relationships between two or more
previously, the study is based on a portion of the theoretical framework developed in the first part of this paper. More specifically, the research is based on a concept that states that there exists a finite set of decisions that define corporate strategy. Utilizing this concept and definition of strategy, the research proceeds to investigate and report on how corporate strategy is formulated.

The data gathered for the research were via a structured personal interview with five executives from large industrial firms. Responses to questions asked during the interview include (a) external and internal information inputs chosen by the executives to each strategic decision, (b) how they received this information, (c) who the information was obtained from, (d) how often it was received, (e) the degree of assistance that models were in providing strategic information, (f) who made the final strategic decisions, (g) what criteria were used to make the decisions, (h) how often the decisions were re-evaluated, and (i) the agreement or disagreement that the executives felt toward the particular decisions used to define corporate strategy.

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8(continued) variables. The rationale for this approach and other dimensions of the research design are treated in Chapter V.

9A description of the firms, as well as the executives interviewed, is presented in Appendix A.
Analysis of the data offered useful information toward explaining various aspects of the formulation of strategy. For example, the information inputs chosen first by the executives indicate information that they felt most important in relating the internal characteristics of the firm to its environment. How the information is received, from whom, and how often all contribute to explaining the formulation of strategy as a process. Who actually makes the final decision, the criteria that are used, and the frequency of re-evaluation are data that pertain to other strategic phenomena that have only been discussed on a theoretical dimension in the past. Generally, the analysis of the data gathered breaks new ground for offering possible answers and hypotheses concerning various phenomena related to the nebulous area of corporate strategy.

The empirical work is basically descriptive and analytical representing an appropriate first step toward understanding any unexplored and confusing topic. The data gathered from top level executives in large industrial firms provide information toward filling a noticeable void in the literature concerning the formulation of strategy in actual business settings.

**Chapter Summary**

The framework developed in this paper contributes to teachers, researchers, and practitioners in the field of strategy. It represents a holistic view of enterprise decision making that
conceptualizes the structure of decisions in business organizations. The empirical work of this paper investigates strategy formulation as a process, focusing on a finite set of strategic decisions. The framework and methodology used to investigate strategy formulation are unique. In addition to being unique, both the framework and the methodology have the potential of fostering extensive research and theory in the field of Business Policy and Strategy.

The next chapter of this dissertation (Chapter II) is a literature review that culminates with a presentation of a conceptual scheme of enterprise decision making. Chapters III and IV are devoted to discussing this scheme and developing a theoretical framework for corporate strategy. Chapter V introduces the empirical work undertaken in this study. The remaining chapters (VI and VII) report on the empirical work, as well as presenting hypotheses and direction for future research.
CHAPTER II

LITERATURE REVIEW

The concept of corporate strategy is a relatively recent addition to the vocabulary of business administration. It has grown out of a conscious attempt by scholars and practitioners to conceptualize the relationship between the complex and ever-changing environment within which a business operates and the mechanism that triggers the firm's responses in order to remain viable in constantly changing surroundings.

Although the use of the word strategy extends back to at least 400 B.C., it has found its way into the business literature only in the past fifteen years.¹ This may be due, in part, to the complex nature of the subject matter. As Steiner has pointed out, the topic of strategy "is not as easy to master as other areas of business and therefore has not received the attention it deserves."² Furthermore,

²Ibid.
the history of American business offers a few more basic reasons for the relative infancy of corporate strategy as a field of endeavor. The following brief discussion is basically drawn from the work of Alfred D. Chandler to point out some of these reasons.

Before the railroads made possible (more than any other single factor) the growth of the great industrial enterprise, there existed far less of a need for systematic assessment of the competitive environment. The fundamental mission of the smaller enterprises was clear-cut and management's biggest concern was with day-to-day operations. As the companies grew larger through various strategies, such as expansion, integration, merger, acquisition, consolidation, and diversification, management began to realize a distinction between entrepreneurial and operating activities. The "expansion into new industries, new lines of business, and new geographical areas broadened the range as well as the complexity of tactical and strategic decisions." The senior executives had to concentrate on such matters as coordinating and integrating the output of several departments to changing market demands, needs, and tastes. In addition, they also found it necessary

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4 Ibid., p. 11.
5 Ibid., pp. 302-03.
to systematically allocate the future use of the resources of the enterprise as well as appraise present performance of the resources in use. ⁶

A conclusion that can be drawn from this brief historical perspective is that the advent of the large industrial enterprise forced the executives of these firms to explicitly draw a distinction between entrepreneurial and operating, or strategic and tactical, decisions. Alfred Sloan clearly realized this distinction in 1932 when he wrote:

By "administration" is meant the daily conduct of the Corporation's affairs. By "formulation of policies" is meant both the establishment of the broad principles by which administration is to be guided and the determination of the fundamental concepts of the business. The prime objectives of the business; the scope of its operation, both as to products and markets; the desirability of expansion, horizontally or vertically or both; the provision of the essential capital for its operations; and the question of distribution of its profits as between the amount paid in dividends and the amount retained in the business--all are problems involving "formulation of policies" and illustrate the principle involved. ⁷

It seems to follow from the aforementioned that practitioners had discovered the importance of strategy (or, as Sloan described it, "formulation of policies") as their corporations grew and complex situations occurred that required a clear distinction between efforts

⁶Ibid., p. 291.

⁷Ibid., p. 310.
that shaped the destiny of the entire enterprise and the more routine operational activities. The frameworks that evolved from this awareness left the broad strategic decisions in the hands of a top team of generalists. It is this "generalist" notion that forms a general frame of reference for the concept of corporate strategy and the literature that has been devoted to it.

A General Frame of Reference

The general frame of reference necessary for the executives that deal with strategy in business enterprises has been referred to by various writers in the literature as top management, general management, central management, and systems viewpoints, to mention a few. These views are consistent with Chandler's notion of a "top team of generalists" and refer to the psychological commitment required of senior executives to guide a business enterprise. These writers look upon the executives responsible for formulating and implementing strategy as having primary responsibility for the enterprise as a whole. In dealing with strategic planning they are "concerned with those basic factors which spell the success or failure of a company."10

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8Ibid., p. 309.
9Ibid., p. 310.
10Steiner, Top Management Planning, p. 236.
Cannon says that:

General management provides the entrepreneurial force and emphasis for the business. It establishes the basic direction, provides the profit stewardship, and maintains the necessary motivation and leadership for success.

He goes on to describe six aspects of general management: to (1) identify opportunities, (2) set direction and goals, (3) assign basic work and allocate resources, (4) develop resources, (5) commit resources, and (6) evaluate results.

Newman and Logan use the phrase "central management viewpoint" which entails two major characteristics:

/The first/ is the relating of parts to the whole, integrating them into a balanced, workable, plan. /The second/ is defining the main objectives—the mission—of the enterprise. . . . Central management, then, is concerned with missions and priorities on the one hand, and with inter-relationships, functional integration, and a balanced plan of action on the other.

Learned et al. express similar views of the role of the chief executive. They say that the primary responsibility of the chief executive is the enterprise as a whole. "To be thus effective in his organization, he must have a sense of its mission, of its character,


and of its importance. "14 They go on to say that the skills of the
general manager "center intellectually upon relating the firm to its
environment and administratively upon coordinating departmental
specialties and points of view."15

Katz emphasizes the general management point of view as
being an important step toward grasping the task of total enterprise
management. When describing the task of managing the total enter-
prise, he says:

What is needed is the ability to perceive the crucial
patterns among the various bits, pieces, and mountains
of information, activities, and events. This point of
view is complementary to (not competitive with) the
point of view of individual functions, fields, or depart-
ments which deal with parts of the whole. It empha-
sizes the relations between parts and their impacts on
one another and on the totality. 16

In sum, the general management point of view seeks a
balanced equilibrium among conflicting claims. It is a way of think-
ing which allows flexibility from one situation to the next, empha-
sizing those criteria most relevant to the specific conditions, but
never losing sight of overall corporate goals. It involves selecting
among differing departmental criteria and emphasizing those which

14 Edmund P. Learned et al., Business Policy Text and

15 Ibid., p. 9.

16 Robert L. Katz, Cases and Concepts in Corporate Strategy
are currently most appropriate to achieving total enterprise objectives.

In summary of the various views presented previously, it can be said that for top management to view the enterprise as a whole requires that his thinking be "that of a generalist rather than a specialist" or with a "systematic" rather than an "elemental" frame of reference. The writers in the field are in general agreement about this point. It has been included here because it is an important requirement for a complete understanding of the concept of corporate strategy. Successful formulation and implementation of strategy requires that the firm and its functional specialties be viewed as a system of interrelated parts.

**The Concept of Corporate Strategy**

The concept of corporate strategy requires the psychological commitment necessary to view the organization as a system comprised of a set of interdependent units. Each unit has strengths and weaknesses that combine to form the total enterprise with characteristics different from the individual parts. This total enterprise with its strengths and weaknesses must then be viewed by the general

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19 *Katz*, *Cases and Concepts*, p. 15.
manager as operating within a larger dynamic system—the environment—that contains both opportunities and constraints for the firm. Corporate strategy is primarily concerned with interfacing the two systems, that is, the firm and its environment.

Most writers consider the concept of corporate strategy as divided into aspects of formulation and implementation, where the former involves the analytical process of planning strategy and the latter involves developing internal plans to operationalize a given strategy. This division is primarily made to enhance understanding, for in real life the two aspects are interrelated.

This section of the chapter will present the ideas of a number of writers pertaining to, first of all, the aspect of formulating corporate strategy and, secondly, the aspect of strategy implementation. A major purpose of this review is to point out some limitations and weaknesses in the literature as it now exists and to develop a more analytical concept of strategy formulation, strategy implementation, their interrelatedness, and their relation to other decisions in the firm. This will result in a theoretical framework of corporate strategy that includes a conceptual model of enterprise decision making. This framework will be introduced at the end of this chapter.
The Formulation of Corporate Strategy

In formulating corporate strategy, the main task is to seek a balance between the internal characteristics of the firm and the forces (both opportunities and constraints) that exist in the environment. In attempting to explain this task, corporate strategy has been related in numerous ways ranging from statements defining strategy as goals and objectives to more explicit definitions that attempt to identify components and decisions that comprise strategy. The following pages will present a sample of these attempts proceeding in an evolutionary manner from the more ambiguous statements to those that approach an analytical and theoretical framework for understanding, applying, teaching, and/or researching the concept of strategy formulation.

Some of the earlier definitions of strategy include those of Chandler (1962), Tilles (1963), Anthony (1964), and Ansoff (1965). Chandler defines strategy as "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals."\(^{20}\) Tilles says that "a strategy is a set of goals and major policies."\(^{21}\) Anthony defines strategic planning


as "the process of deciding on changes in the objectives of the organization, in the resources that are to be used in attaining those objectives, and in the policies that are to govern the acquisition and use of these resources."

Ansoff defines strategy as being "primarily concerned with external, rather than internal, problems of the firm and specifically with the selection of the product-mix which the firm will produce and the markets to which it will sell." These earlier definitions provide one with a general conception of strategy. Before empirical work on how strategy is formulated can result, strategy must be approached in terms that are more specific and not so ambiguous that each individual has the ability to interpret the concept differently. The ill-defined nature of corporate strategy is a major weakness in the literature and a factor contributing to the lack of empirical research on the subject.

In attempting to make explicit the fact that an assessment of competition is a vital part of the process of strategic planning, another writer proposes the following definition:

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24 This is not to say that a universally agreed upon definition must be reached before research can proceed. However, a conceptual definition that will not be misinterpreted is necessary.
Strategic planning can and should deal with anything that is highly important to the success of the company. It includes the adjustment of the organization to the external environment, altering the organization to reflect internal environmental changes, solving basic problems created by competition as well as other environmental forces, coping with limitations, thwarting threats, and so on. . . . Although strategic planning may include decisions not directly related to the immediate or long-range competitive environment of a firm, the fact that competition occupies the major attention of management means that the words strategic planning are heavily loaded with competitive connotations. 25

It should be noted at this time that although Steiner has made explicit the assessment of characteristics both external and internal to the firm, he has confused the issue to some extent. By stating in his definition that "strategic planning can and should deal with anything that is highly important to the success of the company," he has implied that importance is a criterion for inclusion of issues in the strategic decisions of the enterprise. Clearly, a concept of strategy that proposes that important issues are strategic has offered very little in terms of approaching a concept of strategy that is more specific. Many issues that at one point in time are highly important do not constitute them taking on the dimension of being strategic.

More recent literature has taken steps toward being more explicit as to the definition of corporate strategy and the specific elements that comprise it. Since a prerequisite to research on how

25 Steiner, Top Management Planning, p. 238.
corporate strategy is formulated is to define strategy in a more analytical manner, the following views of strategy (and especially that of Katz) are more pertinent to this aim than were the more general definitions cited earlier. The next few pages present some concepts that will lead to the development of a theoretical framework that includes an analytical approach and definition of corporate strategy.

Newman and Logan have expressed their view of strategy in terms of four dimensions. They further propose that no strategy is complete without all four of these dimensions being clarified. The four dimensions are:

(a) identify the particular services—that is, the product-market scope—which the company will promote; (b) select the basic ways in which these services will be created—ways that hopefully will give the company some relative advantage as a supplier; (c) with this concept of its economic and social mission, determine the major steps necessary to move the company from its present course to the desired one; and finally, (d) establish the criteria and the standards that will be used to measure achievement.\textsuperscript{26}

In simpler terms, these four dimensions can be described as product-market scope, competitive emphasis, an implementation plan, and a control system.\textsuperscript{27}

\textsuperscript{26}Newman and Logan, \textit{Strategy}, p. 8.

\textsuperscript{27}It should also be noted that a plan and a control system relate to implementing strategy while product-market scope and competitive emphasis relate to formulating strategy.
Although these authors have developed a more tangible definition with respect to their four dimensions, they have left the translation of these dimensions into specific operational concepts to others. This omission fosters ambiguity and results in differing notions of strategy.

Cannon approaches strategy from a decision orientation when he defines strategy as "the directional action decisions required competitively to achieve the company's purposes." He fails to be specific though when he calls strategies "directional action decisions for the company as a whole and for any function or area of the business." This seemingly places few limits on the number of decisions in the firm that can be referred to as strategic. There are numerous decisions that can be referred to as "directional action" and, this being the case, the attempt to utilize a decision orientation is overshadowed by a lack of criteria for determining what set of decisions should be referred to as strategic. Again, the weakness lies in the ability of each individual to substitute entirely different sets of directional action decisions resulting in as many different definitions of strategy.

In an attempt toward clearing up some of the confusion surrounding the concept of corporate strategy, Learned et al. made a


29 Ibid., p. 11.
significant contribution when they proposed that there exist four
components of strategy. In a simplified manner, the four components
describe what the firm might do, what the firm can do, what it wants
to do, and what it should do. In more specific terms, the four com-
ponents are: "(1) market opportunity, (2) corporate competence and
resources, (3) personal values and aspirations, and (4) acknowledged
obligations to segments of society other than stockholders."\textsuperscript{30}

The authors consider these components as being the principal
aspects of formulating a viable strategy. They focus attention on
opportunity and risk in a competitive environment, present and
potential corporate resources or competences that are crucial for
successful strategy implementation, the non-economic aspects of
personal and organizational preferences that can heavily influence
strategic choices, and finally the identification of the social respon-
sibility of the firm.

Although these components in themselves do not constitute
what could be called a completely analytical concept, they identify
or set limits on the general areas where decisions must be made in
order to formulate corporate strategy. The focus can now turn to
converting the components into identifiable decisions that any business
organization can understand and address when formulating strategy.

\textsuperscript{30} Learned et al., Business Policy, p. 18.
Robert L. Katz has taken the contribution of Learned et al., modified it slightly, and, in a step-like manner, brought it to a point where he defines strategy in terms of seven strategic decisions. 31 His first step is to view a total enterprise as consisting of (1) a network of members, operating (2) an aggregation of resources, within (3) a competitive environment. 32

The environment makes certain demands and produces certain constraints which define, within broad limits, what the enterprise must do in order to be successful (i.e., to meet customer needs effectively), and must not do in order to survive (i.e., to meet the social and political expectations and the legal requirements of the culture in which it operates). The resources presently or potentially available to the enterprise put further limits on what the enterprise realistically can do. Then within these tighter constraints, the particular pattern of value commitments, competences, and personal influence among the key members determines what the enterprise will do (i.e., the final choice among alternatives). 33

In Katz's view, the particular configuration existing among these

31 Since Katz's approach is more pertinent than most other viewpoints in developing a basis for this research, it is treated in somewhat greater depth.

32 It should be noted that Katz's first step is very similar to Learned et al., the slight difference being that Katz includes the social obligation (the fourth component of Learned et al.) in his environmental component.

33 Katz, Cases and Concepts, p. 196. Once again, this is very similar to what Learned et al. describe as what the firm might do, can do, wants to do, and should do.
three elements at any point in time defines what he calls the enterprise's strategic posture. 34

In order to relate strategy to categories of observable data, he presents the component elements of **scope**, **specifications**, and **deployments**. These elements facilitate a more analytical approach to the concept of strategy. **Scope** refers to that part of the total environment of requirements and opportunities that the enterprise has chosen to serve. This element defines the products, customers, location, and competitive emphasis of the enterprise. **Specifications** can be thought of as measurable parameters which can be used to describe present performance, evaluate past performance, or serve as a basis for planning the future activities of the enterprise. The third component element, **deployments**, refers to the relative allocation of funds, facilities, equipment, manpower, and management attention among the company's various activities. 35

Katz takes the concept of strategy one step further toward a more analytical framework when he defines the elements of **scope**

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34Ibid., p. 195. In the framework Katz presents "corporate strategy refers to the relationship between an enterprise and its environment. **Strategic posture** (or position) refers to an actual relationship between enterprise and environment at a specific point in time. The **strategic plan** refers to an intended future relationship; the plan consists of corporate objectives and the proposed conditional action steps to be taken in order to reach those objectives."

and deployments in terms of strategic variables or policy commitments that can be viewed as decisions within the firm. He suggests that "only seven key parameters need be considered on a continuous, universal basis in determining company strategy: product policy, customer policy, distribution and promotion policy, competitive emphasis, pricing policy, financing policy, and investment policy." These "strategic variables refer to the choices and activities which establish scope, define performance specifications, and deploy resources."  

By translating broad, general components of strategy into a finite set of strategic variables, this contribution offers the most analytical framework found in the literature. However, a weakness in the framework results when Katz suggests that some parameters may assume temporary importance to a single enterprise.

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36To establish a competitive emphasis requires what Katz (p. 199) and Learned et al. (p. 180) have labeled "distinctive competence" and refers to what the organization can do particularly well. Steiner (p. 252) refers to this concept as "strategic factors," i.e., those factors that must be recognized and perfected to make the company successful.


38Ibid., p. 203.

39This is not to say that the particular decisions Katz has chosen are or are not the decisions that should be included in an analytical framework for strategy formulation. The major point that will be taken from Katz's contribution is that corporate strategy can be defined in terms of a number of tangible decisions.
e.g., labor relations at a time of intense conflict. This is very similar to what Steiner implied when he said that "strategic planning can and should deal with anything that is highly important to the success of the company." The result of assuming temporary importance is also very similar, i.e., an analytical concept of corporate strategy that can have different dimensions depending on what is important at a point in time.

The previous discussion based on literature dealing with strategy formulation has pointed out a need for a more analytical concept of corporate strategy. This new concept would place finite dimensions on that area of business that attempts to relate internal characteristics of a firm to the dynamic environment. More specifically, it would include a number of identifiable decisions that must be addressed to formulate corporate strategy. However, a complete theoretical framework of corporate strategy must also include the variables that must be addressed to implement or operationalize a formulated strategy. Identifying these variables will require looking at the views of a number of writers concerning strategy implementation. These views are the focus of the next few pages of this chapter.

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The Implementation of Corporate Strategy

As was mentioned previously, implementation is the second aspect of corporate strategy. The work of formulating a strategy is a somewhat wasteful endeavor without effective implementation. Successful implementation of strategy involves action programs, systematically undertaken, so as to achieve the objectives and goals inherent in the strategic plan. In this respect, implementation is concerned in broad terms with such matters as what actions to undertake, when the actions are to be undertaken (a timetable), the financial resources necessary to support the action (funds flow), and the manpower or key persons necessary to carry out the actions (a manning table).

Implementing strategy is seldom an explicitly defined area in the literature, and the manner in which it is treated varies among

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42 Although the empirical work of this dissertation will not address this aspect of strategy, its inclusion in this chapter is necessary to form a complete presentation and theoretical framework of the concept of corporate strategy.

43 Throughout this paper, the following definitions will be used: an objective is a broad aim or desired end, and a goal is an objective that has been made specific as to magnitude and time. These definitions are consistent with the views of R. H. Caplan, III in his work Management Control Systems, Copyright 1967 by the President and Fellows of Harvard College (a manuscript to be published by Prentice-Hall, Inc.), p. 1-2, and Steiner, Top Management Planning, p. 153.

44 Katz, Cases and Concepts, p. 357.
This may be due to the lack of a solid conceptual foundation for corporate strategy as well as the inherent difficulty found when attempting to separate implementation from formulation. In the discussion to follow, the focus will be on the viewpoints of various authors concerning the variables or decisions to include when implementing a strategic plan.

For the implementation of strategy to be successful, an important variable that must be considered is organizational structure. Since the organizational structure supplies the framework for operationalizing the strategic plan, "the successful implementation of strategy requires that the general manager shape to the peculiar needs of his strategy the formal structure of his organization. . . ." 46

In researching the relationship between strategy and structure, Chandler found that the move to a multi-divisional structure was, to a large degree, the result of the strategies of diversification into new lines of business and vertical integration

45 For that matter, most authors, with the exception of Learned et al. and Steiner, disperse the subject of implementation throughout their other chapters. In essence, there does not exist a well-formulated conceptualization and identification of the component variables of implementation. An aim of this work is to develop such a conceptualization.

46 Learned et al., Business Policy, p. 573.
into widely separated geographical areas. He also found that the new structure was formed to make necessary improvements, such as "a more careful definition of the duties and structure of the functional departments, a more explicit placing of authority and responsibility for functional activities on a single individual, and a greater assurance that the Executive Committee would confine itself to 'the general supervision of the Company's affairs,' and to the question of broad policy." In this statement, Chandler is implying that organizational structure contains certain important sub-activities, such as defining functions, placement of authority and responsibility, and assuring that necessary questions of broad policy are handled properly.

It should be recalled that Cannon includes in his definition of strategy what he refers to as "directional action decisions." In order to introduce the concept of implementation, he breaks down directional action decisions into a result element, an action element, and a commitment element. Each directional action decision includes: "(a) a desired result, or objective, to be achieved, (b) a course of action, or plan, which specifies the work to be done to achieve the result, and (c) a commitment decision, which directs

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48 Ibid., p. 300.
some part of the organization to undertake the course of action, makes the personnel involved responsible for obtaining the objective, and allocates them the resources necessary for the job."49 The commitment element, then, designates the implementation aspects of (a) assignment of responsibility, (b) locus of action, and (c) timing of action. In other words, the commitment element answers "the questions of who, where, and when with respect to the proposed action."50

In a later chapter, Cannon addresses the topic of structuring the organization. Under this topic he discusses important dimensions, such as the division and specialization of labor, a structure of authorities and relationships to provide control over specialization, communication and authority flows, the development of personnel within the structure, the treatment of key trade-off decisions within the structure, and defining the "unknown" areas of business opportunities (new venture analysis).51

The approach of Newman and Logan to the implementation aspect of strategy derives from their view of the central management job. The first two steps in their approach to this job are basically


50Ibid., p. 46.

51Ibid., pp. 305-11.
concerned with the formulation of strategy. The third and fourth steps are more concerned with the implementation of strategy.

These steps are to:

1. Set up an organization to carry out the strategy and policy. This involves making clear who does what, and also developing key personnel who can push forward in the direction singled out in the strategy.
2. Guide the execution of the strategy and policy through the organization. This calls for programming, activating, and controlling the operations.

It seems, then, that these authors consider the key elements of implementation as being the organizational structure, manpower planning and development, planning (programming), delegation of authority, and control.

Steiner discussed the topic of implementation under the heading of "From Strategic Planning to Current Action." This process is accomplished by the integration of medium-range and short-range programming with strategic planning, and the translation of these programs into actions. Steiner relates several interrelated approaches to the overall process. First, the plans (programs) concentrate on major products, functions, and costs in conjunction with facilities requirements. Second, the techniques utilized for planning may range from intuition to quantitative mathematical

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53 Steiner, Top Management Planning, pp. 286-316.
formulations. Third, the plans must be continuously tested for consistency with the strategic plans. Fourth, the process of planning is iterative and requires interaction between corporate level managers, staffs, divisional managers, and so on. Fifth, current budgets translate the plans into current actions.54

Steiner refers to the budget as a "major integrating tool" and also states that the budget system is "the most universally used basis for translating strategic plans into actions. . . ."55

Budgets facilitate the planning, coordinating, and controlling functions in a business enterprise necessary to successfully implement strategic plans. First of all, they force managers to direct attention to the formulation of the objectives and goals sought. Secondly, budgets help to integrate functional plans (e.g., production, raw material purchases, direct labor requirements, etc.). Thirdly, budgets supply a means to delegate responsibilities and control performance.56 In Steiner's own words:

... , budgeting not only facilitates but forces integration of functional elements in both the development of plans and in carrying them out. They force managers to concentrate on quantifying ends to be achieved, they can be used as a vehicle for widespread participation among people in the

54 Ibid., p. 293.
55 Ibid., p. 315.
56 Ibid., p. 299.
planning process and thereby promote better understanding and motivation for achievement among managers and employees, and they bridge the gap between strategic planning and current actions. 57

It should be clear from this discussion that Steiner considers the budget as playing a major role in the implementation of strategy. It follows, then, that when he relates certain essentials for an effective budgeting system, he is also referring to key elements or variables that must be considered to successfully implement strategy. Some of these variables are a clear-cut organizational structure, responsibility for the system, standards of performance, and an organizational climate that is adaptable to and accepts change. 58

Learned et al. present the implementation of strategy as being composed of what they refer to as certain subactivities. They describe these subactivities or elements as "the design of organizational structure and relationships, the effective administration of organizational processes affecting behavior, and the development of effective personal leadership." 59 In more specific terms, the implementing subactivities address issues, such as the nature of

57Ibid., pp. 299, 301.

58Ibid., pp. 315-16.

59Learned et al., Business Policy, p. 572.
organization, the design of information systems, performance
appraisal, motivation and incentive systems, control systems, and
systems of executive recruitment and development.\(^{60}\)

In Ansoff's scheme, the implementation of strategy falls
under the administrative class of business decisions.\(^{61}\) When dis­
cussing this class of decisions, he states that:

One part of the administrative problem is concerned
with organization: structuring of authority of responsi­
bility relationships, work flows, information flows, distri­
bution channels, and location of facilities. The
other part is concerned with acquisition and develop­
ment of resources: development of raw material
sources, personnel training and development, financing, and acquisition of facilities and equipment.\(^{62}\)

With a notion similar to that of Steiner, Ansoff introduces
the strategic budget—a time-phased schedule that consists of a
(a) performance budget, (b) resource budget, and (c) profit budget.

According to Ansoff, this document is needed to "organize system­
atically the effort" necessary to implement strategy.\(^{63}\)

It should be noted at this time that although the previously
mentioned views on the implementation of strategy are not exactly
the same, there are certain elements or variables that are included

\(^{60}\)Ibid.

\(^{61}\)Ansoff classifies business decisions as falling into three
categories: strategic, administrative, and operational. However,
the major focus of his book is on strategic decisions.

\(^{62}\)Ansoff, Corporate Strategy, p. 6.

\(^{63}\)Ibid., p. 218.
on a more consistent basis than others. These elements will be included as implementation variables in a conceptual model of enterprise decision making. This model is part of a theoretical framework for corporate strategy that will be introduced in the next section of this chapter. Also included in the model and framework are a finite set of strategic decisions that serve to formulate and define strategy and other decisions that exist within the functional areas of a firm. In sum, the model is a holistic view of enterprise decision making that conceptualizes corporate strategy and its relationship to all other decisions in the firm.

The literature review on strategy formulation pointed out a need for a more analytical approach to the concept of corporate strategy. By defining strategy in terms of a finite set of decisions, the framework to be presented offers such an approach. In addition, the review conducted on literature pertaining to the implementation of strategy is drawn upon to identify a set of implementation decisions that are included in the framework.

A Theoretical Framework for Corporate Strategy

The next few paragraphs are devoted to introducing a theoretical framework for corporate strategy. The framework takes a decision orientation viewing the total organization as composed of a network of relations. The focus, however, is on the structure of decisions and precludes becoming involved with how decisions are
made. This results in an approach that explores the business firm as opposed to the decision-making process. The framework, then, is static in nature and intended for development of analytical and conceptual ability.

A conceptual scheme of the theoretical framework is presented in Figure II-1. An important assumption of the framework is the view top management has of running the organization. This view lays the groundwork for how the organization is directed and controlled, and the variables within it that management is primarily concerned with. This view or manner of thinking was discussed previously in this chapter and referred to in one way as a "general management point of view." It suggests that top management controls and guides the direction of the enterprise by viewing each functional area and the interdependency between functional areas when setting total enterprise objectives. At all times, the chief executive is concerned with how the interacting and interdependent units perform to achieve the enterprise's total situation, i.e., how the combined units of the organization function as a whole to reflect the enterprise's current strategic posture. Identifying and selecting criteria to guide the organization, assessing the strengths, weaknesses, and interrelationships of the functional areas, with a view

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FIGURE II-1
A CONCEPTUAL MODEL OF ENTERPRISE DECISION MAKING

![Diagram of a conceptual model of enterprise decision making]

Strategic Decision Variables
- C11 - Performance Criteria
- C12 - Customer Mix

Implementation Decision Variables
- C13 - Product Mix
- C14 - Differential Advantage
- C15 - Geographic Concentration

Functional Area Objectives
- Marketing
- Production
- Finance

Multi-Functional Decision Variables

Functional Independently
Decision Variables

m - refers to any marketing variable
p - refers to any production variable
f - refers to any finance variable
toward environmental opportunities and constraints, are tasks instrumental in determining the strategy of the enterprise.

The conceptual model depicted in Figure II-1 divides the decisions of the enterprise into four classes. It will be used as a frame of reference for, first of all, understanding the constraints that serve to guide the enterprise and how these constraints are developed. These are the five strategic or C₁ decision variables listed at the top of Figure II-1. Suffice it to say at this point that the existence of C₁ variables (or objectives derived from C₁ variables) as independent variables in each functional relationship in Figure II-1 constrain, as well as supply, common purpose to enterprise decision making. In other words, strategic decisions are the highest order of decision made in the enterprise, constraining all subsequent lower order decisions and, in toto, defining corporate strategy.

Secondly, the framework will be used to explain the variables that must be addressed when implementing a formulated strategy. These are the decision variables that fall into the C₂ category in the model and will be referred to as implementation variables. They supply the apparatus necessary for implementation of strategic

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65 Katz also refers to strategic variables as policy commitments that serve to relate the enterprise to its environment.
plans. Since these variables may have substantial influence on formulating strategy, the model shows an explicit two-way relationship between $C_1$ and $C_2$ variables.

Thirdly, the framework will be used to explain the variables that emphasize the interrelationship between functional areas. These are the variables that fall into the $C_3$ category and are depicted in the model under the functional areas of marketing, production, and finance. They will be referred to as multi-functional or $C_3$ decision variables. Each $C_3$ variable has included in its functional relationship independent variables from other functional areas. Due mainly to the multi-functional characteristics of these variables, they contribute to defining the functional interdependencies that exist within the enterprise.

To complete the framework, a fourth class of variables ($C_4$) is included in Figure II-1. These variables will be referred to as functionally independent. That is, they are dependent (for the most part) upon independent variables that originate in the same functional area. This statement requires further explanation. It can be argued that there exist certain independent variables that affect every decision in the enterprise, e.g., the availability of funds for operations. The influence of such independent variables will be referred to as marginally, as opposed to explicitly, influencing the dependent variables. Since marginal influences
exist in every functional relationship (including $C_3$ variables), the
criterion for differentiating between $C_3$ and $C_4$ variables is the
existence of explicit influences of other functional areas on $C_3$ and
not $C_4$ decisions. In this framework, then, functionally independent
variables are those that are, at most, marginally influenced by other
functional areas.

Although $C_4$ variables do not explicitly contribute to a general
management point of view, they are necessary to complete a fram-
work of enterprise decision making. As a class of decision
variables, they too must be constrained by the strategic variables
in order to insure that all decisions in the enterprise are made in
a manner consistent with top management's strategic decisions.
Theoretically, then, these variables exhibit functional area depen-
dency on strategic variables even down to the more routine
decisions.

There exists an important concept within this framework that
should be explained at this time. The concept is that of a "strategic

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66 That is, these variables are not explicitly dependent on
other functional areas for inputs and are of the everyday routine
type. Top management's major concern is with the first three
classes of decision variables and, although $C_4$ variables are
necessary for continued operation of the enterprise, from a general
management perspective, they should (in most cases) be left to
operating managers.
decision system" (the five C₁ variables) and can be thought of as a finite set of decisions that for any business enterprise defines:

1. what business the company is in or is to be in,
2. the kind of company it is or is to be,
3. where the company operates or intends to operate,
4. who the company serves or intends to serve,
5. how the company will relate its internal competences to the external environment,
6. how the company will remain viable, and
7. the corporate strategy of the enterprise.

In other words, this system of decisions is an analytical concept that offers a tangible and consistent way of thinking about, defining, operationalizing, and researching corporate strategy.

The decision variables that have been presented in this framework can be viewed as a hierarchy. At the top of the hierarchy are the decisions that determine overall corporate strategy. The particular policy commitments of this strategy serve to constrain and give common purpose to functional area decision making through a set of definable objectives and goals. They also have the important purpose of seeking a balance between the characteristics of the

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Although the label "strategic decision system" is original, the basic concept of a set of decisions that make up corporate strategy must be credited to Katz.
enterprise and the opportunities and constraints that exist in the environment.

On the second level down in the hierarchy are variables that must be considered in order to most effectively implement a chosen strategy. Although subordinate to strategic variables, class two variables are interacting with class one variables on a continuous basis when strategic decisions are formulated. The result of this interaction is a "connecting link" between corporate strategy and the remainder of the organization in terms of attainable objectives and goals that have translated strategy into action to be undertaken.

On the next level down in the hierarchy are decisions in the functional areas that depend on inputs from other functional areas. Since these variables exhibit the mutual dependency of functional areas, they supply vital inputs to a general management point of view and to the development of strategic relationships. Furthermore, they require that functional areas be dependent on each other in achieving the commitments set forth by top management.

On the fourth level of the hierarchy are the functionally independent decision variables. Although on the lowest level, they must also be acted upon within the boundaries set by strategic variables. If not acted upon in this manner, suboptimal achievement of enterprise objectives may result. This is basically due to the
necessity of these decisions for continued everyday operation of the enterprise.

Figure II-2 is a model of the hierarchy just discussed. It represents a concise presentation of the hierarchy, their relation to one another and to the environment. The two-way relationship between strategic variables and the environment recognizes that the firm can at times influence certain happenings in the environment. The feedback loop from multi-functional to strategic variables recognizes that C3 variables are often important inputs to the development of strategic relationships. Implementation variables "link" strategy to the remaining parts of the organization via functional area objectives. Lastly, the feedback loop from actions necessary to achieve enterprise objectives to strategic variables recognizes that actions are monitored to be measured against strategic objectives (performance criteria).

Chapter Summary

This chapter was intended to, first of all, present a brief review of the prescriptive and descriptive literature in the field of corporate strategy. From this review were found certain weaknesses or limitations in the literature in its present stage of development. The most obvious of these is the lack of a complete analytical framework that explains and defines the formulation and implementation of corporate strategy. This lack has left the field
A HIERARCHY OF ENTERPRISE DECISION MAKING

Environment

- Economic
- Technological
- Political-Legal
- Cultural

Relating the Enterprise to its Environment

Strategic Variables

- Linking Strategy to the Remaining Parts of the Organization

Implementation Variables

Functional Area Objectives

- Multi-Functional Variables
  - Functionally Independent Variables

Actions Necessary to Achieve Enterprise Objectives
without a clear definition of strategy and led others to define the concept in terms of what is important. This confusion has also been at least partially responsible for the lack of empirical work in the field.

In an attempt to help alleviate some of the confusion, this chapter introduced a theoretical framework for corporate strategy. Included in the framework is a concept of corporate strategy that extends the literature by placing finite dimensions on a concept that until this time (with the possible exception of Katz) seemed extremely vague. In addition, the framework depicts the relationship between the variables required to formulate strategy, implement strategy, and carry out the more routine everyday operations within a firm that must be consistent with the strategy of the enterprise.

In this manner, the framework has also conceptualized the vertical relationship necessary to explain how strategy relates to all other decisions in the firm. A horizontal relationship is also depicted in the multi-functional decisions existing within the functional areas. In this respect, the framework offers a scheme that identifies the parts of an organization and their interrelationships (on both horizontal and vertical dimensions) through a hierarchy or typology of decisions which represents a logical starting point for any type of organizational analysis.
In order to fully develop this theoretical framework, the next two chapters of the dissertation will discuss in greater detail the first three classes of decision variables presented in Figure II-1. The first of these (Chapter III) has the purpose of, first of all, defining strategic variables, their relation to the environment, and to all other decisions in the firm. Secondly, the chapter will discuss the variables that are included as implementation decisions and the relation they have to strategic and operating decisions. In other words, the next chapter focuses on the decisions that define the formulation and implementation of corporate strategy.
CHAPTER III

THE STRATEGIC PROCESS

The previous chapter set the stage for development of a theoretical framework for corporate strategy by briefly introducing a conceptual model of enterprise decision making. In a manner consistent with a general management perspective, this chapter will discuss the variables that are of foremost concern to chief executives. That is, top management's concern should, for the most part, focus on the $C_1$ variables that define the basic relationship between the firm and its environment, and the $C_2$ variables that serve to "link" overall strategy to actual operating activities of the firm. The set of $C_1$ variables were referred to previously as the "strategic decision system." The set of $C_2$ variables will be referred to as the "strategic apparatus." When combined (i.e., strategic decision system + strategic apparatus) or added, they equal a concept of corporate strategy that will be referred to as the "strategic process." The first part of this chapter will focus on various aspects related to the first element of this equation--the strategic decision system.
Strategic Decisions Defined

Included in the conceptual model of enterprise decision making (Figure II-1) are five strategic or C_1 variables. Before proceeding further, descriptions of what is meant by each strategic decision variable will be presented. These descriptions are as follows:

Performance Criteria--refers to the objective(s) the firm is attempting to achieve when formulating corporate strategy. These criteria may first be stated in broad terms and then as more specific goals that must be reached to attain the overall objectives (or performance criteria) that have been set.

Product Mix--refers to the mix of products handled by the enterprise, the number of products included in each line, and, to some extent, the characteristics of the products that serve to differentiate them from others. Decisions regarding new product development, planned product obsolescence/innovation, and product elimination also fall under the purview of this strategic variable.

Customer Mix--refers to the customers served by the mix and line of products the company handles. Recurring decisions on which new markets to enter, which segments of the market
to concentrate on, and the amount of emphasis to place on the various markets served must be faced by top management.

**Differential Advantage** refers to the basis upon which the company has chosen to compete. Identifying the strengths that are inherent in the enterprise or that must be developed to attain a competitive edge is the *raison d'être* for this strategic variable.

**Geographic Concentration** refers to the geographic limits the company has placed on the markets it will serve, i.e., whether it will compete on a local, state, regional, national, or multi-national basis.

An important function of strategic variables is to define the basic relationship between the firm and its environment. Achieving this relationship requires many lower order decisions to be made. A second function, then, is to constrain and give common purpose to these subsequent order decisions that concern the implementation of strategic choices and require the activities of various functional or task areas of the firm (e.g., production, marketing, finance, research and development, and engineering). However, important decisions concerning these activities should not be confused with the highest order strategic decisions which supply the direction for the enterprise by defining the firm's strategy.
The specifics of the strategic decisions just described must be determined with a general management perspective for results to approach optimality. In other words, when decisions are made on these variables, top management must consider all the functional or task areas of the firm, as well as the interdependencies that exist between areas in order to assess internal strengths and weaknesses. In addition, a careful assessment of the environment is necessary in order to match the internal strengths and weaknesses of the firm with environmental opportunities and constraints. The result of making each strategic decision in this manner is a formulated strategy that has the greatest potential of attaining a balanced situation between the firm and its environment.

The situation just described is depicted in a simplified manner in Figure III-1. The model shows the balanced state being achieved by matching environmental forces (opportunities and constraints) with internal forces (strengths and weaknesses of the firm). In order to balance these forces, top management may have to seek new opportunities for the firm (e.g., new products to manufacture, markets to enter, or customers to concentrate on), develop internal strengths (e.g., a highly trained sales force or engineering department), reduce weaknesses (e.g., replace obsolete equipment with more efficient modern types), or attempt to eliminate certain constraints that exist in the environment (e.g., move into geographical
FIGURE III-1

CORPORATE STRATEGY:
SEEKING A BALANCE BETWEEN FORCES

*The balance can be achieved by matching the resultant force of opportunities and constraints in the environment with the resultant force of strengths and weaknesses within the firm, i.e., by moving the fulcrum. The balance can also be achieved by altering the magnitude of the individual forces.*
areas closer to raw material sources or where major competitors are not as strong).

It is also possible that a matching or balanced situation can be achieved without any substantial changes required. The amount of change necessary is dependent on the difference between the present strategic posture of the firm and the strategy required to attain the balance, i.e., the greater the difference the greater the demand for alterations in the magnitudes of the forces.

It should be made clear that the five $C_1$ decisions that relate the enterprise to its environment are in actuality an interdependent mix of variables. That is, decisions involving one variable are often dependent on decisions on one or more of the other strategic variables. For example, product mix depends on the types and characteristics of the customers and markets presently served, as well as the differential advantage the company has established. However, for purposes of enhancing analysis and lessening confusion, they will be treated separately throughout most of this paper.

In order to make strategic decisions requires that top management receive information concerning the firm and its environment. If strategic decisions are then looked at in terms of functional relationships, it can further be said that the independent variables in the strategic relationships are composed of endogenous variables (those independent variables or information inputs that
originate inside the firm) and exogenous variables (those independent variables or information inputs originating in the environment).

Endogenous variables include company and functional area characteristics that bear upon the particular strategic decision. Examples of these information inputs would include present product characteristics, product design capabilities, internal financing capabilities, present and past rates of growth, and so on. For purposes of analyzing exogenous information, it is useful to think of the environment in terms of four sectors: economic, technological, political-legal, and socio-cultural.¹ Some of the more obvious examples of environmental information would pertain to the technological and political-legal sectors influencing the product mix decision and the socio-cultural environment influencing the customer mix decision. Information pertaining to the economic environment would include the nature and types of competition, market trends, and general economic conditions, to mention just a few.

Both the endogenous and exogenous examples of information cited above can also be thought of as forces that influence strategic choices. Social responsibility issues, such as poverty and civil rights, ecology, and consumerism are similar examples of such

¹In actuality, these sectors are interrelated.
forces or information inputs. Choice on the content of every strategic decision is made in light of the position that top management has taken on its obligation to society. The social responsibility issue can be thought of as permeating the entire mix of strategic variables instead of a single defined commitment in itself. The particular position top management takes on such issues depends on the enterprise's philosophy (which is influenced greatly by top management), operations, and environment. This position will then determine the extent to which social responsibility will influence decisions concerning strategic variables.

In treating certain aspects related to the strategic decision system so far, the focus has been on opportunities and constraints existing in the environment and the internal strengths and weaknesses of the firm. A third important factor that can influence the output of strategic decisions is the values and aspirations of top management. This value structure permeates the entire strategic

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2 These issues also fall into the category of exogenous information or forces. Although they actually exist in one or more of the segments of the environment, for purposes of conceptualizing it may be better to think of them as existing in a segment of their own.

3 This is the "what the firm should do" component of the Learned et al. scheme.


5 This is the "what the firm wants to do" component of the Learned et al. scheme.
decision system. Decisions made by top management reflect personal preferences acquired early in life as the result of the "interplay of what he learned from those who reared him, and of his particular individuality and 'times.'" In other words, "personal values of top management are an integral component of strategic decisions."  

A Model of the Strategic Decision System and Related Elements

A model of the strategic decision system and related aspects discussed previously is depicted in Figure III-2. The model sums up the elements required to make strategic choices. Since strategic choices define the firm's strategy, the figure is also a model of strategy formulation and includes (a) a set of strategic decisions, (b) the external and internal information necessary to make those decisions, (c) the strategic decision makers, and (d) the frequency with which strategic decisions are (or corporate strategy is) re-evaluated. It is the output of this process that attempts to seek a

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FIGURE III-2

A MODEL OF STRATEGY FORMULATION
balance between environmental and firm forces discussed previously with the help of Figure II-1.

One element of the process involves obtaining exogenous information on the forces that exist in the environment and endogenous information on the forces that exist in the firm. Implicit in the element that includes the strategic decision makers is the influence of the personal values of the people that perform this task. The re-evaluation or feedback loop adds a dynamic and realistic dimension to the process. This dimension attempts to assure that corporate strategy remains consistent with changing environmental and firm forces.

The discussion to this point in the chapter has attempted to delineate the important forces (environmental, firm, and value structure of top management) that influence the strategic decision system and the process of formulating strategy. The focus of the next few pages will be on how the firm obtains information on these influences or forces. It should be emphasized that these inputs (plus the particular preferences of top management) are the major factors contributing to strategic choices and the destiny of the firm.

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8 The various methods and procedures offered in this chapter are only possible guidelines that exemplify how certain tasks (such as obtaining exogenous and endogenous information) could be performed.
Before proceeding to a discussion pertaining to environmental information, it should be noted that certain aspects or forces in the environment not only influence, but can be influenced (at least to some degree) by the firm. This is more true of variables or forces existing in some segments of the environment than in others. For example, firms can and have taken steps and attempted to resolve some of the issues (that have influenced firm operations) contained in ecology, consumerism, and poverty and civil rights. Furthermore, firms can and have influenced the technological environment through research and development and the advent of new processes, materials, and production techniques. Similar examples can be found in that portion of the economic sector that includes competition, market trends, supplier characteristics, and the like.

The notion that firms do have some influence or control over environmental forces leads one to the conclusion that the degree of control is measured on a continuum—from zero control to complete control over an environmental variable. It is quite obvious that very few environmental variables are under the complete control of a firm. The aim, however, is to seek environmental information for the purpose of increasing the degree of control that a firm has over these variables. "The essential point is this: the more information
a firm gains about an environmental variable the greater the degree of 'control' which the firm has over the same variable."9

**Monitoring Environmental Forces**

One way that a firm obtains information about environmental forces is via environmental research. The various types and focus of these research efforts will vary according to the degree of impact that certain forces have on the company. However, there seems to exist a number of popular research or forecasting forms that permit firms to research the four environmental sectors. The most often mentioned are economic and technological forecasting. The former concerns itself with macro-economic forces, such as gross

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11 George A. Steiner, *Top Management Planning* (London: Collier-Macmillan Limited, 1969), p. 205, states that, "It would seem valuable for every company, large and small, to determine systematically which forces, external as well as internal, have a high probability of high impact, good or bad, on the company."

national product, disposable personal income, inventory accumulation in the economy, as well as capital and money market situations. The latter form focuses on description or prediction of foreseeable inventions, specific scientific refinements, or likely scientific discoveries that promise to serve some useful function to the firm and its customers.¹³

In addition to the aforementioned, another basic form of environmental research is market research. In most cases, this research focuses on market and customer characteristics, competitor strengths and weaknesses, and general market trends which are comprised of forces that can have substantial influence on company sales.¹⁴ By also focusing on demographic aspects of the market, consumer behavior, and other similar phenomena, this form of research analyzes the social sector of the environment, as well as competitive and market dimensions.

A fourth type of research (political-legal) focuses on forces, such as government regulations and political developments, that may influence a firm's operations. Although this sector has typically been looked upon as consisting of mainly constraints, it


¹⁴See Steiner, Top Management Planning, pp. 538-41, for a top management view of market research.
may also present opportunities for particular firms. For example, the enactment of a law that is in the form of a constraint for one firm may be an opportunity for another, as has been the case in recent times with pollution control laws and pollution abatement equipment.

The previously mentioned forms of research result in the determination of environmental forces in the form of opportunities and constraints for the firm. The exogenous information concerning these forces is a portion of the inputs needed to make the five strategic decisions discussed at the beginning of this chapter. Whether this information is obtained by formal methods, such as those mentioned, or by more informal methods only reflects the degree of sophistication that a particular firm possesses with respect to environmental assessment. The major point to be made is that environmental information is obtained primarily for purposes of making strategic decisions. This information must be obtained before the interdependent mix of strategic variables can be acted upon in a more analytical manner.

In order to complete the process of strategy formulation, exogenous information must be analyzed in conjunction with endogenous information before final strategic decisions are made. The next few paragraphs address this aspect of the formulation process.
Monitoring Internal Forces

In assessing the internal strengths and weaknesses of the firm, top management's basic concern is with various categories of skills and resources (physical, monetary, and human) that the firm possesses. One way to accomplish this assessment is to develop what one author has referred to as a capability profile for the firm.\(^{15}\) Whatever the method used, the major aim is to gather endogenous information. This information will allow top management to determine the internal capabilities and resources of the firm and match them with opportunities and constraints determined with environmental information with regard to each strategic decision. Utilizing these information inputs in this manner provides the elements necessary for top management to make each strategic decision and complete the process of strategy formulation.\(^{16}\)

Ansoff's scheme (the capability profile) for identifying strengths and weaknesses in a firm is to construct a grid which matches functional areas against the skills and competences of those areas. The grid is designed for a manufacturing firm and is


\(^{16}\)This statement assumes that feedback has occurred in the system.
comprised of the functional areas of Research and Development, Operations, Marketing, and General Management and Finance. The skills and resources fall into four basic categories: facilities and equipment, personnel skills, organizational capabilities, and management capabilities. The procedure is to fill in the grid by identifying the skills and resources for each functional area. 17

A slightly different approach has been offered by another author and has been labeled the capability or resource audit. 18 This author proposes that the inventory of strengths and weaknesses generated by such an audit can then be used to, first of all, assess the feasibility of exploiting and capitalizing on any new product-market opportunities and, secondly, to determine whether the firm can seize a particular market opportunity better than its present or potential competitors. In other words, the audit also supplies the firm with information that can be used to establish a differential advantage.

In order to conduct the audit, Shirley proposes that the following eight areas are appropriate:

1. Environmental research capabilities and experience,
2. Present strategic posture,

17 Ansoff, Corporate Strategy, pp. 92-94.
18 Shirley et al., The Study of Strategy, p. 24.
3. Financial resources/efficiency,

4. Production,

5. Marketing,

6. Research and development,

7. Personnel, and

8. Organization. ¹⁹

Both the capability profile and the capability or resource audit offer frameworks that, when completed, enable assessment of the firm's skills and resources. The data can then be used to match firm capabilities with environmental opportunities and constraints. Furthermore, this matching can be done with a view toward developing a "distinctive competence" that may foster a differential advantage.²⁰ Some of the ways that a firm can establish this differential or competitive advantage have been proposed by Katz and consist of:

¹⁹ Ibid., pp. 25-28.

²⁰ To establish a competitive emphasis requires what Robert L. Katz, Cases and Concepts in Corporate Strategy (Englewood Cliffs, N. J.: Prentice-Hall, Inc., 1970), p. 199, and Edmund P. Learned et al., Business Policy Text and Cases (Homewood, Illinois: Richard D. Irwin, Inc., 1969), p. 180, have labeled "distinctive competence" and refers to what the organization can do particularly well. Steiner (p. 252) refers to this concept as "strategic factors," i.e., those factors that must be recognized and perfected to make the company successful.
1. Excellence in product design and/or performance (engineering ingenuity).
2. Low-cost, high-efficiency operating skill in manufacturing and/or in distribution.
3. Leadership in product innovation.
4. Efficiency in customer service.
5. Personal relationships with customers.
7. Effectiveness in sales promotion.
8. Merchandising efficiency—high turnover of inventories and/or of capital.
10. Ability to influence legislation.
11. Highly efficient, low-cost facilities.
12. Ownership or control of low-cost or scarce raw materials.
13. Control of intermediate distribution or processing units.
15. Widespread customer acceptance of company brand name (reputation).

Conducting some type of internal assessment of the firm can be viewed as a step toward pinpointing "the particular strengths of the firm from which a competitive advantage may be developed." However, these strengths must be related to the needs of customers and the degree to which competition possesses the same strength. If a customer need is not fulfilled or if competition possesses the particular strength to the same degree or greater, the "distinctive

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"competence" has little, if any, utility and will not constitute a competitive or differential advantage.

**Strategic Decisions As Functional Relationships**

The model of strategy formulation presented in Figure III-2 shows the exogenous and endogenous information being fed to the strategic decision system. This section will attempt to explain the explicit relationship that exists between information inputs and each strategic decision.

Previously, it was stated that each strategic decision can be viewed as a functional relationship with independent variables composed of exogenous and endogenous information.\(^2\) The previous pages presented examples of how strategic information can be obtained. The notion that will be proposed at this time is that strategic information is retrieved with a view toward the particular strategic decision(s) that must be made. That is, when contemplating a strategic change (which will be defined as a change in one or more of the five strategic decisions), strategic information is gathered and fed to the particular decision that it pertains.

Table III-1 includes the five C1 variables depicted as functional relationships and examples of the types of external and

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\(^2\) In a more analytic manner, each strategic decision could be described in functional relationship form as they are in Table III-1.
TABLE III-1

STRATEGIC DECISIONS AS FUNCTIONAL RELATIONSHIPS

$C_{11} = \text{Performance Criteria Decision}^*$

$$= f(Ex_1^{11}, Ex_2^{11}, Ex_3^{11}, \ldots, Ex_n^{11}, En_1^{11}, En_2^{11}, En_3^{11}, \ldots, En_n^{11})$$

where:

$Ex_1^{11} = \text{long- and short-term interest rates}$

$Ex_2^{11} = \text{industry performance}$

$Ex_3^{11} = \text{performance of major competitors}$

$En_1^{11} = \text{cost of capital}$

$En_2^{11} = \text{management's stated targets}$

$En_3^{11} = \text{present and past rates of growth}$

$C_{12} = \text{Customer Mix Decision}$

$$= f(Ex_1^{12}, Ex_2^{12}, Ex_3^{12}, \ldots, Ex_n^{12}, En_1^{12}, En_2^{12}, En_3^{12}, \ldots, En_n^{12})$$

where:

$Ex_1^{12} = \text{information concerning changes in the population's norms, values, needs, wants, etc.}$

$Ex_2^{12} = \text{distribution compatibility with present products}$

$Ex_3^{12} = \text{customers served by competitors}$

$En_1^{12} = \text{present product characteristics}$

$En_2^{12} = \text{strengths and weaknesses of sales force}$

$En_3^{12} = \text{managerial talent available for new customer markets}$

$C_{13} = \text{Product Mix Decision}$

$$= f(Ex_1^{13}, Ex_2^{13}, Ex_3^{13}, \ldots, Ex_n^{13}, En_1^{13}, En_2^{13}, En_3^{13}, \ldots, En_n^{13})$$

where:

$Ex_1^{13} = \text{supply and demand conditions of the industry}$
<table>
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<th>TABLE III-1--Continued</th>
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Ex\(^{13}\) = technological developments concerning products and/or processes  
Ex\(^{13}\) = ecological considerations and other pressures influencing products produced and sold  
En\(^{13}\) = characteristics of existing plant and equipment  
En\(^{13}\) = product development capabilities  
En\(^{13}\) = capacity utilization  

\(C_{14} = \text{Differential Advantage Decision} = f(Ex_1^{14}, Ex_2^{14}, Ex_3^{14}, \ldots, Ex_n^{14}, En_1^{14}, En_2^{14}, En_3^{14}, \ldots, En_n^{14})\)  

where:  
Ex\(^{14}\) = major strengths and weaknesses of competitors  
Ex\(^{14}\) = competitors' products  
Ex\(^{14}\) = market share of major competitors  
En\(^{14}\) = efficiency of production facilities  
En\(^{14}\) = depth of managerial talent  
En\(^{14}\) = product innovation ability  

\(C_{15} = \text{Geographic Concentration Decision} = f(Ex_1^{15}, Ex_2^{15}, Ex_3^{15}, \ldots, Ex_n^{15}, En_1^{15}, En_2^{15}, En_3^{15}, \ldots, En_n^{15})\)  

where:  
Ex\(^{15}\) = market potential of various geographic areas  
Ex\(^{15}\) = leads for mergers, joint ventures, and acquisitions  
Ex\(^{15}\) = location of major competitors  
En\(^{15}\) = location of raw material sources  
En\(^{15}\) = internal financing capabilities  
En\(^{15}\) = present plant locations  

*In all cases, Ex = exogenous information and En = endogenous information.*
internal information that managers might seek in order to make each strategic decision. The information inputs are not intended to be all-inclusive and are stated as broad categories. They do, however, represent types of information that can be obtained from the environment and the firm.

**Synergy in Relation to Strategy Formulation**

One additional concept necessitates discussion to complete a presentation of the more important elements to consider when formulating corporate strategy. The concept has been termed synergy and it will be shown that it is a relevant consideration when making strategic choices.

The concept of synergy has been described as the "2+2=5" effect or the combination of events that result in the "whole being greater than the sum of its parts." The concept has received relatively limited treatment in the literature as it relates to corporate strategy. By far, the most comprehensive treatment was first offered by Ansoff and more recently by Newman and Logan and Shirley.

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With respect to the formulation of strategy, synergy can be thought of as the degree of complementarity that can be obtained through different combinations of capabilities and resources that the firm possesses, and the opportunities and constraints that exist in the environment. Moreover, the higher the degree of complementarity, the greater the potential to realize positive synergy.

The types of synergistic effects that can be obtained by way of particular matchings between the firm and its environment (or by way of making strategic decisions) are briefly treated below. In discussing these types, it is best to consider that the firm is considering a new product-market opportunity.

First, maximum production synergy would be achieved if the production facilities, processes and skills currently utilized could also be utilized to produce the contemplated product.

Second, maximum marketing synergy would be achieved if the sales force, distribution channels, physical facilities, and promotional techniques currently utilized could also be utilized to market the contemplated product addition.

Third, research and development synergy would also be achieved if the technologies supporting the development of both the present and contemplated product lines are substantially similar.

27 The exact number of ways that strategic decisions could be made is dependent on the number and nature of environmental and firm forces.

28 Shirley, et al., The Study of Strategy, p. 30. It should also be pointed out that there is a possibility for realizing negative synergy (2+2=3).
Fourth, the opportunity for financial synergy lies "in the extent to which the firm can achieve a larger capital base for investment, increased borrowing power, and greater earnings growth through the spreading of administrative overhead."

Fifth, general management synergy occurs when the skills, experience, and knowledge of key members are transferrable from the present strategy to the contemplated one.²⁹

If the five strategic decisions are made with a view toward potential synergistic effects such as those mentioned, the firm may benefit by way of a more "efficient" strategy or mating between enterprise and environment.

The discussion thus far has presented the major elements that must be considered when formulating strategy. Each element can substantially influence in some way top management's strategic choices. Hence, the product-market scope (product mix, customer mix, and geographic concentration), differential advantage, and performance criteria are the result of consideration given or influence imposed by the various elements discussed previously. Once actions have been taken to formulate strategy, it can only be effectively achieved through the combined efforts of the total enterprise. It is now appropriate to discuss how the efforts of the individual units of an enterprise are guided in a manner that is

²⁹Ibid., pp. 31-34.
consistent with and has the greatest potential for effectuating top management’s strategic plan.

**Relating Strategy to Other Enterprise Decisions**

The five strategic decisions introduced earlier in this chapter provide the nucleus for all actions related to the formulation and implementation of corporate strategy. They are the decisions that must be addressed to formulate strategy; when the final decisions are made, they define corporate strategy; corporate strategy must be defined before implementation can take place; implementation decisions are made vis-à-vis strategic decisions; and the operating decisions of the firm are made to achieve the objectives and goals derived from corporate strategy.

The relationship between strategic and other decisions in the enterprise can be explained with the help of Figure II-1. The C\(_1\) decisions are translated into broad objectives and more specific goals that pass through the entire organization. These objectives and goals derive from the final strategic decisions and after interaction has taken place between C\(_1\) and C\(_2\) variables. Hence, they supply the constraints under which each decision in the enterprise is made.\(^\text{30}\) This is the manner by which top management directs,

\(^{30}\) The C\(_1\) variables, existing as independent variables in functional area decisions, are objectives and goals that have been derived from strategic decisions and are not the same and should not be confused with performance criteria.
controls, and supplies a common purpose to the performance of the enterprise.

The process of developing strategic variables and then translating them into defined objectives and goals allows one to visualize and give justification for these strategic decisions permeating the entire organization. Each one influences either directly or indirectly (because strategic variables are interrelated) every decision in the enterprise. In terms of the conceptual model (see Figure II-1), each decision variable existing in any of the functional areas will be considered a function of $C_1$ variables (or objectives derived from $C_1$ variables) in addition to other independent variables.

By considering for a moment the functional relationships in Figure II-1 as analytical constructs, strategic variables can be thought of as being responsible for supplying the common independent variables that exist in functional area decisions. Every decision being a function of objectives and goals derived from $C_1$ variables supplies the common terms necessary for all decisions to be made consistent with strategic decisions set forth by top management. Without the common purpose and commitment introduced by these variables, each functional area might be considered a separate entity operating to achieve its own objectives and not those of the enterprise. With objectives and goals derived from $C_1$ variables,
each functional area operates under a set of well-defined common constraints that requires functional areas to strive for a common purpose or strategic posture.

Strategic decisions are also made in light of the competence, resources, and other crucial characteristics of the functional areas, as well as the structure, financial resources, personnel, and other variables necessary for implementing strategy. This necessitates a high degree of interaction between top management and all other areas of the enterprise in determining final strategic choices. For example, choice on differential advantage requires careful assessment of the strengths and weaknesses that exist in the functional areas, as well as the resources and manpower necessary for implementing a particular choice on how the company will achieve an advantage over competitors.

Summary Remarks on Strategy Formulation

This portion of the theoretical framework has been built upon the concept that there exists a finite set of decisions that define corporate strategy for any firm. As presented in Figure II-1, these decisions define the performance criteria, customer mix, product mix, differential advantage, and geographic concentration for the firm. They have the important functions of (a) seeking a balance between the characteristics of the enterprise and the opportunities
and constraints that exist in the environment, and (b) providing a common purpose to all subsequent, lower order decisions in the firm.

In order to perform these functions, the opportunities and constraints existing in the environment and the strengths and weaknesses of the firm can be looked upon as forces. The task is to obtain information about the environment and the firm for the expressed purpose of seeking the "correct" or most "optimal" matching between the two. This may require that some forces be altered or adjusted.

The five strategic variables were then viewed as functional relationships with independent variables consisting of exogenous and endogenous information. This information is retrieved so that each dependent (C1) variable has corresponding independent variables that pertain to that particular decision. The final decisions then made on each variable are, theoretically, the most optimal match between enterprise and environment. This means, for example, that a product mix decision has taken into account certain environmental forces by obtaining information concerning supply and demand conditions in the industry, technological developments concerning the product and process, ecological and consumer pressures, availability of materials, money and capital market conditions (if additional capital is needed), and so on. In a similar manner, the
decision has included certain internal information concerning
existing plant and equipment, present sales and share of market,
capacity utilization, market potential for present products, present
distribution channels, and so on.

This analytic process is performed for every strategic
decision. In addition, since the five strategic variables are inter-
dependent, the process is iterative in nature, i.e., a decision on
one variable is influenced by decisions on other variables.

Two other elements that were briefly described are inter-
woven in this process. The first is the influence of the values and
aspirations of top management and the second is the concept of
synergy. Suffice it to say that the final strategic choices have been
influenced in some way by these elements.

Although (for purposes of clarity) the formulation of strategy
has been discussed as a disjointed concept, it is obviously dependent
upon successful and effective implementation to complete the
strategic process. In actuality, formulation and implementation or
the strategic decision system and the strategic apparatus are inter-
twined. Strategic decisions must be made in light of the variables
required to effectively implement a chosen strategy. The focus of
the remainder of this chapter will be on these variables, i.e., the
strategic apparatus.

31 Learned et al., Business Policy, p. 571.
Implementation Decisions Defined

The following are brief descriptions of the variables that combine to form the strategic apparatus. 32

Organizational Structure--is concerned with (a) the particular organizational form or formal framework which joins the parts of the organization, (b) the distribution of functions and authority, (c) reporting relationships, and (d) control systems (which includes budgeting and planning) and information systems.

Manpower Planning and Development--is concerned with (a) planning for future managerial needs and assuring that those needs are fulfilled (which includes training programs), (b) management compensation programs, and (c) monitoring the effect that strategic changes have on existing organizational arrangements.

Pricing Policy--is concerned with broad policy decisions necessary to offer products and/or services in the marketplace in a manner consistent with the strategy of the firm and total enterprise objectives.

32 The variables that have been included in the "strategic apparatus" are the result of an extensive literature review and an attempt to synthesize the views of many authors. In this respect, the variables themselves are not unique. However, the identification and presentation of these variables in a more systematic manner, within a total firm and decision orientation, is original.
Resource Procurement— is concerned with acquiring the funds for the implementation of strategic decisions with a view toward the overall financial characteristics of the firm (capital structure).

This second class of variables exhibits the apparatus necessary to implement a chosen strategy. While strategic decisions result in the formulation of strategy, implementation decisions have as their major function assuring the most effective attainment of that strategy. This is accomplished through the iterative process between strategy and implementation variables depicted in Figure II-1. This process reflects the notion that an interdependency exists between the two classes of variables, i.e., each class must be continuously tested for consistency with the other.

It has been said that these decision variables supply the necessary "link" between corporate strategy and the remainder of the organization. It is from the interaction between $C_1$ and $C_2$ variables that functional area objectives originate. In broad terms, these constraints on functional area decision making are formulated by determining the action programs, the timetables, the budgets, the manpower, the distribution of responsibility, the financial resources, and other requirements necessary to implement a strategic plan. These class two variables, then, help to translate
the strategy of the enterprise into actions to accomplish in order to achieve overall enterprise objectives.

The following pages are devoted to a more detailed discussion of each of the four implementation variables and certain functions that fall into the scope of each variable. Each variable will be approached with regard to its relationship to implementing corporate strategy. In this sense, each one contributes to linking strategy to the remainder of the organization and, moreover, they are all important to the total strategic process. Implicit in this notion is that the existing characteristics of these variables and/or changes required in these characteristics are also important considerations (inputs) to formulating strategy (i.e., making strategic decisions). With these points in mind, the discussion will now turn to the four implementation variables.

**Organizational Structure**

This $C_2$ variable is a dimension that includes a number of important facets related to the implementation of corporate strategy. These facets serve to coordinate, control, communicate, and to some extent activate, on both horizontal and vertical dimensions,

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33 The purpose of the following discussion on these variables is to present an overview and is not intended to be a "how to" approach. In addition, comprehensive treatment of the subject matter included under each implementation variable is beyond the scope of this paper.
the total activities required to operationalize a strategic plan. "In a sense, this dimension reflects the 'anatomy' of a firm via its focus on mechanisms and processes which link (both vertically and horizontally) the various parts of the organization." Such a dimension includes a number of subactivities which will be discussed below.

The first of these subactivities defines for the firm the "pattern which joins the parts of an organization to the purposes of the organization as a whole." There exists a number of patterns or structural forms from which an organization can choose. These forms have been discussed by a number of authors, including Katz who narrows the spectrum down to six. The six organizational forms that he presents are:

1. The one man show—all strategic and all operating decisions made centrally on the basis of first-hand knowledge.

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2. **Management through assistants**--all strategic and all operating decisions made centrally, but relying at least in part on reported information.

3. **Functional management**--specialized operating decisions made by various functional managers; multifunctional operating decisions and all strategic decisions made centrally.

4. **Geographical dispersion**--some or all central unit functions replicated in other locations. Specialized functional operating decisions made centrally by functional managers and administered by assistants in the units. Multifunctional operating decisions made by regional managers. Strategic decisions and resource allocations made centrally.

5. **The holding company**--most strategic decisions and all operating decisions made individually by autonomous divisions or subsidiaries.

6. **The free-form company**--all operating decisions made individually by each division. Broad strategic decisions made centrally; detailed strategic decisions made in the units.

A firm's choice on structural form can be greatly influenced by the particular strategic posture it is attempting to achieve.

Chandler has proposed that strategy determines structure and that the latter follows the former with some degree of time lag. Outside market opportunities and competitive pressure influence strategic plans which, in turn, cause a change in organizational structure to efficiently carry out the plan.

Closely related to and interwoven in "the design of organization through which the enterprise is administered" (or structure)...

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39 Ibid.
are the distribution of functions and authority and the determination of reporting relationships throughout the firm. The first of these refers to identifying the tasks to be performed and assigning the responsibility for accomplishing these tasks to individuals and groups.  

Distributions of formal authority is then required among those to whom tasks have been assigned. With authority and responsibility defined, reporting relationships must then be developed to facilitate coordination and control over the various tasks to be performed.

The distribution of functions and authority and reporting relationships have been described as taking place within the formal structure that joins the parts of the organization. Hence, it follows that they too should be designed in light of a company's distinctive purposes and unique strategy.

The final subactivity included under the C2 variable organizational structure is the design of control and information systems. These are two closely related and somewhat inseparable concepts in that information is a necessary ingredient for effective control to take place. However, the particular view taken here is that

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40 Learned et al., Business Policy, p. 577.

41 Ibid.

various aspects of management control must be developed before the information necessary to effectuate that control can be determined. This will become clearer after the process of management control has been described.

Management control has been defined as a "process by which management translates the organization's objectives and strategy into specific goals for attainment by a specific time, and secures the effective accomplishment of these goals in an efficient manner."\(^{43}\) In order to accomplish this task, the process of management control involves a number of elements that "should follow from, and be tailored to, the particular strategy of the organization."\(^{44}\) The principal elements include setting goals (generally for operational units), developing yardsticks of performance (the dimension along which goals are expressed and subsequent performance measured), principal forms of planning/budgeting (including operational planning/operating budget, functional budgets, facilities planning/capital budgeting, financial planning/cash

\(^{42}\) (continued) emphasis, these authors state that "information is the medium of control, for it is the flow of measurement information and later the flow of corrective information which allows a characteristic or condition to be controlled."


\(^{44}\) Ibid., p. I-4.
budgeting, long-range planning/budgeting, manpower planning/budgeting), measuring performance via goals and yardsticks, control reporting (for purposes of comparison and feedback), and influencing the behavior of managers (especially with respect to effort directed at realizing specified goals) through incentives for performance.

It can be seen, then, that the view offered here considers the process of management control as a major element of the strategic apparatus. It is not only involved with important functions such as planning and budgeting, but also with the complex task of measuring performance and attempting to provide incentives for managers to perform well. This will involve coupling rewards (or punishments) to the performance of the managers via performance measurements generated by the management control system. The increased complexity of this task is basically caused

45 This particular facet of the management control system must be closely coordinated with certain aspects of the second implementation variable, manpower planning and development.

46 Caplan, Management Control Systems, Segments I and V.


48 Caplan, Management Control Systems, p. VII-4. This facet of the management control system must also be coordinated with the second implementation variable.
by psychological considerations that must be made. These considerations are present when one attempts to influence the behavior of managers to perform tasks in a manner that is consistent with, and will lead to, achieving an overall strategy set forth by top management.

Figure III-3 is a conceptual scheme of the management control process. The arrows connecting the various elements of the scheme can be thought of as information flows. These flows are (for the most part) for purposes of control and are only a part of the total information flows required by a business enterprise to operate from day to day. 49

Earlier in this chapter, the focus was on the external and internal information necessary to make strategic decisions. Information in that case was for purposes of formulating strategy. For this strategy to be effectively implemented, "there must be organizational arrangements to provide members with the information they will need to perform their tasks and relate their work to that of

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49It should be noted that the particular information system referred to here is not confined to computerized operations, but includes any type of information transmission related to the strategic apparatus. For a discussion of computerized systems, see, e.g., John Dearden, "MIS is a Mirage," Harvard Business Review, L (January-February, 1972), pp. 90-99; Thomas R. Prince, Information Systems for Management Planning and Control (Homewood, Illinois: Richard D. Irwin, Inc., 1970); and Perry E. Rosove, Developing Computer-Based Information Systems (New York: John Wiley and Sons, Inc., 1967).
FIGURE III-3

CONCEPTUAL SCHEME -- MANAGEMENT CONTROL SYSTEM

Boundary of Management Control Process

*Measurement involved, requiring yardsticks

others. This requires information in the form of objectives and goals flowing downward to task areas (a vertical dimension) and horizontal flows between task areas for the purpose of making multi-functional (C3) decisions. These vertical and horizontal flows are required to coordinate, activate, and control the operations of the entire enterprise to facilitate the carrying out of strategic choices.

The four subactivities falling under the implementation variable organizational structure are, by nature, interrelated. The degree to which these dimensions require changing or redesign depends on the extent of the particular strategic shift. For example, a strategy that calls for a restructuring (e.g., from functional to some type of divisional form) will, most likely, require changes in the distribution of functions and authority, reporting relationships, and control and information systems. Other strategies may require few changes, if any, in the existing arrangements. It can be said, then, that the greater the difference in the present strategic posture and the posture being sought, the more

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50 Learned et al., Business Policy, p. 580.

51 This, of course, assumes that at present these dimensions are perfectly suited to the present strategic posture.
realignment that will probably take place in all the dimensions falling under organizational structure. 52

**Manpower Planning and Development**

This second $C_2$ variable of the strategic apparatus focuses on the people required to carry out the enormous number of tasks that are necessary to implement strategic plans. In more specific terms, it is concerned with important aspects related to the management of human resources. In this framework, these include planning for and developing these resources, compensating for their services, and monitoring the effect that strategic changes have on their jobs and their performance.

Manpower planning has been referred to as "the process of determining manpower requirements and the means for meeting those requirements in order to carry out the integrated plans of the organization." 53 This requires that basic skill and capability

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52 In most cases, this will probably be more true for this implementation variable than for others. That is, the activities involved here will, in general, be more sensitive to strategic changes. This is basically due to the pervasive role that these variables play in the operations of the enterprise.

characteristics be determined, as well as the numbers, location, and timing of manpower needs.  

In terms of implementing strategy, this task will involve determining managerial, as well as nonmanagerial, needs throughout the organization. Certain strategic changes may require new managerial talent that the firm does not presently possess. Other changes may depend more on acquiring additional workers of the present (or higher) skill and capability levels as those now employed. Determining what changes actually will be required involves defining strategic manpower requirements, obtaining an inventory of existing organizational capabilities, and then making the necessary manpower changes required to effectively implement strategy.

Because very few people are perfectly suited for the jobs they were hired to perform, they usually require some degree of development. One author has defined personnel development as "an attempt to match an individual's productive capacity with the work he

54 Megginson, Personnel, p. 205.

55 This is very similar to the capability or resource audit described previously, excepting that the purpose of the audit was to formulate strategy and a purpose of manpower planning is to ensure that personnel are available to effectively implement that strategy. In other words, top management's strategic choices may require an addition to existing skills and capabilities in order to achieve the desired balance between enterprise and environment.
will be required to do. This, in most cases, will involve a certain amount of training aimed at securing the skills and techniques required for the job and may include formal programs for managers, as well as other people in the organization. If properly designed, these training programs and other related areas of personnel development will contribute to assuring that organizational tasks (including those directly related to implementing strategy) are carried out efficiently and effectively.

In order to attract, retain, reward, and motivate management personnel requires that they be compensated for the services they perform. A compensation program for these people would include policy regarding basic salary, incentive compensation (bonuses), stock options, and employee benefit programs. Moreover, each of these can in some way influence the behavior of managers toward task performance.

The extent of this influence is a major function of the degree to which organizational rewards are coupled to performance.

56 Megginson, Personnel, p. 299.

57 For a more complete discussion of the problems and issues associated with developing nonmanagerial and managerial employees, see, e.g., Megginson, Personnel, pp. 298-350.

58 This also applies to nonmanagerial personnel. However, the major focus here is on the managerial personnel that have the major responsibility for seeing that strategy is successfully implemented.

was mentioned previously, this coupling requires that compensation programs, and especially incentive compensation, be coordinated with the administration of the management control system and, particularly, performance measurements generated by this system. Hence, if properly designed and coupled to the management control system, compensation programs can also be viewed as a tool for influencing managers to perform the tasks and achieve the goals related to the effective implementation of strategy.

The remaining area under the C\textsubscript{2} variable manpower planning and development concerns the effect that strategic changes have on the various task areas in the organization.\textsuperscript{60} Realignment in existing organizational arrangements can be monitored to determine whether changes have created an undesirable state of "organizational stress"---stress in sentiments, activities, interactions, or performance results."\textsuperscript{61}

Stress situations may be set up or caused by a number of forces, some being external and others internal to the organization. However, the major concern here is with the undesirable situations

\textsuperscript{60} This concept has been referred to as "configuration management" by authors, including J. Gordon Milliken and Edward J. Morrison, "Management Methods from Aerospace," \textit{Harvard Business Review}, LI (March-April, 1973), p. 158.

that occur as a result of strategic changes in response to environmental or external forces. A major strategic change (that involves, e.g., a merger or acquisition) may call for realignments in e.g., the organizational structure dimension. This creates change situations within the organization and the potential for stress situations to occur. The point to be made is that strategic changes can disturb the equilibrium of the organizational system and that attempts can be made to maintain the system in a steady-state equilibrium situation. A first step toward maintaining equilibrium could be to consciously monitor the effects of such changes so that appropriate actions toward alleviating undesirable situations could then be taken.

**Pricing Policy**

The third implementation variable in the framework offered here is pricing policy. This C2 decision variable

refers not to specific decisions about the prices of each and every product produced by a particular firm. Rather, it refers to the basic policies developed by general or top management which guide the more specific marketing decisions on exact prices and discounts. Such broad policies

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62 The topic addressed here falls under the scope of the literature that deals with organizational change. For an excellent discussion that clarifies the meaning of change and presents a framework for facilitating the management of change, as well as citing the foremost change literature, see Shirley, "Organizational Change."
are necessary to ensure that specific product prices are consistent with overall firm objectives and resources.  

A particular pricing policy may be designed primarily to help achieve a differential advantage over competitors, or it may be part of a strategy to direct the firm toward a greater growth rate (in terms of sales), return on investment, or other major objective that is part of a strategic shift. New product offerings, customer targets, or geographical areas contemplated by the firm may also be coupled with changes in this implementation variable.

These broader policies have ramifications for the entire firm and not just marketing activities. They are part of a program designed to direct the firm to a particular strategic posture and should not be confused with lower order pricing decisions.

**Resource Procurement**

The final implementation variable concerns obtaining the funds necessary to carry out strategic plans. This major function is performed within the confines of a desired capital structure for the firm. It involves choices among various financing alternatives,

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64 The process of allocating these funds to various task areas is an integral part of the management control system (budgeting) discussed above.
such as internal, external, short-term, long-term, debt, and equity sources of funds.

Once again, the particular strategy is an important consideration in this decision. Certain strategic changes (e.g., a major acquisition) may involve larger amounts of funds than others and, consequently, limit the sources from which the funds can be obtained. It should also be noted that the present financial status of the firm may also be a constraint on the final strategic decisions made by top management. That is, due to various reasons stemming from internal financial characteristics of the firm or possibly money and capital market situations, the firm may be incapable of obtaining the funds required for a major strategic change.

Summary Remarks on Strategy Implementation

This portion of the theoretical framework has focused on the variables that must be addressed to effectively implement strategic choices. The decisions that comprised the strategic apparatus included organizational structure, manpower planning and development, pricing policy, and resource procurement. The major point to be made concerning these decisions is that they must be tailored to, and be consistent with, final strategic choices.

It should be made clear that for this consistency to result requires that the strategic decision system and the strategic apparatus interact in a true process nature to form what was referred
to previously as the "strategic process." This process nature reflects the notion that for results to approach optimality, the two decision classes must be in harmony with each other. A well-designed strategy that has not considered variables such as those discussed above has a lesser chance of being successfully implemented. Factors such as structuring, controlling, informing, planning, budgeting, reporting, training, compensating, pricing, and financing are an integral part of the implementation of a strategic plan.

Moreover, implementation variables can also be thought of as important inputs to strategic decisions.\textsuperscript{65} The degree to which the existing characteristics of these variables complement potential strategic changes can play a part in the final strategic decisions. That is, top management may or may not make a strategic move that involves restructuring the organization, hiring new managerial talent, substantially altering the existing pricing policy, or changing the firm's present capital structure. The final decision(s) will depend on many factors, including the present strategic posture of the firm and the degree to which implementation variables need altering. The major point is that the final decisions have included a

\textsuperscript{65}That is, they can be thought of as part of the endogenous independent variables that complete strategic relationships as they are presented in Table III-1.
consideration of the present state of implementation variables and the necessary changes that must be made concerning these variables to implement strategy.

The overall strategic process has an important output in the form of functional area objectives that serve as constraints on all subsequent decisions and activities in the firm. These objectives (or goals) guide the total enterprise toward a particular strategic posture. In effect, they can be thought of as the firm's strategic "guidance system." They derive from the overall strategic process and serve to link strategy to the total firm. In more specific terms, these objectives result from, first of all, strategic choices and then the myriad of tasks that must be performed to achieve these choices, i.e., the iterative process that takes place between strategic and implementation decisions.

Chapter Summary

This chapter has presented an analytic view of the strategic process via a decisional orientation. The chapter began by defining a strategic process as being equal to a strategic decision system plus a strategic apparatus. This starting point then led to a description of the process in terms of tangible decisions and variables to address when formulating and implementing corporate strategy.

The chapter first introduced a set of decisions that define corporate strategy. With these decisions as a base, the relationship
between the firm and its environment and the manner by which strategy guides the firm and its activities was explained. This involved a discussion of implementation variables, the variables that supply the necessary link between strategy and the operational activities of the firm. From the discussion of these two sets of decision variables emanated a number of elements that bear upon the strategic process, such as obtaining exogenous and endogenous information for purposes of making strategic decisions and seeking a balance between the firm and its environment, tailoring the variables that comprise the strategic apparatus to the particular strategic posture being sought, the iterative process that takes place between the two elements of the strategic process to yield objectives that serve to guide all subsequent decisions and activities of the firm, and the notion that no one decision exists within a vacuum and strategy formulation and implementation combine to form a true process.

By taking a decisional orientation, the chapter has depicted strategy as a network of relationships connected by a number of information flows. These flows have been between the firm and its environment and between strategy and the characteristics of the firm. In order to complete a framework of enterprise decision making, the next chapter will relate strategy to a class of operating decisions. This will result in the identification of a vertical
relationship between functional area and strategic decisions and a horizontal relationship between decisions across functional areas.

The decisions that will be presented are a class that operationalize a firm's strategy. They take place within the task areas of the firm and are necessary to determine how to perform the work that must be done to achieve the objectives and goals that have been derived from the firm's strategy.
CHAPTER IV

MULTI-FUNCTIONAL DECISION VARIABLES

The previous chapter presented the first two classes of decision variables in a conceptual model of enterprise decision making. These two classes interact in a process nature which results in choices on strategic decisions and the variables necessary to effectively implement those decisions. From these choices and interactions emerge a number of constraints in the form of objectives or goals that serve to guide the subsequent decisions of the enterprise toward achievement of a strategic posture. These constraints were referred to previously as the strategic guidance system.

The third class of variables in this framework have been referred to as multi-functional and are a class of decisions that must be addressed to operationalize a firm's strategy. While $C_1$ and $C_2$ variables have defined the strategy to be sought and the necessary guidance for the work that has to be done, $C_3$ decisions are directly related to "how to do the work and how to coordinate,
when necessary, with other task areas...1 These decisions
generally fall under the purview of the various functional areas of
the firm which, in this framework, include marketing, production,
and finance.2 Before proceeding to examples of C3 decisions in each
of the functional areas, a general discussion of these variables will
be presented.

Multi-Functional Variables--An Overview

It has been proposed that one of the two functions of corporate
strategy is to constrain, as well as supply, common purpose to all
subsequent, lower order decisions in the firm. Analytically, this is
expressed by the existence of C1 variables as independent variables
in functional area decisions (see Figure II-1). These independent
variables are objectives and goals that have been derived from the
strategic process explained previously.3 For example, certain

1Robert C. Shirley, Adel I. El-Ansary, and Michael H.
Peters, The Study of Strategy and Policy Formation: A Multi-
Functional Orientation (unpublished manuscript), p. 22.

2Additional task areas (such as research and development)
could easily be added to the framework, but are not required to
explain the basic concepts that are important to its development.
Consequently, the absence of other functional areas does not hamper
in any way the rationale behind this approach.

3As noted previously, the C1 variables existing in task area
functional relationships are the functional area objectives and goals
that have resulted from the iterative process between C1 and C2
variables. They are depicted as C1 variables because strategic
decisions are the origin or starting point and the resulting constraints
are consistent with these decisions. In other words, the constraints
budgets that have resulted from the interaction between $C_1$ and $C_2$ variables will constrain a number of $C_3$ decisions. In a similar manner, certain plans that have been developed to achieve strategic choices (e.g., facilities plans, manpower plans, production output plans, and other operating plans) will act as goals to be considered when making operating decisions. Finally, policies (e.g., pricing and wage and salary policies) will place boundaries or constraints on other functional area activities. This vertical flow of constraints (beginning with strategic decisions and flowing downward) relates strategy to all decisions in the enterprise and directs functional area decision making toward achieving a desired strategic posture.\(^4\)

Class three variables also have included in their functional relationships independent variables that originate in other functional areas. This requires that these variables receive inputs (in the form of cooperation and/or information) from other task areas in order for these decisions to be made. This characteristic of $C_3$ variables exhibits the functional area interdependency that requires

\(^3\) (continued) are the result of a process that begins with strategic choices even though the actual independent variable that results may not resemble the $C_1$ decision in its broader, original state.

\(^4\) For research that suggested a similar relationship between corporate strategy and operating decisions, see Bertin F. Nadeau, "Corporate Strategy in Operating Decisions" (unpublished D. B. A. dissertation, Indiana University, 1972).
that top management view the firm within a systematic, rather than an elemental, frame of reference.

Due, in part, to this interdependent characteristic, $C_3$ variables can also be vital inputs to top management in assessing the strengths and weaknesses of the interdependent and interacting functional areas as they perform as a unit. By viewing class three relationships and, more specifically, the origin of the independent variables in the relationships, interdependencies between task areas become more explicit. These decision interrelationships indicate the degree of interaction required among functional areas to perform tasks and achieve objectives related to a particular strategic plan. A high degree of interaction (connoting dependency) with little cooperation can weaken an ability to achieve enterprise objectives.

$C_3$ variables, then, offer a means to recognize and assess interdependencies for the purpose of fostering collaboration between highly dependent areas and increasing potential for achieving enterprise objectives. This can be visualized as a vertical flow of information upward (from task areas to strategic decision makers) representing an important consideration or input to certain strategic choices. For example, if a particular strategy is highly dependent on the cooperation between two or more task areas, steps must be taken to ensure that the necessary cooperation will exist. If this appears to be an impossibility, top management may have to
seriously consider alternative strategies. The essential point is that in seeking a balance between the enterprise and the environment, the individual and collective performance of task areas is an important consideration. The degree of dependency (as indicated by $C_3$ decisions) can lend criteria for judging this performance, or at least indicate potential trouble spots or conflict areas that must be resolved.\(^5\)

The decision interrelatedness expressed by $C_3$ decisions also depicts the horizontal flow of information needed to make these decisions. For example, a production decision variable concerning plant capacity will depend on information inputs pertaining to sales forecasts and physical distribution capabilities (marketing inputs), forecasted technological developments concerning facilities and equipment (an engineering or research and development input), the firm's cost of capital and potential for obtaining funds (financial inputs), as well as various production inputs, such as present and forecasted operating costs.

The horizontal flows between task areas and the upward and downward vertical flows mentioned previously are also an excellent starting point for establishing the boundaries and direction of

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\(^5\) Even though potential trouble spots or conflict areas do exist with a particular strategic choice, top management may decide to implement the strategy relying on changes in, e.g., manpower and/or subactivities of organizational structure to correct the situation.
organization communications. Hence, the decision orientation not only explains the relationship between strategic and operating decisions, but is also a logical starting point for information system design to support enterprise decision making.

It should be emphasized that while $C_3$ variables are lower order decisions in the framework, they should not be considered less important. These decisions operationalize a firm's strategy in the sense that they are directly related to the purchase of raw materials, the manufacturing of products, the distribution, promotion, and selling of products, the receipt and disbursement of funds for operations, and the coordination of many other activities throughout the organization. In order to operationalize strategy, the firm must function to perform a myriad of tasks and $C_3$ decisions are key variables in this functioning.

The various points offered in explanation of $C_3$ variables have indicated a close relationship between these variables and strategic decisions. Because of this close relationship, they are included in a framework that is attempting to conceptualize the concept of corporate strategy and how it is related to all other decisions in the firm.

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6 One could venture to say that at one time or another all decisions in a firm are important.

7 $C_4$ variables also contribute to operationalizing a firm's strategy. However, as noted previously, they are a lower order of decision and will be only briefly treated in this paper.
The remainder of this chapter will be devoted to presenting some examples of multi-functional decisions from marketing, finance, and production. The purpose is to more explicitly show the structure of these decisions, their relationship to higher order decisions, and their relationship to other $C_3$ variables. The examples are not intended to be exhaustive and, in most cases, explanation will be kept brief. $^8$ In addition, the examples are not intended to indicate that they are the most significant or important variables from the particular area. They have been chosen basically because of their capability to exemplify multi-functional variables.

**Examples of Multi-Functional Variables from Marketing**

The importance of marketing to the successful operation of a business enterprise is a notion that becomes obvious when one considers the functions that this task area of the firm performs. $^9$ In broad terms, this task is to match the needs of consumers with a suitable product in light of available resources through a process of exchange that is consistent with and facilitates the achievement of

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$^8$ Due mainly to the almost endless number of multi-functional decision variables, the task of presenting a comprehensive list would be enormous and beyond the scope of this paper.

enterprise objectives. This task, however, must be performed within the constraints imposed by top management. These constraints are broadly defined by the final choices on strategic variables.

The following is the first example of a multi-functional variable from marketing. It is depicted in functional relationship form and includes (as independent variables) inputs from marketing, other task areas, and C\(_1\) variables.

\[
\text{Packaging} = f (\text{product characteristics, packaging objectives, facilities and equipment, environmental pressures, } C_1 \text{ variables})
\]

Packaging decisions begin with determining (among other things) what the package should basically be or do for the product.

\[\text{10Since the focus of this framework is on profit-oriented manufacturing firms, the discussion will not include the function of marketing or other functional areas in public or non-profit ventures.}\]

\[\text{11It should be noted that since this framework is based on decision rather than process interrelationships, the focus is on the necessary decisions rather than the particular person who makes them. In a real life situation, functional area managers may play an important role in making strategic choices. However, this is a question of decentralization of decision making and a characteristic of the particular firm in question.}\]

\[\text{12The independent variables in all } C_3 \text{ equations could be extended to include a very large number. However, to keep the task manageable, they have been limited to the more obvious inputs that must be considered.}\]
The task of establishing what the package should be or do has been referred to as the "packaging concept."\(^{13}\) This concept defines what the main function(s) of the package should be. In turn, these functions may reflect certain qualities about the product and the company.

When making a packaging decision, certain independent variables must be considered. Among these are the product mix and customer mix of the enterprise.\(^{14}\) Clearly, the characteristics of the product and the markets it is sold in provide constraints within which the package must be developed. Consequently, the functions which the package is intended to fulfill are also dependent on the particular product and the market served by the product. For example, under certain situations (such as an industrial product), the major functions (objectives) may be protection and economy or what may be termed a purely functional package. Other product and market characteristics may demand that the prime function of the package be convenience, such as ease of opening. In the consumer's goods field, the primary function may be the promotional objective that the package fulfills.


\(^{14}\)Since strategic variables are interrelated, every \(C_1\) variable influences in one way or another each \(C_3\) decision. However, when discussing \(C_3\) variables, only the more explicit influences will be mentioned.
After marketing management has decided on a particular packaging concept, the component elements—size, shape, materials, color, text, and brand mark—must be determined. The final choice on some component elements will be influenced by information concerning how the product will be handled and transported, in addition to specific package requirements of middlemen. Moreover, since decisions on the component elements are often interrelated (e.g., size suggests certain things about materials, materials suggest certain things about how the package can be handled, etc.), they are frequently made by marketing personnel in conjunction with technical specialists connected with the production department. These technical specialists supply inputs to the decision in terms of information concerning the facilities, equipment, and expertise available to fulfill packaging needs. When the purpose of the package is purely functional (e.g., when product characteristics, such as fragility, perishability, and weight, are not crucial), the packaging decision may depend to a lesser degree on technical expertise. In this case, inputs from the production department become relatively less important.

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15 Kotler, Marketing Management, p. 495.

16 Depending on the nature of the product, the locus of decision-making authority for the packaging decision may shift from marketing to production.
Environmental pressure for environmental protection is an additional factor to be considered in a packaging decision. Witness the recent concern of environmentalists over waste packaging and solid-waste disposal. This factor may complicate the decision by forcing the use of alternatives (such as biodegradable materials) which, in turn, may preclude the use of certain sizes, shapes, structures, and even colors of particular packages.

The second multi-functional decision variable from marketing is channels of distribution and is depicted as:

Channels of distribution = f (customer characteristics, product characteristics, middlemen availability and characteristics, competitor and market information, company characteristics, financial requirements, $C_1$ variables)

Many variables can influence and play some role in determining the channels of distribution of the enterprise. From a top management perspective though, a large portion of the channel decision will be constrained by objectives and goals related to the product-market scope and differential advantage components of strategy. More specifically, channel decisions will be greatly influenced by the product mix, the markets and market segments concentrated on, 

the geographical area the company primarily competes in, and the basis upon which the company has chosen to compete. Thus, initial distribution channel design will be tailored to strategic decisions and subsequent major changes in channel design will result from a change in one or more of the four strategic decisions mentioned previously.

Some additional determinants (or constraints) that must be considered when making channel decisions are: (1) customer characteristics, including the number, geographical dispersion, purchasing patterns, and susceptibility to different selling methods; (2) product characteristics, including perishability, bulk, degree of product standardization, service requirements, and unit value; (3) middleman characteristics, including the strengths and weaknesses of the intermediaries handling the tasks; (4) competitive characteristics, especially the channels that competitors use; (5) company characteristics, including size, financial strength, and past channel experience; and (6) environmental characteristics, including economic conditions and legal regulations and restrictions.18

It can be readily seen that channel decisions are acted upon within the boundaries set by strategic decisions. They have defined the environment within which the channel must operate. In examining other determinants of this decision, it is evident that production

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supplies one of the multi-functional aspects of the variable. Perishability, bulk, and service requirements are, in most cases, capable of being influenced to some degree by production.

Another multi-functional aspect of this $C_3$ decision is the financial requirements necessary to support certain channel structures. This requirement will vary according to whether the manufacturer decides to perform certain functions himself (e.g., wholesaling) or secures channel intermediaries to perform the task. In either case, however, there will exist financial considerations in order to, first of all, make the particular channel decision and, secondly, to support the subsequent operations of the channel.

The third multi-functional decision variable is promotion and, in its analytic form, is depicted as:

$$Promotion = f (\text{financial considerations, product and customer characteristics, production volume, channel capacity, } C_1 \text{ variables})$$

Promotion is a variable that includes advertising, sales promotion, personal selling, and publicity efforts. The importance of advertising lies in the fact that it is an effective way to present information to potential buyers, it can be persuasive to some extent,
and it can also reinforce and possibly create preference for company products. 19

Advertising becomes bewildering, however, when the firm attempts to determine the effects that it actually has on sales and the amount of funds to allocate to advertising expenditures. Although there have been some models developed that attempt to measure the effects of advertising on sales and thus help determine advertising budgets, for the most part, firms tend to rely on simple rules, such as a percentage of sales or an amount the company can afford. 20

In addition to determining the amount of money to allocate to advertising, the decision also involves considering:

What message and mode of presentation should be used?
What media should be used?
How should the advertising be phased during the year? 21

When making these decisions, the objective(s) that the advertising is intended to accomplish should be kept in mind. Some of the possible objectives or tasks might be:

1) To create or point out a need,

2) To link the need to the possibility of fulfilling it with a general product,

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21 Kotler, Marketing Management, p. 666.
3) To differentiate the particular product and the company from other products which may satisfy the need approximately well, or

4) To connect the particular product with the place and conditions under which it can be obtained. 22

Sales promotion can be described as a number of tools directed at different people, from the manufacturer's own sales force to the final consumer and including people in between. Examples of sales promotion tools are: samples, coupons, and money refund offers directed at consumers; free goods, merchandise allowances, and dealer-listed promotion directed at the trade; and bonuses, sales force contests, and sales meetings directed at the firm's own sales force.

Personal selling may take several forms, among them being field selling, retail selling, and executive selling. Furthermore, personal selling has certain qualities that distinguish it from other components of the promotion mix, such as:

1. **Personal Confrontation.** Personal selling involves an alive, immediate, and interactive relationship between two or more persons.

2. **Cultivation.** Personal selling permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to a deep personal friendship.

3. **Response.** Personal selling, in contrast with advertising, makes the buyer feel under some obligation for having listened to the sales talk or using up the salesman's time.\(^2^3\)

Product publicity has been defined as the activity "for securing editorial space, as divorced from paid space, in all media read, viewed, or heard by a company's customers and prospects, for the specific purpose of assisting in the meeting of sales goals."\(^2^4\)

Publicity can have far reaching effects in terms of media coverage at relatively little cost to the company. Because of this, many firms have placed greater emphasis on this component of the promotion mix in the form of public relations agents. These agents can tailor public relations releases to fit the various target markets and customers.

Some of the distinctive qualities of publicity are:

1. **High veracity.** News stories and features seem to most readers to be authentic, media-oriented reports. Therefore, readers are likely to regard news stories about products and companies as having a higher degree of veracity than if they came across as sponsored by a seller.

2. **Off guard.** Publicity can reach many potential buyers who otherwise avoid salesmen and advertisements. This is

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because the message is packaged in a way that gets to him as news rather than as a sales-directed communication.

3. **Dramatization.** Publicity has, like advertising, a potential for dramatizing a company or product.²⁵

When making decisions on the various promotional activities discussed previously, a number of independent variables must be considered. First of all, the budgeting process may be the constraining factor on all promotional activities. For example, how top management has chosen to allocate funds to advertising will affect the choice of media which, in turn, may affect the message and mode of presentation. In addition, a smaller budget may call for only one advertising campaign where a relatively larger budget (ceteris paribus) may call for a number of campaigns throughout the year (placed monthly or weekly). Since budgets are a function of sales volume which influences production output, production in conjunction with the capacity of the channel to handle the output are additional inputs to this multi-functional decision.

Additional advertising considerations (such as the message and mode of presentation and, to some extent, the choice of media) are also a function of (a) the product, (b) the specific types and characteristics of the potential buyers of the product, and (c) where these potential customers are located geographically. The message content may also be a function of the basis upon which the company

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has chosen to compete (differential advantage). For example, if a
differential advantage is quality, this factor may be stressed in
advertisements.

Since personal selling and publicity are aimed at the same
target customers and markets and overall purposes are in close
agreement, they are influenced by constraints similar to those of
advertising. This includes the total amount of funds allocated to
promotional efforts. Moreover, this determinant will be an
important factor concerning the initial breakdown on the amount of
funds available for each promotional activity. After this breakdown
has been determined, management can then begin to structure the
specific promotional tasks to be carried out.

The last multi-functional variable to be considered from
marketing is pricing. The functional relationship for this variable
is depicted as:

\[ \text{Pricing} = f (\text{product characteristics, production costs, pricing}
\text{objectives, financial considerations, allowances and deals,}
\text{markups, discount structure, } C_1 \text{ variables}) \]

The most common approaches to pricing found in the literature
include cost-oriented approaches, demand-oriented approaches,
competition-oriented approaches, "ball park" pricing, product line
pricing, and for a new product, skimming and penetration
pricing.\textsuperscript{26} Underlying each approach is the fact that there are certain determinants of pricing that the marketer has no control over, namely, the fixed and variable costs of production.\textsuperscript{27} These costs are a function of the design of the product and all the inherent product characteristics, including quality, material, size, shape, and so on. Hence, they represent a floor or minimum price that must be charged for the good if the firm is to recover the costs incurred to make the product.

Allowances and deals, distributor and retailer markups, and discount structure are additional costs (on top of production costs) that must be included before the final price of the product is determined. They are only a portion of the total cost of the product and are determined within the boundaries of the cost floor (set by production) and the pricing policy developed by top management. The pricing policy (as explained in the previous chapter) will be expressed in terms of defined pricing objectives for marketing. For example, a study of twenty of the largest corporations in the United States found that the most typical objectives cited were: (1) pricing to achieve a target return on investment, (2) stabilization of price and

\textsuperscript{26}Mark I. Alpert, \textit{Pricing Decisions} (Glenview, Ill.: Scott, Foresman and Company, 1971).

\textsuperscript{27}Taxes, building and equipment depreciation, power, heat and light, materials, and labor are a few of these costs.
margin, (3) pricing to realize a target market share, and (4) pricing to prevent or meet competition. If these pricing objectives are to be achieved, the cost incurred by production must be considered before additional costs are added. That is, in all objectives except number three, decisions on allowances and deals, distributor and retailer markups, and discount structure must be made in light of (a) the cost to produce the product and (b) the selling price necessary to achieve a target return, a stable price and margin, or a price that meets or prevents competition. Even with pricing to realize a stable market share, it can be argued that a constraint exists in the form of pricing to realize a share of the market without incurring a loss. This, again, would set definable limits on the magnitude of cost associated with the price variables.

It should be clear, then, that decisions on price must be made within the limits set by production costs and the pricing objectives set by top management. These limits define an allowable amount that can be spent on allowances and deals, distribution and retailer markups, and discount structure.

Some might argue that the final price of a product is, at times, dictated by the necessity to distribute the product through

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certain channels of distribution. This may possibly be the case, but if the company is adhering to strict pricing objectives, the channel will be altered to meet the objectives.

It can be concluded that pricing is dependent on a number of variables, including the product itself and the cost to produce it, the customers and target markets that the product serves, the geographic locations that must be reached, and pricing objectives. Production again supplies one of the inputs that lend multi-functionality to this variable, although decisions on price will also be dependent on a financial input, namely, cash flow. Since price can have a significant impact on the firm's cash flow, financial inputs concerning the timing and magnitude of future inflows and outflows necessitate consideration before final decisions are made. This may impose an additional constraint on final pricing decisions.

**Examples of Multi-Functional Variables from Finance**

The pervasiveness of financial considerations in a business enterprise is obvious, for most activities involve the use of funds. One writer expressed this view when he stated:

> Because most business activities include the utilization and/or the generation of funds, important management decisions in all areas inevitably have financial implications. Not only must these implications be understood and taken into account in
reaching a balanced decision, but varying interests must be coordinated if the company is to achieve financial success.\textsuperscript{29}

The notion that emerges here is that financial decisions, like the marketing decisions discussed previously, will involve inputs from other task areas of the firm. That is, there are a number of decisions that exist in the financial area of this framework that are directly concerned with production, marketing, and other functions when they are made. Thus, a number of financial decisions will take a multi-functional structure and exhibit the interactive and interdependent nature of this class of enterprise decision variables.

The discussion of financial decisions to follow has been based on the view of the functional area of finance being "an integral part of over-all management rather than as a staff specialty concerned with fund-raising operations."\textsuperscript{30} This allows one to broaden the view of finance from one that primarily concerns the procurement of funds to one that includes the management of assets, the allocation of capital, and the valuation of the firm as a whole.\textsuperscript{31} This broadened view lends itself to breaking down the functions of finance into three


major decisions: the investment decision, the financing decision, and the dividend decision. 32

The investment decision is concerned with (a) capital budgeting, (b) abandonment of assets that no longer meet requirements of financial return, and (c) the management of current assets. The first aspect of this decision has been treated in this framework under the strategic apparatus and within the process of management control.

The financing decision is concerned with (a) a desired capital structure, (b) long-term financing, and (c) short- and intermediate-term financing. This financing decision was treated in the strategic apparatus as resource procurement concerned with acquiring funds to carry out or operationalize strategic plans with a view toward the best financing mix or capital structure for the firm. 33

The dividend decision is concerned with determining the amount of funds to be distributed to stockholders. A major factor in this decision is alternative uses of these funds, especially in terms of the availability of profitable investment projects throughout the firm.

32 Ibid., p. 9.
33 Ibid., p. 10.
The next few pages of this chapter will focus on the abandonment decision, decisions involved with the management of current assets, and the dividend decision. These decisions are part of the finance function that will be used to illustrate the interrelatedness between finance and other task areas.

The first multi-functional variable is the abandonment decision. This variable is depicted as follows:

\[
\text{Abandonment decision} = f (\text{cost of capital, expected future cash flows, abandonment value, C1 variables})
\]

The first independent variable in the abandonment equation is the cost of capital which refers to the real cost of financing an investment. The computed cost of capital takes into account that funds used to support investment projects are financed via both debt and equity sources. Expected future cash flows represent a dollar value in the form of either additional revenues or savings generated by the particular project. The abandonment value of the project represents the net disposal value to the firm in either cash or savings. With these independent variables defined, the concept of abandonment is that "an investment project should be abandoned when its abandonment value exceeds the present value of the project's subsequent expected future cash flows, discounted at the

\[34\text{Ibid.}, \ p. \ 109.\]
cost-of-capital rate. In other words, abandonment occurs when continuation of the project would return less than the cost of capital, and abandonment of the project results in the most optimal use of funds.

The multi-functional nature of this decision lies in the notion that investment projects are scattered throughout the enterprise and in all functional areas. This means that cash flow and abandonment value information must come from the particular task area where the project exists. For example, information concerning the abandonment of a piece of production equipment necessitates considering a number of factors involved with determining cash flow. These factors may include machine speed and maintenance, operator requirements, the availability of more efficient machinery, the cost of replacement equipment, and the market value of the present equipment, i.e., all the direct and indirect benefits and costs related to the project. If the particular project or equipment is related to packaging the firm's products, then numerous inputs from the marketing area may also require consideration before a final decision. These inputs may pertain to, e.g., future forecasts of demand for the product which will bear upon future machine utilization and cash flow.

35Ibid., p. 100.
The influence of $C_1$ variables on the abandonment decision will depend on the nature of the project being contemplated for abandonment. Strategic realignments (such as changes in differential advantage or performance criteria) may require more modern equipment or higher return projects which, in turn, will force less profitable equipment and other projects to be considered for abandonment. In all cases, the performance criteria that top management has stated, especially in terms of profitability, and the particular capital structure of the firm will explicitly influence abandonment decisions.\(^{36}\)

The second decision area to be considered relates to maintaining a desired level of working capital for the enterprise. Actually, the decision may be broken down into a number of smaller component decisions. For purposes of the discussion here, however, the decision concerning working capital level will be treated as a single variable. In the form of a functional relationship, this decision can be stated as follows:

\[
\text{Working capital level} = f (\text{cash and marketable securities, receivables, inventories, current liabilities, maturity schedule of debt, lines of credit available, borrowing capacity, } C_1 \text{ variables})
\]

\(^{36}\)Performance criteria can be expressed among dimensions such as profitability, growth, and market share, and further defined in terms of percentage return on investment, desired growth rate, and percentage market share.
As can be readily seen from the above equation, working capital management is concerned with the administration of current assets and current liabilities.\(^{37}\) The overall task is related to the risk of becoming technically and legally insolvent. The former occurs whenever a firm is unable to meet its cash obligations,\(^ {38}\) and the latter when the assets of a firm are less than its liabilities.

The first independent variable in the working capital level equation concerns both cash and marketable securities. Cash, in turn, is dependent on the cash inflows and outflows which fluctuate according to production output and the sales efforts of marketing. Thus, multi-functional aspects of this variable consist of production inputs in the form of output schedules and marketing information in the form of present and projected sales volume.

Theoretically, a firm should hold no more cash than it will need. Since the exact amount of cash to have on hand is very difficult to determine with certainty, firms often place a particular amount of their funds into marketable securities. That is, they allow the firm to earn interest on an amount of funds that can be converted into cash

\(^{37}\) The management of fixed assets falls within the realm of capital budgeting, a part of the management control system, in this framework.

very quickly, thus helping to balance the opportunity cost of holding too much cash with the risk of not holding enough.

The level of accounts receivable, as well as the time it takes to receive payment for goods, also influences the level of working capital. The time factor is partially dependent on the credit terms offered to customers. The particular terms extended by the company necessitate inputs concerning the credit practices of competitors, the degree to which relaxing credit standards will increase sales, the additional costs (assuming an increase in receivables) that may result from the increased sales and a slower average collection period, and the profitability of the additional sales. Many of these inputs rely on information obtained via market research discussed in the previous chapter. This is especially true of the actions of competitors and potential sales increases. Consequently, the extension of credit which can influence the level of accounts receivable relies heavily on marketing inputs.

The next independent variable that must be considered in relation to a desired working capital level is inventory. Not only is this variable important to the production and sale of the firm's product(s), but it also entails the commitment of large amounts of funds. The financial manager is concerned with the cost of the funds invested in inventory, which is dependent on important factors related to production and marketing. Sales forecasts, production
schedules, the production process used, purchasing breaks on materials, the distribution channel structure and capacity, the costs associated with ordering, storing, and running out of inventories are all factors that are of import to the determination of inventory levels. To this extent, any changes that must be made in the amount of funds invested in inventory (for purposes of altering the desired level of working capital) necessitate consideration of various production and marketing inputs.

Additional factors that influence the working capital level decision are the maturity schedule of the firm’s debt, lines of credit open to the firm, the borrowing capacity of the firm, and current liabilities. Current liabilities, however, are less active variables in the working capital level decision. That is, payables and accruals tend to fluctuate with production output and profits and are limited to the extent that they can be varied.

The decision on working capital level has been described in terms of numerous independent variables originating in task areas throughout the firm. The decision is not constrained by any one higher order decision, but is related to the totality of decisions that define what business the company is in. That is, factors such as products, customers, differential advantage, geographic concentration, and performance criteria in toto influence the level of working capital. Product-market scope defines for the firm the industry
within which it operates and, to a certain degree, the level of working capital necessary to support the operations of the enterprise in that particular industry. In other words, the present strategic posture of the firm is instrumental in determining working capital needs. \footnote{The preference of top management regarding the trade-off between profitability and the risk of technical or legal insolvency can also be a very influential factor in the working capital level decision.}

The final decision that will be discussed under the functional area of finance is the dividend policy decision. This decision is depicted as follows:

Dividend decision = \( f \) (number of available investment projects, the profitability of these projects, cost of capital, level of retained earnings, \( C_1 \) variables)

The treatment of the dividend decision in this framework proposes that if a firm has available a number of investment projects that will yield a return greater than the cost of capital, then funds will be invested in these projects. The level of retained earnings available to support these projects will then determine the residual to be distributed as dividends. That is, the greater the amount of profitable investment opportunities, the greater the retention rate of retained earnings.
The rationale for this approach is that the cost of financing investment projects with retained earnings is less than financing through a sale of stock. A company that is expanding faster than its growth in earnings will find it less costly to finance its projects through retained earnings and pay no dividends. Other companies in slower growing industries may pay out a portion or all of their earnings in dividends due to the relative lack of profitable investment opportunities.

Additional factors that play a role in the dividend decision are (a) the preferences of stockholders with respect to dividends or capital gains, (b) the ability of the firm to borrow, (c) dividend restrictions in a bond indenture or loan agreement, and (d) the desire to maintain control. These factors represent determinants that the firm may have to consider in addition to investment proposals.

The investment projects that must be considered before the dividend decision is made serve to lend multi-functionality to this variable. These projects may range from a marketing proposal to restructure or expand its channel of distribution to a production proposal to expand plant and equipment to accommodate an increase in product demand. Furthermore, the higher order decisions in the

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41 Ibid., p. 213.
enterprise tend to supply the stimulus for investment proposals. Development and introduction of new products, as well as achieving certain performance criteria, require that numerous activities be carried out in the form of projects throughout the firm. Capital budgeting and resource procurement will also be instrumental in determining the acceptance or rejection of the projects. In this manner, the dividend decision is related to not only other functional areas of the enterprise, but higher decisions as well.

**Examples of Multi-Functional Variables from Production**

The function of production "is concerned with the men, material, and machines needed to manufacture any product and with economizing in the use of these three basic resources." Utilizing these resources, production's task is one of transforming inputs into salable products with a view toward producing the goods according to specifications, in the amounts and by the schedule demanded, and at a minimum cost.

Like other task areas of the enterprise, production decisions require inputs in the form of information and/or cooperation from other functional units in order to effectively accomplish their task and

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and contribute to achieving total enterprise objectives. These inputs
depict the interdependency that exists between production and the
other two task areas in this framework.

As was the case in previous sections of this chapter,
examples of multi-functional variables will be discussed. The first
of these is the plant location and capacity decision and is depicted in
the following manner:

Plant location and capacity = f (raw material and product-market
locations, logistic system, sales forecasts of the market,
environmental considerations in the potential location, C1
variables)

The plant location and capacity decision is usually thought of
as occurring infrequently. It is an important decision, however,
when one considers that the particular location may have a substan-
tial influence on the operating costs of the plant for many years in the
future. Costs associated with shipping, labor, fuel, and taxes are a
few of the factors that must be considered on a long-term basis.
Furthermore, in contemplating the plant location decision, the firm
must consider not only what is taking place in the environment at the
present time, but also attempt to project into the future in terms of
certain intangible factors that may influence costs. These intangibles may include the attitude of townspeople toward the new plant, future growth of the community and its ability to supply necessary labor, the expected growth of transportation facilities, and so on.

The capacity portion of this decision can be considered an integral part of plant location. Certain location factors, such as the amount of land available which will bear upon the building site, will influence the capacity decision. Moreover, the contemplated location will influence the degree to which the plant can be expanded in the future. The interdependency of these two factors necessitates considering them as a single variable.

In determining the plant location portion of this decision, a major determinant is the cost associated with procuring raw materials, processing them, and delivering the finished product to the market. A goal, of course, is to locate where these costs are minimized.

A number of factors must be considered when determining procurement, process, and delivery costs. First, is the location of the raw material and product market in relation to the potential

\[ \text{Ibid.}, \text{ p. 252.} \]

plant site. Where raw material costs are greater than the cost of transporting the finished product, a firm can minimize costs by locating closer to the raw material source. If the reverse holds (i.e., finished product transportation costs are greater than raw material transportation costs), then the firm can minimize costs by locating closer to the product market. These costs will vary depending on the weight loss or gain during production and the transportability and perishability of the raw material and finished product.

A related factor in terms of processing costs is the availability of skilled workers in the vicinity of the potential plant site and the prevailing wage rate. The cost of training skilled workers or importing them, as well as tremendously high wage rates, may cause production costs to be so high that a location alternative is abandoned.

The multi-functionality of this variable is evident when one considers that getting the finished product to the market involves the channel of distribution, a variable discussed previously under marketing. In addition to the channel variable, transportation requirements and other aspects of the logistics system must be considered. Part of the consideration will entail determining the
incremental costs associated with various aspects of the logistics system at the potential plant site.\footnote{46}

Determining the size of the new facility in terms of output capacity will depend on forecasts of product sales for the market(s) the new plant is intended to serve. These forecasts will, in most cases, be obtained by a market research group devoted to analyzing market trends for the firm's products. This same group may also be called upon to obtain information concerning the environmental impact of the plant on the community. The costs associated with meeting environmental standards are a relevant consideration for the plant location and capacity decision.

The relationship between this $C_3$ production variable and higher order decisions in the enterprise is most explicitly stated through the product-market scope. The products the firm has chosen to offer, the customers it intends to serve, and the geographic limits it has placed on company operations all serve to constrain a plant location and capacity decision. The new plant must also meet certain performance criteria, especially in terms of profitability, and be consistent with whatever distinctive competence the firm presently has. An additional constraint may also be imposed by the ability of the firm to finance an additional plant site in a manner that

\footnote{46} These costs will include, for example, purchase, traffic, materials handling, and receiving.
is consistent with a desirable capital structure. Thus, this $C_3$ decision variable must also be made within certain financial characteristics of the firm.

Given the plant location and capacity required, a related decision that must be dealt with is how to arrange the plant so that it will function in the most efficient manner. This variable will be referred to as the plant layout decision and is depicted in the following manner:

$$\text{Plant layout} = f(\text{product demand, present and future state of technology, environmental pressure, safety regulations, constraints imposed by existing facilities and equipment, } C_1 \text{ variables})$$

The plant layout decision may arise for a number of reasons, including building a new plant, the development of a new product, the inefficiency of existing operations, new technological developments, or an addition to existing facilities. The final plant layout should be an integrated system that provides for machines, workplaces, and storage in the capacities required so that feasible schedules can be determined for the various parts and products; a transportation system which moves the parts and products through the system; and auxiliary services for production, such as medical facilities and cafeterias. 47

47 Buffa, Production Management, p. 274.
This integrated system must also be designed with a view toward flexibility so that it can accommodate future changes in product designs, product volumes and mixes, and for advancing technology.\textsuperscript{48}

The first determinant in the plant layout equation is product demand, which includes the relative stability of the product(s) to be made and a consideration of future product changes. It is obvious that plant layout would differ in a situation where future business will be concentrated on one or two products, as opposed to a number of new products planned for introduction over the next few years. The former would necessitate far less flexibility in the plant layout than the latter.

Demand information will also influence the number of employees and certain inventory requirements that must be accommodated in a plant layout. Inventory storage and workspace allotments may also influence the type of material handling equipment. The specific type of equipment used must also be consistent with certain product characteristics (e.g., size and weight), how the product is packaged, how it is prepared for shipment through the distribution channel, and so on. To a large extent, information concerning demand, contemplated changes in product lines, and information needed to determine the specific type of handling equipment are

\textsuperscript{48}Ibid.
inputs supplied by marketing and lend multi-functionality to this
decision variable.

The second determinant in the equation is related to the
state of technology pertaining to the production processes and tech­
niques that can be utilized. The final plant layout is obviously
dependent on the particular process chosen, for some processes
may differ from others in terms of space requirements. The firm
may obtain information on the present and future states of technology
through a form of technological forecasting noted previously in
Chapter III. The future state of technology will be relevant in terms
of developments that may transpire in the near future. If there
exists such a likelihood, then the layout should be designed with
flexibility in mind to accommodate future technological change. In
any event, consideration given to the present and future states of
technology may be very important to the firm in terms of production
costs.

Government regulations concerning the environment,
environmental pressure groups, and safety requirements will also
influence certain factors involved with plant layout decisions. For
example, environmental regulations may dictate the use of pollution
control equipment which may, in turn, influence the space required
and the location of other apparatus. Similarly, safety requirements
may dictate the isolation of certain processes from others, specific
safety requirements for machinery, or, possibly, the type of material and design of the building. Since these requirements may differ across state lines, the specific requirements of the region where the plant is located will have to be considered.

In a situation where the firm is deciding on the layout of existing facilities, the decision is limited by the present structure and its related characteristics. Under these circumstances, the firm may have to be satisfied with a less than optimal layout. This is often the case where a new plant cannot be constructed and existing facilities must be utilized.

The influence of higher order decisions on this \( C_3 \) variable is seen in top management's choice on the firm's product mix. This strategic decision bears upon other variables, such as the demand for the product and its stability. The performance criteria dimension of the strategic decision system must also be considered in relation to plant layout decisions. The relationship between these variables is evident in the fact that plant layout decisions can influence costs, and costs are directly related to certain performance criteria, such as return on investment. Finally, a new plant layout must be compatible with any distinctive competence the firm has established, such as highly efficient and low-cost facilities.

The final decision that will be considered from the production area concerns inventory levels. In functional relationship form,
this variable is depicted as follows:

\[
\text{Inventory levels} = f (\text{forecasted product demand, financial considerations, availability of parts and materials, purchase discounts, } C_1 \text{ variables})
\]

Maintaining proper inventory levels is an important part of the overall operations of manufacturing enterprises. Not only are they important to the production output of the firm, but they also represent a significant portion of the money invested in current assets. To this extent, overinvestment in inventories represents the opportunity cost of tying up excess funds that could be employed elsewhere at a profitable return. This would be the case even if the only alternative use of these funds was investment in government bonds.\(^4^9\)

While attempting to minimize overinvestment in inventories, the firm must be careful not to create a situation where a relatively low level of inventory affects delivery requirements. The cost of running out of an item may entail not only loss of sales, but possibly loss of a customer. The loss of sales is a cost associated with carrying too little inventory. The task, then, is to carry an amount

\(^4^9\)Ammer, *Manufacturing Management*, pp. 94-95. Additional costs result from storage, ordering, and loss of inventory. Ammer states, however, that these costs are usually almost trivial compared with capital costs.
of inventory that is not excessive, but is also not so slight as to cause a loss of sales.

The first determinant in the inventory level equation is forecasted product demand, which includes the more specific delivery commitments made by sales personnel. The importance of future demand requirements is quite obvious when one considers that production output relies heavily on demand forecasts, and that this output bears a direct relation to inventory levels. Once again, the inputs concerning future demand or sales forecasts are marketing inputs lending multi-functionality to this C₃ production variable.

Before final decisions are made on specific inventory levels, quantities must also be analyzed in relation to the funds required to support them. Financial inputs concerning cash flow and the total amount of funds available to invest in inventories may place certain constraints on the inventory level decision. As noted previously, the financial manager is concerned with the level of inventories in terms of working capital management. This follows from the fact that inventories represent a significant portion of the working capital of a firm.⁵⁰

The availability of parts and materials that are necessary to manufacture a finished product is another important input to the inventory level decision. If production management have reliable

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sources for parts and materials and are reasonably sure of the delivery time involved, the inventory that they maintain as a buffer to guard against running short may be quite small. On the other hand, if the practices of suppliers are questionable, or if the future availability of the item itself is not certain, then inventories may be kept at relatively higher levels.

Finally, certain parts and materials may be accompanied by discounts for large quantities purchased. Purchase discounts or breaks must be analyzed in relation to the additional cost of carrying larger quantities of inventory.

The inventory level decision, like the previous production decision, is an outgrowth of the products the firm manufactures and the customers it serves. In addition, if the company has built a distinctive competence on a policy of prompt deliveries on short notice, this factor will also influence inventory levels. As a final note, since inventory level is an investment and a use of funds, the inventory may be constrained by the total amount of funds available for all investment projects. At a time when the firm is short of funds, it may choose to cut back on inventories and use the funds for other investment opportunities.

Chapter Summary

The structure of multi-functional or class three decision variables in this framework illustrates the relationship between the
highest order decisions in the firm and the decisions that are necessary for task area activities. The structure also illustrates the interdependency that exists between task areas—a phenomenon that has been recognized by the systems viewpoint and made more explicit via the decision orientation used here.

The decisions discussed in this chapter have been referred to as multi-functional. It should also be recognized that \( C_1 \) and \( C_2 \) decisions are multi-functional, for they too must consider all functional areas when designing strategic and implementative plans. It is suggested that although \( C_3 \) decisions are made within the various task areas of the firm, they contribute to organizational interdependencies which cannot be overlooked when guiding the total enterprise.

Figure II-1 includes a fourth class of enterprise decisions that have been termed functionally independent. This class has been described as the more routine type of decision made within task areas and essentially without inputs from other areas. Although these decisions are the lowest order in the framework presented here, they are necessary for continued operation of the enterprise. Examples of these decisions would include choice of advertising media and sales territories and routes in marketing, accounting procedures and cost analysis techniques in finance, and quality
control techniques and equipment maintenance schedules from production.

Many decisions discussed in this chapter are dependent on one another. That is, the decisions are not necessarily mutually exclusive, and simultaneous solution of some of them may be required. An example of this dependency is seen between the working capital level decision which is a function of cash flow and inventories and the inventory level decision which is dependent on financial considerations inherent in the working capital equation. Interdependency, then, is a factor that must be treated when the final decisions are made.

The question of who actually has the decision-making authority for the decisions presented might be raised in some cases. An example of this issue could arise in connection with the inventory level decision. Some might argue that finished goods inventory level should come under marketing's authority. In real world situations, the locus of decision-making authority may vary across industry lines and possibly from firm to firm in the same industry. In any event, this paper is not intended to resolve issues related to where the locus of decision-making authority should or should not reside. The point to be made is that the decision will be multi-functional no matter who has final decision-making authority.
This chapter completes a discussion of a theoretical framework for corporate strategy. The discussion has been based on a decision orientation which has described the formulation and implementation of strategy and its relationship to all other activities in the firm via four general classes of decision variables. In other words, the framework presented here will facilitate both description and analysis of how the firm relates itself to the environment and how strategic choices guide all subsequent activities within the firm.
CHAPTER V

RESEARCH DESIGN AND METHODOLOGY

The three previous chapters of this dissertation have been devoted to developing a theoretical framework for corporate strategy. Chapter II presented a conceptual model of enterprise decision making (Figure II-1) based, for the most part, on a review of existing literature in the field. The strategy portion of the model is based on the idea that there exists a finite set of decisions that define corporate strategy. This concept of a "strategic decision system" provided the foundation for the theoretical discussion of the strategic process in Chapter III. Chapter IV completed a framework for corporate strategy by discussing the decisions that take place within the functional areas of the firm. This discussion focused on (a) the relationship between strategic and functional area decisions and (b) the interdependency that exists between functional area decisions.

The "strategic decision system" concept also provides a basis for the empirical work in this research which focuses on how corporate strategy is formulated in a real world setting. The
research is patterned after part of the theoretical discussion of strategy formulation described in Chapter III. In more specific terms, the research will look upon the process of formulating strategy from a decision orientation utilizing a model of strategy formulation similar to the one developed earlier (Figure III-2). The revised model for the empirical work is depicted in Figure V-1.¹ Once again, the "strategic decision system" provides the foundation for this model. Logically, an investigation of strategy should begin with the strategic decisions that are made, and the five C₁ variables provide this starting point.

From an empirical point of view, the concept of a "strategic decision system" places definable limits on strategy that did not exist before. This allows investigation of strategy without becoming involved with definitional problems and individualistic viewpoints that have traditionally surrounded this nebulous concept. Essentially, the finite set of strategic decisions offer a framework that, even if not universally agreed upon, facilitates the investigation of strategy formulation in the real world with a methodology that previously did not exist.

In a manner consistent with Figure V-1, this research defines strategy formulation as consisting of (a) a set of strategic decisions criteria (which were not included in Figure III-2) have been added to this model.
FIGURE V-1

A MODEL OF STRATEGY FORMULATION

Exogenous Information → Strategic Decision System → Corporate Strategy

Endogenous Information

Strategic Decision Makers ← Re-evaluation Frequency

Strategic Decision Criteria
decisions, (b) the external and internal information necessary to make those decisions, (c) the strategic decision makers and the criteria they use, and (d) the frequency with which strategic decisions are (or corporate strategy is) re-evaluated.  

The research expands this model of strategy formulation by asking executives certain questions, such as what type of information would top management seek in order to make each strategic decision; what are the sources of the information, the form the information is in when received, and the frequency with which the information is received; and who are the people that make the final strategic decisions, what criteria do they use, and how often do they re-evaluate their strategies.

The second chapter of this paper provided a review of descriptive and prescriptive literature pertaining to the topic of corporate strategy. Before proceeding to the specifics of this empirical research, it is appropriate to relate literature that reports on experimental analysis of certain variables involved with formulating strategy. Research of this type is in its very early stages of development. Consequently, the following brief discussion is

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2 With the exception of strategic decision criteria, this definition is the same as the one developed in the theoretical discussion in Chapter III.
limited to a small number of approaches found in the literature that are considered relevant to the empirical focus of this dissertation.

**Empirical Literature**

The first example of experimental research had as its purpose to identify the significant differences among the strategies produced by two classes of strategic planning procedures—synoptic (holistic) and incremental. The major focus of the experiment was on the relation between the strategic planning procedure used and the resulting strategy.

The research design utilized teams of M.B.A. students as the strategy formulators. The teams developed written strategies on policy cases, some using the synoptic approach and others, the incremental approach. The resulting strategies were then evaluated to determine how they differed according to the procedure used.

The similarity of this research to that of this dissertation lies only in the overall focus on strategic planning. Of particular relevance, however, is the use of students to facilitate the carrying out of the research. Although valuable insights can be gained utilizing such a research design, it is also important to develop frameworks and methodologies that allow investigation of corporate

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strategy in real world situations. It is obvious that the approach described above would be very difficult to implement in an actual business environment.

A second approach found in the literature has been proposed by Professor Mintzberg at McGill University. This approach is particularly relevant due to its focus on analyzing real world data to determine how strategy is formulated. In order to accomplish this aim, the research design analyzes streams of significant decisions in organizations over long periods of time. The research consists of the following steps:

1. the identification of a chronology of decisions and events utilizing sources such as news reports, the product itself, internal records, and annual reports;

2. analysis of the chronology of decisions to infer consistent patterns, or strategies, such as periods of flux (no patterns), periods of global change in strategy (decision streams in all areas change), periods of piecemeal change in strategy, and periods of continuity in strategy;

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(3) an analysis of strategy-making facilitated by background material (e.g., books and articles on the organization, personal interviews with the strategy makers, internal reports, etc.) to help explain the development of the organization's strategy.

From the preceding description of this approach to investigating strategy formulation, it can be seen that it is subjected to considerable inference and interpretation by the researchers involved. The empirical work of this dissertation also focuses on strategy formulation in a real world setting. However, it is guided by a theoretical framework and model of strategy formulation that will facilitate the data gathering task. By utilizing a more analytical concept of strategy formulation, the empirical research for this dissertation eliminates a great deal of inference and interpretation that is inherent in the aforementioned study.

The idea that this research places a major focus on the information inputs to the strategy formulation process places relevance on literature pertaining to obtaining strategic information. Aguilar's work in this area concerned itself with environmental inputs related to strategy. "... the objective of the research was to study what information managers obtain about the outside environment for purposes of determining strategy, the sources they use to
get this information, the ways in which they get it, and (to a lesser degree) why they scan the environment as they do."

The study was predominantly descriptive and analytical with the principal means of research being the interview. In order to obtain the data, the researcher asked managers to recall an instance of an event that occurred outside the company which had "long-range or strategic implications." The manager was then asked a number of questions pertaining to the sources of this information and the ways in which such information is collected. The data obtained allowed the researcher to describe and analyze (a) the external information that managers obtain, (b) where managers obtain external information, (c) how managers obtain external information, and (d) specific scanning practices in three firms.

After collecting the data, the researcher noted that some "managers gave responses based on their own ideas as to what information appeared to them important." Before analysis was performed on the data, the researcher attempted to eliminate responses that he felt were questionable with respect to being

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6Ibid., p. 42.
strategic. He did this by separating data that appeared most likely to have strategic value from that which did not. 7

Part of the research for this paper also dealt with strategic information from the environment, how the information is received and from whom. In this respect, the analysis of the data in the Aguilar study will be helpful in later chapters in explaining certain findings in this research.

Although the Aguilar study and the one here both involve strategic information, there are major differences in the two that should be brought forth. First of all, obtaining environmental information is only part of the strategy formulation process. While Aguilar focused on environmental strategic information, this study focuses on the total process of strategy formulation as described in Figure V-1. Furthermore, the Aguilar study was considerably more unstructured in the manner in which strategic information was defined. While Aguilar defined strategic information as that information having "long-range or strategic implications" (necessitating judgment on the part of respondents), this study defines strategic information as information that is used as an input to making strategic decisions. Strategic decisions are further defined by the five C 1 variables. This alleviates definitional problems and places

7Ibid., p. 54.
the respondent and interviewer in a position of agreement over the concept of strategy. It also alleviates the problem of respondents confusing important information with strategic information.

Other related research in this area has focused on strategy as a given dimension of the firm. In one example of this type of research, strategy was identified as the degree to which the company derived sales from either related business, unrelated businesses, or a vertically integrated chain of businesses. Companies were then analyzed to see how organizational structure had changed in relation to these strategies over a period of time. 8

A most recent research effort reports on the "Impact of Strategic Planning on Profit Performance." 9 The use of the concept of strategy was limited, however, to a number of factors (such as market share, product quality, marketing expenditures, R & D expenditures, investment intensity, and corporate diversity) that influence return on investment. The purpose was to determine the influence that these factors (which the authors refer to as market

8 For an article that draws upon extensive research in the area of strategy and structure at the Harvard Business School, see Bruce R. Scott, "The Industrial State: Old Myths and New Realities," Harvard Business Review, LI (March-April, 1973), pp. 133-48.

strategies) had on profit performance. Once again, the strategy was identified or defined as a given dimension.

A final example of related research used the concept of strategy as an explanatory variable to account for differences in corporate growth in various companies. The authors first identified predominant role patterns of the executives in the sample. They then analyzed the impact that the various management approaches (which they had identified) had on performance as measured by sales growth and return on investment. Among other things, the authors found that "CEOs of high performance companies are more likely than others to consider strategic planning a vital part of their job."10

These last three examples were brought forth to point out that previous field research has tended to focus on strategy as either a static notion or as a tool used to explain the occurrence of certain phenomena. The research for this paper investigates and reports on the elements that are involved in determining what the firm's strategy will be, as opposed to identifying particular strategies after they have evolved. Consequently, the research offers significant insights into the process of formulating strategy.

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Purpose

The empirical portion of this paper had as its purpose to investigate, in an exploratory manner, how corporate strategy is formulated. Achieving this major purpose also allowed the fulfillment of certain objectives, the most important being:

(1) to obtain data from a field study describing how corporate strategy is formulated,
(2) to take an empirical step utilizing concepts developed in the theoretical framework to obtain the data, and
(3) to develop guidelines, recommendations, and hypotheses for future research and the development of an empirical data base in the area of corporate strategy.

The investigation can be regarded as a first step in a research process that focuses on strategy formulation. It was intended to find out how corporate strategy is formulated, as opposed to how it should be. It also sought information for development of hypotheses about the problem. Finally, the investigation was attempting to lay some groundwork for future, more rigorous testing of hypotheses.

Research with these aims has been referred to in the literature by a number of authors as exploratory. ¹¹

Scope

The scope of the research was limited to the investigation of strategy formulation in five industrial firms. Implicit in this statement of scope were certain delimitations that will be presented at this time.

Delimitations

The first delimitation excluded becoming involved with the body of literature referred to as decision theory. As noted previously, the conceptual model of enterprise decision making in Chapter II is static in nature and, consequently, is not concerned with the process of decision making. It is not intended to "discover how people in general, and executives in particular, make decisions either individually or in groups." The approach was to study the nature and structure of decisions (which included information to the decisions) and did not attempt to penetrate the decision maker's mind. In a similar vein, the research did not attempt to focus on

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12 The factors involved in making the decision to investigate a small number of firms are treated in the research design section of this chapter.


14 *Ibid.* Ansoff also made this exclusion in his work.
the influence that leadership styles, personalities, position in the organization, and other similar phenomena had on decisions.

The second, third, and fourth classes of decision variables were also excluded from the investigation. However, as Ansoff has pointed out,

... a comprehensive theory of decision making within a firm must include the interaction among the major classes of decisions. On the other hand... they are better studied separately. As a first step toward a unified theory, partial theories of the respective operating, administrative, and strategic decision classes must be understood. 15

It also seemed appropriate for this study to develop a comprehensive theoretical framework and go on to investigate only a portion of that framework.

Limitations

There existed certain limitations that operated within the boundaries set by the scope of this research. The first such limitation was related to the lack of empirical work in addition to the lack of an adequate theory of the strategic decision process. 16 This being the case, no clear hypotheses have been developed in the area of strategy formulation. Furthermore, lack of hypotheses and clear definitions of the problem offered reason for this study to be

15 Ibid., pp. 10-11.
16 Ibid., p. 3.
classified as exploratory. Consequently, the research was subjected to certain limitations common to such studies.

"Exploratory studies have as their major purposes the identification of problems, the more precise formulation of problems, including the identification of relevant variables and the formulation of new alternative courses of action (formulation of new hypotheses)." Since this study was exploratory, it was limited to the extent that no formal hypotheses were tested while carrying out the investigation. This factor is brought forth to point out a major difference and limitation of this design. That is, unlike most other research designs, this research was not searching for predictive or causal relationships between two or more variables.

Since the study was not intended to develop predictive or causal relationships, it did not fall under statistical restrictions, such as sample size and randomness typical of those types of studies. The factors that rendered this study to be exploratory, as well as pioneering, also precluded this work and the methods used to be truly scientific in any laboratory or population sense.

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17 Green and Tull, Research, p. 89.
18 Ibid.
19 Although Figure II-1 is comprised of many functional relationships, it was felt that it would have been premature to test any predictive or causal value that these relationships might have.
This study was also limited to investigating the formulation of strategy and did not become involved with the aspect of implementation. This limitation was imposed for two major reasons. The first was that in order to study both aspects of strategy (i.e., formulation and implementation) would have rendered the study unmanageable on the basis of the large number of variables that would have been involved. The second reason refers to a choice between formulation and implementation that was essentially based on logic. That is, some notion of formulation is required before implementation and an understanding of formulation was thought of as being helpful toward clarification of the implementation of strategy.

A further limitation was that the investigation of strategy formulation was based on the model developed previously and did not attempt to analyze or predict certain types of strategies. For example, the research did not analyze retrenchment, diversification, acquisition, expansion of product-market scope, and other types of strategies. These examples result from strategy formulation and consist of a number of component decisions. Determining the relationships between these decisions and the resulting strategy would have required the analysis of the actual decisions made, and this was beyond the scope of this research.  

20 It seemed more appropriate as a first step to determine certain characteristics of the information inputs and the formulation
**Justification**

A major factor lending justification for this research was that the field of Business Policy and Strategy is in need of all basic types of research, including theoretical and empirical research, and, more importantly, research that involves developing an empirical data base. An aim of this research was to contribute empirical work to the field by investigating, in an exploratory manner, the topic of strategy formulation. In other words, the research focused on the strategy portion of the conceptual model of enterprise decision making (see Figure II-1).

As is evidenced in definitions of theory found in the literature, the building of theory can be viewed as taking place in steps. That is, first a theory is developed by setting up relationships intuitively, and then the theory is subjected to some form of validation to see if it explains the phenomena it was intended to. This dissertation can be thought of in a similar manner. Chapters II, III, and IV were

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20 (continued) process. The approach was to investigate what is happening inside the proverbial "black box" to better understand the resulting strategy.


devoted to the development of a theoretical framework for corporate strategy. The empirical work of this dissertation supplied a second step in building this framework by exploring the topic of strategy formulation in a real world setting.

The fact that only a portion of the framework was investigated needs further explanation. A major factor was that the framework developed earlier encompasses a myriad of variables and relationships between variables. Focusing on more than one class of variables, or the complete framework, would have been a task too large for one person to undertake. Limitations of time and money also played a major role in this respect.

A second factor was that in building a theoretical framework, it was better to approach it in a segmented fashion. Tucker advocated this approach in building a model and theory of consumer behavior.²³ The empirical work for this dissertation has taken a similar approach that was justified on the basis of its contribution to the development of an empirical data base. This point is supported

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by statements in the literature pertaining to the lack of empirical work in the particular area of strategy formulation.  

The need for empirical work in the area of strategy has been noted by numerous other scholars in the literature. It is appropriate at this time to lend justification for the specific nature of the empirical work that was done. This empirical work was referred to previously as exploratory. This type of research seeks what is rather than predicts relationships to be found. Thus, the major purpose for development of a framework of corporate strategy and

24 For example, William D. Guth in his memorandum (p. 6) stated that, "Little systematic empirical work . . . has been done which describes the actual . . . organizational processes by which strategy gets formulated or evolves . . . ."


empirical work on formulation (at least at this time) was not predictive, but more explanatory.27

It should be noted, however, that the study of five firms yielded information on how strategy is formulated in each firm individually, with additional analysis of data gathered across firm lines. By utilizing the concept of a "strategic decision system," this research obtained data and analyzed strategy formulation in a manner that had not been done before. It offers a unique method whereby strategy was analyzed on a consistent and definable basis. Thus, both the data gathered and the methods utilized offer significant contributions to the field. The concepts developed for this research will also be useful in the future for continued development of an empirical data base on all aspects (i.e., both formulation and implementation) of corporate strategy.

Research Design

The source of data for this study was five industrial firms, and the method of gathering the data was the personal interview. These specifics of the research design were chosen after careful consideration was given to other research methods, such as the

analysis of already published cases and a mailed questionnaire to a number of firms. Before proceeding further, the reasons for excluding these methods will be presented.

In terms of the analysis of written cases, two major factors contributed to this source of data being unsuitable for the purposes of this research. The first was that to obtain the data necessary on strategy formulation would have required considerable interpretation and inference on the part of the researcher. A second factor was that certain dynamic dimensions necessary for explaining strategy formulation were seldom a part of written cases. These factors precluded obtaining both necessary and accurate data to achieve the purposes of the empirical work.

The mail technique of gathering data was also investigated as a possible approach. Perhaps one of the most important reasons for excluding this technique related to the type of question that was permissible. Questions had to be simple and easily answered.\textsuperscript{28} The complexity of the subject matter that this research focused on made it very difficult to satisfy this requirement. Questions often required some explanation in order to be made clear, which tended

to overstep the bounds of keeping the total length of the questionnaire relatively short. 29

Questionable response rates of the mail technique were also a disadvantage of using this approach. 30 This problem exists in any mailed instrument and even more so in a study such as this that required the time of upper echelon executives. 31

In a mail approach, there was also no assurance that the individual addressed was the one who would reply. 32 Before the research design was finalized, this factor was confirmed in conferences with executives in the category that this study focused on. From these conferences, it seemed that a large percentage of the questionnaires received were filled out by secretaries or other convenient substitutes.

Many other disadvantages of the mail technique, such as the inaccuracy of the data obtained, 33 the time-consuming nature of the

29 Boyd and Westfall, Marketing Research, p. 166.
30 See, for example, Green and Tull, Research, p. 154.
32 Boyd and Westfall, Marketing Research, p. 176.
33 Ibid., pp. 169-70.
technique, and so on, contributed to excluding this technique as a method of gathering data.

After excluding the analysis of written cases and the mail technique as possible data gathering approaches, it was concluded that the personal interview was the most suitable. This decision was based on a number of factors, some of which will be presented here.

The intensive study of a situation or issue is often referred to as the case method. This method has its greatest value in exploratory research where an objective is to find hypotheses to be tested by more formal research methods. In order to draw ideas (from the experience of practitioners) for generating hypotheses in addition to other valuable data, the personal interview was considered most appropriate. This method has been described as an exploratory device to help identify variables and relations and to suggest

\[\text{Ibid., p. 178.}\]

\[\text{In addition, a questionnaire dealing with strategy formulation was developed and discussed with an executive of the type that this study interviewed. The comments that he made toward the questionnaire can be summed up by saying that he did not believe that executives would answer the questions. He also felt that it would be an enormous task to structure a questionnaire to obtain the necessary data.}\]

\[\text{Boyd and Westfall, } \text{Marketing Research, } \text{pp. 60-64.}\]

\[\text{Ibid., p. 160.}\]
hypotheses. Consequently, it was very compatible with the purpose and exploratory nature of this research.

The advantages of the personal interview approach over other techniques of data collection were numerous. The most obvious consisted of the flexibility, the amount of information that could be obtained, and the accuracy of the information that could be obtained. Furthermore, it was felt that in order to obtain the information necessary to achieve the purpose and underlying objectives of the empirical work required characteristics inherent in the personal interview approach. For example, the complex and ambiguous nature of the subject matter required a certain amount of flexibility and ad hoc versatility.

There were a number of reasons that contributed to the decision to investigate five firms. The first was based on the exploratory nature of the work, research texts, and precedence set by other studies. In exploratory type research designs, the intensive study of a relatively small number of situations has been accepted by research textbooks. In addition, recent dissertations

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40 Ibid., pp. 60-61.
were found in related areas that relied on data gathered from sample sizes of less than five. 41

A second factor related to the retrieval of data from a large number of firms not being vital to achieving the purpose of the empirical work. Extensive data collection was not essential to exploring how corporate strategy is formulated with an objective of explaining, as opposed to predicting, the phenomena. Furthermore, extensive data collection in some instances, and possibly more so in a pioneering effort such as this, could have detracted from the purposes of the study and caused the researcher to become data-bound and unable to draw the more general theoretical implications from the work. 42

A third factor related to constraints imposed by the need to utilize the personal interview as the method of gathering data. This choice offered further reason for confining the investigation to a small number of firms. The first constraint was the difficulty of gaining permission to enter relatively large firms for the purpose of


42 Guth, A memorandum to the members of the Division of Business Policy and Planning, Academy of Management, February 6, 1973, p. 3.
investigating aspects of corporate strategy. The second constraint was imposed by the additional time and money required to investigate a larger number of firms on an in-depth basis.

Finally, and possibly most important, was the fact that the purpose and underlying objectives of the empirical work would be fulfilled with data gathered from the investigation of five firms.

Data Collection

Data collection began by briefly explaining the purpose of the interview. This brief introduction led to an explanation of the concept of corporate strategy, aided with the use of Figure III-1. A discussion of this model helped to clarify the concept of corporate strategy and focus the interview on seeking information pertaining to this concept.

In accordance with this model, strategy was defined as the art and science of directing an organization with the expressed purpose of achieving a balanced situation between the opportunities and constraints existing in the environment and the internal strengths and weaknesses of the firm.

The researcher then introduced the idea that to attain such a balance, top management must make a number of decisions that define strategy for the enterprise. Moreover, it was proposed that there exists a finite set of these decisions and to make them, top management receives information about the environment and the
firm. The researcher then noted that it was precisely this information and certain characteristics of it that a portion of the interview was devoted to.

The researcher then presented the five strategic decisions and their definitions (see Table V-1). After discussing the decisions, the researcher explained that the decisions were also a tool for reaching agreement on the concept of strategy and to facilitate the interview that was being conducted. The respondent was then presented with the strategic decisions and certain external and internal information inputs to each one (see Table V-2). The interviewer then forced the person to rank the information inputs (for each strategic decision and for both internal and external categories). This was accomplished by asking the person to assume that no other information (except that listed under each strategic decision) was available to make the particular decision. Given this assumption, the respondent chose an information input. With one input eliminated, the same procedure was followed for the remaining three, and so on.

43 It should be noted that the particular decisions chosen to make up a "strategic decision system" were not considered to detract from or in any way hamper the description of the process of formulation. They did, however, influence the nature of the information inputs which was not considered detrimental to the findings of the study.
TABLE V-1
DEFINITIONS OF STRATEGIC VARIABLES

**Performance Criteria**--refers to the objective(s) the firm is attempting to achieve when formulating a strategy. These criteria may first be stated in broad terms and then as more specific goals that must be reached to attain the broad objectives (or performance criteria) that have been set.

**Customer Mix**--refers to the customers served by the mix and line of products the company handles. Recurring decisions on which new markets to enter, which segments of the market to concentrate on, and the amount of emphasis to place on the various markets served must be faced by top management.

**Product Mix**--refers to the mix of products handled by the enterprise, the number of products included in each line, and, to some extent, the characteristics of the products that serve to differentiate them from others. Decisions regarding new product development, planned product obsolescence/innovation, and product elimination also fall under the purview of this strategic variable.

**Differential Advantage**--refers to the basis upon which the company has chosen to compete. Identifying the strengths that are inherent in the enterprise or that must be developed to attain a competitive advantage is the *raison d'être* for this strategic variable.

**Geographic Concentration**--refers to the geographic limits the company has placed on the markets it will serve, i.e., whether it will compete on a local, state, regional, national, or multi-national basis.
### TABLE V-2

**STRATEGIC VARIABLES AND INFORMATION INPUTS**

<table>
<thead>
<tr>
<th>External Information Inputs</th>
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<tbody>
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<td><strong>Performance criteria decision</strong></td>
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<td><strong>Customer mix decision</strong></td>
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<td><strong>Product mix decision</strong></td>
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<td><strong>Differential advantage decision</strong></td>
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<tr>
<td>Internal Information Inputs</td>
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<td>----------------------------</td>
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<tr>
<td><strong>Geographic concentration decision</strong></td>
</tr>
<tr>
<td>- Market potential of various geographic areas</td>
</tr>
<tr>
<td>- Leads for mergers, joint ventures, and acquisitions</td>
</tr>
<tr>
<td>- Location of major competitors</td>
</tr>
<tr>
<td>- Availability of capital for geographic expansion</td>
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<tr>
<td>- Other (please note)</td>
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<tr>
<td><strong>Performance criteria decision</strong></td>
</tr>
<tr>
<td>- Cost of capital</td>
</tr>
<tr>
<td>- Management's stated targets</td>
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<tr>
<td>- Present and past rates of growth</td>
</tr>
<tr>
<td>- Present and past degrees of profitability</td>
</tr>
<tr>
<td>- Other (please note)</td>
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<tr>
<td><strong>Customer mix decision</strong></td>
</tr>
<tr>
<td>- Present product characteristics</td>
</tr>
<tr>
<td>- Number of product outlets and locations</td>
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<tr>
<td>- Strengths and weaknesses of sales force</td>
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<tr>
<td>- Managerial talent available for new customer markets</td>
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<tr>
<td>- Other (please note)</td>
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<tr>
<td><strong>Product mix decision</strong></td>
</tr>
<tr>
<td>- Characteristics of existing plant and equipment</td>
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<tr>
<td>- Product development capabilities</td>
</tr>
<tr>
<td>- Capacity utilization</td>
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<tr>
<td>- Market potential for each product</td>
</tr>
<tr>
<td>- Other (please note)</td>
</tr>
<tr>
<td><strong>Differential advantage decision</strong></td>
</tr>
<tr>
<td>- Product design capabilities</td>
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<tr>
<td>- Efficiency of production facilities</td>
</tr>
<tr>
<td>- Depth of managerial talent</td>
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<tr>
<td>- Product innovation ability</td>
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<tr>
<td>- Other (please note)</td>
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</tbody>
</table>
### TABLE V-2--Continued

**Geographic concentration decision**

- [ ] present plant locations
- [ ] projections of capital expenditures
- [ ] internal financing capabilities
- [ ] location of raw material sources
- [ ] other (please note)
For the first information input chosen in the ranking procedure, the interviewer then asked a series of questions pertaining to certain specifics about that information. The first question related to the manner in which the information was received, e.g., formal written reports, journals, books, people outside the firm, or some other way.

The second question related to the source of that information, e.g., special study groups, other managers, secretaries, subordinates, accountants, or someone else.

The third question related to the frequency with which the information was received, e.g., weekly, monthly, quarterly, or as required. 44

This procedure was followed for the first information input chosen (both external and internal) for each strategic decision.

A general question was then asked pertaining to the assistance that mathematical models were in supplying any of the information to strategic decisions. The answer was chosen from very helpful, helpful, of little help, or no help at all.

The interviewer then turned to questions that related to the actual making of strategic decisions. This required asking three questions. In the first question, the executive was asked what

44 These three questions were patterned after some of the work done by Aguilar in his book Scanning the Business Environment.
people were involved in making the final strategic decision. In cases where further explanation was required, examples were given from which he could choose, such as corporate president, corporate president and members of staff, board of directors, and so on.

The second question asked for the criterion (or combination of criteria) most often used to make the final strategic decision. Again, if the interviewer thought it was necessary, examples were given.

The last question in this series was designed to determine the frequency with which strategic decisions were re-evaluated. In this question, the person being interviewed was given a choice between twice a year, once a year, only when some indicator showed a downward trend in profitability, only when the survival of the firm seemed threatened, or indicate some other answer.

A final question was posed, the purpose of which was to obtain some insight into the agreement or disagreement of the executives toward the concept of strategy used in the interview. This question asked the executives if they agreed with the five decisions chosen to define corporate strategy. If they did not agree, they were given the opportunity to make changes or describe the approach that they would take in defining strategy.

It should be noted that the personal interview described here allowed much flexibility and ad hoc versatility. It was guided by an
interview schedule, but with sufficient opportunity to deviate from the schedule when the situation arose. Examples of answers to questions were given when it seemed necessary. The person being interviewed was given the opportunity to interject examples of specific situations. The interviewer was given the opportunity to explain issues that were unclear.

It should also be made clear that whenever possible information obtained was followed up by examination of relevant company documents. This procedure was especially applicable in relation to some strategic information sources and the manner by which the information was received. With this approach, greater insights were gained into the nature and flow of strategic information.

**Chapter Summary**

The type of research design used in this dissertation facilitated the gathering of certain data on strategy formulation for the first time and in a manner that had not been done before. It utilized the expertise of executives in the field, as well as company documents to obtain the necessary data on strategy formulation.

The investigation was in-depth and entailed a substantial amount of time spent in the particular company. This was especially due to the time spent with the executives and also the additional time required to follow up on answers given by the executives to certain questions (e.g., looking at company documents). The result,
however, was the retrieval of certain data that would have been very difficult (if not impossible) to obtain with other approaches.
CHAPTER VI

RESEARCH FINDINGS

This chapter is devoted to describing the data gathered from personal interviews with top level executives in five industrial firms. Since the purpose of this research was to obtain insights into how corporate strategy is formulated, as opposed to how it should be, the findings are largely descriptive. The chapter, however, is not limited to a simple reporting of what has been noted. It involves the analysis and interpretation of the data gathered allowing the reporting to be both explanatory and analytical. Consequently, the empirical results reported in this chapter represent an appropriate first step toward understanding any unexplored and confusing subject, such as the one that will be examined here.

A logical starting point for an investigation concerning the formulation of corporate strategy would be to determine what the

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1 The position that each executive held, as well as certain particulars on each firm, are presented in Appendix A. In this appendix and throughout the remainder of this paper, the companies, divisions investigated in the companies, and the executives interviewed will be referred to as A, B, C, D, or E.
strategic decisions are. As noted in the previous chapter, this research chose to define the strategic decisions as those $C_1$ variables presented earlier in the theoretical discussion of this paper. In this manner, the confusion that often results during discussions of the "not yet well defined" subject of strategy was, to a large extent, eliminated.

The answers that executives gave to the questions referred to in the previous chapter provide the focal point for the discussion to be presented on the following pages. This discussion begins by analyzing the external and internal information inputs chosen first for each of the five strategic decisions. With respect to the strategy formulation process described in Chapter III, this analysis concerns the variables that indicate the relationship between the firm and its environment as seen by each executive. That is, the inputs chosen are examples of information necessary to maintain the balanced situation depicted in Figure III-1. These information inputs will be explained vis-à-vis other variables, such as the executive, the size of the firm, and/or the industry.

Questions concerning how the information was received, who it was obtained from, and how often it was obtained, offered further insight into how strategic information (both external and internal) is monitored and evaluated. The question of to what degree is strategy
approached on a structured basis is also indicated by the data
obtained from these questions.

Finally, how strategic decisions are made is analyzed with
respect to the responses of the executives to questions which
included who makes the final strategic decisions, what criteria did
they employ, and how often are strategic decisions re-evaluated.
From this analysis emanates certain clarifications concerning who
the actual strategy makers in the large divisionalized corporations
are.

In general, the discussion on the following pages is patterned
after the model of strategy formulation developed in Chapter III
(Figure III-2) and slightly revised in Chapter V (Figure V-1). In a
manner consistent with Figure V-1, a discussion of how strategy is
formulated will begin with the external and internal information
inputs chosen by the executives.

Information for Strategic Decisions

The first step in the research was to find out what informa-
tion the five executives would choose first in making the five
strategic decisions. The strategic decisions and the information

^2In the previous chapter, it was noted that the executives
were forced to rank the strategic information inputs presented to
them. The major purpose of the ranking was to force the executives
to think about and explain their choices and not choose a first input
at random.
inputs were presented previously in Table V-2. The results of this portion of the interview are presented in Table VI-1. These results clearly show that there did exist some degree of agreement across company lines for the first input (both external and internal) chosen for all five strategic decisions. This section is devoted to explaining similarities and differences in the choices made by the executives concerning strategic information inputs. Wherever possible, the particular choices are backed up by comments offered by the executives.

**Performance Criteria Decision**

Table VI-1 shows that executive B chose management's stated targets for the first internal information input to the performance criteria decision. He felt, however, that this input did not exist in isolation and that the remaining three information inputs were necessary to arrive at certain targets. With this qualification, it is then seen that both the external and internal information chosen by A and B are, in effect, the same. These choices are consistent with a comment given by A that availability of capital and profit are the two overriding factors in any strategic decision, and a comment made by B that growth and profitability are the two overriding factors. This further gives one reason to propose that the objectives or performance criteria of these two companies are heavily influenced by financial considerations. This should not be
<table>
<thead>
<tr>
<th>Executive</th>
<th>#1 Performance Criteria Decision</th>
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<tbody>
<tr>
<td>A</td>
<td>External long- and short-term interest rates</td>
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<tr>
<td></td>
<td>Internal cost of capital</td>
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<tr>
<td>B</td>
<td>External long- and short-term interest rates</td>
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<tr>
<td></td>
<td>Internal management's stated targets</td>
</tr>
<tr>
<td>C</td>
<td>External industry performance</td>
</tr>
<tr>
<td></td>
<td>Internal present and past degrees of profitability</td>
</tr>
<tr>
<td>D</td>
<td>External industry performance</td>
</tr>
<tr>
<td></td>
<td>Internal management's stated targets</td>
</tr>
<tr>
<td>E</td>
<td>External industry performance</td>
</tr>
<tr>
<td></td>
<td>Internal management's stated targets</td>
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<thead>
<tr>
<th>Executive</th>
<th>#2 Customer Mix Decision</th>
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<tbody>
<tr>
<td>A</td>
<td>External information concerning changes in the population's norms, values, needs, wants, etc.</td>
</tr>
<tr>
<td></td>
<td>Internal managerial talent available for new customer markets</td>
</tr>
<tr>
<td>B</td>
<td>External potential sales trends for new products</td>
</tr>
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<td></td>
<td>Internal present product characteristics</td>
</tr>
<tr>
<td>C</td>
<td>External historical growth and stability of markets selected&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Internal present product characteristics</td>
</tr>
<tr>
<td>D</td>
<td>External soundness (quality) of potential customers&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Internal present product characteristics</td>
</tr>
<tr>
<td>E</td>
<td>External information concerning changes in the population's norms, values, needs, wants, etc.</td>
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<tr>
<td></td>
<td>Internal managerial talent available for new customer markets</td>
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<tr>
<th>Executive</th>
<th>#3 Product Mix Decision</th>
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<tbody>
<tr>
<td>A</td>
<td>External supply and demand conditions of the industry availability of suppliers of materials for potential products&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Internal market potential for each product</td>
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<tr>
<td>B</td>
<td>External supply and demand conditions of the industry characteristics of existing plant and equipment</td>
</tr>
<tr>
<td>C</td>
<td>External supply and demand conditions of the industry</td>
</tr>
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<td></td>
<td>Internal market potential for each product</td>
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### TABLE VI-1--Continued

<table>
<thead>
<tr>
<th>Executive</th>
<th>#3 (continued)</th>
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</table>
| D         | External       | supply and demand conditions of the industry availability of suppliers of materials for potential products<sup>b</sup>  
            | Internal       | characteristics of existing plant and equipment |
| E         | External       | supply and demand conditions of the industry  
            | Internal       | market potential for each product |

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<tr>
<th>Executive</th>
<th>#4 Differential Advantage Decision</th>
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| A         | External | major strengths and weaknesses of competitors  
            | Internal | efficiency of production facilities |
| B         | External | major strengths and weaknesses of competitors  
            | Internal | product innovation ability |
| C         | External | market share of major competitors  
            | Internal | efficiency of production facilities |
| D         | External | major strengths and weaknesses of competitors  
            | Internal | efficiency of production facilities |
| E         | External | potential sources of raw material<sup>a</sup>  
            | Internal | depth of managerial talent |

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<tr>
<th>Executive</th>
<th>#5 Geographic Concentration Decision</th>
</tr>
</thead>
</table>
| A         | External | availability of capital for geographic expansion  
            | Internal | projections of capital expenditures<sup>b</sup> internal financing capabilities<sup>b</sup> |
| B         | External | market potential of various geographic areas  
            | Internal | present plant locations projections of capital expenditures<sup>b</sup> |
| C         | External | market potential of various geographic areas  
            | Internal | present plant locations |
| D         | External | location of major competitors  
            | Internal | location of raw material sources |
| E         | External | market potential of various geographic areas  
            | Internal | location of raw material sources |

<sup>a</sup>These inputs were provided by the particular executive.

<sup>b</sup>In these cases, the executives felt that both information inputs were important to the decision.
surprising since cost of capital (which includes a consideration of interest rates) is an acceptable and well-established method for judging investment projects which determine (in the long run) the overall financial success or failure of the firm.

The remaining three executives chose industry performance as their first choice for an external information input. These executives all expressed the importance of knowing what the industry is doing as a vital input to setting overall objectives or performance criteria. One executive expressed his view in this manner: "We are not satisfied to be an average company--we want to be the best. In order to do this we must know what the industry is doing." In addition, when company documents were examined, it was found that portions of studies included extensive information concerning competitors. This information included such matters as sales of a particular product for the entire industry broken down to individual producers, as well as the present and projected capacities, and the technology used by competitors. The focus on industry performance which included actions of competitors may be primarily due to a major factor that concerns the degree of competition inherent in the chemical industry.

Two of the three executives that chose industry performance as their external information input also chose management's stated targets as an internal input. A possible explanation for this choice
is offered by the fact that these particular executives reported that
they participated in meetings, the purpose of which was to set
objectives or performance criteria. Since these executives do play
an active role in setting objectives (or targets), it seems to follow
that they would choose management's stated targets as an important
input. Furthermore, for these two executives, the external informa-
tion chosen (industry performance) may also be an important
variable for setting management's targets.

Executive C was the only one to choose present and past
degrees of profitability. An explanation that can be suggested here
is that profitability is used as the major performance criterion in
this particular division, or the executive himself feels that it is the
major criterion. In either case, however, performance measured
by profitability requires a knowledge of past and present perfor-
mance in that area.

Customer Mix Decision

Examination of the customer mix decision also shows the
executives in some agreement over the external and internal infor-
mation inputs to this variable. First of all, A and E were in agree-
ment on both inputs. A's reason for choosing the external informa-
tion input that he did related to the particular products produced by
his division. The products are used to a large degree in the housing,
mobile homes, and automotive industries. Consequently, decisions
on particular markets to emphasize are influenced by the overall performance of these industries, as well as the acceptance or rejection of A's products by the customers of those industries. Similarly, a substantial part of E's sales is derived from a chemical product that has many end uses and is found in virtually every home across the nation. A change in sentiment or need for this product could place the division in serious difficulty.  

The fact that both A and E chose managerial talent available as an internal information input was supported by E when he said, "The thing that transcends it all is people." The importance of people (managerial talent) in these large enterprises was brought out by each manager at some point during the interview, even though some did not select, as their first choice, inputs related specifically to this decision. At first glance, this may appear to be a contradiction. It seems, however, that some managers did not look upon a lack of managerial talent as a constraint. Their position is that they can always go out and find the talent they need, or if they find a weakness they can strengthen it.

3It should be noted that B felt that changes in the population's norms, values, needs, wants, etc. influenced his unit only in the "very long run" (15-20 years). His reasoning was that the particular products manufactured by his unit are considerably removed from the end-use market. In other words, even though the end-use market may change in terms of, e.g., style, color and complexity of the good, the same basic ingredients produced by his division will still be used.
The remaining three executives (B, C, and D) were in complete agreement over their choice of an internal input—present product characteristics. It seems that in this highly competitive industry where there may be a number of producers for a single product, a main factor is often a specific characteristic of the product (such as quality) that allows it to be sold to a particular customer.

Besides the two internal information inputs (i.e., present product characteristics and managerial talent available for new customer markets) chosen by the executives, they were hard-pressed to cite other internal inputs for this decision. One executive remarked that "there are not too many internal factors that cause us to choose one customer from another." An explanation offered for this statement relates to the particular industries to which the firms belong. That is, certain attributes such as product outlets or sales force talent are not as important as they may be in some other industries. For example, the particular plant where the product is made acts as the distribution center, and products are generally shipped directly to the customer.

Furthermore, it seems that characteristics of the sales force are also relatively minor compared to the actual producing of the product. In the chemical industry, customers are concerned with the product itself and the technical competence behind it.
Consequently, the product itself is relatively more important as opposed to a factor that might be referred to as salesmanship. In addition, recruitment of sales force people is not a major problem for two reasons. First of all, new products are readily handled by present people, and second, salesmen generally come from technical areas within the organization.

Executives B and C chose information inputs that essentially indicate growth and profitability of particular customer markets. B expressed that potential sales trends for new markets was an indication of his major concerns which were (1) growth, (2) customer compatibility with products, and (3) profit. C felt that historical data on particular markets were a better measure.  

Executive D expressed a slightly different view. He felt that the inputs listed under customer mix (in Table V-2) were relatively unimportant, and that the soundness (quality) of the customers being served was by far a more important factor. This is probably due to the fact that in the chemical industry which D belongs, sales to a single customer often represent millions of dollars per year. In addition, total sales of a single product may be to a relatively small

4It seems that executive C was referring only to existing products where markets had been established which does not include new product entries.

5Executive B also made a general comment stating that "an important input to the customer mix decision is an estimate of the customer's financial position."
number of customers. These two factors place substantial justifica-
tion on the careful research of a customer's ability to pay.

In relation to this last point, executive D also gave the
impression that soundness included the extent to which he felt a
customer would be faithful to his supplier. In conversations with
executive D and the other chemical executives, the indication was
that they maintained a surprisingly close business relationship with
one another. As suppliers and purchasers of one another's
products, there seemed to exist an unwritten code of conduct. For
example, a supplier would expect his customer to tell him if a
competitor was offering the same product to the customer at a lower
price. This would at least give the present supplier a chance to
meet the lower price and not lose his customer. It also seemed
that in a time of scarcity for many materials in this industry, the
companies were working together to solve their long-range
problems. Reciprocal material purchase agreements were being
negotiated for a number of years into the future. Even in "normal"
times, however, chemical companies maintain a close supplier
customer relationship. 6

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6 The close relationship that does exist in this industry may
be somewhat unique and due to a situation existing in the industry.
This situation was described by one executive as "the biggest cus-
tomer of the chemical industry is the chemical industry itself."
Product Mix Decision

For external information inputs to the product mix decision, all five executives chose supply and demand conditions of the industry. In addition, two of the executives also chose availability of suppliers of materials for potential products. The first variable and, to a greater extent, the second variable reflect the concern of the executives over the present state of the industry. That is, some materials are in relatively short supply as compared to what they were a few years ago. Since "the biggest customer of the chemical industry is the chemical industry itself," the situation is often one where a producer is a raw material supplier to another company in the industry. For the chemical industry, then, the situation now is one where concern lies not so much with demand for products, but with supply of ingredients (other products) to make the products.

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7 A good example of this is benzine, a necessary ingredient for making the plastic styrene. Since benzine is a derivative of petroleum, the supply has decreased. To compound the problem, demand for benzine has risen as an ingredient for non-leaded gasoline. These two conditions (increased demand and decreased supply) have caused styrene production to be cut back in some cases and shut down in others.

8 Although division A is in the business of fabricating aluminum products, it seems that for this industry supply and demand conditions and availability of materials are also very important. As a matter of fact, this division was in the process of integrating backward to insure availability of raw materials.

9 It is interesting to note that to executive B, supply of materials was not as important. This can be partially explained by the fact that company B is vertically integrated in the chemical
The notion of supply and demand conditions being important was also reflected in the company documents examined by the researcher. In these documents were found forecasts five to ten years into the future specifying industry demand for a particular product, the company's projected capacity, and the present and projected capacities of all other producers of the product. One company document (a capital appropriations request) went so far as to include a demand schedule of the particular product forecasting out to the year 1980.

Table VI-1 shows that A, C, and E chose information concerning market potential, and B and D chose information concerning the characteristics of existing plant and equipment as important internal inputs to the product mix decision. Product market potential is a variable that is an indicator of growth and, to some degree, profitability of a particular product. This is an indication that the long-term market potential is an important factor in this industry and may be due primarily to the relatively high initial capital investment necessary to produce most products. Investment in plant and equipment is only done after careful consideration has been given to the market potential of the product to be produced.

9 (continued) industry with total company sales of over two billion dollars. B's comment on this point was that "if we don't have a supplier, we'll make it ourselves."
The other internal information input chosen (characteristics of existing plant and equipment) is a variable that is significant because it is not easily changed in the short run and would also require substantial capital outlay to do so. Consequently, it acts as a constraint in the short run on what the firm produces and how it is produced. In this sense, it also acts as a constraint on how well a company can compete with firms producing similar products.

**Differential Advantage Decision**

The strategic decision concerning the firm's differential or competitive advantage is one where the major focus seemed to be on the actions of competitors. The executives, in general, expressed a need to know what competitors were doing in order to more easily define what they themselves should or should not do. As executive D remarked, "If we want to be significant we have to know what competitors are doing." Similarly, B felt that information on competitors was necessary for comparison purposes to be used as a measure against their own performance.

When relevant company documents were examined, the researcher found that the concern of the executives over competitors was also given considerable emphasis in the written reports. For instance, a feasibility report on a new product included technical

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Executive B's comment on this point was that "there is no alternative. In the short run you have to sell what you can make."
information concerning the materials competitors were using. Included under a long-range plan was an analysis of the company's technology (in particular product areas) versus that of competitors. A capital appropriations request included an analysis of all the processes that could be utilized (to produce a certain product) in addition to a breakdown and analysis of those processes used by competitors. The same capital appropriations request included a section on competitive position that listed estimated projections of competitive product volume, market share, and capacity. Finally, a product status report included a section on product versus industry performance which proceeded to present a thorough analysis and written report on each competitor concerning, e.g., when the company began competing in the particular product area, the processes it has used and is using at present, how the process compares (technologically) to other processes being used, and where each company stands now in terms of industry performance. These are all examples of the emphasis placed on information useful to attaining a differential advantage.

For the external information input to the differential advantage decision, E chose to insert a variable that differed significantly from the others. His input related to information that dealt with new
sources of raw materials. Due to the current state of this industry, it is not surprising to have this input added. In commenting on this particular point, executive E said that the industry has really changed. He was referring basically to the scarcity of raw materials. A few years ago, they did not worry about where the raw materials were coming from in the normal production of their products or where new manufacturing processes were being considered. Today, there are production facilities running under capacity (or in the extreme case, being shut down) because of raw material shortages. It seems obvious, then, especially in the current situation, that a company could easily achieve a differential or competitive advantage via new raw material sources.

Three of the executives selected information concerning the efficiency of production facilities as an internal input to the differential advantage decision. Once again, the particular industry in which these people compete offers the basic rationale for this

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11George A. Steiner, *Top Management Planning* (London: Collier-Macmillan Limited, 1969), pp. 253-56. This author lists "finding new sources of raw materials" as one of his strategic factors. In a study conducted by Steiner in 1968, however, businessmen did not rate this factor as being particularly important. A study conducted at the present time might provide quite different results.

12B chose production innovation ability as his first choice but also referred to efficiency of production facilities as being important in the short run.
choice. The chemical industry is one in which competition is keen, margins are small, and being a low-cost producer is extremely important. The relative efficiency (or inefficiency) of production facilities is something that must be monitored constantly and then altered, if necessary, if a company is to remain competitive. In addition, being a low-cost producer offers a means to achieve a differential advantage. 14

The remaining two executives selected information concerning product innovation ability and depth of managerial talent for internal inputs to the differential advantage decision. Executive B felt that in order to compete in the long run required some new product breakthroughs. He related an example of one particular product manufactured by his division that is quite profitable mainly due to the fact that, as yet, no other firm has been able to duplicate it. The selection of managerial talent by executive E was not surprising since he had explicitly stated earlier that managerial talent was the most important factor of all.

13 Although A is actually a producer of aluminum products, the industry is similar to the extent that production facilities require substantial capital outlay and the efficiency of the facilities is extremely important.

Geographic Concentration Decision

The last strategic decision found three of the executives choosing market potential of various geographic areas as an external information input. Again, this variable gives some indication of the potential profitability to the firm. To these executives, the overriding factor for geographic expansion seemed to be growth and profitability. For executive A, however, the overriding influence in each decision was first the availability of capital (which he chose for his first input) and second, profit. This major focus on the availability of capital can be explained via certain characteristics of the company and the division of the company for which executive A works. First of all, the size of the total company (with total sales of around $700,000,000) is one-third as large as the next largest company investigated. Secondly, the division itself (in terms of sales) is one-half as large as the next largest division investigated. Finally, the division is only about eight years old as compared to the next youngest division being twelve years old. These characteristics coupled with (1) the indication that the company is financially oriented, and (2) the current state of the capital markets are an indication that it may be relatively more difficult for A to get capital than for the other divisions investigated.  

15 In relation to the geographic concentration decision, B remarked that the availability of capital is seldom the overriding problem for his company.
Executive D's choice of the location of major competitors as an information input to this decision is closely related to a concern over maintaining a differential advantage. His rationale was that if a competitor has located and is established in an area, then he probably has a competitive advantage which may be difficult to overcome.

In choosing internal inputs to this decision, executive A was consistent with his external choices and a focus on financial type considerations. In this respect, he felt that both projections of capital expenditures and internal financing capabilities were important inputs to the geographic concentration decision. Two of the remaining four executives placed present plant locations at the top of their list of information inputs, while the remaining two chose location of raw material sources. Both these choices reflect a major factor of the chemical industry that relates to transportation costs. The relatively high price of transporting both finished product and raw material makes both the location of plants (which includes a consideration of customer locations) and raw materials significant considerations when contemplating a geographic concentration decision.

16 These choices offer further indication that A works under a more severe capital constraint than the other executives.
The discussion to this point indicates that some degree of similarity exists across firm lines with respect to information necessary to relate the firm to its environment. In many cases, two or more executives chose the same information inputs. This further indicates that there may exist a finite set of vital variables for certain classes of firms that are monitored on a relatively consistent basis. It may be that strategic decisions depicted in functional relationship form (as in Table III-1) can be identified for certain classes of firms.

The particular information inputs chosen by each executive (along with certain comments offered by each executive) in some cases offered insight into factors relating to the firm itself and how it was run. For instance, the fact that A chose financially oriented information inputs whenever possible may be an indication that (a) firm A is relatively more constrained with respect to the availability of financial resources, or (b) firm A is operated with a focus on financial considerations, or (c) executive A is financially oriented toward the task of making strategic decisions, or (d) some combination of the above factors. On the other hand, certain comments and information choices by B tend to indicate that availability of financial resources is relatively less of a constraint in company B.

A conscious effort to monitor competitors was also an area in which all executives showed a major concern. This finding was
expressed in the choice of some information inputs (e.g., major strengths and weaknesses of competitors and location of major competitors), but more so in the documents that were examined in all five of the companies. The thorough analysis of competitors may be typical of the industry or, at least, large divisionalized firms in the chemical industry. The fact that company A actually belongs to the metal industry may be an indication of the practices of large divisionalized firms in different industrial areas.

Finally, certain responses and comments by executives yielded insight into the effect that the recent crude oil shortage has had on the chemical industry. The crude oil situation (more than anything else) has brought the industry to a point where sources of raw material have become an even more important factor. This was evidenced in the choice of information inputs and the focus of the executives on contract negotiations for raw material supplies a number of years into the future. In regard to this point, a close relationship was also indicated among the executives of the chemical companies investigated.

**Characteristics of Strategic Information**

How strategic information is received, the sources of that information, how often it is received, and the extent to which mathematical modeling techniques have assisted in the strategic process, are characteristics of strategic information that contribute
to explaining the process of formulating strategy. The second part of the interview focused on obtaining these characteristics of strategic information for the first information input chosen (both external and internal) for each strategic decision. These characteristics relate directly to the first information inputs discussed previously and listed in Table VI-1.

Table VI-2 lists the manner in which each executive received the strategic information input (both external and internal) that he chose for each of the five strategic decisions. An analysis of the data reveals the fact that for each firm, over half of the information received was via some form of report. The remainder of the information was received via printed materials (newspapers, journals, etc.), verbally, formal meetings (which includes presentations), or it was information known to the executive. On an individual firm basis, there was not a significant difference in the occurrence of reporting as a form of receiving strategic information.

Table VI-3 lists the particular sources of the information transmitted to the executives. The sources include a category referred to as "self-retrieved." This means that the executive did not have to communicate with other people in order to obtain the information. This category coincides with information obtained

17 The question on mathematical modeling was a general question that applied to all strategic information.
### TABLE VI-2

**HOW STRATEGIC INFORMATION IS RECEIVED**

<table>
<thead>
<tr>
<th>Strategic Decision</th>
<th>Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>#1 External</td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>#2 External</td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>#3 External</td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>#4 External</td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td></td>
</tr>
<tr>
<td>#5 External</td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td></td>
</tr>
</tbody>
</table>

- **A:** Newspapers, journals, etc.  
- **B:** Report  
- **C:** Report  
- **D:** Presentations and Reports  
- **E:** Verbally and Reports  

- **A:** Government Documents or Reports  
- **B:** Report  
- **C:** Report  
- **D:** Verbally  
- **E:** Verbally and Reports  

- **A:** Verbally and Reports  
- **B:** Report  
- **C:** Report  
- **D:** Report  
- **E:** Verbally and Reports  

- **A:** Report  
- **B:** Known and Report  
- **C:** Report  
- **D:** Verbally  
- **E:** Known  

- **A:** Verbally and Reports  
- **B:** Report  
- **C:** Report  
- **D:** Report  
- **E:** Verbally and Reports  

- **A:** Report  
- **B:** Verbally  
- **C:** Report or Meeting  
- **D:** Report  
- **E:** Verbally and Reports  

- **A:** Newspapers, journals, etc.  
- **B:** Reports  
- **C:** Report  
- **D:** Report  
- **E:** Report  

- **A:** Report  
- **B:** Report  
- **C:** Known  
- **D:** Report  
- **E:** Report  

- **A:** Report  
- **B:** Report  
- **C:** Known  
- **D:** Report  
- **E:** Report  

- **A:** Report  
- **B:** Report  
- **C:** Known  
- **D:** Report  
- **E:** Report  

- **A:** Report  
- **B:** Report  
- **C:** Known  
- **D:** Report  
- **E:** Report  

- **A:** Report  
- **B:** Report  
- **C:** Known  
- **D:** Report  
- **E:** Report
### TABLE VI-3

**SOURCES OF STRATEGIC INFORMATION**

<table>
<thead>
<tr>
<th>Strategic Decision</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1 External</td>
<td>Self-Retrieved</td>
<td>CEO's Office</td>
<td>Product Managers</td>
<td>Corporate Planning Group</td>
<td>Planning Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td>Executive Committee</td>
<td>CEO's Office</td>
<td>Controller</td>
<td>Other Corporate Executives</td>
<td>Other Executives</td>
</tr>
<tr>
<td>#2 External</td>
<td>Self, Staff, Consultants</td>
<td>Marketing Group</td>
<td>Product and Marketing Managers</td>
<td>Product Managers and Customers</td>
<td>Industry Contacts and Planning Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td>Other Executives</td>
<td>Self-Retrieved²</td>
<td>Product Managers</td>
<td>Product Managers</td>
<td>Self-Retrieved</td>
</tr>
<tr>
<td>#3 External</td>
<td>Industry or Staff</td>
<td>Marketing and Technical Process Group</td>
<td>Product and Marketing Managers</td>
<td>Corporate Planning Group</td>
<td>Industry Contacts and Planning Group</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>#4 External</td>
<td>Industry Contacts</td>
<td>Marketing and Technical Process Group</td>
<td>Product Managers</td>
<td>General Managers</td>
<td>Industry Contacts and Other Executives</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal</td>
<td>Special Study Group</td>
<td>Research and Marketing</td>
<td>Production Personnel</td>
<td>Consultants and Company Personnel</td>
<td>Self and Staff</td>
</tr>
</tbody>
</table>

²Self-Retrieved indicates that the information is retrieved from the organization's internal sources.
<table>
<thead>
<tr>
<th>Strategic Decision</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
</tr>
</thead>
<tbody>
<tr>
<td>#5 External</td>
<td>Self-Retrieved</td>
<td>Marketing Group</td>
<td>Product Managers</td>
<td>Corporate Planning Group</td>
<td>Planning Group and Marketing</td>
</tr>
<tr>
<td>Internal</td>
<td>Executive Committee</td>
<td>CEO's Office</td>
<td>Self-Retrieved</td>
<td>Purchasing Department and Product Managers</td>
<td>Technical Managers</td>
</tr>
</tbody>
</table>

*a This information may, at times, be received verbally and by report annually.*
from printed materials (newspapers, journals, government documents) or information that was known by the executives due to their familiarity and experience with the company (see Table VI-2). The remaining categories are self-explanatory and include sources such as staff people, outside consultants, top level officials (executive committee and the office of the CEO—Chief Executive Officer), people inside the company (special groups assembled specifically for an information gathering task, planning groups, market research groups, marketing and technical groups, various managers, etc.), and people outside the company (customers and industry contacts).

An analysis of the data in Table VI-3 indicates that the sources of the reports were people or groups of people explicitly given the task of retrieving the information. Consequently, it can be said that the reports and the people preparing the reports were an inherent part of the strategy formulation process in these firms.

Table VI-4 lists the frequency with which strategic information was received. The category labeled "as required" refers to information that is obtained only when requested. The category labeled "continuously" refers to information that the executives received quite often, but not on a predetermined basis. The "not applicable" category coincides with information that was self-retrieved or known to the executives. The remaining categories
### TABLE VI-4

**HOW OFTEN STRATEGIC INFORMATION IS RECEIVED**

<table>
<thead>
<tr>
<th>Strategic Decision</th>
<th>Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td><strong>#1</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Daily</td>
</tr>
<tr>
<td>Internal</td>
<td>Infrequently(^a)</td>
</tr>
<tr>
<td><strong>#2</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Monthly</td>
</tr>
<tr>
<td>Internal</td>
<td>As Required</td>
</tr>
<tr>
<td><strong>#3</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Monthly</td>
</tr>
<tr>
<td>Internal</td>
<td>Quarterly</td>
</tr>
<tr>
<td><strong>#4</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Continuously</td>
</tr>
<tr>
<td>Internal</td>
<td>As Required</td>
</tr>
<tr>
<td><strong>#5</strong></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Internal</td>
<td>Continuously</td>
</tr>
</tbody>
</table>

\(^a\) This is a relatively constant figure.

\(^b\) This information is known to the executives.

\(^c\) This information is received only before or at the time of introduction of a new product.

\(^d\) The area that this information relates receives constant attention.

\(^e\) This information is generally known to the executive, he receives information on it constantly, and also receives a comprehensive report annually.
are self-explanatory and refer to information that was received on a predetermined basis (i.e., monthly, quarterly, twice a year, etc.). An analysis of the data in Table VI-4 indicates that a large portion (over half) of the reports listed in Table VI-2 were received on a predetermined basis.

Table VI-5 summarizes the frequency of occurrence of certain phenomena listed in Tables VI-2, -3, and -4. These phenomena include the amount of times information was received by reports, the reports that were received on a predetermined basis, how often the executive obtained the information himself, the amount of times special groups secured the information, the number of different people involved in the flow of strategic information, and the amount of information received on a predetermined basis.

The findings that (1) over two-thirds (35/50) of the information was received via reports, (2) the sources of the reports were people specifically assigned to the task, and (3) over half (21/35) of the reports were received on a predetermined or defined basis offer some different insights into the process of formulating strategy.

The descriptions of strategy in the literature have led some people to conclude that it is a complex and nebulous concept, irregular and

\[18\] The fact that reports were presented by people specifically assigned the task is obvious. However, the finding that specific groups of people were assigned the task of securing strategic information and delivering it in report form is somewhat surprising.
### TABLE VI-5

**SUMMARY DATA**

<table>
<thead>
<tr>
<th>Information Received by Reports</th>
<th>Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>Reports Received on a Predetermined Basis</td>
<td>6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information Secured by the Executive Personally</th>
<th>Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Secured by Special Groups</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Different People or Groups of People Involved</th>
<th>Executive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Received on a Predetermined Basis</td>
<td>4</td>
</tr>
</tbody>
</table>
unstructured in nature, with little opportunity to apply formulas or models to assure that a correct strategy has been chosen.\textsuperscript{19} The previously stated findings offer reason to believe that under different circumstances the process of formulating strategy may, at certain times, be something other than has been previously proposed. These circumstances seem to alter the apparent complexity of the formulation process.

**Characteristics of Strategic Information in Relation to Stages of Strategy Development and Modes of Scanning**

The relative complexity of the formulation process can be explained by a firm's current state of strategy development. It is proposed that firms may exist in distinct stages. A firm (or division of a large firm) may be relatively new (or possibly still an idea in the minds of people), in which case a strategic posture has not yet been achieved. This "new strategic entity" is still in the process of defining what business the firm is to be in and, consequently, the formulation process is characterized by a certain degree of irregularity, lack of structure, and ambiguity. Similar characteristics exist for a firm that is attempting to change its present strategic posture, i.e., a "changing strategic entity."

A quite different situation exists, however, for a firm that has achieved its strategic posture and is attempting to maintain it. This is a "stable strategic entity" where the task is one of maintaining, as opposed to achieving, a desired strategy, i.e., keeping the firm on its present course. In this case strategy can be described as being generally more structured and less ambiguous. This is partially due to the fact that this type of firm has narrowed its scope of search for opportunities to the particular business it has previously chosen to be in. That is, a stable strategic entity has its direction set while changing and new strategic entities are still in the process of achieving that direction.

With the concept of strategy development just proposed, it is now possible to explain what appears to be a contradiction between existing literature and what the research findings so far seem to indicate about strategy formulation. The divisions investigated belong to firms that are well-established in their particular lines of business. Consequently, the particular divisions that were

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20 This difference may be due, in part, to the particular firms chosen for this research. It should be noted, however, that the conclusions reached by previous authors have not been based on extensive empirical investigation. Moreover, it is offered that their statements concerning the complexity of strategy formulation may apply to firms less sophisticated in their strategic planning practices. The point to be made here is that before generalizations are made concerning the complexity of strategy formulation, a variable related to the stage of strategy development must be considered.

21 Four out of the five companies are diversified into more than one industry.
investigated were, for the most part, also well-established. This basic factor seems to indicate that none of the firms can be classified as "new strategic entities." This category, in turn, helps to explain the findings that in general the flow of strategic information and thus a major part of the process of formulating strategy was found to be more structured than expected.

Further evidence for the existence of distinct phases of strategy development is offered when the data in Tables VI-2, -3, and -4 are examined on an individual firm basis. On an individual basis, firms A and E are found to be somewhat different than the others. First of all, one differing element between E and the other firms was the frequency with which E received reports. All of the reports were received on a continuous or as required basis, as opposed to being received on defined intervals (refer to Table VI-4). Secondly, Table VI-5 shows that executives E and A had the highest occurrence of obtaining their own information—the former with seven and the latter with six.\(^\text{22}\) This is in contrast to the other three executives reporting on obtaining their own information far less frequently (B reported obtaining information personally twice, and C and D only once).

---

\(^\text{22}\)In some instances, the same information also could have been received by report.
These apparent differences seem to indicate that both executives A and E secure more information on a first-hand basis than the other executives (see Table VI-5). As a matter of fact, executives A and E were the only ones to cite industry contacts (twice for A and three times for E) as a source of strategic information. Furthermore, the frequency with which E receives reports indicates that this executive is in closer continuous contact with the strategic information he receives. This is evidenced by the fact that he receives a major part of his strategic information either continuously or whenever he needs it. These factors indicate a more frequent and conscious attempt at monitoring strategic information than was found in the other firms.

A number of points revealed by the executives during the interviews serve to explain these differences. First of all, both divisions are relatively young when compared to the others. Division A is approximately eight years old and division E, approximately twelve. Division A at this time has been making a "conscious effort to integrate backward" toward its raw material sources. Division E is relatively new at being a "strategy conscious firm" (approximately two years). In addition, executive E noted that the division is "divestiture oriented" at this time.  

---

23 Executive E noted that the reason for being divestiture oriented was to "get rid of indigestion" caused by manufacturing units not in line with the strategy they are attempting to achieve.
This additional information provides insight into the particular phase of strategy development that these divisions are in. The age of the divisions, the focus of one firm on vertical integration and the other on divestiture, and the admittance that division E is relatively new at being strategy conscious, all point to these two divisions being "changing strategic entities." They are still in the process of achieving a strategic posture. Consequently, the executives in charge are in a situation that appears to be somewhat more dynamic. This, in turn, requires that the executives keep a closer surveillance on both internal and external strategic information to help assure that the desired strategy is being achieved. The executives of the other divisions receive reports on a more routine basis and do not obtain as much strategic information personally because they are more stable strategic entities. They are in a situation that can be more accurately described as monitoring the strategy of the particular entity and keeping it on its present course.

The data gathered on characteristics of strategic information also allow one to infer certain things about the mode of scanning that is most likely to be used under each phase of strategy.

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24 An important variable that influences the stage of strategy development is the environment within which the firm operates. Since the firms investigated operate in essentially the same or similar environments, it can be assumed that internal factors are primarily responsible for these firms being in different stages.
development. One author has described four modes of scanning as (1) undirected viewing, (2) conditioned viewing, (3) informal search, and (4) formal search.25

"Undirected viewing" is defined as general exposure to information where the viewer has no specific purpose in mind with the possible exception of exploration. . . .

"Conditioned viewing" is defined as directed exposure, not involving active search, to a more or less clearly identified area or type of information. . . .

"Informal search" is defined as a relatively limited and unstructured effort to obtain specific information or information for a specific purpose. . . .

"Formal search" refers to a deliberate effort--usually following a pre-established plan, procedure, or methodology--to secure specific information or information relating to a specific issue. . . .26

Earlier, it was proposed that firms may exist in three distinct phases of strategy development. These phases were referred to as "new strategic entities," "stable strategic entities," and

25 Other authors have applied the term "search" to all types of scanning activities. See, for example, James G. March and Herbert A. Simon, Organizations (New York: John Wiley and Sons, 1958), Chapters 6 and 7; and Richard M. Cyert and James G. March, A Behavioral Theory of the Firm (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1963), Chapters 4 and 5.

"changing (or unstable) strategic entities." It is proposed at this time that the phase of strategy development will influence the predominant mode of scanning utilized.

The findings discussed previously are consistent with this proposal. Certain facts indicated that A and E were "changing strategic entities" (or at least something other than "stable strategic entities"). It was also found that the executives of these firms obtained a significant amount of their information personally. These factors seem to indicate that more unstable strategic entities utilize, to a much greater extent, the modes of conditioned viewing and informal search.

As noted previously, the remaining executives (B, C, and D) reported very few occurrences of obtaining the information personally. A large portion of their information was received using the informal search mode of scanning. This finding, coupled with the previous notion that firms B, C, and D are considerably more stable strategic entities, offers reason to infer that these types of strategic entities utilize formal search methods to a greater extent than informal search methods. This analysis leads one to propose that (a) stable strategic entities will utilize formal search as a mode of scanning far more often than other modes, and (b) more unstable

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27 Since the information was defined, it is not possible to say whether or not these executives utilize undirected viewing as a mode of scanning.
strategic entities will utilize informal search and conditioned viewing as modes of scanning more often than stable strategic entities.\(^{28}\)

**Evaluating Strategic Information**

Before concluding this section on characteristics of strategic information, a few more points should be mentioned that reflect upon the process of formulating strategy. The first point to be made refers to the relatively small number of people (or groups of people) that are involved in the flow of strategic information. Table VI-5 indicates that the greatest number of different people involved with strategic information in a single firm was six, while the least number was four. On the average, five people or groups of people were involved with the flow of strategic information. In addition, a large number of people involved were planning groups or staff members.\(^{29}\)

The notion that relatively few persons were involved in the flow of strategic information is a finding that would be agreed to by

\(^{28}\)It is not clear from this research whether or not the conditioned viewing and informal search modes are used to a greater extent than the formal search mode in changing strategic entities.

\(^{29}\)Executive C did not have a formal planning group reporting to him. Consequently, it can be seen that C's information came from people primarily involved with line management who also provided strategic information in addition to their regular duties.
In relation to the types of people involved, Cyert and March offer some corroboration to the findings here when they discuss how organizations handle information. They say that, "Generally speaking, a firm will allocate responsibility for securing particular information to subunits having (1) regular contact with the information source or (2) special competence in securing the information." They go on to say that, "in almost all of the areas of major concern to the firm . . . large firms maintain staff experts whose sole function is to secure and evaluate information." Strategic planning is an area of major concern to large firms, and four out of the five firms investigated had formal planning groups for this purpose. In addition to formal planning groups, the executives also used what Cyert and March refer to as subunits to secure some portion of their strategic information.

The question of how strategic information is evaluated can be approached via the particular people that handle the information. As Cyert and March have stated, evaluation is an important function of staff experts. Other people charged with the task of securing

30 See, for example, Anthony, et al., Management Control Systems, p. 8.


32 Ibid., p. 108.
strategic information can also be considered as information evaluators to some degree. The indication, then, is that any strategic information that executives do not retrieve themselves has, in some way, been evaluated. This further indicates that although relatively few different people have secured and evaluated (to some extent) the information that executives receive, it accounts for a relatively large amount of the total information. The implication of the above for strategy formulation is to recognize that the output of the process is significantly influenced by people other than those making the final decisions.

Although very few (if any) mathematical techniques are used to make final strategic decisions, it was found that in four out of the five firms, some type of mathematical modeling was used as part of the strategic information handling task. In two cases (A and E), however, the executives also stated that the mathematical techniques assisted in very specific situations. For example, company A noted that models assisted considerably in making forecasts and projecting into the future for purposes of planning. When company documents were examined, it was found that this particular company did not have its own forecasting model, but received data generated by a model owned by another firm. This other firm is a respected leader in the industry and a supplier for company A.
Company B appeared to be very sophisticated in its use of mathematical techniques. For example, a corporate management information systems group generated a large portion of the data going into the company's long-range plan and were also experimenting with such techniques as decision tree and cross-impact analyses.

Executive D reported that mathematical models had been of little help to them. He added, however, that the reason that models were of little help was because they had not developed them. He said that they respected the use of models, and realizing that the firm is weak in this area are presently "pushing hard to expand this capability." This is in contrast to executive C reporting that mathematical models were no help at all in supplying any of the strategic information inputs that he chose. Furthermore, he offered no indication that he thought models could be helpful or that his company was attempting to incorporate them into its system.

Where models were helpful in supplying strategic information, it can also be said that they help to explain how strategic information is evaluated. The information inputs, and therefore the process of formulating strategy, are influenced in some way by both

---33 These data were basically the output of evaluative models that computed return on investment, cash flow, and similar statistics, projecting them a number of years into the future.
the people supplying the information and the mathematical techniques that are employed. The handling and manipulating of strategic information can be regarded as an inherent part of the strategy formulation process.

Making Strategic Decisions

The last phase of the interview was designed to gather insights into how final strategic decisions are made. The insights were gained by asking each of the executives questions relating to who made the final decisions, what criteria were most often used, and how often were the strategic decisions re-evaluated.

Who Makes Final Strategic Decisions

The answers given in response to the question concerning who makes the final strategic decision, clearly indicated that the highest level officials in the organization perform this task. In most cases, this consisted of the president and board of directors of the company. In each case, however, the impression was that this procedure was more of a formality than anything else. In other words, contrary to earlier beliefs that the chief executives were the architects of strategy, this research supports the recent findings of
Bower that suggest that corporate executives heading large divisionalized corporations act largely as ratifiers. 34

In each of the five firms, the indication was that the executives interviewed were not only the originators but also the implementors of ideas, resulting in ventures that influenced what business the company is in or is to be in. 35 The sequence of happenings was (1) the discovery of a new venture or idea (or some alteration in an existing venture), (2) a sophisticated and thorough economic analysis of the venture, (3) the preparation of a proposal for the purpose of undertaking the venture, and (4) submitting the proposal to top level management for approval. Implicit in this sequence is the notion that the venture has the complete support of the person submitting the proposal. The result is that, "He obtains corporate approval in large part through securing their commitment to his strategic plan for the division and to him as a general manager capable of executing it." 36


The Criteria Used to Make Strategic Decisions

The criteria most often used to make the final decision, in all cases, related to profitability. Executive B chose long-run profitability, and executive D chose risk versus profitability as the criteria most often used. Executive A said that return on investment was most often used in his company with long-run profit for non-investment type projects. Executive C said that an overriding factor was to "make money for the stockholders." Other factors used in conjunction with maximizing stockholder wealth were (a) return on investment, (b) percentage increase in market share, (c) the degree of risk involved, (d) management strengths, and (e) competition. Finally, executive E reported that growth in profitability was the criterion most often used with certain other considerations, such as (a) choosing only those areas where they can dominate, (b) choosing areas compatible with their technological strengths, and (c) choosing areas where the level of sophistication

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37 James C. Van Horne, Financial Management and Policy (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1968), p. 6. Executive C is backing up Van Horne's assumption that "the objective of the firm is to maximize its value to its shareholders." By investing in the highest return projects and looking toward increasing profits the other executives were also working toward a similar goal.
of their managerial talent is no less than the level of sophistication required to do the job. 38

It should not be surprising to find such a noticeable emphasis on profitability in large divisionalized corporations. The basic reason for this emphasis is that these men are operating what is normally referred to as investment centers. 39 An investment center has been defined as, "A financial performance center in a profit-seeking organization, in which the manager is responsible for the profitable employment of the assets utilized by his center as well as the level of profits generated with formal accountability expressed in some specified relationship between profits and assets employed." 40 Since the performance of the center is measured by the profits generated in relation to some defined

38 Executive E's thesis was that ventures fail mainly because the level of sophistication of the venture is greater than the capability of the people performing the task.

39 Although executive A does not have actual profit responsibility he does exhibit considerable influence over strategic moves of the division. As director of planning, executive A performed many of the tasks that the other executives were doing themselves.

40 Robert H. Caplan, III, Management Control Systems, Copyright 1967 by the President and Fellows of Harvard College (a manuscript to be published by Prentice-Hall, Inc.), p. IV-1. The term "profit center" is often used in the literature and in practice to refer to both investment centers and profit centers. Strictly speaking, a profit center manager is only responsible for the profits generated by his center and not the assets utilized.
investment base, it is only logical that the criteria used to make
final strategic decisions are a function of profits.

Re-evaluating Strategic Decisions

The frequency with which strategic decisions are re-
evaluated offers further insight into how these decisions are made.
Three out of the five executives (A, C, and E) reported a conscious
attempt to monitor the strategic variables constantly. Executive A
said that they look at the variables on a continuous basis. In this
particular company, this task was facilitated through the use of a
formal planning group (which executive A headed) with a person
responsible for monitoring the environment for each of the three
product areas of the division. 41

Executive C explained their conscious attempt at monitoring
strategic variables in relation to the chemical industry. Since very
minor changes in a chemical (e.g., a change in molecular structure)
can force a product to become obsolete, the industry is very
dynamic requiring one to be "tuned in" constantly. Executives must
know what is happening and be in a position to take advantage of
opportunities that come their way. Similarly, executive E related
that they conduct a "constant dialogue" on the strategic variables.

41Refer to the partial organization chart of company A in
Appendix A.
The remaining executives were somewhat more structured in their approach to re-evaluating strategy. In the case of D, strategy was re-evaluated once a year as part of their long-range planning. He also noted that they have re-evaluated any time that it warranted so.

Executive B reported that they automatically review strategy once a year as part of their long-range plan. In addition, however, the president of the company has a committee of twelve top level executives that meet quarterly. The major task of this committee is to assess the company's present strategy and prepare any changes they think might be warranted.

The firms appeared to fall into two basic categories with respect to strategy evaluation--those that perform the task continuously and those that perform the task on a scheduled but less frequent basis. Earlier, it was proposed that companies A and E are examples of less stable strategic entities. The re-evaluation frequency of these companies backs up this notion. Since changing strategic entities are still in the process of either defining or achieving a strategic posture, it follows that they both look upon strategy as a task that must be monitored on a continuous basis. The fact that both these firms were currently involved with strategy oriented programs (vertical integration and divestiture) is also evidence that points to a need for a more conscious strategic effort.
Companies B and D were proposed earlier as more stable strategic entities. As noted previously, these firms have defined the business they are in and concern themselves now with maintaining the strategic posture of the enterprise. This requires efforts directed more at the everyday operations of the enterprise than changing strategic direction. Consequently, strategy evaluation is directed more at assessment and continuation of the present strategy. The focus is not on discovery of alternative courses of action that will lead to the attainment of a proposed strategic posture. The focus is more on ventures that are consistent with the business the company is in at the present time.

Previous indication was that C could be characterized as a stable strategic entity. The executive's response to strategy evaluation, however, seems to be contrary to this belief. This may be at least partially due to an inherent characteristic of this organization that differs from the others. Executive C has very little staff assistance on matters that are strategic in nature. As a matter of fact, this division has no formal group set up for the sole purpose of planning. Consequently, executive C has been forced to look upon his information handling task as one that receives constant attention. In companies B and D, much of the information is handled by people assigned the specific task of monitoring product areas. The executive himself would become
involved in a particular issue only when it is reported to him or when the issue requires his personal attention. In other words, the indication here is that staff groups considerably lessen the task of monitoring information for the executives they report to.

The Process of Formulating Strategy

A major purpose of the interviews conducted was to add some empirical insights into how strategy is formulated in the real world. The discussion of the research findings so far has contributed to achieving this purpose. It is necessary at this time, however, to bring out some major insights that bear upon the process of formulating strategy in large industrial enterprises.

An Overview

In Chapter II of this paper, it was proposed that there existed a finite set of decisions that defined corporate strategy.

Utilizing this concept, along with the five C₁ variables introduced in Figure II-1, the empirical work of this paper offered an approach that differed significantly from any previous research attempts on this subject. The results, however, (both explicitly and implicitly) revealed indications that strategy could be defined by the five C₁ variables: performance criteria, customer mix, product mix, differential advantage, and geographic concentration.
When the executives were asked if they agreed with the five strategic decisions that were chosen to define strategy, all five executives said yes. Two executives voiced concern, however, over the relative importance of geographic concentration as a strategic decision. Such a comment might be expected from executives of large divisionalized companies that are already extremely dispersed geographically. To them, expansion into new geographic areas is relatively commonplace. The comment may not apply to all companies, and especially to smaller ones that are just beginning to expand. For these firms, the geographic concentration decision may take on greater relative importance.

The fact that the executives had no problem answering the questions, choosing information inputs, or understanding what the strategic decisions referred to, was implicit indication that strategy was being defined properly. Furthermore, the executives also expressed openly that they had been making these decisions all along. They felt that the researcher's definition of strategy had made the concept more "scientific" and could be very beneficial as an analytical way to define and explain the concept of strategy.

The comments offered by these executives indicate that the process of formulating strategy (at least for the five firms investigated) begins with the five strategic decisions: performance criteria, customer mix, product mix, differential advantage, and
geographic concentration. These are the basic areas that the executives focused on to relate the internal characteristics of the firm to its environment. A conscious attempt to define the five decision areas can then be referred to as the starting point for formulating corporate strategy.

The process then proceeds to retrieving information related to each of the five decision areas. The task of retrieval is characterized by a relatively small number of people being involved, and a significant portion of the information being transmitted by way of written reports. Other factors, such as how frequently the information is received and whether or not a particular executive takes a more active role in the retrieval task (i.e., the particular mode of scanning used), may be more dependent on certain characteristics of the particular firm in question. There is information that leads one to propose that the particular stage of strategy development (i.e., whether the firm is attempting to achieve or already has achieved a strategic posture) may be helpful in explaining certain of the variables related to information retrieval.

The re-evaluation of strategy describes a part of the process that indicates, in general, a conscious attempt at relating

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42It should not be construed that the executives had explicitly defined strategy in this manner. A more accurate statement is that they had been approaching strategy in this manner without really knowing it.
the firm to its environment. This conscientious effort on the part of the firms investigated indicates that strategy is more accurately described as a continuing process as opposed to being a phenomenon approached only when a firm is begun, when the survival of the firm seems threatened, or on some other infrequent basis. The firms investigated seemed to be very conscious of their relationship to the environment and were making every attempt to assure that a successful relationship continued.

The process of formulating strategy is also characterized by definable criteria used to evaluate and make strategic decisions. These criteria, in all cases, related to profitability. The fact that the firms investigated are in the business to make money for their shareholders requires that projects undertaken by the firm for the purpose of achieving a strategic posture be profitable ventures. This approach is consistent with current financial theory with respect to investment in only profitable projects as measured by a rate of return greater than the cost of capital.

Some Contemporary Thoughts

The formulation of strategy is a phenomenon that, until recently, was accepted as being done by the top level executive operating as a chief strategist.\(^4^3\) This work and that of Bower's

\(^{43}\)Christensen, et al., *Business Policy*, p. 862.
seem to indicate something quite different. Bower proposes that
the chief executives of large divisionalized corporations are
ratifiers of strategy. The findings in this study back up Bower's
thesis. It will further be proposed that if one accepts the thesis
that these executives are ratifiers, then (1) they may not be the
formulators of strategy, (2) the formulators of strategy may exist
at levels below the chief executive in large divisionalized corpora-
tions, (3) the level where strategy is formulated is characterized
more by choice than ratification, and (4) implicit in the notion that
CEO's ratify strategy is that financial resources may be something
other than truly limited.

The term ratifier implies that the chief executives are
merely sanctioning or confirming what has already been done.
This was evidenced in this study by the indication offered by the
executives interviewed that the proposals had been thoroughly
researched and prepared by the divisional managers interviewed
and were sent to top management more as a formality than anything
else. In addition, three of the executives stated that a proposal

44See Joseph L. Bower, Managing the Resource Allocation
Bower's findings are based on extensive research conducted in
one large divisionalized corporation.

45In most large companies, such as the ones investigated
here, this formality is expressed in terms of a policy that requires
that investment proposals over a certain amount must go to the CEO
and possibly the board of directors for approval.
submitted to top management for approval was usually accepted. It seems that this would almost have to be the case in large divisionalized companies since one person cannot be expected to know the intricacies of all the activities performed in the entire organization. As one of the executives interviewed stated very clearly, "They really do not know the nuts and bolts of what is going on."

In ratifying proposals, the chief executives of large divisionalized corporations are, in essence, making sure that the process of strategy is working right and the judgment being applied by lowest level managers is good. In other words, they are more concerned with how the particular decision is being made rather than the specific nature of the proposal itself.

If what has been said is true, then there is some reason to believe that the chief executive officer may not be (and probably does not have the capability alone to be) the formulator of strategy for a large divisionalized corporation. In these organizations, "given the vast array of different activities, the intimate knowledge of the businesses, their markets and technologies rests inevitably

46 Christensen, et al., Business Policy, p. 863.

47 Ibid., p. 862. As these authors have stated, "... the range of strategic alternatives which must be considered in a decentralized or diversified company exceeds what one person can conceive of."
with divisional management. The evidence that (a) the CEO ratifies and does not second-guess proponents of specific alternatives; (b) once a divisional manager has placed "his reputation for good judgment on the line," proposals are in almost all cases accepted; and (c) the intimate knowledge of the business, as well as the specific proposal being presented, rests with the divisional manager, leads one to propose that strategy may be formulated at some level lower than the corporate level in some large divisionalized corporations.

The executives interviewed for this research have been described by one author as middle level managers (i.e., "a general manager who is responsible for a particular business unit at the intermediate level of the corporate hierarchy"). The findings of this research, then, indicate that in the large divisional organization, it may be more appropriate to describe the middle manager as a formulator of strategy. This finding backs up what one author suggested when he stated that a middle level general manager is both a strategist and an operator. He must "assume full responsibility for translating the abstract goals into concrete action through

49Christensen, et al., Business Policy, p. 863.
50Bower, Managing the Resource Allocation Process, p. 68.
strategic decision making and planning, taking into account both external and organizational factors."

The research conducted for this paper also pointed to the fact that middle level managers were monitoring both the environment and organizational factors, developing ideas and proposing ventures that were aimed at maintaining or achieving a particular strategy for their operating unit. This leads one to propose that there exists a number of strategists in large divisionalized corporations, and part of this number are the middle managers responsible for the particular operating units of the company.  

There are also indications that the middle level manager's job is characterized by choice among alternatives as opposed to ratification of alternatives. More explicitly, in dealing with strategy related issues, the chief executive does very little (if any) choosing among alternatives, and the middle level manager does very little (if any) ratifying. This is basically due to the fact that "the middle manager is closest to the action; therefore he has most of the data, and hence is in the best position to make decisions


53 Christensen, et al., *Business Policy*, p. 863. These authors implied this when they said, "... strategy formulation is an activity widely shared in the hierarchy of management, rather than being concentrated at its highest levels."
relevant to translating goals into actions. "54 His task is to take the plethora of external and internal information available to him, choose the information that is relevant to his strategic choices, come up with ventures that will benefit his unit strategically, analyze the alternative choices, and define and stand behind one or more of the alternatives to be submitted to top management for approval. Top management is on the receiving end of proposals and knowing that middle management has placed his reputation on the line and chosen only the "best" ventures, puts him (top management) in a position to ratify or sanction the alternative(s) submitted.

The notion that top management ratifies middle management decisions seems to imply something other than a case of truly limited financial resources. This factor coupled with the finding of Bower of a very low rate of project rejection, and the indication in this research that proposals by middle managers were usually accepted, offers reason to propose that the degree to which limited resources act as a constraining variable may vary across organizational lines.

The allocation of scarce or limited financial resources to investment projects has oftentimes been cited as a major factor (if not the major factor) that must be dealt with when

54 Uyterhoeven, "General Managers in the Middle," p. 78.
conducting the affairs of major corporations. The impression given by some of the executives interviewed was that as long as they came up with a profitable investment proposal, it would be accepted. This infers that funds necessary to support the proposal also had to be available at the time of acceptance or at some future date.

The idea that financial resources may not act as a constraint to the same degree in all organizations requires that one examine the abundance of strategically oriented projects available to a firm vis-à-vis the total amount of funds available for these projects.

First of all, the magnitude of projects is limited by the environment within which the firm (or division) is operating. In other words, investment projects must be consistent with the particular strategy that the firm has chosen to pursue. Secondly, each project submitted has previously passed tests of economic justification, in addition to a middle manager putting his reputation on the line for its acceptance. The major point to be made here is that when the


56 One of the executives that expressed this view had recently submitted a project that had been approved for around fifty million dollars. His view was that as long as he could come up with profitable projects, top management would get him the money.

57 For example, one executive talked about a strategic decision where it was decided not to invest in a project that was compatible with the business the company was presently in. The basic reasoning was that the project was not consistent with the strategy they were attempting to achieve.
above stated factors are considered, the total dollar amount of strategically oriented ventures may not be as large as one might expect, at least in relation to the total availability of capital for large corporations.

A third factor relates to the timing of funds necessary for accepted proposals. Even though a project is accepted, there may be (and usually is) a lag between the time the project is accepted and when the funds must be available. Consequently, projects involving considerable amounts of money may be accepted today and not begun until next year and spread over the following two years. The point here is that top management usually has considerable time to secure large amounts of funds.

With two of the above factors tending to limit the abundance of strategic investment projects proposed, large divisionalized firms seem to work under conditions where the extent to which limited financial resources act as a constraining variable is not as great as it may be in smaller corporations. This is also due, in part, to the vast sources available to the firms for obtaining large amounts of capital as opposed to those available to smaller firms. Furthermore, the relatively greater availability of capital offers some explanation for chief executives being able to ratify investment proposals. Ratification may be the exception rather than the
rule in smaller corporations where limited financial resources may act as a constraining variable to a much greater degree.\(^{58}\)

Before concluding this chapter, one additional point should be mentioned that is of import to a general understanding of strategy formulation, and relates to the overall management of the strategic process. In all firms except one, strategy formulation seemed to be more implicit than explicit. That is, there was no indication that any actual attempts were made at defining strategy in some formal manner. The process of actually writing down the strategy of each of the operating units investigated was something that was being done in only one case.

The exception to the above statement was company B. It seems that this company had recently (within the past three years) acquired a very strategy-conscious president. This has already been evidenced by the fact that he had developed a committee for the sole purpose of assessing present strategy and contemplating future strategic moves. This was also evidenced by the existence of what was referred to by the company as a Business Direction Paper. This document was prepared and submitted to the chief

\(^{58}\)There was even a noticeable difference in the firms investigated for this paper when one jumped from companies B, C, D, and E ranking in the top ten percent of the Fortune "500" to company A that ranked in the 200's. This was noted in A's choice of financially oriented information inputs wherever possible.
executive officer by each division general manager. In essence, the document was an articulation of the strategy of each particular operating unit. It included such items as the nature of the business, competitive position, business objective, key problem areas, strategic approach, alternatives, and progress guidelines.

The complete lack of similar articulations of strategy in the other four firms might be an indication that corporate strategy is more often approached on an ad hoc basis. The fact that company B was more formal at their strategic planning tasks reflects on the degree of sophistication used in managing the strategic process. Theoretically, the higher degree of sophistication should allow each divisional manager to initiate projects within his defined concept of strategy, thus reducing the possibility to proceed ad hoc from situation to situation.

In general, it seemed that each of the executives other than B had clear conceptions in their own minds of the business they were in and where they were headed. The indication here is that the articulation of strategy left something to be desired in four of the firms. Although the finding of this research cannot be regarded as conclusive, there is an indication that (at least in four of the firms) management of the strategic process is approached in a manner
that results in something other than a clear articulation of company or divisional strategy. 59

Chapter Summary

This report represents an analysis of data gathered from research conducted with five executives from large divisionalized corporations. The presentation is analytical, explaining how and why certain phenomena occurred whenever possible.

The first portion of the chapter focused on important information inputs necessary to relate a firm to its environment. In many cases, the choices of the executives were backed up by comments and relevant company documents. Beyond this, the information inputs provided a vehicle for retrieving additional data that led to the development of a number of insights which help to explain the formulation of strategy. Some of these insights were that (1) over two-thirds of the information was received via reports, (2) the sources of the reports were people (or groups of people) specifically assigned the task, and (3) over half of the reports were received on a predetermined basis.

The previous findings also led to identification of other concepts such as (1) operating units of large firms exist in different

59 For a statement concerning how the strategic process should be managed, see Christensen, et al., Business Policy, pp. 862-67.
stages of strategy development, (2) there exists a relationship between the stages and the mode of scanning utilized by executives heading the operating units, and (3) a relatively small number of people take part in the processing of strategic information.

A discussion of who makes the final strategic decisions, the criteria that are used, and the frequency of re-evaluation of decisions provided further explanation of the process of formulating strategy. Among the more important findings from these data are that (1) strategy was indicated as being monitored on a continuous basis in three out of five cases, (2) the overall management of the strategic process seemed to be more implicit than explicit, and (3) the actual formulators of strategy may exist at levels below the chief executive in large divisionalized corporations. This latter finding questions the notion that there exists one person acting as the chief strategist in large divisionalized corporations.

Finally, there was considerable indication during the course of the interviews, and as a result of a question posed, that supports the idea that strategy can be defined by the five C\textsubscript{1} variables developed in the theoretical portion of this paper. The indication was that this definition could not only be used to research the concept of strategy, but also to explain and describe strategy in a more analytical manner for the purpose of formulating and articulating the concept in actual organizational settings. The agreement offered
by the executives lends support for further development and use of this concept in both teaching and researching corporate strategy.
A major purpose of the final chapter of this paper is to fulfill a third objective of the empirical work which is to supply direction for future research. This direction is offered in the form of hypotheses and then guidelines for future research. The remainder of the chapter reports on implications of this study (both the theoretical and empirical work) for teachers, researchers, and practitioners focusing on the field of corporate strategy. The chapter concludes with a section briefly describing the study in terms of the objectives achieved and the relationship between the theoretical and empirical portions of the paper.

**Hypotheses and Guidelines for Future Research**

The basic conclusions of this research effort are in the form of hypotheses that will be useful toward the further development of the field of corporate strategy. The hypotheses emanate directly from the data gathered for this research that were presented and analyzed in the previous chapter. In all cases, the hypotheses
relate to some phase or aspect of strategy formulation as it has been referred to previously in Figure V-1. The listing is not intended to be exhaustive, and the reporting has been limited to those hypotheses that, in the best judgment of the researcher, will contribute most significantly to the future development of the field of corporate strategy.

**Hypotheses Related to Ratification, Articulation, and the Roles of Different Executive Levels in the Process of Formulating Strategy**

The first group of hypotheses that will be presented here relate to the discussion in the previous chapter concerning various executives in the organization and their role in the formulation of strategy. More specifically, it should be recalled that evidence gathered in this research suggests that top level executives act as ratifiers of strategy that has been translated into investment proposals sent to them by managers heading operating units of the company. In order to better understand this concept, its ramifications on strategy formulation, and certain hypotheses related to it, Figure VII-1 has been developed.

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FIGURE VII-1

EVENTS RELATED TO STRATEGY FORMULATION

Strategic Ideas

Strategic Investment Proposals

Strategic Information

Other Investment Proposals
Figure VII-1 is a partial organization chart of a large divisionalized corporation. The figure breaks down the upper organizational hierarchy into four levels. At the first level is the office of the chief executive or level one executives in such organizations. Since most large divisionalized corporations are broken down into product related areas, the next level is characterized by a number of operating companies, each headed by a second level executive. On the third level in the figure exists what will be referred to as the operating units of the company. For the most part, the executives interviewed for this research head operating units at this level in large divisionalized corporations. The fourth level in the figure depicts a number of manufacturing units that report to the executive heading the operating unit. In essence, Figure VII-1 is an attempt to portray certain events related to strategy formulation as described by the level three executives interviewed.

The first relationship proposed concerns the ratification of lower level strategy by CEO's (Chief Executive Officers) in large divisionalized corporations. It is hypothesized that:

\[ H_1: \text{CEO's in large divisionalized corporations tend to ratify strategic investment proposals sent to them by third level managers.} \]

The rationale behind this hypothesis was presented in Chapter IV. The explanation included comments offered by the middle level
managers concerning the acceptance of strategic investment proposals, the formality associated with the approval of projects, and the notion of ratification suggested by recent research.

The fact that operating company heads have not been mentioned in this research should be explained before departing from this point. A major reason is that these managers were beyond the scope of the research conducted. A second reason is that the discussion carried on with level three managers involved strategically oriented investment projects that required the approval of the CEO. Executives heading the level two units did not have the authority to deal with projects. Since projects having substantial impact on strategy generally require the approval of the CEO, second level managers did not enter into the discussion.

The notion that CEO's are ratifiers leads one to hypothesize that:

\[ \text{H}_2: \text{ Executives heading fairly autonomous operating units in large divisionalized corporations are the primary formulators of company strategy.} \]

The factors supporting this hypothesis were also described in the previous chapter. It was noted at that time that the level three managers that were investigated not only analyzed and submitted strategic proposals, but were also instrumental in developing the

\[ ^2 \text{As noted previously in Chapter VI, one example of a project required a total capital outlay of around fifty million dollars.} \]
ideas for projects that lead to maintaining or achieving a desired strategic posture. Further justification for such a hypothesis is obtained when one considers the vastness and complexity inherent in the large divisionalized corporations characterized by a number of operating units in diverse lines of business. In very simple terms, it seems almost impossible for one man to handle the task of chief strategist in such organizations. Thus, a possible explanation for lower level managers being the actual formulators of strategy is that the CEO or any one person is not capable of performing the task.  

The following hypothesis follows from previous comments pertaining to where strategy is actually formulated in large divisionalized corporations.

\[ H_3: \text{Operating units in large divisionalized corporations develop strategy for their business, and the strategy of the corporation is the sum of the strategies of the operating units.} \]

The notion implied here is that it is unlikely that there exists such a concept as a "grand strategy" for large divisionalized corporations. As the arrows in Figure VII-1 indicate, strategy flows upward from level three to level one. This is consistent with the notion that ideas for strategic moves are generated at lower levels mainly

\[ ^3\text{Christensen, et al., Business Policy, p. 862.} \]

\[ ^4\text{Bower, The Resource Allocation Process, p. 20. Bower suggests that "new strategic ideas" are generated at the third level.} \]
because the executives at this level are closer to the action and are in constant contact with the relevant strategic information.

The ideas presented so far concerning ratification, the formulation of strategy at lower levels, and the scope of strategic involvement that can be handled by one executive lead to the following hypothesized relationship:

\[ H_4: \text{As one proceeds from large divisionalized corporations to corporations of smaller size (as indicated by sales) and complexity (as indicated by product diversity), the chief executive officer will do more formulating and less ratifying until the point is reached where he (the CEO) is the chief strategist of the corporation.} \]

The logic behind this hypothesis is that the job of chief strategist in large divisionalized corporations is more than one person can conceive of. However, executives heading operating units at the third level in the management hierarchy are, in effect, the strategists of their respective units. The point is that the scope of operations is an important variable related to strategy formulation. For example, if the divisions investigated for this research were independent companies, their sales would place two of them in the top four hundred fifty, two of them in the top six hundred, and one of them in the top nine hundred of Fortune's first and second five hundred largest industrial corporations. These factors lead one

to infer that the executives interviewed could be the chief strategists of independent corporations, at least the size of the divisions they presently head.  

The idea that CEO's of smaller and less complex corporations do less ratifying and more formulating reflects a greater degree of involvement in the formulating task. As formulator of strategy, he reviews ideas and information (see Figure VII-1) that must be molded into ventures that will benefit his unit strategically. Consequently, CEO's formulating strategy in smaller corporations are involved with choice among, as opposed to ratification of, strategic alternatives.

The next five hypotheses are intended to offer various potential explanations for the role of the chief executive as a ratifier of strategic investment proposals. They also relate to managing the process of strategy formulation in large divisionalized firms. This process is often discussed (normatively) as one where the chief executive carefully articulates strategy down through the various divisions and operating units of the company. The findings

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6 This assumes that tasks, such as reporting to stockholders and securing funds for operations, are not so overwhelming that they detract from strategy related issues. It also assumes additional factors, such as a similar level of technical competence required.
of this research indicate that the following hypothesized relationship may be more appropriate.

\[ H_5: \text{Clear articulation of strategy from the CEO to various operating units is seldom a characteristic of the formulation process in large divisionalized corporations.} \]

The indication received from the executives interviewed was that strategy flowed upward in the organization as depicted in Figure VII-1. This is consistent with the views proposed so far and especially with the role of the middle manager as a formulator of strategy.

The relationships that exist among the concepts of articulation, ratification, and the role of the middle manager stimulate further hypotheses that (when investigated) may help to more precisely explain factors involved in managing the strategic process. The first of these is as follows:

\[ H_6: \text{CEO's of large divisionalized corporations ratify strategic investment proposals because they have chosen to approve rather than dictate the strategic direction of individual operating units.} \]

This hypothesis suggests that the CEO has not chosen to formulate a strategy for the entire enterprise. Instead, he has chosen to run the enterprise as autonomous operating units each with its own strategy.

Given the lack of a clear articulation of strategy and the fact that large divisionalized companies are, in most instances,
relatively successful, leads one to hypothesize that:

$$H_7: \text{The absence of a clear articulation of strategy by the CEO forces executives heading operating units to choose the direction they feel is best for the unit they govern.}$$

In other words, it should not be construed that the relative success or failure of a firm is dependent entirely on strategy being successfully articulated. A clear relationship between success and how well strategy has been articulated has not been developed. The point is that in cases where strategy has not been explicitly developed and conveyed by CEO's (which is reasonable to presume), the relative success of large divisionalized corporations indicates that someone is keeping the organization on a viable course. The preceding hypothesis proposes that operating managers are forced to perform the task due, in part, to their responsibility to the total corporation as measured by the profit performance of their unit. Profit responsibility, then, provides a "driving force" that causes managers to develop their own strategies in the absence of direction given to them by the CEO.

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7William D. Guth and Renato Tagiuri, "Personal Values and Corporate Strategy," *Harvard Business Review*, XLIII (September-October, 1965), p. 127. These authors have proposed something very similar when they suggest that, "In the absence of a viable degree of consensus on a particular set of goals and policies, each executive will tend to behave in accordance with his own concept and, in turn, his own values."
An additional hypothesis can be offered that might contribute to explaining the role of the chief executive officer as a ratifier in the course of managing the strategic process.

\( H_8: \) CEO's in large divisionalized corporations ratify strategic investment proposals because they have explicitly conveyed a strategy to the various operating units and, as a result, the projects coming to them for approval are consistent with the direction they have chosen for the corporation.

This hypothesis must be tested before one could positively conclude that CEO's ratify because they do not articulate strategy. If chief executives actually do articulate strategy down through the organization, then it should be incorporated into Figure VII-1.

Two further hypotheses may help to explain (when tested) the conditions under which ratification of investment projects takes place. The hypotheses emanate directly from the type of executive interviewed for this research. The executives interviewed were perceived as being extremely professional and successful in their particular positions. This leads one to hypothesize that:

\( H_9: \) Whether or not strategic investment proposals from operating executives are ratified (as opposed to being thoroughly examined for appropriateness with total company objectives) will depend on the competence of executives of the operating units as viewed by the CEO.

From the research conducted for this study, it seems very possible
that the executives interviewed may have had projects easily accepted (ratified) because of their past success in the company.

In a similar vein, it seems very possible that the knowledge and perception of the operating executives may influence the fact that strategy is ratified. In this respect, the following hypothesis is offered:

\[ H_{10}: \text{Whether or not (strategic) investment proposals from operating executives are ratified (as opposed to being thoroughly examined for appropriateness with total company objectives) will depend on the knowledge and capability of the executives heading operating units to perceive and propose what the CEO wants to see and in a manner that he wishes to see it.} \]

This approach at attempting to explain ratification would examine the CEO as perceived by operating managers, as opposed to operating managers as perceived by the CEO.  

**Hypotheses Related to Strategic Entities**

From the research findings in Chapter VI, it was suggested that corporations exist in distinct phases of strategy development. The phases were referred to as "new strategic entities," "stable strategic entities," and "changing strategic entities." The forthcoming set of hypotheses relate this concept to other variables

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8 These latter two hypotheses have incorporated a behavioral dimension as a variable in the relationship.
brought out in the research findings. The first hypothesis is as follows:

\( H_{11} \): The processing of strategic information is relatively more structured (as indicated by the mode of scanning used and the securing of information on a predetermined basis) in stable strategic entities than in changing or new strategic entities of large divisionalized corporations.

This hypothesis suggests that the degree of structure inherent in strategic planning is dependent on the particular stage of strategy development that the company or operating unit is presently in.

The next two hypotheses are closely related and can be viewed as potential explanations for the previous relationship. They propose that different strategic entities (e.g., stable versus changing) require that some modes of scanning be utilized more than others, thus determining the relative structure inherent in the process.

\( H_{12} \): Executives heading changing or new strategic entities of large divisionalized corporations will play a more active role in securing strategic information by utilizing informal search and conditioned viewing more often than executives heading stable strategic entities.

\( H_{13} \): Executives heading stable strategic entities of large divisionalized corporations will utilize formal search as a mode of scanning more often than other modes.

These hypotheses propose a relationship between the stage of strategy development and the particular mode of scanning utilized.
The rationale behind these relationships is that stable strategic entities monitor strategy and are less inclined to be involved with seeking out "new" strategies that require a more active attempt at monitoring strategic information. On the other hand, changing strategic entities are constantly involved with more active search aimed at discovering new strategic alternatives.

**Hypotheses Related to Strategic Information Inputs Chosen**

The choices of the executives of certain information inputs have led to the development of three hypotheses that will contribute to explaining the relationship between large divisionalized firms and the environment that surrounds them. The first hypothesis concerns the relationship between the firms and the financial community.

**H14:** The extent to which financial resources act as a constraint is dependent on the size of the firm, with larger divisionalized corporations relatively less constrained by financial resources than smaller ones.

In other words, factors inherent in the larger corporations make it relatively less difficult for these firms to obtain the funds necessary to support strategic investment proposals. Comments offered by the executives lend support for this hypothesis.

From the discussion with the executives concerning information inputs to the differential advantage decision emanates the
following hypothesis:

$$H_{15}$$: In large divisionalized corporations, establishing a differential advantage is dependent, to a greater extent, on what competitors are doing well and, to a lesser extent, on what the firm itself has the capability to do particularly well.

This hypothesis is corroborated by the extensive research carried on in each company concerning the actions of competitors. It seems, however, that if this hypothesis can be accepted, the firms may be overlooking factors inherent in their own organizations. That is, they may be taking on a somewhat passive role, possibly overlooking strengths that they possess in lieu of other competences that may be more difficult to develop.

Based on certain comments of the executives in relation to the geographic concentration decision, a final hypothesis will be proposed. The hypothesis points to the notion that the finite set of strategic variables may change in terms of relative importance with respect to certain characteristics of the firms chosen for investigation.

$$H_{16}$$: The relative importance of a decision concerning where to operate and compete geographically is dependent on the extent to which a firm is already geographically dispersed.

This hypothesis has ramifications on all components of a strategic decision system. The indication is that if this is true for the
geographic concentration decision, it may be true for other decisions. That is, upon further research, it may be found that the relative importance of the decisions that make up a strategic decision system may change according to, e.g., the size of the firm, the industry investigated, or some other definable parameter.\footnote{In the view of this researcher, even though the relative importance may change, the finite set of decisions as they are presented in this paper will not.}

It is intended that the preceding hypotheses developed from this research contribute to understanding the concept of strategy formulation as it is used in the real world. It should be emphasized that the hypotheses were developed utilizing information from middle managers heading operating units in five large divisionalized corporations. The executives interviewed were extremely high in the organizational hierarchy, had large sales responsibilities, and were major participants in shaping the destiny of their particular unit and, to some extent, the destiny of the entire corporation. Consequently, the findings discussed in the previous chapter and the hypotheses presented here are seen as being supported by the credibility of the respondents.\footnote{Besides the extensive work of Bower in one large divisionalized corporation, very few additional studies have been found where managers on the third level down in the organizational hierarchy of large corporations were used as a source of data for research on strategy formulation.}
Direction for Future Research

For those who wish to further investigate the topic of corporate strategy, the hypotheses developed in this chapter offer a number of valuable insights. These hypotheses can be used in at least two distinct ways, both of which would benefit the development of the field of corporate strategy in terms of empirical knowledge.

A first approach would be to take one or more of the hypotheses and set out to test them across industry lines and for firms of varying sizes. This, of course, would benefit the field by offering an understanding of how the hypotheses contribute to explaining phenomena across a wider sample. Implicit in this approach is the notion that a better understanding of a topic can be gained by investigating small segments at a time.

A second approach would be to use the hypotheses developed previously as explanatory or definitional relationships. In this manner, the hypotheses provide insights concerning certain phenomena that may exist, and the focus would be on further investigation of the total process of strategy formulation. The sample size would be kept small (preferably, no more than two), the major aim being to develop an understanding of the total concept in different firms. Implicit in this approach is the notion that examining the total concept is necessary before testing certain parts. In
support of this approach, Bower has stated that

... at this time available knowledge about policy process problems is so limited that basic insights are needed on which higher order generalizations can be constructed. The process is not deductive, nor does it fit into the hypothesis testing format.  

As a continuation of the second approach, this researcher would advocate utilizing the five $C_1$ variables as a basis for investigating strategy on an in-depth basis. The indication from the research conducted here was that high level executives had no problem understanding or relating to questions that were posed using the finite set of strategic decisions. The research should go into greater depth, however, concerning particular decisions that have been or are being made, how well strategy has been articulated, and the extent to which different people play different roles in the strategy formulation process. This will require talking to a greater number of people and analyzing documents with a focus on content more than format. It will require that the researcher spend a considerable amount of time investigating a single firm.  

The general nature of this approach is consistent with the existing state of the art concerning theory development in the field

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12 The major limitations on this type of design are, first, permission to enter large firms for the purpose of studying strategy and, second, financial resources required to support such studies.
of corporate strategy. At this stage of the evolution of knowledge in the field, it seems appropriate to investigate on an in-depth basis the total phenomena in different organizational settings. After a significantly large number of these investigations have been completed over a number of years, researchers will be better equipped to identify relevant variables. Each investigation can develop hypotheses for the purpose of pointing out phenomena that may occur under future research efforts. The major goal, however, would be to describe how strategy is formulated in different organizations and at different levels in the organizational hierarchy.

Implications of the Study for Teachers, Researchers, and Practitioners

As noted previously, the approach to investigating strategy in this research was significantly different from any other attempts that have been made. This research chose to define strategy as a finite set of decisions, thus making the concept more analytical. Although the research did not set out to test this definition, the general indication from the executives interviewed was that they

13 For a view related to the current state of the art, see, for example, Dan E. Schendel and Kenneth J. Hatten, "Business Policy or Strategic Management: A Broader View for an Emerging Discipline" (a professional paper presented at the National Meeting of the Division of Business Policy and Planning, Academy of Management, Minneapolis, Minnesota, 1972), p. 7.
were in agreement with the strategic decisions or $C_1$ variables. This finding has major implications for teachers, researchers, and practitioners in the field of corporate strategy.

For teachers of strategy, the concept of a strategic decision system offers an approach to strategy that is easier for students to comprehend than earlier, more nebulous concepts. This is primarily due to the more analytical approach utilized to conceptualize the complex area. Similarly, the remainder of the theoretical framework (the second and third classes of variables in Figure II-1 explained in the latter part of Chapter III and in Chapter IV of this paper) is a more systematic way to approach the implementation of strategy and the interrelationships between functional areas. Thus, the total framework can be viewed as an integrative system that can be used to teach the formulation and implementation of strategy and a general management perspective—foundation concepts in a course focusing on general management.

Other empirical findings are also extremely relevant to teaching courses that focus on the field of corporate strategy. For example, insights derived from empirical work provide the teacher of strategy with concepts that describe what is happening in the real world. These concepts complement the normative literature.

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14 This seems to at least indicate that the strategy portion of the theoretical framework ($C_1$ variables in Figure II-1) has withstood field investigation.
providing for a more complete approach to the subject matter. The findings in this research concerning concepts such as ratification, articulation, and the formulation of strategy at levels other than the top of the management hierarchy, all contribute to teaching what is happening, as well as what should be happening.

For researchers of strategy, the conceptual model of enterprise decision making (Figure II-1), the development of this model into a theoretical framework for corporate strategy (Chapters III and IV), and the empirical work conducted using part of the conceptual model, all provide fruitful avenues for future research. The decisional orientation used as the basis for the theoretical framework pinpoints areas that influence the formulation and implementation of strategy and define the interrelationships between functional areas. Each class of decisions presented in Figure II-1 has potential for research that will contribute to developing an empirically based framework of enterprise decision making.

At this point in time, however, the concept of a finite set of decisions to define strategy has the greatest potential of being a significant contribution to researchers. If research on strategy is approached using the same basic decisions, results can be compared and analyzed on the same definable parameters. Researchers can define strategy based on a firm's performance criteria, customer mix, product mix, differential advantage, and geographic
concentration. Further use of this concept of strategy will either
confirm or refute the notion that any firm's strategy can be defined
in this manner. With a definable concept, such as the one proposed
here, strategy can be investigated and compared contributing to the
development of empirical data in the field.

For the practitioner, the concept of a finite set of strategic
decisions to define corporate strategy can be used as a more
systematic way to operationalize the phenomena. This analytical
approach makes more "scientific" what executives (at least the five
investigated) had been doing all along. A more analytical approach
can be used to define and formulate strategy within organizations
just as well as it can be used to teach and research the concept.

The problem of explicitly conveying or articulating strategy
throughout an organization is obviously compounded by lack of a
clear definition. If the formulator of strategy was to define his
future course of action (or ask others to define theirs) in terms of
the five C1 variables, a clearer articulation may result. Most of
the executives recognized this benefit in the definition of strategy
utilized probably because they saw in the five C1 variables the
elements of strategy that they had used in the past. The idea that
the five C1 variables can be used to explain strategy is further
reason to propose that the concept can also be used to convey
strategy, either upward or downward in an organizational setting.
A Synopsis of the Theoretical and Empirical Work of this Study

The general purpose of this paper was to contribute both theoretical and empirical research to the field of strategy. The theoretical work presented in Chapters II, III, and IV and the empirical work presented in Chapters V, VI, and part of VII have focused on fulfilling this general purpose. Each segment, however, had more explicit purposes that allowed one to complement the other.

The objective of the theoretical work was to develop a framework for corporate strategy that would form a basis for not only this research, but future research in the field. An objective of the empirical work was to utilize concepts developed in the theoretical framework to obtain data describing how corporate strategy is formulated in the real world.

A major concept developed in earlier chapters and used as part of the empirical research was that there exists a finite set of decisions that define corporate strategy. This decisional orientation provided the nucleus for the questions posed to third level executives in large divisionalized corporations. The research was also patterned after the idea (presented in Chapter II) that external and internal information inputs are fed to these decisions for them to be made. The empirical work proceeded to examine how strategic
information inputs were received, what people were involved in obtaining the inputs, and how often the inputs were sent to the executives interviewed.

A final objective of the empirical work was to utilize the findings obtained from data gathered to develop hypotheses and guidelines for future research in the field of corporate strategy. This objective was fulfilled in this chapter with the presentation of sixteen hypotheses that will help to guide future research attempts in this complex and relatively unexplored area.

In essence, this work was aimed at the development of useful theory in the field. The development of a theoretical framework and then using part of that framework in field research have contributed to this aim. To this extent, there is no indication that points to the strategy portion of Figure II-1 being conceptually unsound. On the contrary, there is every indication that the concept of a strategic decision system and the five C variables offer a way to define strategy that is consistent with what is taking place (in at least five firms) in the real world. To a certain degree, the concept has been empirically verified for future research attempts to use as a foundation for more widespread investigation of strategy formulation.

The findings and hypotheses developed all contribute in some way to the empirical research objective of finding out how
strategy is formulated. Some findings led to the development and/or corroboration of some contemporary thoughts concerning various phenomena that occur during the process of formulating company strategy. Certain ideas brought forth included (1) the existence of firms in different stages of strategy development, (2) the possible relationship between stages of development and modes of scanning used to secure strategic information, and (3) the notion that chief executive officers tend to ratify and may not be the actual formulators of strategy in some firms.

The research project presented in this dissertation was justified on the basis of the field of strategy needing research that would (1) contribute to the development of theory for the field and (2) contribute empirical research to the relatively unexplored topic of strategy formulation. To this extent, this research has offered a theoretical framework, a number of new concepts inherent in the framework, empirical data, research findings, and hypotheses that contribute to clarifying the topic of corporate strategy.
APPENDIX A

INFORMATION CONCERNING THE EXECUTIVES
AND THE CORPORATIONS INVESTIGATED

The sample for this research consisted of five executives in five large divisionalized corporations. Four executives headed operating units and one executive was responsible for divisional planning. Four of the corporations (B, C, D, and E) ranked in the top ten percent and the other in the top fifty percent of the Fortune "500" listing published in 1974. The sales of these corporations ranged from a high of around six billion dollars to a low of around seven hundred million dollars.

Four of the executives headed operating units that competed in the chemical industry (B, C, D, and E). The products

\[\text{\footnotesize 1}\text{In an attempt to disguise the companies, they will be referred to as A, B, C, D, and E. However, the approximate sales figures that will be presented are actual.}\]

\[\text{\footnotesize 2}\text{Since one of the firms (B) is foreign-based, it is not included in the Fortune "500." Its sales, however, would place it in the top twenty of the Fortune survey. "Fortune's Directory of the 500 Largest Industrial Corporations," Fortune, May, 1974, pp. 230-51.}\]
manufactured by the units included vinyl resins and compounds, synthetic lubricants, methanol, ammonia, acetylene, fertilizer, polyvinyl chloride, styrene, polyethylene, and nylon. Consequently, the units were closely related in terms of either products manufactured or raw materials required to produce finished products. In other words, they operated in similar environments.

The fifth executive (A) headed the planning group for a division that competed in the metals industry. In more specific terms, this division was in the aluminum fabrication business manufacturing a large part of their products for the housing, mobile homes, and automotive industries. Although executive A did not have formal authority over the division, it was found that he played a major role in its functioning. He had prime responsibility for monitoring the environment within which the division operated and developing proposals for strategic changes.

Figures A-1 through A-5 are partial organization charts of the five companies investigated. The particular executive interviewed is noted in each figure with an asterisk beside the position that he holds. It can be seen from the organization charts that the executives interviewed are on very similar levels in their respective organizations.

Finally, the approximate sales of the units that the executives headed were as follows: A—one hundred million dollars,
B--two hundred million dollars, C--three hundred million dollars,
D--three hundred million dollars, and E--two hundred million
dollars.
FIGURE A-1

COMPANY "A"--PARTIAL ORGANIZATION CHART

Board of Directors

Chairman

President

Division V.P.

Director of Planning

Liaison Staff X Staff Y Staff Z

Manufacturing Unit Z Manufacturing Unit Y Manufacturing Unit X
FIGURE A-3
COMPANY "C"--PARTIAL ORGANIZATION CHART

Board of Directors
  
  Chairman
  
  President

Division V.P.

Group V.P.

Manufacturing Unit X

Manufacturing Unit Y

Manufacturing Unit Z
FIGURE A-4

COMPANY "D"--PARTIAL ORGANIZATION CHART

President

Vice President

Regional Director

President

Corporate Planning Group

Executive V.P.

General Manager Product X

General Manager Product Y

General Manager Product Z

Director of Manufacturing Services
FIGURE A-5

COMPANY "E"--PARTIAL ORGANIZATION CHART

Board of Directors
   | Chairman
   | President
   /\ Division President
 /\ Executive V.P.
 /\ Vice President/ General Manager
/\ Business Development and Planning
/\ Product X
/\ Manufacturing Units
\\ Product Y
\\ Business Development and Planning
\\ Manufacturing Units
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VITA

Raymond M. Kinnunen was born on April 24, 1945, in Fitchburg, Massachusetts. He was raised in Fitchburg and was graduated from Fitchburg High School in June, 1963.

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Candidate: Raymond M. Kinnunen

Major Field: Management

Title of Thesis: A Theoretical Framework for Corporate Strategy with Exploratory Research on Strategy Formulation

Approved:

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Major Professor and Chairman

Dean of the Graduate School

EXAMINING COMMITTEE:

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Date of Examination: July 16, 1974