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LETTER FROM THE EDITOR

We are pleased to present the second issue of the *Academy of Strategic Management Journal* (ASMJ). We especially would like to express our sincere appreciation to the Roden family for their generous support of the *Journal*.

The Academy of Strategic Management is an affiliate of the Allied Academies, Inc., a non-profit association of scholars whose purpose is to encourage and support the advancement and exchange of knowledge. To this end, the *ASMJ* will be a primary vehicle. The editorial mission of the *Journal* is to advance the field of strategic management and to examine the relationship of this area with the success of any organization. Thus, the *Journal* publishes high quality, theoretical and empirical manuscripts pertaining to this field of knowledge. Not only is our intent to advance the discipline, but also to publish articles that have value to practitioners and scholars around the world.

The manuscripts contained in this initial volume have been double blind refereed. The acceptance rate for manuscripts in this issue, 25%, conforms to our editorial policies.

Our editorial review policy maintains that all reviewers will be supportive rather than destructive, helpful versus obtrusive, mentoring instead of discouraging. We welcome different points of view, and encourage authors to take risks with their research endeavors. To that end, our first invited article, by Dr. Bernard O'Connor, examines the diplomacy of Pope John Paul II and its parallelism to strategic management.

The editorial policy, background and history of the organization, addresses and calls for conferences are found at www.alliedacademies.org. In addition, the web site is continuously being updated and provides information concerning the latest information on the association.

Thank you for your interest in the organization. I look forward to hearing from you at any time.

William T. Jackson, Editor
The University of Texas of the Permian Basin

Manuscripts

ALL HAIL THE BENEFITS OF INERTIA: THE CASE OF SMOOTH VERSUS RUGGED LANDSCAPES

Rolf D. Dixon, Weber State University
Kimberly B. Boal, Texas Tech University
James J. Hoffman, Texas Tech University

ABSTRACT

The benefits of inertia, both during times of industry environmental stability and instability have not received explicit research attention. The present study examines the benefits of inertia both during times of industry environmental stability and instability. Findings from this study suggest that firms do derive benefits from inertia. Specifically, findings suggest that within the context of strategic groups, that for the stable time period of 1968-1972, constant member firms exhibited higher performance levels than did shifting firms in 53.3% of the cases. For the unstable time period of 1978-1982, performance mean differences between constant versus shifting members were statistically significant in only 26.6% of the cases. Again, however, these differences tended to favor the constant member firms. These findings shed additional light on the ongoing debate concerning whether or not firms can or should adapt to their environments.

INTRODUCTION

A fundamental debate in the organization sciences revolves around the likelihood and benefits of organizational change (Child, 1972; Fox-Wolfgramm, Boal, and Hunt, 1998; Hannan and Freeman, 1977; and Meyer, Brooks, and Goes, 1990, 1994). Is it better for an organization to "stick to your knitting" as Peters and Waters suggested (1982), or should organizations adapt their strategies to changing times? The pejorative connotation attached to terms like drift, inertia, status quo (Finkelstein and Hambrick, 1996; Meyer, Brooks, and Goes, 1990; Miller and Friesen, 1980; Romanelli and Tushman, 1986, 1994) suggests that change is necessary and beneficial if organizations are to remain effective. This is based upon the assumption that organizational growth and survival is dependent upon maintaining a "fit" between the organization and its environment (Summer, Bettis, Duhaime, Grant, Hambrick, and Zeithaml, 1990). Furthermore, it is assumed that inertia builds up over time creating a misfit between the organization and its environment. This misfit creates a crisis that only can be solved, if at all, by a rapid and radical change in the organization (Gersick, 1991; Gresov, Haverman, and Oliva, 1993; Romanelli and Tushman, 1994). This is especially true in what some scholars characterize as the emerging competitive landscape where the organizational environment is in a constant state of flux, and only those organizations that

match those changes will remain fit (Garud, Dunbar, and Raghuram, 1996; Hitt, Keats, and DeMarie, 1998). From this perspective, survival and change go hand in hand.

These perspectives emphasize the benefits of adaptability and flexibility while downplaying the benefits of stability. However, Brown and Eisenhardt (1998) argue that organizational survival and effectiveness depend on maintaining a balance between flexibility and stability. Under this perspective, it can be theorized that "inertia" is beneficial since it allows learning gains to be consolidated and it allows systems to increase in fitness. A system in a constant state of flux is doomed. Inertia also enables the accumulation of knowledge and complexity. Without inertia, improvements would vaporize at every new fad, and the system would never be able to move any distance from a random state.

The purpose of the current study is to test the proposition that inertia is beneficial. In the following paragraphs complexity theory is used to build a case for the benefits of inertia. Hypotheses are then developed regarding the benefits of inertia within the context of strategic groups. The methods used to test each hypothesis, results from the tests, and a discussion of the results then follow.

COMPLEXITY THEORY AND THE BENEFITS OF INERTIA

From a theoretical perspective, the new science of Chaos and Complexity theory provides an excellent theoretical lens from which to view the benefits of inertia. As organizational scholars continue to be interested in studying change (Van de Ven and Poole, 1995), they are increasingly turning to Chaos and Complexity theory to study change (e.g., Anderson, 1999; Marion, 2000; McKelvey, 1997; 1999). Both Chaos and Complexity theories suggest that systems' behavior is complex and that nonlinear interactions make behavior difficult or impossible to predict. However, Chaos theory and Complexity theory differ in important ways. Chaotic systems are mathematically deterministic, but their descriptive equations cannot be solved. These systems are stable but their behaviors are non-repetitive, and they carry only limited memory of the past. While complex systems border on the edge of chaos, they possess sufficient stability to carry memories and sufficient dynamism to process that information. Complexity theory is useful for describing biological phenomena such as evolution, ecological niches and even social and economic systems (e.g., Geller and Johnson, 1990; Guastello, Dooley, and Goldstein, 1995; Kauffman, 1995).

Consistent with complexity theory, Arthur (1994) argues that economic systems are self-reinforcing and is characterized by increasing returns rather than decreasing returns assumed by traditional economic models. Increasing returns suggests that firms with initial advantages in the market place are likely to succeed. Thus, it is not the best technology, product, or service that gives rise to dominance, but initial conditions (cf., Holbrook, Cohen, Hounshell, and Klepper, 2000). The rich get richer, and the poor get poorer. Path dependence and lock-in serve to constrain markets, technologies, organizations, and the paradigms in which they are embedded to their initial

trajectories. The processes that winnow out competing markets/technologies/firms/paradigms do not necessarily do so on the basis of efficiency (Arthur, 1994; David, 1985; Sterman and Wittenberg, 1999). Furthermore, in contrast to those who adopt a Darwinian selection model (e.g., Hannan and Freeman, 1989; McKelvey, 1999), some complexity theorists (e.g., Kauffman, 1995) relegate natural selection to a secondary player. Retention goes to those who have the most resources, and not necessarily those who are most efficient, and retention promotes survival of the system (Aldrich, 1999; Marion, 2000).

Viewing organizations as complex adaptive systems (CAS), complexity theorists suggest that organizations and their component parts co-evolve on a fitness landscape to a state poised between order and chaos (Anderson, 1999, Marion, 2000). This landscape may be smooth or rugged (Levinthal and Warglien, 1999). Organizations are viewed as attempting to climb up peaks of higher and higher fitness on these landscapes. Attempts at change, by jumping to new landscapes, may be based upon either exploitation of core competencies or exploration for new opportunities (March, 1991). However, such attempts may prove futile or counter productive. On smooth landscapes, because they are relatively flat, even major changes may not take an organization very far from its state. Thus, change attempts would be ineffective, and to the extent they were costly, could even be detrimental (Marion, 2000).

Because past behavior is self-reinforcing, search on rugged landscapes is likely to be focused on adjacent peaks, regardless of their relative height. In fact, these adjacent fitness peaks may actually be lower than the fitness peak on which the organization was previously perched. The result would be modest improvement at best, and could even result in a deterioration in performance (Levinthal and Warglien, 1999). It is exceedingly problematic that an organization that has already climbed high up on one fitness peak will find an adjacent fitness peak that is higher (Levinthal and Warglien, 1999; Marion, 2000). Attempts to overcome competency traps (Levitt and March, 1988), core rigidities (Leonard-Barton, 1992), or the Icarus Paradox (Miller, 1990), by exploring distant peaks rather than attempting to exploit adjacent peaks often result in wasted effort and forego the benefits of previous learning. The likely result is deterioration in performance (Levinthal and Warglien, 1999). Thus, based on complexity theory, a case can be made that inertia is beneficial.

As mentioned above, the purpose of the current study is to test the proposition that inertia is beneficial. We do this by examining firms that change their strategic group membership under both stable and turbulent environments. Specifically, the present study investigates the impact of environmental conditions on the relationship between strategic group membership patterns and performance by the partitioning of strategic groups into constant member sets and shifting member firm sets. Once the strategic groups are partitioned the effect of the movement between strategic groups on performance is examined under conditions of environmental stability and instability. In order to do this strategic groups in the banking industry are examined during two separate periods of time--one noted for its environmental stability and one noted for its environmental instability.

Empirically investigating the benefits of inertia within the context of strategic groups also extends strategic group research. To date, strategic group research has not explicitly considered the impact that movement between strategic groups has on performance homogeneity, within groups, much less the strategic group performance link (Cool, 1985; Fiegenbaum and Primeau, 1985; Fiegenbaum and Thomas, 1990). Prior research has also not explicitly examined the impact of environmental conditions on the relationship between strategic group movement and performance.

Instead, research undertaken with a consideration of environmental effects has generally been focused on the formation, maintenance, and change of group structures (Grinyer and Yasai-Ardekani, 1980; Romanelli and Tushman, 1986). Keats and Hitt (1988) note that most of this body of research has generally ignored the effects of environmental conditions on organizational performance.

INERTIA AND PERFORMANCE WITHIN THE CONTEXT OF STRATEGIC GROUPS

Porter (1980) defines a strategic group as a "group of firms in an industry following the same or similar strategy along the same strategic dimensions." The concept of strategic groups was first introduced by Hunt (1972) in his dissertation study of the white goods industry. In the years that have followed since Hunt's initial study, strategic group research has developed as a significant and popular arena for the investigation of organizational structure, competitive behavior, and performance (McGee and Thomas, 1989; Thomas and Venkatraman, 1988; Barney and Hoskisson, 1990; Smith, Grimm, Young, and Wally, 1997). Strategic group theory assumes a condition of within-group performance homogeneity and between-group performance heterogeneity. However, the empirical research to date has provided inconsistent support for this assumption (Barney and Hoskisson, 1990; McGee and Thomas, 1989).

Various hypotheses, though little empirical evidence, have been proposed to explain why within-group performance variance may exceed between-group performance variance. These reasons include: differences in core capabilities (Cool and Schendel, 1988; Lawless, Bergh, and Wilstead, 1989); lack of industry heterogeneity or inimitable resources (Mehra and Floyd, 1998), differences in risk-profiles (Cool and Schendel, 1988); and differences in how top management perceives their environments (Frombrun & Zajac, 1987; Reger, 1988).

One reason for large within group variances may be due to those firms whose memberships are transient or shifting over time (Reger and Huff, 1993). Prior researchers have noted evidence of slowly changing strategic group firm memberships (Cool, 1985; Fiegenbaum and Primeaux, 1985; Fiegenbaum and Thomas, 1990). Reger and Huff (1993) argue that such changes in strategic groups' firm membership patterns matter. They indicate that those firms whose memberships are transient or shifting over time may have an independent and divisive impact on the overall implications of strategic groups and performance.

Firms whose memberships are shifting over time may have lower performance because proficiency with new markets or technologies requires a learning curve. Often this learning curve is long and there is no guarantee that the new market or products will be worth the investment. This is why radical, technology destroying (Anderson and Tushman, 1990) innovations come from marginal players (Lebeblici, Salancik, Copay, and King, 1991) and large firms typically follow an early adopter model rather than a first mover model (Amburgey, Kelley, and Barnett, 1993). Consider, for example, the automobile industry's slow and tentative moves toward the development of hybrid power sources in cars. There is far too much invested in technologies and markets to permit easy conversion. Further, the failure rate of new innovations proves the rule. Change increases the hazard rate of survival (Hannan and Freeman, 1989).

Inertia allows firms to control or dominate their environment. Long-term success comes from the ability of firms to impose their frames on the environment. Inertia enables organizations to so overpower environmental pressures that alternative structures have no opportunity to displace the existing stability.

The idea that those firms whose memberships are shifting over time may have lower performance is also supported by both organizational ecology and the resource based view of the firm that predict that firms that change their strategy will experience decreased performance. Specifically, organizational ecology (Baum, 1996) argues that major changes result in an increase in the hazard rate for survival, while the resource based view of the firm (Barney and Hesterly, 1996) argues that performance results from a fit between the firm's core capabilities and its strategy. Additionally, Porac and Rosa (1996) argue that success follows from being a recipe maker, not from being a recipe taker. Furthermore, without a change in a firm's core capabilities, changing a firm's strategic group would result in a misfit, at least temporarily, between a firm's core capabilities and the firm's strategy. This in turn would result in a decrease in performance. Thus, it can be theorized that in a stable environment where the firm's core capabilities fit the firm's strategic group and the environment, firms which shift between strategic groups and thus ignore the benefits of inertia will not perform as well as firms that remain in the same strategic group. Thus, it is hypothesized that:

Hypothesis 1: Within each strategic group and during times of environmental stability, the constant firm set will exhibit higher levels of performance than will the shifting firm set.

In contrast, contingency theory and adaptation theorists argue that firms achieve success changing their strategies to fit changing environmental conditions. As Summer, et al., (1990) state, "in the long-term life span of the organization, its evolutionary pattern (whether it survives, grows, declines, stagnates) is determined by whether or not it is successful, in approximating, through time, an alignment (re: fit) between its internal distinctive competencies and its environment" (p. 364). It can be reasoned that during times of environmental instability that the benefits a firm would derive

from changing strategies (and strategic groups) might be balanced out by the benefits that may result from inertia. Thus, it is hypothesized that:

Hypothesis 2: Within each strategic group and during times of environmental instability, the shifting firm set will exhibit higher levels of performance than will the constant firm set.

METHODS

This paper undertakes the investigation of the research hypotheses in a manner intended to respond positively to two major shortcomings in the operationalization of strategic group research as noted by Thomas and Venkatraman (1988). The first shortcoming is that the strategic group and performance constructs have usually been under specified. Because of this, several researchers have suggested the need to undertake a "reality" check when developing the specification of the strategic group construct (Fiegenbaum, Sudharshan, and Thomas, 1987; Dess and Davis, 1984; and Reger, 1988). It is suggested that this be done by the utilization of industry expert opinion to cross-validate the selection of the key strategy variables upon which statistical procedures will be applied. This study addresses these concerns by the utilization of multiple variables indicated by both academic researchers and industry experts as being specifically appropriate to a study of strategic groups and performance in the banking industry. In addition to the under specification of the strategic group concept, the measurement of performance has been varied. Cool and Schendel (1987), in a multi-measure test of performance found, as did Dess and Davis (1984) and Fiegenbaum and Thomas(1990) that the results depended on what was used to measure performance. In this study, we use three measures of performance, as suggested by industry experts, to assess the strategic group performance linkage.

The other major shortcoming indicated is that cross-sectional, or static, research designs cannot provide valid evidence of the posited linkage between strategic group membership and performance; that to provide such validity, time and change must be explicitly considered in the research design (Cool and Schendel, 1987). This study addresses this shortcoming by utilizing a single industry, multi-period research design.

Two prior strategic group studies specifically considered the banking industry. Amel and Rhoades (1987) investigated whether or not strategic groups could be found in the banking industry, based on a selection of banking industry-specific variables. Reger (1988) investigated whether or not managers in the banking industry cognitively identified strategic groups and their firm members. Results from these studies suggested that strategic groups exist in the banking industry, and that the concept of strategic groups is cognitively meaningful to practitioners. Further the banking industry lends itself well to the issues being considered in this study as this industry has gone through significant periods of stability and instability over the past 25 years. Thus, the banking industry was chosen for study. The banking industry files contained on COMPUSTAT provide the sample

population for this study. The 150 banks on the data file represent approximately 80% of the banking assets in the United States.

Three dimensions have become standard in the typing of the environment: munificence, dynamism or instability, and complexity (Dess and Beard, 1984). Keats and Hitt (1988), in their study of the impact of the environmental dimensions of munificence, instability, and complexity on organizations, found that the dimension of instability had a greater impact on the behavior and subsequent performance of an organization than did either of the other two dimensions. Dess and Beard (1984) define industry environmental stability as a condition where there are only small amounts of change in the key strategic dimensions or conditions facing a particular industry. The dimension of dynamism or instability involves a lack of predictable patterns. It acts to reduce the ability of firms to individually and collectively understand what strategies produce the best performance results, and to have the time available to understand all the issues involved in the successful implementation of any given strategy. Industry stability should lead to a condition of industry understanding and predictability. Thus, this dimension provides the ideal context for studies involving the role of the environment on general issues of performance. Therefore, the dimension of instability was chosen as being the most appropriate given the focus of this current study.

This study establishes time periods of relative environmental instability and stability in a manner consistent with the approach utilized by Tosi, Aldag, and Storey (1973), Snyder and Glueck (1982), and Keats and Hitt (1988). Since interest rate changes have been noted as a major source of environmental instability in the banking industry, we used a coefficient of variation calculated on the prime rate as reported by the Federal Reserve Board as our measure of instability. This study considered the entire period of 1968-1987. This is the time period on the 20-year data file we had available from COMPUSTAT. From the analysis of this 20-year data file, we chose two distinct time periods, one reflecting a period of industry stability and the second one reflecting a period of industry instability.

The period of time selected to reflect industry environmental stability was 1968-1972. The years 1978-1982 were selected to reflect industry environmental instability. By way of comparison, Snyder and Glueck (1982) reported coefficients of variation for industries ranging from .24 in the electronics industry (the most unstable) to .10 in the confectionery products industry (the most stable). In our study, the coefficients of variation for the two time periods selected for study were .06 for 1968-1972 and .24 for the time period 1978-1982. Furthermore, the choice of these two time periods were further validated by the opinion of industry specialists (Compton, 1987; Haraf and Kushmeider, 1987), and by the charting of bank failure rates and changes in the prime rate over time. For example, bank failure rates were more than doubled during the unstable time period versus the stable time period, and prime rates, which remained basically stable during 1968-1972, fluctuating less than 3%, rose over 12% during the 1978-1982-time period.

Barney and Hoskisson (1990) note that much of the research on strategic groups is inconsistent with guidelines first set forth by Hofer and Schendel (1978). For example, some strategic group studies have almost exclusively used operational variables representing scope (e.g., Baird, Sudharshan, and Thomas, 1988; Frazier and Howell, 1983; Harrigan, 1981; Hunt, 1972; and Newman, 1978), while others only measured resource deployments (e.g., Baird and Sudharshan, 1983; Fiegenbaum and Primeaux, 1983; Harrigan, 1985; Hatten, 1974; Mascarenhas and Aaker, 1989; and Oster, 1982). Only a few studies have used a combination of both scope and resource deployments (e.g., Cool and Schendel, 1987; Dess and Davis, 1984; Lewis and Thomas, 1990; Ramsler, 1982; Sudharshan, Fiegenbaum, and Thomas, 1991; and Zahra, 1987). Fiegenbaum and Thomas (1990) suggested that much of the inconsistency found in the strategic group literature to date is the under-specification of both of these constructs. The variables selected need to reflect the unique aspects of both competitive behavior and types of performance relevant to each specific industry (Cool and Schendel, 1988; Fiegenbaum, Sudharshan, and Thomas, 1987; Reger, 1988; Thomas and Venkatraman, 1988).

For banks, the primary source of revenue is interest income. This income can be generated from a variety of revenue-generating activities. Loans are a primary source of interest income for the banking industry. Banks can also choose to invest their own funds in interest-bearing securities and/or in federal funds. And finally, banks can offer trust department services, which can generate significant trust fund incomes. The choice of deposit type to focus on is also a strategic decision available to banks. Demand, time, and foreign or domestic are all sources of deposit funds available to banks (Amel and Rhoades, 1987; Pohlman, 1985; Wolkowitz, 1985).

Compared to scope variables, there is limited availability of variables within the banking industry that reflect resource employment options. Resources deployed into physical and human resources may, however, be ascertained relative to levels common to the banking industry as a whole. This study used a list of scope and resource deployment variables selected by academic and practitioners for their ability to reflect the unique strategic decision alternatives available to managers in the banking industry. The sources for this variable list include Amel and Rhoades (1987), Pohlman (1985), Reger (1988), Rosenblum and Pavel (1985), Sinkey (1989) and two finance professors associated with the Institute for Banking and Finance Studies at a major southwestern university.

The following variables, used in the present study, reflect the strategic scope and resource deployment choices available to banks. These variables were derived from the COMPUSTAT annual bank file for the time periods of 1968-1972 and 1978-1982:

Scope variables:	
(1)	Loans/total assets,
(2)	Treasury securities/total assets,

(3)	State and local government securities/total assets,
(4)	Federal funds/total assets,
(5)	Trust revenue/total assets,
(6)	Time deposits/total assets,
(7)	Demand deposits/total assets,
(8)	Foreign deposits/total assets; and
Resource deployment variables:	
(9)	Premises, furniture, and equipment/total assets,
(10)	Officer and employee salaries and wages/total assets.
Performance Variable Selection: Pohlman (1985) identified the following measures of performance that are of specific value to the banking industry and which are used in this study.	
(1)	Return on equity.
(2)	Return on assets.
(3)	Profit margin.

For this study, firms within the banking services industry were clustered into strategic groups for each year of the two five year periods via a non-hierarchical and disjointed clustering technique. A question relative to the choice of a cluster analysis procedure is whether one wishes to obtain disjointed clusters where each firm is found within one and only one cluster. Since a major focus of this study is to investigate the influence of a firm's constant, versus shifting, membership in each strategic group. A cluster analysis technique is needed that forces closed strategic group boundaries, thereby allowing firms to belong to only one strategic group at any point in time. The SAS Institute, Inc. procedure of PROC FASTCLUS provides the non-hierarchical and disjointed cluster analysis best suited for the issue of the present study and was for the above-stated reasons deemed the most appropriate clustering technique to use in the current study. The determination of the appropriate number of strategic groups for each year of the study was based on a review of the R2, the Cubic Clustering Criterion value, and the Pseudo-F value generated for each iteration of the clustering technique. A rule-of-thumb identified by Fiegenbaum (1987) for the R2 values as a cut-off point in cluster analysis is that one should not increase the number of cluster past the point where the R2 values are increasing at a rate of less than 5%. The PROC FASTCLUS procedure generates for each number of strategic groups a Cubic Clustering Criterion and a Pseudo-F statistic. These two statistics indicate the appropriate number of strategic groups as being that point at which these two statistical measures peak, or achieve maximum value. SAS Institute, Inc. (1990) indicates that in a situation

where these two measures peak on different numbers of strategic groups, one should go with the number of clusters suggested by the Cubic Clustering Criterion.

The determination of which firms belong to the respective categories of constant set and shifting set is done by evaluating the firms that comprise each strategic group following the cluster analysis procedure for each time period. Constant set firms are considered those firms that have, over the reference periods of the study, remain as constant members of a strategic group. Shifting set firms are identified as those firms that during the periods of the study change their strategic group membership. The resulting strategic groups and their constant and shifting firm members were identified, on a year to year basis, by their strategic profile as indicated by the cluster analysis's loadings on each of the strategic variables. These resulting groups were then further validated by industry expert opinion. Following the establishment of the appropriate number of strategic groups for each year of the study, sub-group categories of constant strategic group firm members and shifting strategic group firm members were established for each of the years 1968-1972 and 1978-1982. This was accomplished with a MOBIUS procedure which compares the location of all firms included in strategic group I in year N to their strategic group locations in year N + 1 (Sudharshan, Thomas, and Fiegenbaum, 1991). The numbers located on the diagonal indicate those firms that are found in the same strategic group both years; those firms off the diagonal are firms that have switched strategic group membership. This procedure was done for all strategic groups for each of the ten years of the study to give a year-to-year ratio of constant to shifting strategic firm membership.

Research to date has shown a high level of stability in the firm memberships within strategic groups. Amel and Rhoades (1987), in a study of strategic groups in the banking industry, found that from 1978 to 1984, intra- group firm membership stability averaged between 60% and 70%. In the pharmaceutical industry during the years of 1963 to 1982, Cool and Schendel (1987) also found a high level of firm-strategic group stability. The sub-groupings provided by this method allow the subsequent investigation of hypotheses 1 & 2.

RESULTS

Analysis of the cubic clustering criterion, and the Pseudo-F statistical suggests for the stable period of 1968-1972, there were five clusters for each year save 1969, which had six clusters. For the unstable period of 1978-1982, there were two clusters for 1978, four clusters for 1979, and three clusters for each of the remaining years. (Tables available from the authors). To provide a reality check of these results, the strategic profiles of these groups were given to an industry expert, who consults extensively with the banking industry and who teaches in the Southwest School of Banking, for interpretation. He had no trouble identifying these groups during either the stable or unstable time periods

The five groups identified for the stable time period (1968-1972) consists of: (1) commercial banks seeking core deposits, such as certificates of deposits; (2) smaller local banks acting as good corporate citizens by investing heavily in local securities offerings; (3) traditional banks following a match-funding strategy with loans equaling deposits; (4) investment banks; and (5) money center banks seeking foreign deposits. During the unstable period of 1978-1982 three major strategic groups were found to be operating within the banking industry. They were: (1) banks which followed the conservative policy of loaning their excess liquidity to other banks; (2) aggressive commercial banks offering short term loans in an effort to maximize gains from rapidly changing interest rate changes; and (3) money center banks seeking foreign deposits.

Following the establishment of the appropriate number of strategic groups for each year of the study, sub-group categories of constant strategic group firm members and shifting strategic group members were established for each of the years 1968-1972 and 1978-1982. The MOBIUS procedure utilized revealed that the ratios of constant to shifting members, for the ten years of the study, range from a low of 48.4% in 1968-1969 to a high of 85.4% in 1980-1981. (Tables are available from the authors). The average ratio of constant versus shifting firms for the stable time period of 1968-1972 is 64.5%. The average ratio of constant versus shifting firms for the unstable time period of 1978-1982 is 75.8%. The ratio of firms that remained constant strategic group firm members to shifting strategic group firm members throughout the entire five-year period of 1968-1972 (stable) was 39.0%, while this same ratio for the time period of 1978-1982 (unstable) was 59.3%.

To test for differences in performance between constant and shifting strategic group firm members, a two-factor model was used with PROC GLM. Factor 1 indicated a firm's status as either a constant or a shifting strategic group member. Factor 2 indicated the specific strategic group to which each firm was a member. For the stable time period of 1968-1972, there was a statistically significant difference ($p < .05$) in performance between constant and shifting group members on eight of the fifteen comparisons made. There were significant differences one out of five years for the return-on-equity measure, four out of five years for the return-on-assets measure, and three out of five years for the before-tax profit measure (See Table 1). Analysis of the individual performance means (tables available from the authors) indicates that in every case, the differences were attributable the superior performance of constant group members. It would appear that that changes during periods of stability does impact performance in a negative manner.

The results for the unstable time period of 1978-1982 indicate there were statistically significant differences on only four of the fifteen comparisons made. Performance differences between constant and shifting group members were found two out of five years for the return-on-equity measure, one out of five years for the return-on-assets measure, and one out of five years for the before-tax profit measure. Analysis of the means indicates that these differences were attributable to superior performance by the constant group members on ROE and ROA. However, the shifting group members did out perform the constant group members on before-tax profit

margins for the year 1982. This would indicate that change during unstable time periods is less likely to have negative consequences than change during stable time periods. However, change is still problematic with respect to enhancing performance.

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Performance Variables	1968	1969	1970	1971	1972
ROE	1.99	2.60*	1.84	.52	1.43
ROA	9.18*	7.54*	6.91*	1.76	3.11*
Profit	6.62*	3.86*	2.13*	.52	1.13

*p < .05

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Performance Variables	1978	1979	1980	1981	1982
ROE	3.94*	1.64	3.14*	1.53	.36
ROA	2.82*	1.89	.88	1.53	1.65
Profit	1.63	1.63	1.60	2.10	2.97*

*p < .05

Further analysis indicates that, during the unstable industry environmental period, only the main effect of strategic group membership was found to be consistently statistically significant ($p < .05$). However, the results indicate that, during a time of industry environmental stability, the main effects of constant versus shifting firm status and strategic group membership, as well as the interaction effect, were significant 13 out of 15 possible cases ($p < .05$). Only for the main effect of constant versus shifting firm status, and its interaction with strategic group membership in 1970 were the results found not to be statistically significant. Analysis of the data on a year-by-year basis (tables available from the authors), revealed that in 72.5% of the 69 cases examined, the constant firm members exhibited higher performance than the shifting firm members for each strategic group. Essentially this same ratio was found consistently across the three performance measures.

Overall, the above results support hypothesis 1 that within each strategic group and during times of environmental stability, the constant firm set will exhibit higher levels of performance than

will the shifting firm set. Results, however, do not support hypothesis 2. Contrary to the adaptation hypothesis, within each strategic group and during times of environmental instability, the shifting firm set did not exhibit higher levels of performance than did the constant firm set.

Table 3: Multivariate Analysis, Unstable Period

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Category	1978	1979	1980	1981	1982
Constant vs. Shifting	1.81	1.80	1.29	.45	.83
Strategic Business Group	5.53*	6.03*	9.17*	6.14*	4.23*
Interaction Effect	3.10*	.91	.90	.46	.48
*p < .05					

Table 4: Multivariate Analysis, Unstable Period

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Category	1968	1969	1970	1971	1972
Constant vs. Shifting	7.91*	10.22	2.02	3.92*	4.42*
Strategic Business Group	8.37*	5.82*	7.99*	5.61*	2.62*
Interaction	6.38*	4.06*	1.85*	1.84*	2.54*
*p < .05					

DISCUSSION

Prior to this study, the benefits of inertia, both during times of industry environmental stability and instability had not received explicit research attention. Findings from this study suggest that firms do derive benefits from inertia. Specifically, findings suggest that within the context of strategic groups, that for the stable time period of 1968-1972, constant member firms exhibited higher performance levels, than did shifting firms in 53%, of the cases. Thus, change, on what complexity theorists would label a smooth landscape was detrimental.

On the rugged landscape of an unstable environment, between 1978-1982, performance mean differences between constant versus shifting members were statistically significant in only 26.6% of the cases. However, even here, constant group members tended to outperform shifting group members. Though, the negative effects of change were less hazardous than in a stable environment and in one case were beneficial.

It might be argued that these changes should be considered incremental or exploitative in nature rather than exploratory. The banks changed by recombining resources to serve customers,

often in new ways, rather than using their resources to move into a different industry. If so, these findings should be interpreted of being even more supportive of the benefits of stability because exploitative change should be less disruptive and dangerous than exploratory change (Levinthal and Warglien, 1999). An interesting aspect of this finding was that hill climbing toward higher fitness peaks, while improving performance on one dimension (e.g., ROA) did not do so on other dimensions of performance (e.g., ROE). The notion of fitness as a single aggregate phenomena, however measured or conceptualized (Drazin and Van de Ven, 1985; Venkatraman, 1989), is a complex phenomenon (Levin, Long, and Carroll, 1999). Improving one dimension of fit, may not affect other dimensions of fit, or may effect them in detrimental ways.

Findings from the current study have several theoretical implications. First, findings shed additional light on the ongoing debate concerning whether or not firms can or should adapt to their environments. On one hand, complexity theory supports the benefits of inertia and not changing strategies. Additionally, population ecology theorists hold that firms cannot adapt nor should they attempt to adapt since change increases the hazard rate of survival. Those who take a resource based view of the firm suggest that change is possible but the efficacy of change is problematical (cf., Fox-Wolfgramm, Boal, and Hunt, 1998; Garud, Dunbar, and Raghuram, 1996; Dunbar, Garud, and Raghuram, 1996; Porac and Rosa, 1996; Meyers, Goes, and Brooks, 1994; Hannan and Freeman, 1989). On the other end of the spectrum adaptation, institutional, and strategic choice theorists believe they can and should change.

Research by Zajac and his colleagues suggests that although change is possible, it not always beneficial (Zajack and Kraatz, 1993; Zajac and Shortell, 1989). Our findings indicate that the majority of firms that changed strategic groups not only did not benefit by the change, but also actually did worse relative to those who stayed the course. We interpret our results as consistent with: 1) complexity theory and specifically the benefits of inertia; 2) adaptation theory, in that change is possible; but with 3) organizational ecology and the resource based view of the firm that change will not necessarily be beneficial.

These findings from our study also have theoretical implications regarding strategic group research. These findings indicate that the performance implications of strategic group membership will be impacted by the membership patterns of the firms that comprise the strategic group, and that this impact will be further affected by the environmental conditions of stability and instability. The empirical results also indicate that, within each strategic group, the firms that remain members over time will tend to have higher levels of performance than shifting membership firms, and especially so during times of industry environmental stability. Thus, the findings suggest that inconsistencies in prior studies are likely due to performance differences between shifting and constant member firms rather than differences in performance homogeneity.

Finally, these findings also have implications regarding the proper unit and level of analysis in our theories. In the field of strategy, a considerable debate has arisen over the relative power of industry level versus firm level effects on performance (c.f., Brush, Bromiley, and Hendrickx, 1999;

Maghan and Porter, 1997; Roquebert, Phillips, and Westfall, 1996; Rumelt, 1991). In addition to industry and firm level effects, strategic groups have been put forth as an important level of analysis, in their own right, and as an important level of analysis in explaining firm performance not attributable to the industry effects nor organizational level differences (Dranove, Peteraf, and Shanley, 1998). Results from the current study provide additional evidence regarding the merit of examining strategic groups as a level of analysis. Our results indicate that group membership matters, and that previous conclusions to the contrary may be due to: statistical artifacts, methodological decisions, lack of consistency in group membership, and environmental instability. This is important given that one of the most critical issues facing theory development and testing in management concerns is the proper unit and level of analysis in our theories (cf., Cappelli and Sherer, 1991; Klein, Dansereau, and Hall; Rousseau, 1985).

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

As with most studies, the current study has limitations associated with it that offer opportunities for future research. One limitation concerns the fact that in our study the banking industry was essentially regulated during the stable time period and deregulated during the unstable period of time. Thus, the findings of performance effects could reflect, in part, the effects of a change in regulatory status. For example, during the unstable period that would follow the de-regulation of an industry, it would be expected that strategy would be more important, relative to the success of an organization, than it would be during a stable, regulated period. Future research may want to examine strategic groups in industries that did not experience deregulation.

It should also be noted that strategic groups are collections of firms pursuing a similar strategy (Cool & Schendel, 1988). A strategic plan is intended to develop a forward-looking perspective on how the firm intends to compete and succeed in ensuing years. The use of secondary source data, however, forces the consideration of strategy to be that of "realized" or past strategy, not "intended" strategy. This study shares the limitation common to most strategic group studies of being based upon realized strategy. Future research may wish to combine the methods used here with cognitive approaches to studying strategic groups (Reger & Huff (1993) to overcome these limitations.

Overall, it is hoped that results from our study shed additional light on the benefits of inertia. It is also hoped that this study will serve as a foundation for future research in this important area.

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THE STRATEGIC PLANNING PROCESS: THE LINK BETWEEN MISSION STATEMENT AND ORGANIZATIONAL PERFORMANCE

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ABSTRACT

The strategic planning process requires development of a mission statement for the organization. The mission statement incorporates the organization's purpose and vision for the future. A 9-item mission statement evaluation scale was developed to measure the completeness and quality of an organization's mission statement. Further, the link between the completeness and quality of an organization's mission statement and the organization's financial performance was investigated. Results indicate a significant, positive relationship between the completeness and quality of the mission statement and the organization's financial performance. Strategic managers can expect that the result of improving their organization's mission statement will be improved financial performance.

INTRODUCTION

Senior capstone courses in Business Policy or Strategic Management are required in virtually every undergraduate (and graduate) business program. Strategic management texts used in these courses tout mission statements that articulate a firm's mission as critical elements of a company's overall strategic management process. They are championed as important mechanisms to provide crucial information to internal and external stakeholders about the purpose and direction of the organization. Instructions are provided in ways to properly develop, craft, and write mission statements. Distinctions are regularly made between "quality" mission statements versus those that lack "quality." However, despite this focus, little if anything is discussed concerning the impact mission statements have on performance outcomes. This study is designed to investigate whether the quality and completeness of a firm's mission statement has a positive influence on various organizational performance outcomes.

REVIEW OF THE LITERATURE

Strategic management texts include a process of strategic management that incorporates mission as one of the vital tasks in the strategic planning process (Thompson & Strickland, 2001;

Hill & Jones, 2000; Wheelen & Hunger, 2000). In addition, mission statements are presented as important tools for communicating the mission to internal and external stakeholders.

A number of definitions of mission statements exist. Bart and Tabone (1998), Rigby (1998), and Drohan (1999) all provide definitions that essentially say that mission statements should reflect an organization's purpose and the means by which that purpose will be accomplished. Pearce (1982) states that the mission statement should include the ultimate aims of the firm thus providing unity of direction for managers, shared expectations by employees, and a projection to customers of what the firm provides and represents. Calfee (1993) says that mission statements answer the questions of what business the firm is in, what its objectives are, and how the company will win. This will ensure that all managers understand their role in executing the mission.

Research studies attempting to link mission statements to organizational performance have been conducted. Pearce and David (1987) compared mission statements of higher financial performing Fortune 500 firms to those of lower financial performing companies. Higher performing organizations "prepared written statements for public distribution giving special attention to their corporate philosophy on the firm's 1. basic beliefs, values, aspirations, and priorities, 2. desired public image, and 3. self-concept, including competitive strengths." Mission statements are often customer-focused. Germain and Cooper (1990) found that firms that have customer service missions are more likely to seek input from customers and are also more likely to develop and maintain customer service measures. Also, customer service activities by the company are more likely to be monitored by firms with customer service mission statements. Forehand (2000) studied firms within the healthcare industry and concluded that, within this particular industry, "solid mission statements can improve the performance of managers, employees, and the healthcare organization."

A number of studies, however, concluded that there was no evidence to support the idea that mission statements are positively related to company performance. Bart and Baetz (1998) found no empirical evidence to support the concept that outstanding organizational performance is related to a firm's mission statement—even though they concluded that some specific characteristics of a mission statement may be selectively related to higher levels of performance. The impact of planning sophistication and implementation on firm performance was investigated by Hahn and Powers (1999). Development of a mission statement was one determinant of planning sophistication. It was determined that high levels of sophistication (of which mission statements were a part) did not have an impact on organizational performance. O'Gorman and Doran (1999) replicated Pearce and David's 1987 study using small and medium-sized Irish firms. Results do not support the findings of the earlier study. It was concluded that organizational performance was not positively correlated with mission statements.

Because the results of these previous studies are conflicting, it is necessary to further investigate the link between mission and performance. This study was designed for that purpose. Generally, it is proposed that the completeness and quality of an organization's mission statement has a significant, positive relationship on an organization's financial performance.

METHOD

Measurement scales were developed for the purpose of scoring the quality and completeness of an organization's mission statement and its degree of organizational performance. The mission scale includes nine criteria derived from Wheelen and Hunger's (2000) discussion of mission statements. The nine criteria include: 1) purpose, 2) services and/or products, 3) competitive advantage, 4) scope of operations, 5) philosophy, 6) vision, 7) sense of shared expectations, 8) public image and 9) emphasis on technology, creativity and innovation. The organizational performance scale includes eleven performance criteria derived from the CNNfn.COM Evaluator Summary. The eleven performance criteria include: 1) revenue, 2) net income, 3) cash flow, 4) return on equity, 5) return on assets 6) return on invested capital, 7) total debt to equity, 8) long-term debt to equity, 9) price/earnings ratio, 10) price/sales ratio and 11) price/earnings/growth ratio. Each of the mission related items required response to a 1 to 7 Likert scale anchored with "strongly disagree (1)" and "strongly agree (7)." Each of the performance related items required response to a 1 to 5 Likert scale anchored with "weaker (1)" and "stronger (5) than the industry average". The Mission/Performance Survey Form that incorporates the two scales is presented in Appendix A.

Business students enrolled in senior level strategic management courses were trained to review organization mission statements and organizational performance using the survey form. The students were instructed to review mission related information on the Internet sites of individual companies and to assess organizational performance using information provided at a CNNfn site. A total of 340 observations were taken. Information was analyzed for a total of 162 different companies. Fifty-three of the companies were observed multiple (two or more) times. All companies were listed on one of the major U.S. stock exchanges.

The resulting data set was factor analyzed to identify the primary components of the mission and performance scales, to determine the most efficient set of items for each component and to assess the reliability of each component scale. Correlation and regression analysis were performed to identify the type and strength of the relationships among the mission and performance components. For purposes of the correlation and regression analysis scale and subscale values were computed as means of the respectively included items.

RESULTS

Results of the factor, correlation and regression analyses are included in this section. The MISSION scale factored into two primary components each with a relatively high internal reliability. The PERFORMANCE scale factored into four primary components with high reliability exhibited by three of the four. Correlation and regression analyses indicated that the relationship between mission and performance is significant and positive. The relationship is, however, relatively weak. Factor analysis of the mission related variables identified two primary components

- PURPOSE and VISION. The PURPOSE component is comprised of four items: 1) organizational purpose, 2) organizational products, services and markets, 3) organizational competitive advantage and 4) the organization's scope of operations. The VISION component is comprised of five items: 1) organizational philosophy, 2) organizational vision, 3) sense of shared expectations, 4) positive public image, and 5) emphasis on technology, creativity and innovation.

Table 1 includes results of the factor analysis on the MISSION scale. Principle component analysis with a varimax rotation was specifically used to perform the factor analysis. Internal reliability for the MISSION scale (all nine items) was assessed at .87 using Cronbach's Alpha. Alphas of .82 and .81 were computed for the PURPOSE and VISION components, respectively.

TABLE 1: Rotated Component Matrix for MISSION Scale: Factor Loadings		
Component/Items	Factor 1	Factor 2
PURPOSE (Cronbach's Alpha = .82)		
Purpose (PUR)	.397	.673
Service and Products (PRO)	.106	.882
Competitive Advantage (CA)	.496	.582
Scope of Operations (SCO)	.165	.848
VISION (Cronbach's Alpha = .81)		
Philosophy (PHI)	.711	.231
Vision (VIS)	.759	.109
Shared Expectations (EXP)	.825	.153
Public Image (IMA)	.720	.348
Technology Emphasis (TEC)	.508	.425

Table 2 includes results of the factor analysis done on the PERFORMANCE scale. Principle component analysis with varimax rotation was specifically used to perform the factor analysis. It was necessary to exclude the items related to revenue and price/earnings/growth from the PERFORMANCE scale since neither item loaded strongly on any factor and inclusion of either item resulted in significant reduction in alpha values. Internal reliability for the reduced overall PERFORMANCE scale was assessed at .69 using Cronbach's Alpha. Alphas of .94, .93, .82 and .33 were computed for the RETURN, DEBT, CASH and PRICE components, respectively.

A potential problem associated with use of the new mission scale is that of rater reliability. Fifty-three of the companies in the sample were rated multiple times. Each of the multiple ratings

was assessed for reliability using Kendall's Coefficient of Concordance. Kendall's W scores ranged from .101 to .905 with a weighted average of .369. These low inter-rater reliability scores indicate potential problems with interpretation of the results of this study.

Correlation analysis was performed to identify the type and strength of the relationships among the overall scales (MISSION and PERFORMANCE) and the scale components (PURPOSE, VISION, RETURN, DEBT, CASH and PRICE). The relation between the MISSION and PERFORMANCE is positive ($R=.199$) and is significant at the .001 level. PURPOSE and VISION, components of the MISSION scale, were found to be positively and strongly correlated ($R=.621$). The PURPOSE component was found to be significantly related (positively) to RETURN and DEBT. The VISION component was significantly related (positively) to RETURN and CASH. Table 3 presents the correlation matrix for the scales and components.

TABLE 2: Rotated Component Matrix for PERFORMANCE Scale: Factor Loadings				
Component/Items	Factor 1	Factor 2	Factor 3	Factor 4
RETURN (Cronbach's Alpha = .94)				
Return on Equity (ROE)	.948	-.048	.080	-.069
Return on Assets (ROA)	.913	.225	.117	.015
Return on Invested Capital (ROIC)	.937	.146	.102	-.027
DEBT (Cronbach's Alpha = .93)				
Total Debt to Equity (TDE)	.114	.963	.027	-.079
Long-Term Debt to Equity (LTDE)	.123	.962	-.054	-.064
CASH (Cronbach's Alpha = .82)				
Net Income (NI)	.120	-.017	.902	.002
Cash Flow (CF)	.104	-.007	.907	.036
PRICE (Cronbach's Alpha = .33)				
Price/Earnings Ratio (PE)	.122	-.080	-.049	.801
Price/Sales Ratio (PS)	-.187	-.041	.134	.744

To further assess the relationships among the MISSION and PERFORMANCE scales and scale components, regression analyses were performed. In all cases, the MISSION scale or scale components (PURPOSE and VISION) served as independent variables and the PERFORMANCE scale and components (RETURN, DEBT, CASH and PRICE) as dependent variables. Initially, the

impact of MISSION on PERFORMANCE was analyzed. A statistically significant relationship was found ($R=.199$, $R^2=.040$, ANOVA significance level = .000). PURPOSE and VISION were then regressed against each of the PERFORMANCE components. Each time one of the independent variables was found not to be significant to the model. Statistically significant equations were ultimately identified for RETURN and PURPOSE, DEBT and PURPOSE, and CASH and VISION. Regressions with the PRICE variable did not produce statistically significant results. Table 4 displays results of the regression analyses.

TABLE 3: Correlation Matrix for Scales and Components

	MISS	PERF	PURP	VISI	RET	DEBT	CASH	PRICE
MISS	1.000							
PERF	.199**	1.000						
PURP	.865**	.185**	1.000					
VISI	.931**	.176**	.621**	1.000				
RET	.152**	.748**	.158**	.122*	1.000			
DEBT	.100	.503**	.118*	.070	.206**	1.000		
CASH	.095	.576**	.054	.110*	.197**	.007	1.000	
PRICE	-.059	.108	-.073	-.039	-.092	-.145**	.021	1.000

*, ** indicate statistical significance at the .05 and .01 levels, respectively

TABLE 4: Regression Results

Dependent/ Independent	ANOVA			
	R	R ²	F-signif	Equation
PERF/MISSION	.199	.040	.000	PERF=4.031+.342*MISSION
RET/PURPOSE	.158	.025	.004	RET=3.020+.184*PURPOSE
DEBT/PURPOSE	.118	.014	.033	DEBT=2.904+.135*PURPOSE
CASH/VISION	.110	.012	.046	CASH=2.347+.126*VISION

Regressions including the variables MISSION, PERFORMANCE, PURPOSE, VISION, RETURN, DEBT and CASH indicate the expected positive relationship and the relationships were found to be statistically significant. Equations including the variable PRICE were not found to be

statistically significant. It should be noted that the PRICE component exhibited relatively low internal reliability (Cronbach's Alpha = .33). While the coefficients for the independent variables in all but the PRICE equation were significantly different from zero, it should also be noted that the relationships between the independent and dependent variables were not particularly strong.

The correlation and regression analyses reveal the expected positive relationships among the mission and performance related variables. Only the performance related variable PRICE was not found to be significantly related to the mission variables. It should be noted that while the internal reliability of the mission statement scales was assessed as relatively low the inter-rater reliability was assessed at a relatively low level.

CONCLUSIONS

The strategic planning process calls for careful development of an organizational mission statement, the setting of related objectives, thorough planning, capable implementation and follow-up to determine whether or not the objectives were accomplished according to plan and whether or not the mission was realized. Construction of the mission statement is described as critical to the overall success of the organization since all other activities flow from it.

This study aimed to investigate this hypothesized positive link between the mission statement and organizational performance. The MISSION scale was factored into two internally reliable and theoretically founded components PURPOSE and VISION. The PERFORMANCE scale was factored into four components RETURN, DEBT, CASH and PRICE. Only the RETURN, DEBT and CASH components exhibited internal reliability. The mission related variables were found to be positively related to the performance related variables. While the relationships were discovered to be statistically significant, they were not relatively strong. Generally, it is concluded that the completeness of an organization's mission statement does positively impact the organization's performance.

The relative weakness of the relationship, however, indicates that other independent variables should be considered. A planned extension of this study will include measures of the other major components of the strategic planning process: 1) objective setting, 2) planning, 3) implementation and 4) follow-up capabilities. An additional weakness is indicated by the relatively low inter-rater reliability score for the mission statement scale. Further assessment of the scale's reliability is required.

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APPENDIX A	
Organization:	
MISSION STATEMENT EVALUATION SCALE	
Characteristics of Mission Statements	
Based on a thorough review of the organization's mission statement, circle the number that best represents your agreement with each of the following statements.	
The purpose or reason for the organization's existence is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The services and/or products provided society is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The fundamental, unique competitive advantage that sets the company apart from other firms of its type is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The scope of the company's operations in terms of products and services offered and markets served is clearly identified.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
There is a clear description of the firm's philosophy about how it does business and treats its customers.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
There is a clear description of what the organization wants to become.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The statement promotes a sense of shared expectations in employees.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The statement communicates a positive public image to important stakeholder groups.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
The importance of factors such as technology, creativity and innovation is emphasized.	Strongly Disagree 1 2 3 4 5 6 7 Strongly Agree
Total the scores on each question and divide by 9 to compute an overall score for the organization's mission statement. Then, divide the overall score by 7 and multiply it by 100 to compute the overall percentage score.	
Overall Score = _____	Overall percentage = _____

ORGANIZATIONAL PERFORMANCE EVALUATION SCALE		
Characteristics of organizational performance (CNNfn Evaluator Summary)		
Please access the summary page of the CNNfn Evaluator (provided by Intuit with data from Media General Financial Services).		
Growth Rates and Return		Company vs Industry Ranking (1-year)
1.	Revenue	Weaker 1 2 3 4 5 Stronger
2.	Net Income	Weaker 1 2 3 4 5 Stronger
3.	Cash Flow	Weaker 1 2 3 4 5 Stronger
4.	ROE	Weaker 1 2 3 4 5 Stronger
5.	ROA	Weaker 1 2 3 4 5 Stronger
6.	ROIC	Weaker 1 2 3 4 5 Stronger
Trailing 12-months Comparison		
7.	Total Debt to Equity	Weaker 1 2 3 4 5 Stronger
8.	Long-term Debt to Equity	Weaker 1 2 3 4 5 Stronger
9.	P/E ratio	Weaker 1 2 3 4 5 Stronger
10.	P/S ratio	Weaker 1 2 3 4 5 Stronger
11.	PEG	Weaker 1 2 3 4 5 Stronger
Total the scores on each question and divide by 11 to compute an overall score for the organization's mission statement. Then, divide the overall score by 5 and multiply it by 100 to compute the overall percentage score.		
Overall Score = _____		Overall percentage = _____

THE EFFECTS OF RAPID ENVIRONMENTAL CHANGE ON COMPETITIVE STRATEGIES: AN ORGANIZATIONAL LEARNING PERSPECTIVE

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ABSTRACT

This model presents the both direct and indirect effects of incremental and major environmental change on competitive strategies employed by organizational participants in rapidly changing environments; specifically, environmental change is viewed as having both incremental and major components. The model developed in this paper predicts that organizations that are accustomed to rapid environmental change will gain competence at learning under incremental environmental change. However, accurate learning for firms under conditions of major environmental change will continue to be problematic.

INTRODUCTION

This paper develops a predictive model of the impact of environmental change on the relationship between past performance and strategic change for rapidly changing environments. This model aims to enhance our understanding of how firms learn to navigate in rapidly changing environments and set an agenda for empirical research on the impact of environmental granularity on strategic change. Using an organizational learning perspective, this paper describes the forces that drive volatility in this competitive environment. The extreme volatility and ambiguity of this environment may make it difficult for organizations to interpret changes in their performance. Organizational interpretation of performance feedback leads to firms' strategic action or inaction. An example of this type of environment is the microcomputer hardware industry has been described as the quintessential turbulent or high velocity industry (Eisenhardt & Bourgeois, 1990).

BACKGROUND

The ideas contained in this research are based on the underlying assumption that organizations respond to their experience, including their prior performance and their perceived

environment, as adaptive learning systems (Cyert & March, 1992; March & Simon 1993; March & Olsen, 1976). It is proposed that an organizational learning perspective can explain the strategic adaptations of organizations in rapidly changing environmental, such as microcomputer makers. Some authors suggest that superstitious learning occurs when spurious correlations are drawn from learning based on erroneous perceptions and interpretations of environmental signals or performance feedback in ambiguous environments (March & Olsen, 1976; Levinthal & March, 1981). However, others suggest that organizations can learn to cope with rapid environmental change as a baseline condition (Milliken & Lant, 1991; Levitt & March, 1988).

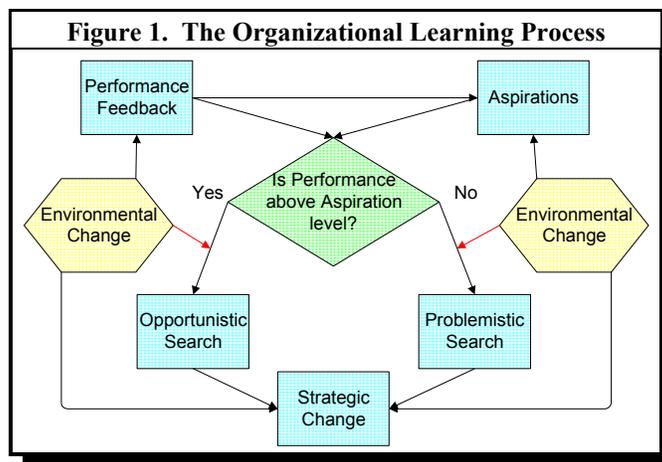
The strategic responses of organizations to an ambiguous, turbulent environment and to their own performance are investigated over time. This paper develops theoretical mechanisms for including both the direct and indirect effects of environmental change in an organizational learning framework and dividing environmental change into incremental and major components. This conceptualization may explain why some prior research has indicated that accurate learning is problematic under conditions of rapid environmental change while others have suggested that firms can gain competence at learning in rapidly changing environments. The model developed in this study predicts that organizations that are accustomed to environmental change will gain competence at learning under conditions of incremental environmental change. However, accurate learning for these firms under conditions of major environmental change will continue to be problematic.

ADAPTIVE ORGANIZATIONAL LEARNING

The model of learning used in this study is consistent with an adaptive organizational learning perspective that models organizations as goal-oriented systems that respond to experience (Cyert & March, 1992; Glynn, Lant, and Milliken, 1994; March & Simon 1993; March & Olsen, 1976; Milliken & Lant, 1991; Levinthal & March, 1981; Levitt & March, 1988; Lant & Mezias, 1990, 1992). Organizations continue or repeat actions that have been successful and search for alternatives in light of negative feedback. Glynn, Lant, and Milliken (1994) point out "the key components of organizational learning are goals, attention and search rules, routines, shared understandings, and organizational beliefs (pp. 44-45)." New organizational actions or adaptations are based on the interpretations of organizations' past performance, experience, and environment.

Following Lant and Mezias (1992) and Mezias and Lant (1994), there are four basic elements of the organizational learning perspective as shown in Figure 1. First, organizations have performance goals or aspirations to which they compare their actual performance (Cyert & March, 1992; Lant, 1992). Second, organizations analyze performance feedback and scan their environment to assess their level of goal attainment. Third, organizations search for alternative strategies under conditions of failure, where gathering and processing information about alternative behaviors is a relatively costly process (Cyert & March, 1992; Nelson & Winter, 1982). Fourth, organizations

change their strategies based on the alternative selected by their search process (Mezias & Lant, 1994).



ASPIRATIONS

Aspirations come from organization's assessments of their own performance, competitors' performance, and environmental conditions. Organizations face the complex process of filtering through the goals of multiple coalitions and interest groups from inside the organization, from its prior performance, and from its environment to distill organizational aspirations. The level of an organization's aspirations may be set by satisficing due to limited search and processing capabilities. Simon (1955) presents the notion of satisficing, where utility maximization is not possible and individuals accept some satisfactory, but less than optimal, decision solution.

Cyert and March (1992) posit that in the steady state these aspirations will exceed performance by a small amount. However, when performance increases at an increasing rate, aspirations will lag behind performance in the short-run. When performance decreases, aspirations will be above the level of performance. Their model assumes that aspirations are an optimistic extrapolation of previous performance and aspirations. Lant's (1992) examination of aspiration level adaptation by teams in a competitive behavioral simulation provides empirical support for this model.

PERFORMANCE FEEDBACK

Performance feedback comes from an organization's own actual performance. This is a backward looking process where organizations compare prior actual performance information to

organizational goals. Organizations' perceptions of success and failure are outcomes of this comparison process. Organizations perceive success when actual performance is above target levels and failure when actual performance is below target levels (Cyert & March, 1992; Lant & Mezas, 1990, 1992; Milliken & Lant, 1991). Organizations are less likely to repeat their behaviors when they perceive conditions of failure and are more likely to repeat successful behaviors (Levinthal & March, 1981; Levitt & March, 1988; Lant & Mezas, 1990, 1992).

March and Olsen (1976) posit that when performance feedback is unclear, superstitious learning may occur, i.e., spurious correlations may be drawn from coincidental events and interpreted as meaningful information. This learning may be based on erroneous perceptions and interpretations of anomalous performance improvements in unclear environments. This causal ambiguity may lead to spurious attributions of performance data (Rumelt, 1974). Firm level responses to rapid performance changes may be the organizational equivalent of a deer transfixed by the headlights of an approaching car -- failure to act. Rapid and or frequent changes may lead to organizational inertia (Staw, Sandelands, & Dutton, 1981; Hannan & Freeman, 1989).

The clarity and accuracy of performance feedback affect organizations' abilities to adapt aspirations. Lant (1992) found that when feedback was very clear and accurate the behavioral outcomes of groups were roughly consistent with both an adaptive learning model and a rational expectations model. In a computer simulation Lant and Mezas (1992) modeled organizations in an ambiguous world (cf. March & Olsen, 1976) and found that the effect of ambiguity decreased organizations' responsiveness to performance information.

SEARCH

March and Simon (1993) view organizations as action oriented and adaptive systems. Organizations are sequential processors of alternative solutions due to their limited processing capacity. Furthermore, organizations have limited search capabilities; they limit the range of alternative solutions that they seek for a given problem or issue.

Building on previous work (Simon 1955; March & Simon 1993), Cyert and March (1992) view organizations as using acceptable-level decision rules and paying sequential attention to goals. When performance is below the aspiration level organizations engage in what Cyert and March (1992) term problemistic search. The search for alternative solutions to aspiration attainment is triggered by problems. At first, a simple-minded search procedure is used to seek alternatives. If this simple procedure does not yield a satisfactory solution, then more complex search mechanisms are employed to find a problem solution. The search for aspiration attainment is biased by the experience, the environment, and the performance history of an organization. When performance is above the aspiration level organizations engage in opportunistic search. The search for alternative

solutions to aspiration attainment is triggered by organizational slack, the abundance of organizational resources beyond those necessary to the organization (Cyert and March, 1992).

CHANGE

Based on the above aspirations, feedback, and search, organizations may elect to change their strategies and or capabilities. These changes may refine current strategies or implement new strategies. Thus, change includes both a aspiration level adaptation component and a random component in organizational responses to experiences (March & Simon, 1993; Cyert & March, 1992; Mezas & Glynn, 1993).

EFFECTS OF PAST PERFORMANCE ON STRATEGIC CHANGE

Organizational performance influences strategic persistence and change (Lant, Milliken, & Batra, 1992; Milliken & Lant, 1991; Lant & Montgomery, 1987). Previous research suggests that following successful performance, firms are unlikely to change their strategies; however, following unsuccessful performance, firms are more likely to change their strategies (Lant, Milliken, & Batra, 1992; Milliken & Lant, 1991).

The recent performance history of organizations may play a critical role in influencing organizational decision making about strategic change or persistence. Following successful performance, organizations are unlikely to change their strategies. However, following unsuccessful performance, organizations are more likely to change their strategies than under conditions of success. While inertial forces are still strong, there tend to be fewer competency traps (Levitt, & March, 1988), positive reinforcement, and slack resources to encourage persistence.

Lant and Mezas (1990, 1992) investigated the longitudinal effects of organizational performance on organizational learning using computer simulations. Their results show that organizations below the median population performance were significantly more likely to adapt their behaviors than those above the median population performance. In a simulation study, Levinthal and March (1981) used a weighted average of past performance, which suggests that aspirations are updated over time, and found that past performance was associated with strategic change. Lant, Milliken, and Batra (1992) found that past performance was a significantly associated with strategic organizational reorientation in both stable and turbulent environments, though more strongly in the stable environment condition.

<i>PROPOSITION 1:</i>	<i>Decreases in performance will be positively related to the likelihood of strategic organizational change.</i>
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DIRECT AND INDIRECT EFFECTS OF ENVIRONMENTAL CHANGE ON STRATEGIC CHANGE

Environment is the context in which organizations interpret and respond to performance feedback and set strategies. Many scholars have recognized the importance of congruence between organizations and their environments (Burns & Stalker, 1961; Lawrence & Lorsch, 1967; Child, 1972). Organizations are also dependent on their environments (Pfeffer and Salancik, 1978). The notion that as the environment changes organizations should change their strategies has long been held (Thompson, 1967; Miles and Snow, 1978; Miller and Friesen, 1978; Porter, 1980; and others).

Environment has a greater impact on strategic decision making in more technologically intensive industries than in simpler industries (Jemison, 1981; Kim and McIntosh, 1999). Complexity challenges organizations' abilities to interpret their surroundings and respond to changes in their environments. With rapid change, interpretation and response become all the more difficult tasks for organizations. Complex environments that change rapidly are labeled turbulent environments (Ansoff, 1979).

With some notable exceptions there have been few empirical studies in this area (Smith and Grimm, 1987, Zajac and Shortell, 1989; Ginsberg and Buchholtz, 1990; Kraatz and Zajac, 2001; Zajac and Kraatz, 1993). Smith and Grimm (1987) suggest that a dynamic view of the relationship between the environment and strategic change is necessary to explore this relationship. Zajac and Shortell (1989) address the question as to whether or not organizations change strategies in response to changing environmental conditions and found that while this is a generally appealing concept relatively little empirical work has been pursued. While Zajac and Shortell (1989) found general agreement with the notion that organizations change strategies in response to changing environmental conditions, their findings were less than conclusive. Ginsberg and Buchholtz (1990) in their study of health maintenance organizations found that organizations did in part change strategies in response to changing environmental and regulatory conditions. Kraatz and Zajac (2001) were consistent with their earlier work and the behavioral perspective in their studies of small colleges and found that while the resources held by firm did constrain strategic change, that organizations did respond to changing environmental conditions (Zajac and Kraatz, 1993).

Environmental change affects the ways in which organizations interpret strategy and performance. While internal organizational members and membership dynamics are integral contributors to organizational strategies, understanding the context in which an organization is embedded may enhance evaluation and understanding of organizational strategies (Chakravarthy and Doz, 1992; Denis, Lamothe, & Langley, 2001; Ginn, 1990; Stacey, 1995). Chan (1986) and Jackson (1991) found to varying degrees that organizational change results from a dynamic combination of environment, strategy, structure, and technology factors.

As environments change rapidly, there is increasing pressure on organizations to produce valuable outputs faster and more efficiently. Gupta and Wilemon (1990: 24) argue that the rules of the game of new product development have changed. They suggest that the environment for new product development is characterized by increased competition, new technologies that make existing products obsolete, changing customer needs and shorter product life cycles, higher development costs, and increased need for involvement of customers, vendors, and strategic partners in the development process.

Bourgeois and Eisenhardt's (1988) and Eisenhardt and Bourgeois' (1988) investigations of rapidly changing environments found that successful firms have an ability to react to environmental changes. Bourgeois and Eisenhardt's finding are also supported by Ginn's (1990) investigation of acute care hospitals in the 1980s. These organizations have the ability to make strategic decisions both carefully and quickly in light of sudden environmental changes. Milliken and Lant (1991) suggest that:

"[organizations] whose past experience has been in an environment with constant change will come to expect change, are likely to remain more vigilant, devote more resources to environmental scanning, and consequently may be less likely to underestimate the significance of environmental changes.(p. 146)"

Contingency researchers have used a multiplicity of terms to describe and categorize the environment. Early research described the organizational task environment as factors from the external environment that affect organizational goal setting (Dill, 1958). Other research studied how organizations segment their environment (Lawrence and Lorsch, 1967). Duncan (1972) develops two dimensions that distinguish between the essence of different environments: complexity and dynamism. Complexity deals with the number of factors an organization must consider from its environment when making decisions. Relatively simple environments require that few factors be considered and relatively complex environments require that a large number of factors be considered. Dynamism describes the level of stability of those environmental factors.

Organizations experiencing rapidly changing environmental face both high complexity and dynamism. Assuming a highly complex and dynamic environment, implicitly leads to the issue of continuity. Continuity deals with the magnitude of the changes in those parts of the environment that are changing (Tushman & Romanelli, 1985). Since we focus on environments that experience many changes it is interesting to understand what factor differentiates various changes. Continuity is considered high during relatively incremental changes that build upon previous experiences. Incremental environmental change describes those changes that represent incremental or convergent shifts in salient environmental factors. Continuity is considered low during major changes that break from or are incongruent with previous experiences. Major environmental change describes revolutionary changes in environmental factors. These revolutionary changes tend to reorient or transform affected segments of the environment.

There is less consensus about the abilities of firms to learning from prior experience during periods of incremental environmental shifts than during periods major change (Eisenhardt & Bourgeois, 1988; Bourgeois & Eisenhardt, 1988; Eisner, 1997; Ginsberg & Buchholtz, 1990; Tushman & Romanelli, 1984; Tushman & Anderson, 1985). However, while there are competing theoretical perspectives about the nature of major change in the literature, there appears to be agreement about the disruptive effects of that change (Tushman & Romanelli, 1984; Tushman & Anderson, 1985; Lant & Mezias, 1990, 1992). The next section explores various arguments on the effects of incremental and major environmental changes and present research propositions.

INCREMENTAL ENVIRONMENTAL CHANGE

Since incremental environmental changes occur more often than major environmental changes, it is likely that most changes in the literature that have been labeled as conditions of high environmental turbulence are the result of a large number of incremental environmental change events. Most learning theories suggest that rapid environmental change and the condition of ambiguity it creates will attenuate successful organizational learning (March & Olsen, 1976; March, 1991; Lant & Mezias, 1992; Keck & Tushman, 1993). However, others suggest that the ambiguity generated by rapid environmental change will present firms with "equivocal experiences and opportunities for learning" (Milliken & Lant, 1991: 146). In persistently changing environments firms may come to expect rapid environmental changes as an equilibrium condition of their world (Milliken & Lant, 1991). This paper addresses these apparent inconsistencies in the adaptive organizational learning literature by suggesting that incremental environmental changes are described by theories viewing rapid environmental change as an opportunity for learning; while major environmental changes are described by theories viewing rapid environmental change as a threat to learning.

Rapid environmental change describes a commotion that adds ambiguity to an environment (March, 1991; Lant & Mezias, 1992). This ambiguity complicates the relationship between organizations and their environments. Organizational perceptions of their environments may be clouded by the introduction of ambiguity, a random component, in their otherwise systematic understanding of their environments (Lant & Mezias, 1992).

Haleblian and Finkelstein (1993) argue that as environmental change increases, a firm's decision making tasks become more difficult and managers may have greater information processing requirements. However, in stable environments information-processing requirements are not as intense (Ancona, 1990). Environmental change may increase erroneous perceptions and interpretations of environmental signals during information processing. Successful organizational learning may be curtailed under conditions of rapid environmental change (March, 1991; Lant & Mezias, 1992; Keck & Tushman, 1993).

However, firms in some industries are able to develop processes for coping with incremental environmental changes and have been successful at adapting to these environments. It is possible for organizations embedded in rapidly changing environments to thrive on incremental changes (Eisenhardt & Bourgeois, 1988; Eisenhardt, 1989; Milliken & Lant, 1991). Perhaps, only some populations of organizations learn to adapt in the face of rapid environmental change.

Only some organizations appear to have developed this second-order organizational learning process by which they can adapt to incremental environmental change. Second-order learning refers to exploration of alternative processes, routines, or technologies where first-order learning indicates improvement within the realm of current processes or technologies (Watzlawick, Weakland, & Fisch, 1974; Hedberg, Nystrom, & Starbuck, 1976; Lant & Mezias, 1992).

For organizations that are able to initiate second-order learning processes, the continuity of the organizational environment may not affect their abilities to cope with their environments. These organizations live in a world where incremental environmental change is the equilibrium condition of their environment. Perhaps these organizations have developed mechanisms for filtering or ignoring immense amounts of information about their environment and a large number of relatively small changes to their environment. Alternatively, these organizations may not need to filter information, but have developed the capabilities to process large quantities of environmental data and change information.

Organizations that are faced with an almost constant stream of new innovations and generational improvements must cope with these innovations and respond to the market and adapt their internal processes to incorporate changes. These organizations essentially must learn the art of learning to incorporate new components, processes, and services into their organizations efficiently and effectively simply to remain in the game, let alone achieve superior performance. Incremental environmental changes are viewed as the equilibrium condition in this industry and are not expected to degrade the value of performance feedback information.

PROPOSITION 2A: Incremental environmental change will not affect the relationship between past performance and strategic change

Environmental conditions have been traditionally considered to have the same relationships as or to be a part of performance feedback in the adaptive learning literature (Cyert & March, 1992; March & Simon 1993; March & Olsen, 1976). However, organizations that survive by adapting their internal processes to incorporate environmental changes may directly use that information. For example, Langlois (1992: 4) characterized the microcomputer industry as one where "... growth proceeds through the generation of external rather than internal capabilities." These organizations rely on adapting their internal processes the external capabilities of its supplier industries (Langlois, 1992; Rosenbaum, 1993).

Environmental conditions are vital to organizational aspirations, performance assessment, search, and change processes. As organizations attempt to understand their environments' they interpret additional information that is separate and distinct from performance feedback information. These incremental environmental changes may directly affect organizational strategic change decisions.

PROPOSITION 2B: *Incremental environmental change will increase the likelihood of strategic change*

MAJOR ENVIRONMENTAL CHANGE

Major changes in markets, technologies, or government regulations may elicit different organizational responses and strategies than incremental change may evoke. During convergent periods, even rapidly changing convergent periods, organizations may factor different environmental elements into their strategic decision making process than during discontinuous periods (Meyer, 1982; Tushman & Romanelli, 1985).

Meyer (1982) coined the term "environmental jolts" to refer to sudden and unprecedented external events in organizations' environments that affect them. These environmental jolts are high magnitude changes or major shifts in salient environmental factors. Meyer (1982) found that there is a random component to organizations' response to the pressure of disruptive environmental shifts

Tushman and Romanelli (1985) discuss convergent organizational periods as separated by reorientations where discontinuous environmental phenomena are introduced into a population. They suggest that organizational performance will decrease during episodes of significant environmental change. Tushman and Anderson (1986) studied major changes in the cement, minicomputer (larger multi-user computers), and airline industries and found that environmental conditions after discontinuities are markedly different. Advances from technological discontinuities fuel new growth, increase environmental ambiguity, and increased munificence.

Following an organizational learning perspective, Lant and Mezias (1990, 1992) viewed major change not only in terms of technological change, but also as events that fundamentally restructure a formerly stable system. Their model implies that major environmental changes would precipitate short-run downturns in performance for all organizations. Lant and Mezias (1992) found that conditions of high ambiguity moderated the number of organizational changes, especially during periods of major environmental change. Further, Mezias and Lant (1994) found that high magnitude environmental change had a negative effect on the proportion of organizations following or changing to a strategy of imitating their competitors. This finding suggests that major environmental change creates ambiguity about the utility of current industry recipes (Spender, 1989). With no clear industry leaders to follow, organizations may question the nature of many fundamental assumptions about their industry environment and the relationships among key variables.

Major environmental changes shake the core of organizational assumptions and lead organizations to question relationships that previously appeared clear. Organizations that rely on performance feedback to initiate strategic organizational changes may question the validity of performance feedback in light of a significantly changed organizational environment. Major changes will disrupt the feedback relationship between performance and strategic change.

PROPOSITION 3A: Major environmental change will reduce the magnitude of the effect of performance on strategic change

Organizations may directly access environmental information. Major environmental changes are interpreting information that is separate and distinct from performance feedback information and may directly affect organizational strategic change decisions.

PROPOSITION 3B: Major environmental change will increase the likelihood of strategic change

DISCUSSION

As emphasized by an organizational learning perspective, it is essential to understand how a firm's past experience affects its future capabilities for change in order to understand this ability to respond to a dynamic environment (Lant & Mezias, 1990; 1992). However, prior adaptive learning theories lack complete and robust specification about the impact of environmental change on strategic change and on the relationship between performance and strategic change. This model contributes to the foundation of an organizational learning perspective by explicitly adding environmental dimensions to the adaptive learning perspective. In such, the model suggests that successful firms have the ability to make risky, innovative decisions both carefully and quickly, yet effect safe and incremental implementations of those innovations (Cyert & March, 1992; March, 1991; March & Simon 1993; March & Olsen, 1976).

How can we predict what other drivers or levers will be, and what are the underlying mechanisms and processes that organizations focus their attention on particular environmental levers or drivers? Perhaps organizations in some industries, such as the computer software industry studied by Lant, Milliken, and Batra (1992), rely on internally generated technological drivers, while others, such as organizations in the PC hardware industry rely on external sources of innovation or technological drivers. By broadening the scope and nature of strategic decisions processed by organizations, future research may capture both the breath and depth strategic decisions processed by organizations. Further, several studies advocate the simultaneous investigation of changes in organizational leadership with the study of changes in strategic content (Korn, 1994; Miller, Lant,

Milliken, and Korn, 1996; Lant, Milliken, and Batra, 1992; Virany, Tushman, and Romanelli, 1992). These studies suggest that the changes in organizational leadership and may be associated with a greater potential for strategic flexibility and change.

As researcher embark upon studies of organizations in rapidly changes environment the issue of timing and dynamics may become more salient. As Smith and Grimm (1987) suggest that a dynamic view of the relationship between the environment and strategic change is necessary; the more often organizations researcher 'take pictures' of organizations the closer these observations or 'still pictures' can become to looking like a full motion video of organizations research. Thus, as information and communication technologies increase the pace of information flows and decision making for organizations, observations taken more often may enhance the robustness of future adaptive organizational learning research.

This paper presents a separation of the direct and indirect effects of both incremental and major components of environmental change on strategic change to the organizational learning perspective. Further, reframing environmental change in terms of these components provides a logic for formulating predictions about the relationship between performance and strategic change and allows researchers to generate predictions about rapidly changing environments that are consistent with an organizational learning framework. This paper contributes to our understanding of organizational learning and strategic change in rapidly changing environments.

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A FRAMEWORK FOR STRATEGIC SOURCING

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ABSTRACT

Outsourcing has been a significant industry trend over the past decade. However, some scholars have stressed that companies may have gone too far by outsourcing core, as well as non-core capabilities. Using a survey of large U.S. corporations this study provides insights into strategic sourcing, identifies the types of functions being outsourced, and develops a framework for better understanding the boundaries of sourcing decisions.

INTRODUCTION

One of the most widely discussed trends in business schools has been the issue of outsourcing. In a highly competitive environment, where product life cycles move at "clockspeed", outsourcing has been touted as the enabling factor that provides companies with needed speed and flexibility [4]. Management guru Tom Peters has been quoted as saying, "Do what you do best and outsource the rest." Similarly, articles abound describing success stories of outsourcing relationships. The view of the virtual corporation where core competencies are protected and enhanced, non-core competencies are outsourced externally, and corporate knowledge centers interact seamlessly is often presented as the ideal. In contrast, companies that continue to focus on cost cutting and competitiveness of existing business units and products are frequently viewed as old relics lacking agility and strategic vision.

However, some management scholars stress that companies may have gone too far by outsourcing core as well as non-core functions. In doing so they may have undermined, albeit unknowingly, the long-term competitiveness of their companies. This argument underscores the importance of protecting and enhancing core competencies as the ultimate source of a company's long-term competitiveness. Advocates of this view stress the importance of competency building as part of a firm's strategy to maintain market leadership. Cost based strategies, in contrast, stress price competitiveness but overlook the importance of developing capabilities to enhance product functionality and customer value as the source of long-term competitiveness.

In this study we evaluate the current status of outsourcing among large U.S. corporations. Specifically, we explore the types of functions and competencies firms' outsource and their

implications for sustaining world class leadership. To this end, we conducted a survey of 116 large U.S. corporations and performed case studies of select firms. The firms analyzed had annual sales in excess of \$4.5 billion and include Cisco Systems, Digex, Grainger Industrial Supply, Modus Media, and ATT Solutions. Considering our findings, we provide a framework for better understanding the boundaries of sourcing decisions.

STRATEGIC SOURCING

Since the 1990's a major shift in managerial practice has been the focus on strategic planning, identifying core competencies, and outsourcing competencies perceived as non-core. For example, the January 2000 issue of Business Week reported a revival in the popularity of corporate strategic planning among U.S. corporate leaders [2]. Companies such as Sears, Hewlett-Packard, Earle, Procter & Gamble, and EDS were presented as model case studies of the new emphasis on corporate strategic planning. Allegedly, a key focus of the strategic planning process has been on firms identifying their "core and non-core competencies."

Scholarly studies report similar findings on the trend toward outsourcing non-core activities in favor of placing greater emphasis on value creating, or core competencies. The core competencies of a firm consist of its assets, knowledge base, technology, and intellectual property that set the company's capabilities apart from that of other companies, allowing the company to sustain a long-term competitive advantage over its rivals [1]. Non-core business activities are activities that only indirectly support the core value creating activities of the firm. According to some management theorists an important goal of corporate strategy is to create a lean, flexible organization by protecting or augmenting core competencies and outsourcing non-core capabilities. Nevertheless, non-core activities are necessary for the firm's performance and efficiency.

Outsourcing has been discussed in the literature for many years under various names, such as make-buy decisions, vertical integration, transaction cost minimization, and core competencies [6, 7, 8, 9, 11]. However, the sourcing decision has become particularly complex in today's global, technology driven economy. Part of this complexity is that firms are increasingly becoming more specialized and excelling in their unique areas of expertise. A firm that continues to perform those functions in-house which can be performed more efficiently by a third party can quickly place itself at a disadvantage compared to competition. At the same time, by relegating tasks to third parties, a company can easily lose control over functions that could prove critical to its long-term strategic interests.

Discussions of outsourcing in the popular literature can lead one to believe that firms are outsourcing functions en masse. The purpose of our study is to objectively evaluate the true degree of outsourcing in firms today, focusing on specific functions being outsourced and the degree of satisfaction with sourcing decisions. Also, we offer a framework for adding new insights into our understanding of the firm's boundary decisions.

STUDY METHODOLOGY

To perform our study, a questionnaire instrument was mailed to the President or CEO of primarily large manufacturing companies with sales in excess of \$4.5 billion annually. Our goal was to focus on large firms typically seen as leaders in the areas of SCM, procurement, and outsourcing. Our survey was targeted at the most senior ranking officer as our questions focused on the strategic nature of sourcing.

The questionnaire was field tested, modified, and mailed to about 2,000 U.S. industrial companies. About 85 percent of the companies surveyed had annual sales in excess of \$5 billion annually. According to Table 1, of the companies receiving the questionnaire, about 84.7 percent are listed as manufacturing firms. The remaining firms are classified as department stores/mass retailers (4.5 percent), warehouse and distribution firms (7.2 percent), and transportation firms (3.6 percent).

Of the responses received, about one third were unanswered because of a corporate policy prohibiting company participation in research studies of this nature. From the remaining 1,340 potential company participants, 116 useable, completed questionnaires were returned. Although the response rate was only about 8.7 percent, given the corporate level at which the survey was performed, the total response rate of 116 is quite large relative to most studies of this nature. The typical respondent to the survey held the title of President, CEO, Vice President, or Director of Procurement and Purchasing.

Industry Categories	Receiving the Survey (%)
Manufacturing	84.7
Departmental Store	4.5
Transportation	3.6
Warehouse & Distribution	7.2

SURVEY FINDINGS

According to our survey, outsourcing has been increasing over the past five years, although our findings do not support the view that we are experiencing an overwhelming rise in outsourcing activity. The majority of firms (62.7 percent) reported only a modest increase in outsourcing activity in their respective companies over the period. Another 21.8 percent of the firms reported a significant increase in outsourcing in their respective industries. The trend toward greater

outsourcing is definitely documented in our study but the view that the pace is accelerating does not receive support.

OUTSOURCING CORE AND NON-CORE ACTIVITIES

Our survey findings reveal that both core and non-core activities of the firm are possible candidates for outsourcing if external suppliers are available. According to Table 2, about 53.1 percent of the respondents indicated that their companies frequently outsource non-core competencies in comparison to the 31.5 percent that indicated their companies frequently outsource core competencies. Only 8.1 percent indicate never outsourcing non-core competencies and 16.2 percent never outsourcing core competencies. This evidence clearly reveals that outsourcing is a fairly established practice in U.S. industries but the surprising finding is that many firms show little resistance to outsourcing their core capabilities.

	Never	Infrequently(%)	Frequently(%)
Core Competencies	16.2	52.3	31.5
Non-Core Activities	8.1	38.7	53.1

Our statistical results shed some light on what influences the decision of some firms to outsource core competencies. In particular the evidence suggests that the firms that place less emphasis on identifying core and non-core competencies in their strategic planning process are the firms most likely to outsource core competencies. On the other hand, the firms that invest more heavily in strategic planning, particularly in differentiating core and non-core competencies, tend to outsource core competencies less frequently. The latter firms presumably have a better understanding of the competencies that underpin their long-term competitiveness and are therefore more discerning in their outsourcing strategies. The negative correlation coefficient between the "emphasis a firm places on delineating its core and non-core competencies" and its decision to "outsource core competencies" is statistically significant at the 95 percent level.

A "bandwagon effect" also appears to be present in the outsourcing decisions of firms. Our statistical analysis found that firms that perceive themselves to be in industries where outsourcing is more common tend to be more likely to outsource their core competencies themselves. The correlation coefficient between a company's perception of the extent of outsourcing by firms in its industry and its own outsourcing decisions is statistically significant at the 95 percent level.

The finding that firms outsource core competencies is counterintuitive from a long-term viewpoint. According to strategic planning theory, firms carefully differentiate between core and non-core competencies consistent with their purpose and strategic vision. Core competencies consist

of the skills, knowledge, and assets (tangible and intangible) that set the firm apart from all of its competitors. Core competencies allow the firm to grow and to sustain above average returns for prolonged periods of time. Companies such as Wal-Mart, Cisco, Proctor & Gamble, and General Electric are examples of firms who have maintained "world class" status over the years by carefully managing and deploying their strategic assets and competencies.

Outsourcing core competencies exposes the firm to a number of potential risks. For example, the outside supplier could renege on quality or deploy other methods to hold its customer firm hostage for better terms. The danger is that the contracting firm could lose a degree of management control in exchange for short-term transactions costs advantages. Another concern is that knowledge spillovers are more likely to occur to the benefit of the firms' competitors, while at the same time undermining the firm's unique sources of long-term competitive strength.

For these reasons, the conventional wisdom is that informed firms are not likely to find outsourcing core capabilities an attractive option. However, in an environment where change is rapid, there may be exceptions to this rule. In a rapidly changing competitive environment, the firm's success depends upon having sufficient flexibility and innovativeness to respond to threats and opportunities. When quick response to changes in industry dynamics is of essence, outsourcing for core competencies can make sense for firms trying to create a new market standard or technology paradigm. In rapidly evolving markets, the strategy game is to "leap frog" competitors or create entirely new markets. The entry costs for firms trying to compete on this level can be quite high for established players and prohibitive for many specialized firms. Both large and small firms have an incentive to collaborate. Strategic alliances, joint ventures, and other forms of teaming relationships provide a cost effective mechanism for firms to acquire access to the necessary core competencies and experience to be successful. In fact, it may be the only option for many firms. These options give the firm the opportunity to quickly respond to new opportunities while at the same time giving it the extra time it needs to enhance its own competencies and capabilities.

Table 3 provides findings regarding the specific types of activities firms are outsourcing. Insourcing is found to dominate outsourcing for all of the major business functions. Moreover, when outsourcing occurs it is largely restricted to a relatively few of the business functions, such as the transportation/distribution, warehousing, and MRO (general maintenance, repair, and operations) functions. For example, the transportation/distribution function, the most frequently outsourced business function, is performed in-house by 56.5 percent of the companies and outsourced by 43.5 percent of the companies responding to the question. The warehousing and MRO functions are performed in-house by 75.9 percent of the companies and are outsourced in 24.1 percent of the companies, respectively. IT capabilities and select operations activities are outsourced in 14.1 percent of the firms. Two functions, product returns/repair and routine office functions were listed as being outsourced in 10.2 percent of the firms. Surprisingly, inventory management was listed as being outsourced in only 2.8 percent of the companies. Other functions, such as customer service, locating and screening suppliers, and negotiating purchasing agreements were almost exclusively

listed as in-house functions. Finally, the survey evidence indicates that select procurement activities, such as purchasing and supplier certification, are outsourced in 4.8 percent of the firms.

A partial explanation for our findings may be that transportation and warehousing play a major role in the SCM policies of companies. SCM policies are concerned with efficiency in the physical flow of resources and products from suppliers to manufacturers and from manufacturers to the final consumers. A key competency of logistics companies is the ability to synchronize the physical flows in a way that satisfies the JIT needs of manufacturers and the JIT needs of retailers. The logistics of having fleets of trucks, planes, and ships to move cargo is well beyond what most companies can afford or manage. Contracting out for logistic services has become the preferred option for slightly less than one-half of the major industrial and commercial companies, as verified by our survey results.

Warehousing has also undergone major changes in the past five years. The trend in many industries is toward super regional distribution centers from which orders are processed for shipments to final consumers. Innovations such as cross docking require close timing and coordination of incoming and outgoing cargo, with the goal of moving goods and materials from one dock to another dock in the same logistics center on the same day. Careful management of logistics is necessary to avoid less than full truckloads (LFL's) entering and leaving the warehouse. The shift to customized products has also impacted procurement and warehousing through the process of postponement. Generic products are produced at factories and shipped to regional distribution centers where they are assembled into final products according to customer specs and sent to the retailer or directly to the customer. Given the increased expectations placed on warehousing, outsourcing this function may be a better alternative.

It is interesting that very few companies outsource the procurement function (less than 5 percent), and no respondents outsource negotiating purchasing agreements or locating and screening suppliers. Even routine activities are rarely outsourced, such as office functions (12.3 percent) and handling product returns/repairs (10.9 percent).

This section attempts to document the extent to which firms are satisfied or dissatisfied with results of their decisions to retain a function in-house or to outsource the function to a third party. The respondents to the survey were asked to rate the degree of satisfaction/dissatisfaction with their company's outsourcing decisions with respect to each of the business functions presented in the left column in Table 3.

According to our survey, the preponderance of firms seem to be satisfied, at least to a degree, with their company's sourcing decision. This is true for both companies that have decided to retain a function in-house or outsource the function to a third party. This leads to the observation that companies that are not outsourcing do not perceive themselves to be shortchanged or disadvantaged by the decision. For example, of the companies that decided to keep the transportation/distribution primarily as an in-house function, about 60.1 percent of the respondents indicated an average or above average level of satisfaction with the decision. On the other hand, of the companies

outsourcing the transportation/distribution function, about 78.8 percent expressed an average or above average level of satisfaction with their decision. Another way to look at it is that only about 14.8 percent of the companies were dissatisfied with the decision to retain the function in-house versus about 8.5 percent of the companies who were dissatisfied with their decision to outsource the transportation/distribution function. A similar pattern of only minor dissatisfaction occurred with respect to the firms' decisions to insource or outsource warehousing, MRO, and other functions.

Table 3: Functions Outsourced/Insourced and Degree of Satisfaction with Outsourcing Decisions					
Business Functions	Degree of Satisfaction				
	N1	Dissatisfied	Average	Above Average	No Response
IT Capability					
Primarily 'In-House'	(N=86)	18.6%	29.1%	24.4%	27.9%
Primarily Outsourced	(N=19)	21.1	42.1	36.8	-
Select Operations Activities					
Primarily 'In-House'	(N=86)	8.1	25.6	37.2	-
Inventory Mgmt					
Primarily 'In-House'	(N=103)	16.5	36.9	17.5	9.1
Primarily Outsourced	(N=3)	66.7	-	3.0	-
Transportation/ Distribution					
Primarily 'In-House'	(N=61)	14.8	29.5	31.1	24.6
Primarily Outsourced	(N=47)	8.5	23.4	55.3	12.8
Maintenance/Repair/Operations					
Primarily 'In-House'	(N=82)	19.5	2.5	30.5	30.5
Primarily Outsourced	(N=26)	15.4	26.9	46.2	11.5
Select Procurement Activities					
Primarily 'In-House'	(N=100)	9.0	26.0	34.0	31.0
Primarily Outsourced	(N=5)	-	-	100.0	-
Warehousing					
Primarily 'In-House'	(N=82)	13.4	25.6	29.3	31.7
Primarily Outsourced	(N=26)	23.1	42.3	30.8	3.8
Product Returns & Repair					
Primarily 'In-House'	(N=88)	11.4	33.0	25.0	30.7
Primarily Outsourced	(N=10)	10.0	60.0	30.0	-

Function	Outsourcing Decision	N	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied
Customer Service	Primarily 'In-House'	(N=104)	0.8	23.1	41.3	29.8
	Primarily Outsourced	(N=1)	-	-	100.0	-
Locating/Screening Suppliers	Primarily 'In-House'	(N=107)	12.1	23.4	34.6	29.9
	Primarily Outsourced	(N=1)	-	-	100.0	-
Negotiating/Purchasing Agree.	Primarily 'In-House'	(N=108)	9.3	20.4	38.0	32.4
	Primarily Outsourced	(N=0)	-	-	-	-
Routine Office Functions	Primarily 'In-House'	(N=97)	12.4	25.8	30.9	30.9
	Primarily Outsourced	(N=11)	-	27.3	72.7	-

¹N is equal to the total number of respondents.

While our survey finds evidence to indicate that firms are generally satisfied with their sourcing decisions, there was one surprising exception. Inventory management was not a function with a high degree of outsourcing (3%). However, of those firms that did outsource inventory management, there was a high degree of dissatisfaction (66.7%) with the decision.

SPECTRUM OF SOURCING ALTERNATIVES

Our survey findings point to the complexity of the firm's sourcing decision and lead to the conclusion that one model does not fit all organizations. A significant factor contributing to the complexity of this decision has been the rapid proliferation of information technology. There is general agreement among business analysts that recent advances in information technology encourage businesses to shift to decentralized organizational structures and redefine their boundaries. The result is that advances in information technology make the associated higher degree of outsourcing a more attractive option than in the past for many companies. The impact of the IT advances on business organizational structures and procurement policies can be analyzed with a continuum that ranges from spot markets to vertically integrated markets. The intermediate range of the continuum include long-term contractual arrangements with suppliers.

The spot market depicts the options of "off-the-shelf" and auction purchasing in highly organized competitive markets. Markets with many buyers and suppliers generally result in prices

close to average total cost of production. In these cases, the optimal procurement strategy is to purchase items that are available on the spot market at competitive prices [5]. There would be no need for long-term contracts or cooperative alliances with suppliers; however, some firms may join buyer cooperatives to get quantity discounts for their purchases. Also, if future supplies and prices are uncertain the buyer may wish to enter into long-term contracts at negotiated prices and delivery schedules. Likewise, if the supplier has some monopoly power the buyer might wish to enter into a long-term contract agreement to avoid the possibility of price gouging down the line. When product uniqueness is an issue, the maintenance of an in-house capability is a technique that can help protect the buyer from the potential of unwanted aggressive behavior on the part of a supplier.

At the opposite end of the continuum are the vertically integrated firms. These are firms that own and operate all major upstream (supplier) and downstream (distribution channels) activities along their entire value chain. Outsourcing on the part of a company implies a decision to move away from vertical integration. An option is for the firm is to maintain an in-house capability to produce or provide for almost all of its needs. As an alternative to both extremes, many firms are outsourcing selected items by forming collaborative relationships with preferred suppliers. In these cases, the purchasing company views its suppliers and business service providers as strategic partners with common interests and a shared destiny, including information and profits.

An example of the intermediate case on the continuum is the decision of Cisco Systems Inc., a giant provider of Internet infrastructure equipment, such as switches and routers, to outsource the bulk of its' production needs to contract manufacturers. Cisco Systems receives approximately 80 percent of its customer orders on the Internet. The majority of the orders by-pass Cisco Systems altogether and go directly to the contract manufacturers that operate about 37 factories, all linked to the Internet. Contract manufactures make all of the component systems, perform 90 percent of the subassembly, and do 55 percent of final assembly. The Cisco computers and equipment are regularly shipped directly to Cisco customers without ever being in the possession of Cisco employees. This arrangement has netted Cisco an estimated \$500 million to \$800 million in annual cost saving in contrast to the option if Cisco owned and operated the factories. The savings are in the form of fewer salespersons, technicians, and office personnel. Hewlett Packard, IBM, and Silicon Graphics are examples of other successful firms who have outsourced production to contract manufacturers. Some of the more prominent contract manufacturers are Solectron, SCI systems, Flextronics, and Celestica.

Reebok is another example of a firm that outsources almost all of its production needs to contract manufacturers located overseas. This arrangement gives Reebok the opportunity to source materials and labor on world markets on favorable terms while maintaining its focus on marketing, distribution, and customer service.

The degree to which companies outsource activities rather than perform them in-house is a function of transactions costs, including information, negotiation, and transportation costs. Ronald Cease explained this relationship in his famous 1937 article "The Nature of the Firm" [3]. Starting

with the case where transactions costs are zero, the firm (as an organization consisting of a set of core and non-core activities) would have no reason to exist. All activities would be purchased where they can be found the cheapest, on the open market. The need for coordination of resources by firms, as organizations, would not exist. The final consumer would simply order all of the components and parts needed to assemble the products they want. The assumptions of perfect information and zero transportation costs would assure that the components and parts would show up on the consumers door step at zero delivery cost, other than the cost of the item itself. The household would instantly and costlessly assemble the components to produce the products she/he demands. In this extreme Coasian world, final goods producers would have no reason to exist at all. All business transactions would be directly between the consumers and the suppliers of components and parts. After all trades are exhausted, each consumer would end up with product attributes and performance characteristics tailored to their specific preferences-the penultimate of mass customization.

When decision-making and information costs are added to the model, firms would have a rationale to exist. They would enter the marketplace as intermediaries between resource owners and suppliers and the ultimate consumers. The function of the firm in the real world is to purchase inputs and resources from suppliers, transform the inputs into final products, and distribute the final products to the ultimate consumers. The firms exist only when they can deliver the final products to the consumers at a lower price than would otherwise be possible.

When transportation costs are added to the model, business organizations and markets take on a spatial dimension. The cost and speed of shipping resources, components, and final products to customers must be taken into account in the location and sourcing decisions of companies. The cost and time involved in moving goods and materials over geographical space gives rise to a need for logistics functions, such as transportation, warehousing, and inventory management. The efficient organization and coordination of these functions is known today as supply chain management (SCM).

Technological innovations that lower the cost of information, transportation, and transaction costs have an effect of limiting the size and scope of the firm. Firms find that functions previously performed in-house are now more efficiently outsourced to third parties or purchased off-the-shelf. As a rule, if the function is routine and there are many overlapping suppliers and buyers, the market is likely to be highly competitive. In this case, open (spot) markets, web purchasing and auctions are likely to be viable sourcing options. Other more specialized functions are less likely to be good candidates for web purchasing, although the function may currently be outsourced. Specialized suppliers provide unique inputs that the firms cannot easily acquire in open markets. Suppliers of unique inputs have some degree of monopoly power over their corporate customers. Firms outsource to the unique suppliers on negotiated terms that benefit both the company and its supplier.

A major trend in industry is that companies are sorting out their supplier base in an attempt to identify "key" suppliers. The supplier base is reduced as the more routine products and services

are purchased directly on the open market, via off-the-shelf purchases or by increasing their Internet purchases. The philosophy of SCM is to build a sense of community among the company's suppliers, customers, and internal operations. The suppliers are linked strategically to the customer firms and among themselves. In today's environment the ability to create a sense of shared destiny among all participants in the company's supply chain has itself become a core competency for firms at the cutting edge of industry.

CONCLUSION

We surveyed 116 large U.S. firms to evaluate the current status of strategic sourcing. Though outsourcing is indeed on the rise, our findings show a caution among firms in following the trend. Functions perceived as non-core are best candidates for outsourcing, such as transportation, warehousing, and management of MRO (maintenance, repair, and operating items). An interesting finding is that many firms outsource for what they believe are their core competencies and long-term strategic interests. Specifically, the evidence from our survey suggests that firms make sourcing, or boundary, decisions in terms of a trade-off between cost, competency, and long-term strategic considerations. There is a comparable degree of satisfaction between firms choosing to outsource versus performing the functions in-house. These findings show that the outsourcing decision is complex and that no one model fits all firms.

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THE LANGUAGE AND ACTORS OF STRATEGIC PLANNING SYSTEMS: EMPIRICAL EVIDENCE ON UTILIZED INSTRUMENTS AND CONSULTANTS FROM LARGE FINNISH CORPORATIONS

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ABSTRACT

This paper describes the key results of an empirical study carried out in Finland. The aim of this study was to draw a general picture of the current situation of strategic planning of major corporations and the effects of consultants on these processes. The picture provided by the research is clear: the planning systems still work, even in today's business environment.

It was discovered that a typical Finnish corporation formulates its strategy once a year in an explicit planning process that takes 1 - 3 months and proceeds up and down in the organization. However, it could also be seen that the stages of this process are not rigid, but phases of analysis and specification overlap. In addition, the study showed that Finnish corporations use a combination of several different analysis techniques and approaches in their strategic planning processes. The more techniques a corporation used, the more approaches they used, and vice versa. It was also revealed that the number of techniques and approaches is higher in cases where outside experts or consultants have been used in the construction of the process.

Therefore, the main conclusion of this paper is that the planning machine still runs smoothly - despite all the criticisms that have been expressed. Furthermore, the research revealed that consultants may have essential roles in the construction and maintenance of strategic planning systems. They can act as cultivators bringing analytical techniques and explicit language into the processes. In addition, they can be discipliners, increasing the number of people attending the planning processes and helping to create reward and control systems connected with planning.

INTRODUCTION

The prevalent model of strategic planning was created some thirty years ago, by Ansoff (1965) and Andrews (1971) among others. Later, in the 1980s, this model came to serve as the first major phase of a typical strategic management framework. The course and elements of this strategic

planning model - in its current form - are well presented in the United States in, for example, the work by Thompson and Strickland (1999) and in Europe in the textbook of Johnson and Scholes (1999). There has been much analysis and many critiques of this model, the most sophisticated obviously coming from Mintzberg (1994a). In recent years more and more criticism has been presented especially concerning the way this model disconnects planning and formulation from the implementation of strategy. An increasing number of researchers are nowadays suggesting that this process should be continuous or perpetual (see e.g.; Kaplan & Norton, 2001; Tyson, 1998; Kippenberger, 1998; Feurer & Chaharbaghi, 1995; Nicholls, 1994), and rather than being created, strategies emerge and evolve (see e.g.; Mintzberg & Lampel, 1999; Mintzberg, 1994b). Continuous strategy processes of this kind have also been successfully put to use in some real-life companies (see e.g.; Feurer, Chaharbaghi & Wargin, 1995).

Even so, strategic planning has not faded away. It still exists as a part of the everyday reality of corporations (see e.g.; Heracleous, 2000; Corboy & O'Corrbui, 1999; Taylor, 1997; Finnie, 1997) and, naturally, governmental organizations (see e.g.; Strategic Planning Advisory Committee, 1998). Strategic planning is also alive and well in Finnish corporations as our research will later show.

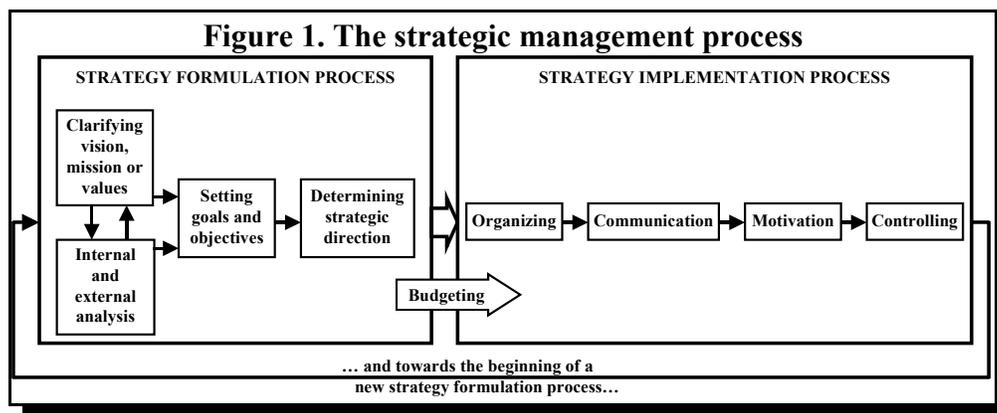
This paper describes the key results of an empirical study carried out in Finland. The aim of this study was to draw a general picture of both the current situation of strategic planning in major corporations as well as consultants' role in these processes. Thus; by "language" in our title we refer to utilized instruments (techniques, approaches, theories) in strategic planning processes and by "actors" and "consultants" we refer to the special roles of external experts in these very processes.

The primary target group of the study consisted of the biggest companies in Finland, starting with Nokia and ending with the 600th largest company. This investigation was executed as a questionnaire survey, which was answered mainly by CEOs or Presidents of Development. In total 119 acceptable answers (17.8 %) were received from parent companies and subsidiaries.

On average the respondent companies employed approximately 3,500 people and were over 75 years old. Thus, a typical large Finnish firm has had a long life; in fact there were 22 corporations that were at least 100 years old among our respondents. However, only less than one in four companies had had their current structure for over 20 years, the majority having an organizational structure that was 5 - 20 years old. Almost two thirds of the respondents operate in a mature field, whereas a third of them have their basis in a growth-oriented business.

THE RESEARCH FRAMEWORK PRESENTED

Our entire research project studied the whole area of strategic management, which includes both strategy formulation and strategy implementation as the following figure shows. However, in this paper we will focus only on the former, i.e. strategy formulation and its main characteristics.



COMMON FEATURES OF THE PLANNING PROCESS

The general picture is clear: The planning systems work. Typically, the strategy is formulated once a year, and this planning process takes in most cases 1 - 3 months. Over 80 % of the companies said that they follow an explicit process in formulating their strategy and that they do this just once a year. Only 2.8 % revise their strategy more often than once a year. *Thus, we can say that an annual planning process is still common practice in large Finnish corporations.*

The process takes three months or less in almost $\frac{3}{4}$ of the companies, but only less than 15 % of them manages to go through this process in a month. This haste is reflected in the respondents' views of the content of the formulated strategy, too. It transpires that the majority of those corporations that do get through their process in a month or less consider that their strategy is not convincing or credible enough, while more than 80 % of the companies that spend more time creating their strategy find their strategies convincing. It should also be noted that this finding was statistically significant at 0.01 level. Another interesting finding (significant at 0.1 level) reveals that almost $\frac{3}{4}$ of these "fast designers" feel that not enough attention is paid to problems in the implementation of their strategy. This is clearly not as significant a problem for the others since majority of them feels that these problems are sufficiently reacted to. We believe this once again suggests that the creation of strategy should be taken seriously and companies should devote enough time and resources to this process.

The process winds up and down in the organization. More than half of the companies replied that their process starts from the top level and proceeds via the lower levels back to the top, i.e. it follows the "wriggling snake" model presented, for instance, as long ago as the 1960s in handbooks on management by objectives. Interestingly, fewer than one in three companies formulated their strategy following the autocratic top down model.

Usually the process involved three hierarchy levels, although there was variation from one to six levels. Many researchers (see e.g.; Kaplan & Norton, 2001; Feurer, Chaharbaghi & Wargin, 1995; Wooldridge & Floyd, 1990) suggest that the lower levels of the organization should be

involved in the creation of strategy, and see this as a way to diminish the resistance the new strategy will encounter and to make the process more efficient. However, according to our results about two thirds of corporations that created their strategy using this "wriggling snake" model have encountered resistance to change, while a majority of companies that created their strategy applying top-down or bottom-up models have not encountered such resistance. This finding was statistically significant at 0.05 level. Naturally, this might be due to the fact that the managers who were the respondents in this research, have simply not noticed such resistance when the lower levels of their organization were not involved in the formulation of strategy or participated only in a very early phase.

The majority of the corporations had also used external experts or consultants *in developing* their strategic planning processes, even though only fewer than 15 % utilized them in actual ongoing processes.

RESULTS OF THE PLANNING PROCESS

The results of the planning project appear as documents. An average strategy document extends normally either one or three years ahead. Over 70 % of the respondents formulated their strategy to cover three years or less. Clearly the most popular time span was just three years. However, it must be noted that almost every fourth company formulated their strategy to cover a period as long as 4 - 5 years into the future. *Therefore, we can note that major corporations still formulate fairly long-term plans into their future.* This is being done even though today the world is changing more rapidly than 30 or 40 years ago. The length of the formulated strategy was also linked to the length of the planning process. According to another interesting finding (statistically significant at 0.01 level), almost 90 % of companies that formulated their strategy to extend no more than a year carried out their planning process in three months or less. In contrast, majority of companies that formulated at least four-year strategies spent 4 months or longer on the planning process.

On the other hand, an indicative finding suggests that companies, which create these long-term strategies, feel that personal roles in implementing the strategy are not clear enough more often than was the case with corporations that design shorter strategies. This could be due to the naturally increasing amount of change the company faces during the time span of a long-term strategy compared to a shorter strategy. For example, a corporation with a long-term strategy will probably lose more of the people who it originally intended should take part in the implementation of the strategy than will be lost in a corporation with a short-term strategy. This may of course result in uncertainty about who should carry out the tasks of these people.

One important and unsurprising result is that strategic objectives and strategic programs are also practically always documented. On the other hand, only the main points of visions or missions are usually written down. This is natural. Companies see the setting out of objectives and programs

as necessary because they describe concretely the areas to be measured and the things to be done. Time cannot be found every year for a radical rethink or rewriting of propositions (visions, missions), which are defined once for fairly permanent use.

An interesting observation was that the stages of this process are not rigid: phases of analysis and specification overlap and the process goes back and forth every once in a while. This can be seen both in the fact that individual phases of the process were in many cases found to last 1 - 3 months (which was also the most common length of the entire process) and, on the other hand, in the nature of the process, which usually winds up and down in the organization.

ANALYSIS TECHNIQUES EMPLOYED IN THE COMPANIES

It is also interesting to examine the types of analysis techniques these companies use and what kind of approaches (frameworks, "theories") they utilize in their strategic planning processes. We will start with the analysis techniques.

Figure 2 shows that there were no surprises as far as techniques were concerned. The companies run their SWOT analyses and most of them also apply competitor and customer analyses. The other techniques come far behind. Two other techniques that were utilized in at least one in three corporations were risk analysis and life cycle analysis. Even so, the first three techniques were employed in at least twice as many companies as the two latter ones. According to our research, the least common analysis techniques were decision trees and PEST analysis, which were applied in only 6.7 % and 14.3 % of the companies, respectively.

Our first major observation is that companies use a combination of several techniques in their strategic analyses. On average the corporations have applied five different analysis techniques in their processes. It is also worth noting that one in four companies uses only three techniques or less, while almost a third of them employ at least 7 different techniques.

On the other hand, a quite different finding (significant at 0.05 level) was that the more analysis techniques the organization used the more often its strategy was also found valid and reliable in the organization itself. *We feel this indicates that the use of several different analysis techniques (i.e. thorough and comprehensive analysis) produces better-deliberated strategies, which are naturally seen as convincing by other members of the organization, too.*

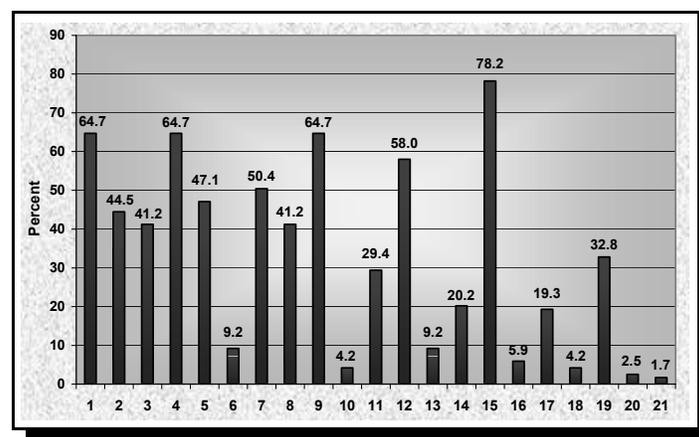
1. Long-range planning	12. Balanced scorecard
2. Short-range planning	13. Navigative management, VIA (Vision Into Action)
3. Management by objectives	14. Knowledge management
4. Results management	15. Benchmarking

5. Process management	16. Wide-ranging activity observing thinking
6. Portfolio management	17. EVA strategy thinking
7. Quality management	18. 7 pages / 6 pages
8. Quality award models	19. Scenario work
9. Quality systems	20. Real option thinking
10. Knowledge-based management, "Facts-to-Act"	21. Other
11. Process-originated operating system	

APPROACHES UTILIZED BY THE CORPORATIONS

The "theories" section gave us a surprise, however. Figure 3 reveals that even the new approaches are strikingly common. *But the most interesting finding was that a typical company uses a combination of a number of different approaches.* Almost two out of three companies have applied at least six approaches and almost a fourth of corporations reported the use of nine different approaches or more. *On average the respondents had employed seven different approaches in their processes.* Nevertheless, our results (finding significant at 0.05 level) also reveal that the more approaches a corporation employs, the longer it takes to create their strategy, which, however, is only natural.

Figure 3. Approaches employed in the corporations



The most commonly employed approach was found to be *benchmarking*, an instrument that has been utilized in over $\frac{3}{4}$ of the corporations. However, the traditional *long range planning*, *short range planning*, *management by objectives* and *results management* have not been forgotten, either. Newer approaches like *quality thinking* in its various forms and *balanced scorecard* have also found numerous supporters in Finnish corporations.

The number of approaches applied was also closely linked to the number of analysis techniques employed. According to a finding significant at 0.01 level, the companies that had used 9 or more approaches had usually utilized at least 7 analysis techniques in their planning process, too. *The more techniques used, the more approaches used and vice versa.*

CONSULTANTS IN STRATEGY PROCESSES

In the reality of strategic planning practices consultants may serve a number of purposes or have several different roles (see e.g.; Kipping & Engwall, 2002; Biech, 1998; Kubr, 1996). A consultant may enter just in order to solve some individual planning process problems. Or a consultant can operate as a process facilitator - either as a discussant, as a background steering and disciplining person or even as an executor or runner of the whole process. Also a consultant may act as a teacher whose task is to direct process participants to learn how to utilize and refine their own process. Finally; a consultant may work as a system builder for the annual strategic planning process. In our study, we focused both on the system builders and process facilitators.

Now let us take a closer look at the system builders and their effects on the strategy processes. First we can note that almost 60 % of the respondent companies had used external expertise in developing their planning processes. The use of consultants was very common in companies that had operated in their current organizational form no more than 20 years. Majority of older companies replied that they had developed their processes internally. In addition, we can note that the use of system builder consultants was more common in parent companies than in subsidiaries. Almost $\frac{2}{3}$ of parent companies reported the use of system builder consultants, whereas only $\frac{1}{2}$ of our respondent subsidiaries had used their expertise. Both of these differences were statistically significant at 0.1 level. Our indicative results also suggest that an explicit strategy process becomes more common with the use of external expertise. On the other hand, the process seems to become longer as consultants begin to take part in the development activities.

However, our first major discovery of their effects was this: *when consultants take part in developing strategic planning processes, they bring cultivation into the process in the form of several different analysis techniques and frameworks.* Nearly 45 % of companies that had employed external consultants in the system development stage operated with at least 7 different analysis techniques and almost 85 % had applied at least 4 different techniques. On the other hand, more than 40 % of those companies that had developed their planning processes internally, operated with a tool

kit of only 3 analysis techniques or less. The same difference existed also in the case of theoretical frameworks: majority of respondents that had used the assistance of consultants had also employed at least 6 different frameworks (and nearly 30 % had operated with at least 9 frameworks), whereas majority of companies that had developed their processes alone had applied less than 5 different frameworks. It is also worth noting that these findings were statistically significant at 0.01 level.

Some of the analysis techniques that seemed to benefit from the use of external consultants were found to be stakeholder analysis, competitor analysis, customer analysis and life cycle analysis. On the other hand, consultants seemed also to be advancing the use of such traditional frameworks as long-range planning, as well as newer frameworks like balanced scorecard and process management. All of these findings were statistically significant at least at 0.1 level.

Our second important observation was that *the use of external consultants in the development phase of strategic planning processes also brings comprehensiveness into the process*. This can be seen in the amount of participating organizational groups, especially below the corporate level. We discovered that in the majority of those companies that had employed external system builder consultants, the number of different participants in both the division level and the operational level was clearly higher than in the case of internally developed processes. In the latter case, only approximately a third of the respondents replied that more than one participant group from the division level or the operational level had taken part in the process, while in several cases these levels were missing from the process completely. On the other hand, respondents that had used the expertise of consultants revealed that in most cases there are at least two participant groups on the division level, and also at least two groups from the operational level in every other company. Also these findings were statistically significant at 0.1 level.

In addition, the use of external consultants influences the communication of strategy significantly, especially regarding the corporate staff. Another of our interesting findings (significant at 0.05 level) namely reveals that in almost every other company that has not employed external assistance in developing their strategy process, the corporate staff is not kept systematically informed about the strategy work. On the other hand, there are only 25 % of such companies in the group that had used external assistance.

We made some noteworthy additional findings regarding the reporting and rewarding systems of our corporations, too. These findings were statistically significant at 0.1 and 0.01 level, respectively. First, we noticed that *the use of external consultants also brings about more systematic control to the implementation of strategy*. Almost 2/3 of those respondents that had employed external experts as system builders used a specific reporting system to control the implementation of strategy, whereas majority of "internal developers" had not created such a reporting system. Second, *consultants like to create comprehensive rewarding systems, too*. This could be seen in the fact that in almost every company that had used the expertise of consultants, the company's rewarding system was based on both the success of the whole corporation as well as the success of

its units. Nevertheless, it should also be noted that 70 % of other respondents had also built such a rewarding system.

If we then shift our focus to "process facilitator" consultants, we can make an additional note: according to our survey (statistically significant finding at 0.01 level) external consultants take part in the day-to-day strategy work in only those companies that have employed consultants as system builders, too. We may assume that in most cases these consultants are the same in both phases, i.e. they first construct a planning process and then continue to assist in following the process. Even though only 15 % of our respondents had used consultants as process facilitators, we were still able to make some interesting findings about these companies. It is interesting to note that the effects of system builder consultants seem to concentrate mainly on the strategy formation phase, whereas process facilitator consultants have a major effect on the strategy implementation stage as well.

First, we discovered that *the cultivation of the planning process is even more evident* when consultants participate in the actual strategy process itself. Companies that employed process facilitator consultants had always applied at least 4 different analysis techniques and majority of them had used 7 or more techniques. In addition, more than 3 out of 4 such companies had also applied at least 8 different frameworks in their planning processes. These two findings were statistically significant at 0.05 and 0.01 level, respectively. Some of the analysis techniques that seemed to be especially favored by process facilitator consultants were life cycle analysis and cost/benefit analysis, while some frameworks that seemed to become more common with the use of consultants were found to be scenario work, process management and balanced scorecard. All of these findings were statistically significant at least at 0.1 level.

Second, *the comprehensiveness of the process becomes even more apparent* with the use of process facilitator consultants, too. In over 80 % of companies that had used consultants in their day-to-day strategy work, several different groups participated in the process on both division and operative levels. In contrast, a clear majority of respondents that had not used the expertise of consultants in their strategy processes revealed that their processes included no more than one participant group from these levels. In addition, majority of companies that had employed consultants in their strategy work responded that all four key groups/persons (board, CEO, corporate staff and management team) on the corporate level participate in this work, whereas only a third of companies that carried out their strategy processes without external assistance operated so comprehensively. It should also be noted that first two of these findings were statistically significant at 0.01 level while the third one was significant at 0.1 level.

The use of process facilitator consultants had even more influence on the communication of strategy than the use of system builder consultants. Our results (all significant at least at 0.1 level) revealed that in companies that had employed consultants in their day-to-day strategy work the amount of "uninformed" groups was notably smaller than in other companies. This difference was

especially notable in the case of corporate staff, division management team and middle management but a clear difference existed also in the case of division management, division staff and SBU staff.

The participation of external consultants in the day-to-day strategy work of a corporation is not only a good thing, however. In fact, *our survey revealed several problematic issues* that follow from this. First, we discovered that majority of the companies that had used consultants felt that the formulated strategy is not sufficiently understandable, while only a fourth of other companies had such a problem. In addition, 3 out of 4 of our "consulted" companies had noticed resistance to the formulated strategy. On the other hand, a slight majority of other respondents had noticed such resistance, too. These findings were statistically significant at 0.05 and 0.1 level, respectively.

Furthermore, the comprehensive rewarding systems that system developer consultants create are notably less common in companies where consultants take part in the actual strategy work. In these companies the rewarding system was also significantly less often connected with strategic goals and the measurement system. These findings were statistically significant at 0.01 and 0.1 level, respectively. These two differences may be the reason why over 72 % of such companies felt that their rewarding system was not sufficiently connected to strategic performance while majority of companies that worked without external assistance believed that the connection was sufficient (statistically significant finding at 0.1 level). Moreover, 70 % of the respondents that had employed consultants in the actual strategy work believed that their reporting system did not support the control of implementation. Again, majority of independently operating companies felt that this was not a problem for them. This finding was also significant at 0.1 level. In addition, our indicative results suggest several other implementation problems related to organizational structure, inadequate material resources and executability of the formulated strategy as well as comprehensiveness of the measurement system.

CONCLUSION

Above we described some key results from our empirical study of the world of strategic planning in large Finnish corporations. We discovered that a typical Finnish corporation formulates its strategy once a year in an explicit process that takes 1 - 3 months and proceeds up and down in the organization. However, the stages of this process are not rigid, but phases of analysis and specification overlap. We also found that Finnish corporations use a combination of several different analysis techniques and approaches in their strategic planning processes. In addition, companies that had employed several different analysis techniques had also utilized several different approaches and vice versa.

The consultants may have essential roles in connection with the construction and maintenance of these strategic planning systems. In our study we were able to make a number of statistically significant generalizations on the relationship of the use of consultants and the state of

the strategic planning system. We squeeze our findings into two important consultant's roles in planning. First, the consultants act as cultivators bringing analytical techniques and explicit language into strategic planning processes. Second, they are discipliners in three meanings. More people attend the planning processes, reward systems are created and connected with planning, and systematic planning-related control systems are established as consultants build and facilitate strategic planning processes in large Finnish corporations.

In conclusion it can be noted that the planning machine still runs smoothly - despite all the criticisms expressed. Why is it that it is still so popular? We think that there may be five main reasons. The first is *the usefulness point of view*; either the planning system is considered useful or at least it is believed that without one things would be even worse. Another basic reason might be its *comprehensive pursuit of control*. Large corporations typically seek control ability and the strategic planning system brings control into the process in three meanings. Firstly, the planning event strives for control of the past. Secondly, the aim of planning activities is to gain control also of the future. And thirdly, a disciplined planning system facilitates tight control of the planning event itself.

The third main reason is probably *information-oriented*; vital strategy information spreads conveniently to everyone who should receive this information. The fourth reason, which is related to the previous one, is *educative*: A strategic planning system is a good tool in training new key managers. Fifth, we believe that a strategic planning system creates *cohesion*. We would argue that the process creates a stronger sense of community among its members.

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POPE JOHN PAUL II: INTERNATIONAL DIPLOMACY AND PARALLELISM TO STRATEGIC MANAGEMENT

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This manuscript is an Invited Submission based upon
its uniqueness and interesting perspectives.

ABSTRACT

Strategic management objectively appeals to expertise from every sector of society. For example, a publication sponsored by the Drucker Institute cites the importance of an organizational practice associated with the governance of the Catholic Church. Religious issues here aside, the following study explores the legitimacy of that kind of correlation. It examines strategic management literature during the past decade and identifies several of the traits which most characterize the strategic management process. These traits are then analyzed by comparison to the series of addresses presented by Pope John Paul II to ambassadors and other representatives of the international diplomatic community during 2001. One recalls that there are some 172 diplomatic constituencies accredited to the Vatican. What the study makes apparent is that there is a high degree of parallelism between how the Pope encourages the application of principles and mechanisms relevant to international relations, and how strategic managers regularly advocate their vision for organizational efficiency and development. While the overlap may be surprising to some, its being a clearly demonstrated fact verifies the long-held academic belief that formal theory is capable of significant expansion well beyond the boundaries of its originating context.

INTRODUCTION

The Harvard Management Development Program, a project of the Graduate School of Education, seeks to familiarize university administrators with managerial expertise from diverse organizations. These include the non-profit sector, fund-raising specialists, CEOs of major corporations, religion-based enterprises and governmental agencies and interest groups. A fundamental theory of the curriculum is that strategic management efforts in a given context become vastly more successful when there is willingness to examine the competence exhibited by influential organizations of a sharply contrasting variety. As a participant in MDP-2002, I observed an

application of that theory during a session which discussed "High Performing Teams." To illustrate a distinct organizational approach, the guest presenter from Babson's College of Business referred to baseball teams ("loosely integrated confederations"), football (where "players perform in close proximity") and basketball (with "rapidly moving transitions...highly reciprocal"). From that perspective, we were invited to analyze "the nature...of task-related interaction among unit members" of a hypothetical commercial venture. The realm of sports enabled our discussion about the improvement of coordination within an international pharmaceutical firm (Bolman and Deal, 1997, 87-91).

The theme of this essay emerged in response to encouragement from the MDP directorship, and for which I am profoundly grateful. I had noticed that in one of our recommended readings, *The Leader of the Future*, there was an unexpected reference (F. Hasselbein et al., ed., 1996, 4). When speaking about how "a higher-order body should not assume responsibilities" which more properly belong to an organization's lower tier, the author, Charles Handy, states that this conviction - perhaps the most important one in strategic management - was directly borrowed from the Catholic Church's concept of subsidiarity. Essentially, the Church shares in the belief "that stealing people's responsibilities is wrong because it ultimately deskills them." Let the world of business be mindful, Handy asserts.

I found it remarkable that a thoroughly secular scholar would be so objectively broadminded that he could take what is arguably the politically incorrect step of appealing to a specific tenet of Catholicism. In support of the accuracy of Dr. Handy, I read with interest that Pope John Paul II once reminded the Ambassador of Mexico that in Mexico, indeed in all countries, "public institutions...should be connected in a way that respects...subsidiarity (May 18, 2001)." Thus, countries might avoid every vestige of intolerance, and thus they might empower individuals, communities and organizations to embrace that role to which they are entitled. Just as Charles Handy could translate ecclesial wisdom into managerial strategy, the Pope foresaw how political, social and commercial institutions could be positively impacted by that same wisdom. Consequently, a question arises. If one was to identify elements of strategic management proposed by the field's preeminent scholars, would they also find parallels with a system espoused by organized religion?

SIGNIFICANCE OF THE STRATEGIC MANAGEMENT - INSTITUTIONAL RELIGION QUESTION

The question is as least as substantial as that of devoting attention to the importance of spirituality for the holistic health of commercial enterprises. Strategic management bibliography abounds with explicit deference to the inclusion of spirituality; defining it to cover everything from a reliance upon God and religion to a shunning of God and religion (Bolman and Deal, *ibid.*, 350-352). Preference seems to incline far more toward operational convenience than toward any

rigorous critique of what passes for a presumed safe haven. To put it plainly, whereas spirituality often denotes a refuge category, recourse to the potential contribution of religion, any religion, is hazardous for many academics. Religion ties in to the messy quagmire of discordant emotions, unresolved personal and familial issues and sundry hurts, anger and prejudices. The MDP professorate, like Handy, was able; however, to recognize that by the suspension of the pre-judgmental tendency to disdain a religious voice, simply because it is articulated by religion, a rich and serviceable intellectual legacy could evolve.

Convergence between Charles Handy and the Pope suggested a methodology by which to assess the theme of possible affinity between strategic management's academic deliberation and religion's praxis. To that end, writings by some fifty scholars were evaluated. Seven recurring characteristics of strategic management were thereby identified. And because Pope John Paul's address to the Mexican Ambassador was one of some fifty speeches which he delivers annually to diplomats, a single year offered a reasonable quantitative basis by which to determine comparison. Since that speech was delivered on May 18, 2001, the entirety of the Pope's diplomatic discourse to the international community during 2001 was selected.

STRATEGIC MANAGEMENT: DEFINITIONS AND INITIAL PARALLELISM

Mary K. Coulter defines strategic management according to what may be termed a conventional rationale. She typifies scholars who invariably refer to strategic management as involving "a series of steps in which organizational members analyze the current situation, decide on strategies, put those strategies into action, and...modify/change strategies as needed (1997, 6)." Wheelen and Hunger concur. Their definition adds only that decisions are aimed at the "long-run performance of a corporation." And they emphasize that there must be a "monitoring...of external opportunities and threats in light of a corporation's strengths and weaknesses (2002, 2)."

But there are also authors who perceive strategic management to consist of more than such a rubric of sequential prerequisite steps. M. E. Porter insists that "strategy goes beyond...operating efficiency,...(and) prevalent management techniques... (are) not sufficient (1999, 356)." He prefers to speak of "positioning advantage." This seeks to have "all activities of the business...complement each other," and it means that trade-offs are inevitable. There is similarity to De Kluyver's adoption of Courtney's terms "strategic posture" and "strategic moves." The latter embraces traditional formulation strategies, rather reminiscent of Coulter, Wheelen and Hunger. However, the former refers to a "company's strategic intent." What is it that the company announces by way of its determination to consciously and conscientiously pursue (2000, 40)? Bourgeois et al. also appeal to this aspect of intent. But they hold that "strategies are rarely the product of a good plan or formal planning process." Instead, it is daily activities which force managers to respond to issues with "real time" decisions. And it is these decisions which "reveal patterns that are recognized as coherent strategies (with Duhaime and Stimpert, 1999, 12)."

Pope John Paul II, when receiving the Letters of Credence of Mrs. Hanna Suchocka, Ambassador of Poland (Dec. 3, 2001), indicated familiarity with the importance of process motivated by defined goals. She was welcomed as a person whose service was to be guided by openness; that of being a resident "intermediary between Poland and the Holy See." Her task commenced with a reiteration of "the essential elements of the current situation in (their) homeland." And it was 'decided' that a positive response to the "social and economic transformation" of Poland necessitated a reaffirmation of the fact that Poland, the Church and the world "are inseparably and reciprocally linked, interpenetrated and conditioned." In this, the Pope acknowledged that changed conditions mean new and unprecedented initiatives within the international community, especially assuming the form of collaboration. For example, nations may acquire strength as they enter into the European Union or as they extend the Atlantic Pact. Still, collectively they must admit those weaknesses manifest in "the distressing wars" which persist in the Persian Gulf, the Balkans and in Afghanistan, as well as in tensions besieging the Middle East and in the terrorism visited upon New York. The language and mindset exactly parallel those of Coulter, Wheelen and Hunger.

When Porter refers to the kind of 'intent' that amounts to "strategic posturing," there is, in fact, virtually no difference from the Pope's counsel to an assembly of the diplomatic corps on January 13, 2001. Having reminded delegates of such assorted "distrust, conflicts and vestiges of past crises" as seen in the two Koreas and in East Timor, he bade them to "know that another approach is possible." Corporately and individually, they could intend to construct a "radically different" world; one based upon a will "to know one another, to respect and help one another," in short, to behold in each person a "brother" and sister. And together, diplomats may esteem their age's "greatest conquests of science and technology;" while intending to actively prevent the limitations of "human life (from being) despised in the cruelest ways (No. 5)."

"Real time" strategic decisions, as understood by Bourgeois et al., daily confront diplomatic personnel. With the Ambassador of Finland, the Pope discussed Finland's admission to the European Union. That Union's plan "was not born by chance." Neither is living within such an association. There is a repetitive need for Union members to render decisions relative to maintaining freedom and fundamental human rights and dignity, along with the rejection of social manipulation and the promotion of ecumenical engagement (Dec. 6, 2001, No. 3-4).

STRATEGIC MANAGEMENT: SOME ESSENTIAL DESCRIPTIVE ELEMENTS

Strategic Management: Presumes Philosophical Reasoning

Makoto Kawada, commenting upon the surge in growth of strategic management accounting, states that underlying philosophical premises and analogies are crucial to comprehending the nexus between bureaucracy and the "division of labor." For example, prior to the Twentieth century the central influence derived from the Newtonian view of atomism. A unified

universe was less emphasized than the separateness of its components. Manufacturing industries followed suit. The 1980s saw a shift in perception, possibly attributable to Einstein's repudiation of time as absolute. Strategic management now "appreciated synthesis more than analysis (1995, 125)." Similarly, Wacker, Taylor and Means (2000, 234-235) invited companies to identify "who you are" by affinity to the self-knowledge philosophies of the Delphic oracle and Sun-tzu's Art of War. Steve Fuller interprets that query as having serious implications for the future of the social sciences, particularly when applied to corporations. The computer revolution, accompanied by an auxiliary debate about artificial intelligence, challenges "what philosophers call ontology, the essential nature of things." If computers truly 'think', then Darwinian-style scholars may be accurate in their doubt that "certain traits....are exclusively the property of a single species," including mankind (2002, 138)."

Philosophical constructs are unequivocally allied with strategic management processes. If, for example, one embraces reductionism, then that "approach reduces....change....to a nice, neat checklist of tasks." Ultimately, that philosophy and its corresponding expression lead to nothing more than skepticism and "a rationale for failure (Duck, 1998, 280-281)." That failure may be preempted where companies recall the American philosopher, John Dewey. For Dewey, the first step with problem solving is to ask what the problem actually is. Modern executives, states R. Sanders, respond by defining a problem as either a "dissatisfaction with administrative performance," or as born of tensions generated by expectations about the future. Sanders notes that the philosopher, William James, cautioned lest problems be defined by managers "according to their own interests (1999, 7-9)." Elsewhere, the philosophy of Seneca has been tied to confidence with regard to organizational leadership (Mische, 2001, 211); just as biology provides the trilobite as a metaphor for the "operating levels....in strategic renewal (Floyd and Wooldridge, 2000, 41)" and game theory/the Prisoners' Dilemma assist with the analysis of strategic interactions (Saloner, Shepard, Podolary, 2001, 405).

Core questions are the logical byproduct of discussion about the philosophical underpinnings of strategic management. Strategic planning has "at the heart of the matter" the need to reply to key questions. Some pertain to the "breadth, scope, and focus of....business;" others to a determination about "what you will do or will not do," and still others about "whom you will serve in the marketplace." Questions stimulate organizations. For questions culminate in a realistic appraisal of company "competencies, strengths, capabilities, and infrastructure (Bradford, Duncan, Tarcy, 2000, 22)."

Philosophy and its systems are an indispensable aspect of the diplomatic discourse of Pope John Paul II. His every address shows the influence of scholastic philosophy, especially that of Augustine and Aquinas, as well as that of existentialism and phenomenology. And as with the alteration of trends in strategic management, the Vatican's involvement in diplomacy highlights the notions of variation and synthesis; what is pivotal to announcing the global import of international relations themes. For example, the Ambassador of Zambia heard the Pope depict the Church's role

as framed by a philosophy of communitarianism, humanitarianism and reciprocal responsibility. The Church's international activity is "to promote that solidarity which joins peoples in the bond of brotherhood." A Gospel-inspired world view rejects the reductionism disdained by the author, Duck. That world view, kindred to William James, decries any narrowly enumerated self-interest. Instead, the "Church will always be a willing partner in....making....solidarity a reality in the worldwide family of man (May 18, 2001, para.5-6)."

Reminiscent of Dewey and R. Sanders, the Pope explored the contemporary prevalence of conflict. He informed the Ambassador of Bangladesh that the problem of conflict "is not a matter of (nations) dispensing favors (to those requiring aid) but of recognizing the basic human right to a just share of resources." The achievement of peace presumes a philosophy of egalitarian justice (Dec. 6, 2001, para.3-4). Speaking to the Ambassador of Eritrea, the Pope stated that "a higher philosophy of progress is urgently needed." Such philosophy must not be restricted to materialism. Rather, it must foster "that true freedom for which all people have a deep and unfailing longing," and it must reinforce claims "to inalienable....rights and dignity (December 6, 2001, para. 4)." That philosophy's steady emphasis must be upon "the common good, with respect for one another." And it must constantly elect to support each country's legitimate civil laws (to Ambassador of Kazakhstan, Sept. 17, 2001, No. 3b).

The diplomacy of Pope John Paul II is also characterized by a philosophy of history. History is neither random nor governed by chance. Providential design trumps accidental event. In his address to the Ambassador of Mongolia, the Pope summarized nearly eight centuries of relations between the Mongolian state and the Holy See. That "long journey" was marked, not by a haphazard meandering through time, but by continuity, the constancy of "age-old connections (May 18, 2001, No. 2)."

The Pope has not hesitated to buttress his philosophical assertions with recourse to varied disciplines. For example, in remarks to the Ambassador of Austria, he referred to a sociological position that society should reflect an inherent diversity and pluralism. He appealed to botany for a metaphor. "A garden is in bloom when many flowers blossom together." Further, on the same occasion, when wanting to stress that his philosophical outlook on the family contains the element of socialization, the Pope drew upon an image from educational theory. "The family....is a school of social charity in miniature." He is in conformity with strategic management theorists. And, like them, he is attuned to the link between philosophical comprehension and probing questions directly derived from the same. Again, also to the Austrian Ambassador, the Pope spoke about obligations incumbent upon the international community. Members cannot be indifferent, for instance, to the plight of refugees, displaced persons, the disabled and the needy. Their predicament invites a rational reflection and collective introspection, a "listening to deeper, inner questions (Feb. 13, 2001, No. 6-7)."

Strategic Management: From Models to Methodology

George F. Monahan's research acquaints readers with the importance of 'models' in organizational thinking. A model is said to concretize a format by which "to solve managerial problems." Typologies include iconic (e.g. model airplanes), analog (e.g. graphs) and symbolic (e.g. Greek letters or mathematical formulas). Quoting John D. C. Little's concept of "design calculus," Monahan says that an efficient model should embody the features of: simplicity, robustness ("some predetermined range"), ease of control (not meant to produce just any answer desired), adaptivity (may be updated), completeness (allows for some subjective judgments) and facile communication (2000, 6-7).

Bernard H. Boar states that three primary steps comprise an effective "strategic planning model." These are assessment (a "thorough understanding of the business situation"), strategy (specifying objectives and supportive possibilities) and execution ("a process of...discovery and refinement"). (See Boar, 1994, 4.) Wheelen and Hunger (ibid., 9) designate assessment as environmental scanning; strategy as formulation and execution as implementation, evaluation and control. And they propose sub-models for each constitutive element. For example, the assessment or scanning factor may be accomplished by the well known SWOT analysis. "SWOT is an acronym" for a company's "particular Strengths, Weaknesses, Opportunities and Threats."

Strategic management models are regularly criticized and replaced. Hox and Wilde (2001, 7-12) prefer their Delta Model. They contend that contemporary business experiences transformation at so staggering a rate that previous models have "become either invalid or incomplete." Theirs is a model based upon the Internet and the "emergence of the networked economy." And always, "the driving force in strategy (is) bonding." Delta is depicted through a triangle. At the apex stands "System Lock-In (SLI)" and which includes "complementors" (another firm enhancing one's own product and portfolio). At the left of the base is "Total Customer Solutions" (TCS "strategy is love with our customers," not "war with our competitors."). To the right is "Best Product (BP)" positioning (despite "obsessive concern" with rivals).

Pope John Paul II's Address to the New Ambassador of Chile reflects the attributes of strategic management models conveyed by Boar, Wheelen and Hunger. The Pope advocated an 'assessment' of the ethical relativism, consumerism, poverty and "enormous inequalities" which must be confronted in order "to recover from the wounds that sap the strength of Chile's social growth." 'Strategy' means a distinct "effort to improve the quality of life and standard of living of Chileans." That 'objective' entails the 'supportiveness' of the Church and its promise of "loyal collaboration." And 'execution' includes the "recent deliberation of (Chile's) Supreme government and...legislative authority." The Pope urged that these deliberations continue to 'refine' and 'evaluate' key life issues; the death penalty, "indispensable respect for the life of every human being," "grounding in basic ethics," the ideals of Chilean national independence and Chile's involvement with international forums and organizations. 'Implementation' and 'control' are visible in Chile's latest peace accord

with Argentina, and in a 1999 agreement with Peru, "the Act for implementing the clauses of the Treaty of Lima of 1929 (June 18, 2001, No. 3-4)."

What of SWOT analysis? Is this model suggested in papal diplomacy? Yes. The Pope delineated 'strengths' in his message to the Ambassador of Mali. For example, Mali has demonstrated zeal for "the reduction of the proliferation of small weapons;" seen in its hosting a November 2000 meeting of the Organization for African Unity. And Mali has shown decisive strength by being "resolutely engaged in the process of building a democratic society." Weaknesses? Selfishness must still be fought. Economic and social imbalances must still be corrected, and trust is still absent in many sectors. Opportunities? Mali faces prospects for furthering "integral education;" of enabling Christian-Muslim dialogue; of resisting religious discrimination; of enlarging programs in health care and social assistance and in cooperating with the Pope's recommendation that "rich countries (help) the poorest ones by....setting up the appropriate structures for development and the means of formation." Threats? In summary, "there is no true peace without fairness, truth, justice and solidarity." And the major threat is the "failure (which) awaits every plan which would separate two indivisible and interdependent rights: the right to peace and the right to an integral development born of solidarity (Dec. 6, 2001, No. 2-4)." SWOT.

As with the Delta model substituted by Hox and Wilde, conventional models are constantly in need of revision. Methodologies are an answer to varied circumstances. "A constructive relationship," the Pope told the Ambassador of Turkey, demands "a healing of memories," the option to set aside "wounds of past grievances." An 'SLI' equivalent links the 'complementors' of those nations and cultures for which Turkey is an "important bridge....between East and West." The 'TCS' 'love of customers' parallels where Turkey refuses to consider its own minorities as 'competitors', and comes to "see no contradiction of any kind in being Catholic and Turkish." And 'Best Product'? For Turkey, it will flow from attitudes which run counter to when "the transcendent dimension vanishes from public life (Dec. 7, 2001, para. 3, 5-6, 9)."

On May 30, 2001, the Pope spoke with the Special Representative of the UN Secretary-General on the occasion of welcoming a symposium, "Children in Armed Conflicts." That address amounted to a synopsis of the totality of the Pope's diplomatic discourse. Though brief, the message embodied features noted by Little and Monahan. These include: simplicity (the symposium theme of "the sad plight of countless children who are victims of war"), robustness (agenda to instill "greater awareness" of those children's' problems), ease of control ("tribulations of so many....compel us to spare no effort to bring such conflicts....to an end"), adaptivity (the ongoing need to provide means "to ensure that children everywhere....(grow) up in peace and happiness"), completeness (the challenges face not only organizations and the international community, but also individuals) and ease of communication (such projects as this symposium being among normal UN resources).

Strategic Management: Issues - Their Identification, Evolution and Redefinition

The preceding section's analysis of models implies that models are irrelevant minus issues. Issues sustain a model's process. According to Frederick Betz, it is erroneous to conclude that the logic of strategic planning means spelling out the precise means and ends of known action. "Issues should be judged with reference to the real logic of strategic exploration;" refining perception, creating commitments and preparing for action (2001, 39). And it is issues, when they are sufficiently contentious or crucial, which prompt companies to devise agreements.

Agreements have certain traits. Besides the obvious recital of benefits and compromise, issues for consensus also evoke "maximum conditions that have to be met...or maximums that can't be exceeded, or both." Clarity is, of course, critical. Another dimension of issue-related agreement pertains to "how the world works." Stevenson and Cruikshank (1998, 149-154) argue that agreements do not require unanimity; they require a determination to blend an agreement into a party's particular context. For example, an enterprise may negotiate with its union to reduce the hours of available labor in several of its branches. The ostensible reason is due to economic hardship owing to a recession. At the negotiation table union and management agree. But their signatures upon a contractual document do not signal any convergence of their positions. Rather, management's stance indicates that the corporation is able to survive with an acceptable profit margin despite a temporary decline. The union's reasoning is that diminished employment is far better than no employment. The company endures with its agenda only partially scathed, so does the union. Agreement has a similar consequence for both parties, but not a similar meaning. Issues are interpreted and applied differently throughout their respective world.

Betz' regard for strategy's 'real logic' is paralleled in Pope John Paul's address to the Ambassador of Rwanda. The refining of perceptions is seen in the Pope's approval of Rwanda's "continuing efforts to restore national unity on the basis of a new Constitution." He endorses those social programs which are increasingly "aimed at restoring the rule of law, providing assistance to the surviving victims of the genocide and reintegrating the refugees." Creating commitments is also visible when the Pope explicitly calls for "the commitment of all Rwandans to social, political and moral renewal." To that end, he specifies the "hope that...Rwanda...will have the support of the international community." The desire is for expanded commitment, internally and externally. Preparation for action. For Rwanda, "national reconstruction" is said to be a "present work." The accent is upon the present tense in time and upon action during the present. Rwandans face "an important opportunity." They may not linger. Issues such as "the administration of justice" are in urgent need of "witness to the...greater power of good (Dec. 6, 2001, para. 2-3)."

And of agreements? On November 29, 1984, a Treaty of Peace and Friendship was concluded between Argentina and Chile. That treaty was the product of the Pope's intervention as mediator. Both nations were "on the brink of war as a result of the controversy that had come to a head in the Beagle Channel region." Here was an instance of diplomacy, somewhat reminiscent of

what the UN Charter anticipated in its famous Article 2, section 3 (the settlement of "international disputes by peaceful means"). When Argentina's President heard the Pope refer to the episode, he doubtless remembered how the 'world' of Argentinean society found in this Agreement a safeguard of interests (e.g. military, economic), possibly overlapping in some respects with those of Chile, but remaining particular to his own country and its government (April 5, 2001, No. 4-6).

When commenting upon the worth of information technology for business management, Christopher Sauer lists eight "Principles of the Incrementalist Approach (2000, 116-123)." The first item reads, "Make organizational change one step at a time." The last states, "Be opportunistic - look for opportunities after each step." The two capture the spirit of the series. Incrementalism ascribes merit to the undertaking of issues as "a sequence of small steps." These are said to herald a "combination of prudence and the evidence of successful practice." The incrementalist idea is exhibited in remarks made by the Pope during his very diplomatic "courtesy visit" to the President of Kazakhstan. The Pope asserted "that every nation has the right of its sovereignty....full expression as a political subject." Pope John Paul did not envisage an instantaneous realization of said expression. Instead, he acknowledged that "this sovereignty be long lasting, fruitful, ever fuller, embracing all the sectors of national life (Sept. 23, 2001, para. 3-4)." Definitely mindful of incrementalism. And it is accompanied by an opportunistic reminder. The President was told that Catholics in his country "are a restricted group, a minority....but (who) can and will contribute - to the best of their ability" to their nation's welfare and destiny. The message is candid and strategically poised. Cease the restrictions and a positive aftermath will certainly ensue.

Strategic management expertise frequently advises companies to permit "the management process to possess several interconnected top-level and base-level decision processes (Schneeweiss, 1999, 323)." In other words, issues are not the prerogative of any single organizational realm. The resolution of any problematic necessitates a multiplicity of input. To avoid a "drift off plan," monitoring devices must be "built into the planning stage (Burton, 1999, 14)." And there must be constant communication (Crainer, 1999, 210). Pope John Paul appears to concur. To the first Ambassador of the Republic of Georgia he described a concern for the "integral development of individuals and nations." No population constituency can be overlooked or discounted if there is ever to be a "strengthening (of) democratic principles." The protection of these principles seeks a vigilance against the residual import of the flawed ideologies of Communism, Fascism and unbridled materialism. The Pope renewed a pledge that the Church extend itself from the onset to be vigilant with Georgia, as with all nations, lest "freedom is eroded." In conclusion, the Pope requested that the channels of communication between Georgia's diplomatic mission and "the various offices of the Roman Curia" be in habitual contact (Dec. 6, 2001, para. 1, 3-4, 7).

Strategic Management: Compatibility with Change

Prior discussion indicated that strategic management is synonymous with dynamics of change. But this is not to say that CEOs invite and solicit that change. For example, living in Michigan I have no choice but to accept the transition from autumn to winter. Change is imposed upon me and I adjust. Nine winters after initial arrival and I still detest snow. The change has produced no discernible advantage. Change may just as well never happen. Bernard Boar (ibid., 2) declares that "most information technologists have never understood...that an art is practiced for the benefit of those for whom its services are intended, not for the benefit of the practitioner." Change, for Boar, means simply that an "organization must adapt to accommodate" its customers. Therefore, strategic managers do not resent change; they do not passively acquiesce to change. They select "what to change to." This compares precisely with a study of Fortune 500 companies conducted by Block and Boal. Their view is that several conclusions pertinent to change invariably emerge. For instance, (a) the relationship between resources is as "important in the determining of a competence" as are the resources themselves. (b) There is also the elevated degree of similarity in "the configuration associated with higher orientation to change and high performance." (c) And there is often the indication that "how resources are bundled" may exert difference "by competence level and/or performance level (1996, 166-167)."

Like these strategic management experts, Pope John Paul explored both the desirability of receptivity to change and change's rapport with basic resources. Addressing the Ambassador of Gambia, the Pope noted "the acute need for radical personal and social renewal." Pursuing that end sees a "road ahead (which) remains long and difficult. Bringing about the necessary changes will require great effort." But change is no vague abstraction. Change must lead to the obliteration of those very specific, numerous and grave "causes which give rise to and aggravate the many situations of injustice present in our world (May 18, 2001, para. 5)."

The Ambassador of Ireland and the Pope spoke about "rapid social and economic change" as having yielded many positive developments for Ireland. However, there is still "need to discuss these trends and changes" since they enable the blend of internal progress and national values. And the resources of Ireland are "more than the sum of its possessions and powers." It is allowance for the interplay of resources which bequeaths "a complete picture of the human person...(in) all the dimensions of (their) being." The successful realization of that 'picture' (high performance) obligates Ireland, especially Northern Ireland, to emphatically and persistently "renounce the use of arms and embrace the path of dialogue and peace (high orientation to change) (See Address, Sept. 7, 2001, para. 4, 9.)"

Resources may be concentrated or bundled in such a way that a country might maximize its potential to coordinate national life "and constructive international relations." Those resources may include the geographic factor of border location; the locus of "an original, powerful culture forged

in the Christian faith," even the collective recall of having "been occupied or annexed" repeatedly (to the Ambassador of Armenia, Sept. 15, 2001, No. 3).

A survey of CEOs revealed that change is regularly deferred or denied for several reasons. The chief reason consists of a "failure to see the need." A "dislike for making tough decisions" ranks close behind (Fogg, 1999, 28-29). Executives may also be fooled into deducing that change must be dramatic. No. Invaluable change can be wrought by "just subtle shifts in thinking...tiny modifications (Kelly, 2001, XIV)." Meanwhile, because it is critical that change be directed by vision, the allure of distractions must be acknowledged. Vision must therefore be conveyed "with a breathtaking boldness." Still, vision is not to be equated with drama. And, as Al Coke states, "strategic goals must be a stretch, otherwise they defy the definition of strategic (2002, 116-119)."

The Pope informed the Ambassador of Estonia that in his country "the rights of individuals must be recognized and protected." Indecisiveness and procrastination are no longer appropriate. Political authority should assume the 'tough' stance of endeavoring "to provide whatever protection is needed." But tensions will not be resolved upon command. Quality change stems from a calm and steady negotiation. The establishment of "firm and fair democratic structures" follows a continuum, a step-by-step unfolding of Estonia's enriched tomorrow. Yet, Estonia cannot be "constrained by the desperate struggle to survive." She must resolutely proclaim her rights, promote her families and energetically "view the world in broader terms (May 18, 2001, para. 3, 6-7)."

Strategic Management: Quest for a New Paradigm

When a call for change is initiated throughout the strata of an organization, any previous strategic model is often rendered obsolete. Pervasive change presupposes at least an implicit advance to a new paradigm. The more explicit that the stages in such a transition become, the more the necessity to objectify the successor paradigm. It is permissible in such a process to seemingly infringe upon management's hegemony. "All relevant actors have to develop their interpretations, political positions, and interests in order to assist in transforming...the organization." Essentially, the antidote to "ambivalence towards renewal...combines an experimental approach that allows for trying out and reflecting upon a diversity of practices (Clausen and Olsen, 2000, 72)." However, while exactitude has its definite importance, precision must now concede to perspective. Perspective remains the preferred ground for strategic and practical decisions (Tyson, 1997, 201). The overall system thus inclines toward innovation. It is a new paradigm in which "policy instruments" should be articulated "in a global coherent framework." It is a new paradigm in which "peers and clients' views" are the twin polarities for monitoring. And it is a new paradigm in which evaluative results evoke the continual reframing of policy aims and administrative attitudes (Nauwelaers and Wintjes, 2002, 213).

The Knights and Dames of the Military Order of Malta have a lengthy history of involvement with the Church's charitable apostolate. On January 12, 2001, the Pope received the Letters of

Credence of the Order's Ambassador, A. L. Bartoli. On that occasion mention was made of the longstanding model which depicts the Order's dedication to the world's destitute (obsequium pauperum) and its fidelity to cooperation in fulfilling the Church's Gospel mandate (tuitio fidei). It is not an organizational model which is eligible for disqualification. But it does qualify for renewal and for paradigmatic diversity. The Pope bade that the Order's "constitutive Charter" respond to "a new creativity in charity, not only by ensuring that help is effective but also by 'getting close' to those who suffer, so that the hand that helps is seen not as a humiliating handout but as a sharing between brothers and sisters (No. 2b-c, 3a)." There is urge toward a 'new paradigm' by which to reinvigorate the Order's traditional values of mercy.

Perspective is critical to the Order's witness. The Pope noted how society's wealthy segment is still further endowed owing to the consequences of "impersonal mechanisms of great economic and technological changes." The Order must "continue to strive for a humanization and sharing of...resources...intended in equal measure for everyone (para. 3b)." The perspective is inherently and coherently global. And, as described by strategic management expertise, the realization of that perspective is not confined to the Order's executives. The Pope insisted that there be recognition of the "authentic service" of the Order's "many volunteers and workers (para. 1c)." It is these "hospitallers, men and women of faith," who exemplify how the Order proclaims that it is "generous and fearless in the defense of the causes and rights of the poor (para. 3b)."

S. Jonsson argues that a paradigmatic shift presumes reliance upon trust. Quest is not always invoked by strategic managers, possibly because "trusting a person...exposes oneself to risk." But it is "the extension of trust over time (which) gives...a group the energy to perform coordinated action without hierarchical control." Trust requires that organizational leanings toward disdain for the "individual circumstances or people involved" must be reversed. For it is upon trust that "lateral responsibility is built (in Pearson, 1999, 354)." And it is trust which augments a company's perceptions about reality. Richard A. D'Aveni states that "strategic supremacy is...about creating a social reality." That social reality is shared, not only by company members, but "among competitors within a competitive space." By influencing the perceptions of rivals, firms may "negotiate the borders of their spheres (2001, 10)." Yet, if a firm convinces a rival that it will adopt a particular stance, this amounts to a commitment in which the firm 'ties' its own hands. Caution must be exercised so that commitment not render damage to flexibility (Saloner et al., *ibid.*, 421).

"The corrosive effects of distrust and pride" were mentioned by Pope John Paul in remarks to the Ambassador of Nepal. Trust, as the opposite of that distrust, is possible. But it is possible "only to the extent that humanity as a whole deserves its...calling to be one family." And it is possible only when "human rights" are understood to be "inscribed in the very nature of the person (where they) reflect the objective and inviolable demands of a universal moral law." This forms a trust which is not dependent upon institutional and political hierarchy. For human rights "precede laws and agreements, while determining their value and correctness." Comparable to Jonsson, the Pope asserted that when the rights of the person are "safeguarded...the social fabric (is) truly

strengthened, the priorities of individuals and nations (are) properly ordered, and the quality of international relations (is) improved." Perceptions, according to the Pope, can be altered and they can be reversed. The Nepalese are strongly aware of the world's "unspeakable suffering." And they, like many, may be tempted to despair. However, the cause of peace is able to neutralize contrary and competitive challenges. That cause may shape reality and allow "members of the human race (to) occupy their rightful place (May 18, 2001, para. 3-5)." As for a commitment so entrenched that it retaliates against flexibility, this may be what the Pope had in mind when addressing the Ambassador of Iraq. The Pope referred to "the embargo in your country (which) continues to claim victims." Any 'fixed' commitment to uphold that embargo means "that innocent people....pay consequences....being felt by those....weakest and most vulnerable (April 28, 2001, para. 1)."

Strategic Management: Collective Learning Made Possible

Jamison and Rohrocher (2001, 5) maintain that strategic management must preserve a concern for sustainable development. And that concern must take into account, not only value conflicts, but the effect of various "kinds of learning processes." These authors maintain that organizations, like the individuals who compose them, are capable of formal learning. Organizations acquire fresh insight, comprehension and practical ingenuity. Strategic managers are advised to be cognizant that their role includes the facilitation of learning-centered policies and endeavors. Among the learning gains identified from research of alliance and partnering, is that timing is critical for conceptualization. There are, for example, significant differences in whether an organization learns that "alliances...are tools or means to an end...(or) as ends in themselves." The research of Bierly and Kessler (1999, 318-319) suggests that "what you are doing;" the function learned in context, is more important for organizational well being "than who you are per se when considering partnership in the technology field." These authors contend that organizational learning validates the applicability of "environmental contingency theory." This theory "argues that an organization should seek to achieve a fit between its strategy and its task and institutional environment." It is this environment which teaches about evolving demands and constraints, and according to which firms increase their learning curve in terms of strategic compatibility.

In his remarks to Mrs. S. Chtioui, Ambassador of Tunisia, Pope John Paul spoke of Tunisia's "drive to building a supportive and fraternal nation." But should ignorance ever prevail, "violence and instability" will become the inevitable consequences. Tunisia; however, is a society equipped to learn, especially due to its "attachment to freedom of conscience" and its "generous tradition of hospitality." The preservation of that learning component; one which guarantees Tunisia's progressive future, means that Tunisia must expend "considerable effort....to give all...people access to knowledge (May 18, 2001, No. 2, 3b)."

The Pope directly mentioned "environment" when speaking to the Ambassador of Peru. Almost as if referring to Bierly and Kessler's "environmental contingency theory," the Pope saluted

Peruvians for legally recognizing what they have 'learned' throughout the centuries about the presence of the Church in their midst. The Constitution's self-improvement strategy for Peruvian society avows in Article 50 "that the Church has played an important role in the historical, cultural and moral formation of Peru (Feb. 16, No. 2a-3a)." Similarly, the 'timing' of Iran's participation in colloquia jointly sponsored by the Pontifical Council for Interreligious Dialogue and the Organization of Islamic Culture and Communications, signifies that, for Iran, it now "becomes less likely for cultural differences to be a source of misunderstanding...and the cause of conflicts and wars (to the Ambassador of Iran, Jan. 22, 2001, para. 4, 6)."

Stewart Brand, commenting upon vital lessons learned by strategic management, numbers among them the realization that organizational continuity, along with peace and prosperity, is indispensable for "environmental health (1999, 1:36)." Therefore, "strategic thinking" is a "structure of meaning," an expression of the continuity "of social cognitive action." What becomes implemented then "is the possible strategy...not the ideal one." Organizational learning is contained in "the desire to close the gap between the two (M. A. Hitt et al., 1998, 21, 24)." As the future unravels, core values will naturally alter. Taylor, Wacker and Means (1997, 73) believe that the next generation, whom they call "Millennialists", will be more attuned to "the assumption of personal responsibility" than its predecessor, Generation X. Millennial learning will probably yield an ethic which accents both possibility ("going to the edges and managing from there") and connectivity ("access to everything"). These twin points are evident in Kenneth J. Cook's attempt to train strategic managers in the formulation of mission statements. The mission statement's very purpose is to "help" parties (e.g. executives, employees, suppliers, customers) "to understand" the company's goals and focus (1995, 5-7). Strategic management is a stimulant for organizational learning.

The "structure of meaning" notion, visible in strategic management thought, is also conspicuous in Pope John Paul's address to the Ambassador of Guinea. While there is some degree of 'continuity' in "international cooperation," the "new problems posed by globalization" necessitate that nations "rethink" that cooperation. Because Guinea "has been confronted by serious problems of security," ideal strategy must certainly concede to possible strategy. What is possible, and "urgently necessary," is that "authentic peace be rapidly established in the region so that (displaced) peoples may at last return to their land and live there safely (May 18, 2001, No. 2, 3c)."

Strategic-style 'possibility' and 'connectivity' are discernible in remarks directed by the Pope to the Ambassador of Sri Lanka. Sri Lanka, the Pope said, has recently known tragic "suffering and terrible loss of life." On behalf of ensuing generations, the 'possibility' is that "efforts (be) made to find...(an) equitable solution to the underlying causes." As the country consents "to engage in patient and persevering negotiating," what may transpire is a genuine 'connectivity', in as much as all "parties involved" may be inspired "to abandon the ways of violence (May 18, 2001, para. 4)."

By analogy to an organization's mission statement, a nation may also adopt a distinct, publicized mission-statement equivalent, its national agenda. Such is the case of South Africa.

Personal responsibility and understanding, precisely as discussed by Taylor et al. and Cook, are reflected in the Pope's plea "that the truth about the past should be known and responsibly laid where it is due." No South African stands immune from accountability. Further, citizens are to 'understand' "that the delicate process of building a just and harmonious multiracial society should go forward." And it is a process which can go forward. (See May 18, 2001, para. 3.)

Strategic Management: Action as Leadership and the Action of Leadership

Strategic management portrays leadership, not in any overly directive sense, but as primarily unitive. Company leaders are reasonably expected to determine what constitutes professional management and to institutionalize those practices most likely to bring it to fruition. They are to unify the organization's resources and clientele, processes and personnel.

What elements characterize leadership as favored by strategic managers? Stephen Haines includes four such elements, based upon research conducted in some 580 international companies. According to Haines (2000, 17-27):

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| (a) | Leadership motivates organizational loyalty on behalf of maintaining the overall agenda of corporate plans. |
| (b) | Leadership balances operational adjustability with "strategic consistency. |
| (c) | Leadership continually broadens and deepens the "range and depth of management practices. |
| (d) | Leadership is "willing to face up to the harsh realities of today's revolutionary" fluctuations. |

To these may be added:

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| (e) | Leadership diligently preserves "the creation of shareholder value;" that is, the augmented sharing of assets, activities, benefits, knowledge, skills and image. In the words of Jenster and Hussey, leadership enhances the quality of foundations. And "foundations matter (2001, 271)." |
| (f) | Leadership cultivates the awareness that in trying to avoid one bias we may inadvertently cater to another. Indeed, there are instances when companies are guided to switch thinking "when there is no need to do so (Makridakis, Wheelwright, Hyndman, 1998, 496)." |
| (g) | Leadership distinguishes itself from "market share." That is to say that "the company with value leadership is the one whose ideology - or value proposition - holds the most sway with the hearts and minds of customers (D'Aveni, <i>ibid.</i> , 38)." |

Does the diplomacy of Pope John Paul II allow provision for leadership? And does that leadership compare with what has been shown by strategic management scholarship? To both

questions, the answer is in the affirmative. For example, the Pope twice refers to leadership in his address to the Ambassador of Brazil on April 7, 2001. It is said that "Brazil's leadership in the concert of Latin American nations" definitely motivates loyalty in an overall agenda which consists of "initiatives for promoting peace;" initiatives which have already "exercised a notable influence on the consolidation of democracy (No. 2b)." Brazilian leadership likewise reflects a strategic consistency in as much as the country's "priorities remain." Those priorities are mindful of such social aberrations as: "the drug trade, corruption at every (institutional) level, inequality among social groups and the irrational destruction of the environment (No. 2c, 5c)." And, similarly, Brazil's is comparable to an "influence" upon the broadening of the range of management practices, since the nation "reflect(s) a leadership that is...linked to (those) principles of justice and freedom that continually witness to...human dignity (No. 2b)." Those principles and that dignity are anything but inert. There is a 'range' that is ever in movement.

As for leadership able to confront revolutionary fluctuations, this might well apply to participants in the G8 Summit. The Pope sent a message to these diplomatic delegates, referring to them "as leaders of the eight most developed nations in the world." But their deliberations were not presumed to be a casual, theoretical exercise. Theirs would be "days of intense work." And representatives would have to show concern for all nations, without being "overwhelmed by the weight of the various issues involved," and with a willingness to struggle on behalf of "concrete solutions to the problems" escalating before them. (See Message, July 19, 2001, para. 1)."

The concept of shareholder value is conveyed in Pope John Paul's words to the Ambassador of Mauritius. Mauritius' 'shareholders' are its "diversity of...cultures, beliefs, races and languages." Together, their pluralism can realistically "prefigure an international community which (is) a home for all peoples (Dec. 6, 2001, para. 2)."

In his address to the Ambassador of Bulgaria, one sees the Pope's counsel that bias be labeled. Bulgaria's is an "original culture." And while that culture admits past wrongs in its "path of truth;" making "amends for the...harm" denotes Bulgaria's "path of justice." Honesty and humility must replace bias and its distortion (Dec. 21, 2001, No. 3a).

When Pope John Paul reflected with the Ambassador of Lesotho upon how "many countries are striving to consolidate democracy at every level of public life," he embodied the ethos of value leadership. Lesotho's leadership endorses the aspirations of those within its boundaries and beyond, aspirations "to overcome resistance to the rule of law," aspirations to "touch people's (most profound) moral sense," and aspirations to "bolster security and foster economic growth" and prosperity (Dec. 6, 2001, para. 6-7).

CONCLUSION

Strategic management inquiry is frequently regarded as the almost exclusive prerogative of the business milieu. While commercial interests are strongly in evidence, this study proves that the

company setting is not the sole setting. Strategic management theory and techniques are equally applicable to the political arena. This is especially true where commerce and politics intersect. Mahon, Bigelow and Fahey (2001, 165-167) note that political interest groups are often either among the principal stakeholders or antagonists of corporations. Shell; for example, has come to realize that the intervention of Greenpeace can thwart the "best-laid plans" to erect "an oil platform in the deepest reaches of the North Sea." It is also known that the European Union has successfully curtailed the expansion of Coca-Cola, and that protectionist legislation has shielded the Japanese auto industry from foreign encroachment. For strategic managers, "becoming adept at political strategy is no longer a luxury: It is a survival skill." And it is especially important as companies become alert to the rise of environmental or biopolitics, and where the distinction is more and more blurred between public welfare and private values (Maynard and Mehrtens, 1993, 142-143).

The Best of Long Range Planning series, notably the volume entitled, Pergamon, (J. M. Bryson, ed., 1999), applies strategic management content to governments and to both public and non-profit organizations. The authors assert that strategic management may definitely be tailored to the purpose of these enterprises. Naturally, at times the interaction will resemble either strategic planning or comprehensive planning. But this usage of strategic management per se remains pertinent, especially because these governmental and other groups are becoming more and more "entrepreneurial and progressive in order...to fulfill their public mandates (idem, X-XII)." Indeed, Guisinger and Dicken (1994, 227) note "that states take on some of the characteristics of firms as they strive to develop strategies to create competitive advantage." The reverse is also true; organizations such as companies imitate governments to the extent that they comply with the rules and regulations by which these organizations are obligated (J.S. Harrison, 2002, 24-25). And then there is the hybrid situation where governments increasingly contract out for "services, but the state (is) held responsible for their quality (McRae, 1995, 193)." Peterson and Shackleton perceptively add that management deficit will probably occur; for example, in the European Union, unless its governance soon accommodates commerce's strategic management policies, principles and praxis (2002, 354).

Given that the general political domain validly incorporates strategic management's insights, then the next step, proving parallelism with Pope John Paul's diplomatic discourse, becomes accurate. In his role as the head of a sovereign state, Vatican City, the Pope is not only a religious authority, but behaves as do his secular counterparts. Diplomatic contact is a facet of his ordinary duties. Hence, it is fitting for the Pope to express how "the somber days of Hiroshima and Nagasaki...continue to haunt" the whole world; begging from it a "deep and active concern for the peace of Japanese society (to the Ambassador of Japan, Oct. 29, 2001, No. 2a)." It is equally fitting for him to strategically request that North East Africa's "different protagonists...extend...priority to negotiation" over violence (to the Ambassador of Djibouti, Dec. 6, 2001, No. 2b). Moreover, it is also fitting for the Pope to denounce strict utilitarianism as a dehumanization (to the Ambassador of the United States, Sept. 13, 2001, para. 5), and to confirm international law's conviction that

"private property...has a social function...the common purpose of goods (to the Secretary-General of the UN, June 25, 2001, para. 11)." The strategically-minded diplomacy of Pope John Paul II petitions the international community to be responsive, renewed and rededicated in the practicalities of its moral responsibility.

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Pope John Paul II: Diplomatic Discourse

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PAWN TAKES QUEEN: THE STRATEGIC GAMEBOARD IN ENTREPRENEURIAL FIRMS

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ABSTRACT

Entrepreneurship is about the creation of a new order and changing the rules of the game, consequently, strategy in such firms is a visionary process. Entrepreneurs rapidly change the firm's direction and redeploy resources. Ventures which persevere are led by entrepreneurs who continuously see what is not there, constantly strive to make the evolving vision a reality, and are willing to accept failure as a part of the meta-learning process. We present an illustration of the performance of firms in varying levels of rivalry and turbulence using the analogy of a game board much like chess. This approach illustrates how, in entrepreneurial venues, pawns can, and do, take queens.

INTRODUCTION

Since its advent in the 1960s, strategic planning has been proclaimed as *the* vehicle for enhancing organizational performance. According to Miller and Cardinal (1994), the two major purposes of strategic planning are to promote adaptive thinking (Ansoff, 1991; Armstrong, 1982; Grinyer, Al-Bazzaz & Yasai-Ardekani, 1986) and to support managerial integration and control (Grinyer et al. 1986; Vancil & Lorange, 1975). Strategy is the vehicle for providing organizational direction in navigating the environment. In fact, strategy should produce a harmonious co-alignment between the firm and its operating environment (Venkatraman, 1989; Venkatraman & Prescott, 1990). Yet, many firms face the challenges of hypercompetitive conditions (D'Aveni, 1994), replete with rapid, sometimes discontinuous changes in technology, regulation, customer demands and intensified competition, often global in scope (Ireland & Hitt, 1999). These forces pose questions concerning how to devise effective strategies in such a dynamic, complex environment.

One of the best known researchers in the management literature, Henry Mintzberg (1994), has written a scathing denunciation of strategic planning. Mintzberg (1994) avows that planning has "*failed everywhere and everywhen*" it has been implemented, thereby implying in a rather alliterative fashion that wherever and whenever planning has been implemented, it has failed. Reactions to his criticisms have run the gamut from acclaim to denunciation, but his work has clearly stimulated a great deal of thought about the planning process and its outcomes. Is it

valuable? Does it improve venture performance? Or, is it a waste of time? Worse? Mintzberg's (1994) position has support from some studies attempting to link strategic planning to performance, but other research suggests that planning does positively influence firm performance (Ketchen, Thomas & McDaniel, 1996; Boyd, 1991; Brews & Hunt, 1999; Miller & Cardinal, 1994). Interestingly, much of the evidence Mintzberg (1994) cites in support of his declaration are incidents of the slavish adherence to a strategy when it was clearly no longer appropriate. In other words, strategic planning failed during the implementation phase, not during the time when a strategy was being crafted. The unmistakable conclusion is that far too often people just decide upon a strategy, then follow the plan, step by step, even when it becomes obvious that the situation has changed; even when it becomes obvious that the plan absolutely cannot work.

Over the last two decades, the environment in which businesses operate in the United States has come to be characterized as *hypercompetitive* (D'Aveni, 1994). Hypercompetitive conditions involve an extremely turbulent competitive environment; one in which the number and the relative strengths of competitors changes rapidly; one in which international competition appears and disappears without notice; one in which entrepreneurial ventures enter the market and change everything we once understood about competing. More current research clearly demonstrates that the planning-performance link is substantially influenced by firm context (Ireland & Hitt, 1999). In other words, strategic planning really cannot be shown to be linked to improved venture performance unless one takes into consideration the environment in which the firm competes (Hart & Banbury, 1994; Brews & Hunt, 1999). This is important because the hypercompetitive environment (D'Aveni, 1994) is supposed to be replete with rapidly developing technological development, changes in the institutional environment, more demanding consumers and competition that is more global in scope. All of these forces have significant implications for crafting strategy and for implementing strategy, but one of the primary considerations which is seldom discussed is the distinctive nature of the entrepreneurial venture.

PAWN TAKES QUEEN

When appraising entrepreneurial ventures, one must recognize that such firms are *not* miniaturized replicas of large firms. Entrepreneurial firms have special features, needs, advantages and disadvantages. For example, entrepreneurial firms tend to be more specialized, focused on one product or product group, more flexible, and guided by one person, the entrepreneur, who devises and executes strategy, or, more often, a small group of entrepreneurs, the entrepreneurial team. Relative to large firms, these ventures lack resources such as capital, people, materials and information.

Much of the management literature suggests that entrepreneurs have displayed a tendency not to plan, perhaps as a result of preoccupation with daily operational decisions (Robinson & Pearce, 1984). Moreover, researchers suggest, the effects of planning in an entrepreneurial venture

may be mitigated by environmental turbulence and lack of managerial expertise, particularly early in the firm's development (Schwenk & Schrader, 1993). Perhaps these considerations and their strategic implications underpin the conventional wisdom that the entrepreneur should relinquish control of the firm to a professional manager once the venture is established. You've probably heard or read about that idea: *an entrepreneur really can't manage; he or she has to get out for the good of the organization as soon as it matures and becomes a serious business*. On the other hand, nonconventional wisdom might suggest that prudent entrepreneurs tend not to plan because they recognize the risks inherent in the traditional planning model. *Maybe they don't work for an entrepreneurial venture*. In either case, it is clear that the features of entrepreneurs and their ventures beget special considerations for crafting and for implementing strategy.

Entrepreneurial ventures also have the potential for meteoric success and failure, a special aspect of entrepreneurial potential. In the highly formalized world of chess, the *pawn* is the weakest player on the board, while the *queen* is the most powerful. Consequently, it is almost impossible for a pawn to capture a queen. Applying that analogy to commerce, small, entrepreneurial firms are among the weakest players in the game in terms of capital, resources, etc., while large firms are among the most powerful. Unlike in chess, pawns can take queens in the game of business, and they do so with increasing regularity because of the way strategy is enacted in entrepreneurial firms. In the words of Richard D'Aveni (1994), *Goliaths are brought down by Davids*. Not only does this have far reaching implications for Goliaths, but for Davids as well, because Davids slay *each other* far more frequently than they hurl their stones at giants.

Entrepreneurship is fundamentally about the recognition and pursuit of opportunity to realize a vision. The entrepreneurial team is the initial creator of this vision, although it evolves and changes as the venture develops and grows. In at least one view, the essence of entrepreneurship is *the ability to see what is not there* coupled with *the drive to translate that vision into reality* (Carland, Carland & Stewart, 1996). In 1934, Joseph Schumpeter, frequently considered to be the father of the entrepreneurship discipline, proposed that entrepreneurship, which is primarily characterized by innovation, is the catalyst for the "*creative destruction*" of business and industry that is so vitally important for the robustness of economic performance and development in any nation (Schumpeter, 1934). In the Schumpeterian tradition, then, entrepreneurship is about creating a new order. On the other hand, strategic planning is about gaining competitive advantage (Porter, 1980). The latter is played out in a *paradigm*, a set of assumptions about the realities of the world and how success is achievable. This paradigm is known and understood by the players in the game; the competitors themselves. Of course, the outcomes of any decisions made in the game are rarely certain. But, because everyone knows the rules in the game, these players monitor the moves of their close competitors, and they make tiny little incremental adjustments as they see their competitors move and act (Miller, Lant, Milliken & Korn, 1996; Romanelli & Tushman, 1994).

Conversely, entrepreneurship is about establishing a *new paradigm*; one which is unknown, or at least poorly understood, by the players in the game; one in which the choice of strategic

initiatives is particularly clouded by information voids and by difficulties in deciphering the information that *is* available. Entrepreneurs create new economic realities that *redefine* dynamic competition in ways that *change the rules of the game*. To create such change, entrepreneurs are focused differently; on the creation of opportunity and on recognizing opportunity; they can and do tolerate and embrace ambiguity, uncertainty and the risks associated with potentially unfavorable outcomes. Because of these features of entrepreneurship, we believe that the phenomenon demands a *nontraditional approach* to strategy.

STRATEGY FROM A GAMES PERSPECTIVE

One often hears Monday morning quarterbacks decry their team's failure to *stick to the game plan* on Sunday. Strategic planning in a game does have many of the characteristics of the process in business because it frequently revolves around a *vision* of what a team does best, coupled with effective *execution* of that vision. In fact, the analogy is quite apt to demonstrate the danger inherent in strategic planning. If the pursuit of economic success is a game, it most closely resembles a chess game, because chess is a game of moves and countermoves. Most players approach the game by determining the capabilities of each piece and constructing a sequence of moves to produce a strategically defensible position, while gaining competitive advantage. Yet, that series of moves is countered by the opponent, and the plan often must be altered, or entirely abandoned in favor of an alternative pattern of action.

Chess is an extremely complex game in which the number of possible game scenarios is almost infinite. Yet, this complexity is overshadowed by attempting to operate a venture in an increasingly dynamic industrial environment, one where strategists face multiple opponents *simultaneously*, opponents whose game pieces are almost completely unknown, and each of whom may make preemptive moves at any time. Nevertheless, there are valuable similarities in chess and strategy. For instance, the entrepreneur, by definition, plays first, bringing his or her strengths to the board. As play progresses from initial conditions, the chess mid-game becomes more complex, and is characterized by rapidly developed and rapidly abandoned strategies, by retreats and advances, by offensive and defensive moves, and by gains and losses. Few of these choices produce an environment in which one player is fated to win. Minor mistakes may be costly, but are not necessarily fatal, as a player may be able to recover from an error, or even to turn it to an advantage with a clever twist or change in strategy. If both sides are skilled, the struggle continues with the players striving for advantage, while simultaneously working to negate opposing efforts to do the same.

During a chess match, a lapse in concentration can lead to either minor or major losses, and here is where the slavish execution of a plan can be dangerous. The less skillful player will visualize the board *as it might be*, and plan an attack through several moves. That is, the player develops a plan which describes a move, considers several responses to that move, plans countermoves for

each, examines possible responses to each of those countermoves, prepares further moves based upon those responses, etc. This is a task which requires extreme concentration. Here is the danger of formalized planning. Planning can constrain a player's reaction because execution so fully consumes his or her attention. While the player is executing the plan, an opponent can launch an attack in a different quarter of the board. As the player pursues successive moves in the execution of the plan, the opponent can capture major pieces, gain a strong foothold, or even win. Because of a reluctance to change the plan, or a lack of recognition that a change is needed, the player suddenly discovers that he or she has lost power, or position on the board, or perhaps, even the game.

The more skillful players, by the way, make their moves based on sheer *intuition*. This is not to say that they aren't knowledgeable about the strengths and weaknesses of each piece; this is not to say that they are cognizant of the position of each piece on the board; and, this is not to say that they are highly skilled and capable in the game in general. What it means is that the most capable players in the world do *not* think through a sequence of moves and countermoves. Instead, those players look at a board and *move*, intuitively. That's why a master might play, and win, 20 games simultaneously with different opponents. That's also why a master can beat a computer. No one can out think, move by move, countermove by countermove, a well programmed computer. But, we all know that chess masters regularly beat such machines. The computer has no intuition.

THE ENTREPRENEURIAL GAME BOARD

We have suggested that researchers characterize the modern business game board as being hypercompetitive, complex, challenging, and filled with opportunities and threats (D'Aveni, 1994; Ireland & Hitt, 1999). In this environment, the players face a constant state of *disequilibrium*; that is, the economy is not stable with supply equal to demand, and price determined by cost, which is driven by economies of scale. These are the traditional economic perspectives of an economy. Entrepreneurs change all that. Much of the historic literature on strategic planning has been directed at evolving more and more sophisticated models of the various components of the SWOT framework: strengths of the firm; weaknesses of the firm; opportunities in the environment; and, threats in the environment (Barney, 1995). The strategic management discipline is *grounded* in an overarching assumption that the competitive landscape is *comprehensible and predictable* (Barney, 1995). In the last decade or so, some researchers have begun to change their perspectives and to recognize the impact of entrepreneurs on the nice, clean game that competitors used to play.

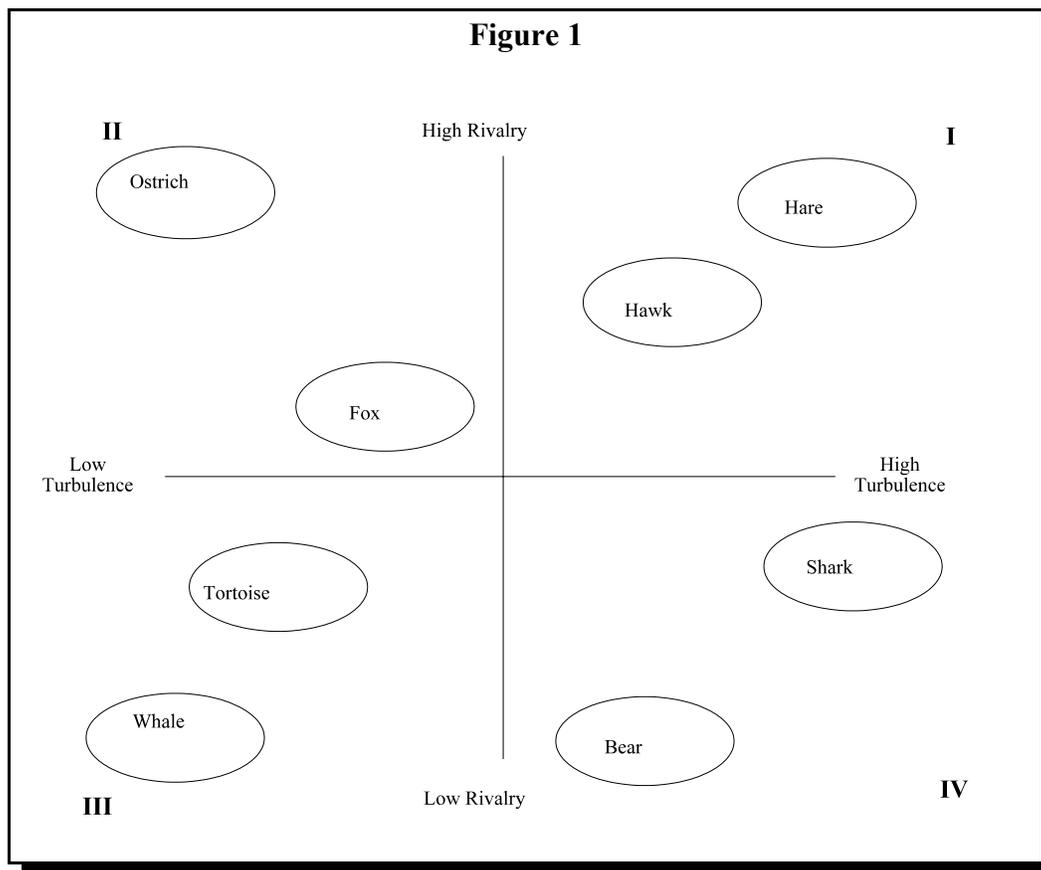
Certainly, this shift in the discipline has been influenced by technological developments and by growing global competition, but the seeds of these conditions have always been present. In fact, they were predicted by Schumpeter in 1934 with his idea of "*creative destruction*." Basically, he believed that entrepreneurs destroyed businesses and industries, by creating new approaches, new ventures, and new combinations of competitive pressures. There has been a fundamental change

in the competitive environment, however. That change has been the development of an economic infrastructure which now permits entrepreneurs to globally bring the full force of their visions to the world game board, either directly, or through the Internet.

In our view, *any rule bound approach to business will eventually fail* because entrepreneurs *break the rules*. When they are successful, these rule breakers destroy markets, products and firms, while creating new economic realities. When they are unsuccessful, other entrepreneurs correct their views of the world. In either case, another generation of entrepreneurs will eventually destroy these conditions because entrepreneurs are continuously scanning the horizon, alert to signals of opportunity and ready to exploit the discovery (Kirzner, 1997). The entrepreneurial effect is more pronounced in some markets than others, but in D'Aveni's (1994) words, it is appearing in industries ranging from "software to soft drinks, from microchips to corn chips, from packaged goods to packaged services." At the firm level, the effect on strategic management ranges from business as usual, to aggressive acquisition, to a complete abandonment of planning activities. Firm behavior differs according to the characteristics of the industry and competitive dynamics. Two of the more important considerations are *environmental dynamism* (Duncan, 1972; Miller & Friesen, 1983), how fast or slowly the industry and its environment are changing, and the nature of *firm rivalry* (Dess & Beard, 1984; Sharfman & Dean, 1991), how competitive firms are toward their competitors. Dynamism can be described in terms of turbulence. In an environment of low turbulence, change in the products, services, competitors, market demands, etc., comes about slowly. Cement manufacturing is such an industry. In an environment of high turbulence, all of these factors change rapidly. Software development is such an industry. Rivalry is a function of the number of firms in the industry. An *oligopoly* is an industry dominated by a small number of firms, like automobile manufacturing. The level of competition among such firms is far less than an industry in which hundreds of firms are struggling for market share. Figure 1 depicts our view of the Entrepreneurial Game Board and characterizations of the approach to strategy frequently evident in each quadrant.

In quadrant I, the environment is highly turbulent and there are many players in the game and rivalry is high. In this quadrant, strategy must be flexible. Strategies in these conditions are often like those attributed to Bert Roberts, CEO of MCI: "*We run like mad and then we change direction.*" (Peters, 1999). Here, companies attempt to compete by flying high, fast and straight, like the hawk, or running and zigzagging like the hare. In quadrant II, there are many players and rivalry is high, but the level of turbulence is less. At the extreme, firms have no strategy at all, rather, they hide their heads in the sand like the ostrich. As the number of firms declines and the turbulence increases, firms constantly try to outwit their competitors like the fox. In quadrant IV, some firms may gobble up their competitors and always be in search for new prey, like the shark. Bigger firms may behave more like bears, who attack when they are disturbed from their slumber. In quadrant III, firms may be seen practicing a slow and methodical approach to fine tuning their organizations, content to believe that eventually they will win the race, as did the tortoise. Those firms in the most concentrated industries with the least turbulence may behave as whales, swimming wherever they

desire, aloof from their surroundings. [Miles and Snow (1978) proposed a similar framework for the strategic posture of firms in which they identified prospectors, defenders, analyzers and reactors.] But, even whales may run into a pod of entrepreneurs some day. When they do, no power on earth can help them.



Entrepreneurs can enter any quadrant at any time, and *change the rules of the game*. An upstart MCI can challenge a sleeping AT&T, or an Apple can attack an IBM. Entrepreneurial strategy is one based on *vision*: a vision of a new and different market in which the old rules do not apply. This is not a vision based on incrementalism. In an *Inc.* interview, Steve Jobs noted that Apple had to decide what the public *needed in the future*, because consumers could only recognize *what they needed today* (Gendron & Burlingham, 1989). In the words of an old Chinese proverb, one cannot leap a chasm in two bounds. In today's environment, one cannot improve oneself to success (Peters, 1999).

Formal strategic planning in a large firm may be the *only* viable approach to management because of the realities of the firm. As the organization grows large, there is greater need for

coordination and elaborate control systems, and structure becomes formalized. The very real problems of control may *mandate* a system of management to prevent chaos. More structure must be imposed in relation to the size of the firm simply to keep the firm moving in any given direction. While structure should be determined by the needs of strategy, that structure affects, if not constrains, strategy. Structural forms in a business can and do become entrenched, can and do reinforce the dominant logic and reduce uncertainty, but when a firm is highly structured and very large, there may be some things it *simply cannot do*. Of course, there are large firms that are strategically flexible and entrepreneurial, but these firms, like Southwest Airlines, 3M and GE, constantly strive to *minimize* bureaucracy. The more general tendency is for organization size to reduce the propensity for strategic change, and the speed of strategic change if, and when, it is undertaken (Fombrun & Ginsberg, 1990; Grimm, Corsi & Smith, 1993; Tushman & Romanelli, 1985; Ginsberg & Buccholtz, 1990; Smith, Grimm, Gannon & Chen, 1991). Prior resource commitments and budget requirements, the existence of formalized systems of reporting and control, and bureaucracy in general contribute to a rigidity and insularity that inhibits change in the corporate strategy, or in any aspect of the corporate life. Although large firms have more resources than do entrepreneurial firms, which one might think would facilitate change, the hierarchical nature which is generally associated with large firm size tends to inhibit the rapid change that is increasingly required of all firms, but is a prerequisite for success in the entrepreneurial firm.

When IBM finally decided to enter the personal computer market, it conducted an internal study and decided that it was incapable of developing a competitive machine in any reasonable time period. In fact, one participant stated that the study concluded that it would take IBM *nine months to ship an empty box* (Cringely, 1996). If a personal computer was going to be in that box, the time required would be affected exponentially. To its credit, IBM's professional management recognized its limitations and spun off an autonomous unit which was charged with developing its personal computer. The result was a machine which was so successful that it rapidly assumed market dominance. That does not mitigate the reality that the size of the firm *limited its strategic alternatives*. In fact, IBM turned to two, then small, entrepreneurial firms for assistance: Intel for chips and Microsoft for operating software. In so doing, IBM lost strategic control of these important complementary activities.

The failures of strategy which Mintzberg (1934) chronicles are failures resulting from the slavish implementation of a plan which has become unworkable due to environmental changes or entrepreneurial pressures. So much becomes invested in a plan because of the time and resources required for its completion that managers may be naturally reluctant to abandon it. In fact, they may be tempted to escalate their commitment to the strategy if it seems not to be working as rapidly as once expected. Response is complicated by mindset, and by inertia. Couple this with the sluggish nature of communications and decision making, which seem an unavoidable consequence of bureaucracy, and one can easily see how strategic implementation can fail, and fail spectacularly. That does not mean that strategic planning has no value; it means that strategists must be aware of

the possibility of changes which invalidate the plan, and take steps to protect against that eventuality. Strategic flexibility is essential.

In our view, the primary competitive risk for any firm, especially one which seems to be successful and which seems to control a major segment of the market, is the potential for the advent of entrepreneurial firms. Firm-environment interaction comes from organizations creating or enacting their environments, as well as reacting to them. The resulting new environments influence future organizational strategies and resource allocation, which will subsequently bring about even more environmental change. In other words, entrepreneurial ventures change the rules, and the result is a new paradigm. Worse, entrepreneurs readily and rapidly change the rules, again and again and again. A large, highly structured firm has great difficulty responding to such changes. The body of anecdotal evidence demonstrating this fact is impressive and pervasive.

IBM dismissed the early success of Apple because Apple changed the rules of the game. IBM knew, because of its past success and its continued prominence in the world of computing, that wealth was created by building and leasing large, expensive mainframe computers. There was no market for small machines (Cringely, 1996). That was an accurate conclusion, *under the rules of the game as they existed* before the entry of Apple. Other entrepreneurs have produced similar changes in the competitive rules. Thomas Monaghan, founder of Domino's Pizza, started a venture in a mature industry, but with the development of the container which keeps pizza warm, and a thirty minute delivery guarantee, rapidly became successful with minimal competitive response. Charles Schwab changed the competitive rules in the brokerage industry by using salaries instead of commissions, taking calls 24 hours a day, and using automated brokerage and the Internet, an approach that slashed the company's commission rates by over half compared to the traditional brokerages. Anita Roddick, founder of the Body Shop, broke all of the rules of the game as played by larger companies by using inexpensive packaging, spending nothing on advertising and selling through exclusive franchisees. In one of the most historically oligopolistic of industries, Ted Turner ignored the rules of ABC, CBS and NBC, and developed a 24 hour a day television news service, used the cable system for delivery, and took the venture global. Don Schneider, CEO of Schneider National, did not respond to deregulation as did most trucking companies; rather, he equipped each truck with a computer and rotating antenna so that trucks could be redirected at any time to respond to client requests. Sam Walton brought Sears to the verge of collapse by breaking all of Sears' competitive rules. Instead of retailing as usual, Wal-Mart focused on everyday discount prices, rural locations and an incredibly efficient logistics system. While the traditional players in the coffee industry, operating under the assumption that coffee was a commodity, focused on price and volume, low quality coffee beans, similar packaging and distribution through grocery stores to achieve small, temporary market share gains, Howard Schultz had a different vision. Schultz believed that coffee houses could be as popular in the U.S. as they are in Italy, and using a progressive human relations program, he expanded Starbucks from cafes into a multi-channel retailer of fresh, high quality coffee.

In fact, many examples of competitive rule changes driven by entrepreneurial ventures have become legends, like the story of Amazon.com, which changed the face of the retail book market forever. To play successfully on the entrepreneurial game board, players need a different approach to strategy. Not only is the traditional perspective unable to cope with rapid, discontinuous change, it is too firmly grounded in the *now*, and *what is*, rather than *what might be*.

OUR OWN GAME PLAN

Many aspects of the processes and procedures involved in the traditional view of strategic planning are valuable to entrepreneurial ventures, but, more importantly, we think we need a firm foundation in strategic planning in order to help us understand the strategic vision process and which we think characterizes the way entrepreneurial ventures actually operate.

As we suggested earlier, the traditional wisdom in management circles is that entrepreneurs must leave their firms and turn over the reins of power to professional managers if those firms are to succeed in the real world of business. We're not sure we know what a professional manager is, unless it's a person who gets paid for managing, but we're quite certain that no manager can ever lead an entrepreneurial venture.

CONCLUSION

We should note that there are industries in which formalized planning functions well. Yet, any industry in which significant competition from entrepreneurs exists is an industry in which formalized strategy is fraught with peril. In an entrepreneurial industry, one in which entrepreneurs are changing the future, what was successful yesterday will likely not be successful tomorrow. One cannot succeed by trimming costs, downsizing the firm, outsourcing the processes, concentrating on the market, enhancing quality, or any of the other traditional efficiency perspectives which professional management brings to the venture. Such strategies may well reap temporary benefits, but entrepreneurs know, and know instinctively, that long term success comes only from forgetting about yesterday. Today, and every day, the game is new and the rules are different. The entrepreneur who ultimately emerges as the architect of a new order will be the person who best makes the future conform to an evolving vision. Bringing the future to heel requires a great deal of experimentation and failure, the true learning ground of business, and the frequent sacrifice of internal order and short term profits, prices which entrepreneurs readily pay in order for the pawn to capture the queen.

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