STRATEGY FORMULATION
AS A HISTORICAL PROCESS

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Strategy is generally defined, whether in game, military, or management theory, as a deliberate, conscious set of guidelines developed in advance of the specific decisions to which they apply. In common terminology, a strategy is a plan.

I should like to suggest that such a definition is both incomplete for the organization and nonoperational for the researcher. It conceals from both of them one side of decisional behavior in organizations that most observers would consider strategic, that is, important; and by restricting the concept of strategy to explicit, a priori guidelines, it forces the researcher to study strategy formulation as a perceptual phenomenon. The inevitable result is that his conclusions are reduced to abstract, normative generalizations.

I propose to define strategy in general (and realized strategy in particular) as a pattern in a stream of decisions. In other words, when a series of decisions related to some aspect of an organization exhibits some consistency over time, a strategy will be considered to have formed.

A few examples will clarify this definition. When, early in his first term of office, President Nixon made a number of decisions to favor Southern voters (appointment of Supreme Court

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justices from the South, interference with school integration plans, etc.), the press quickly coined the phrase "Southern strategy." Their action corresponded exactly to ours as researchers: despite no explicit statement of intent, the press perceived a consistency in a stream of decisions and labeled it a strategy. To take a very different illustration, art critics seek to delineate distinct "periods" during which the work (and the decisions about that work) of a great artist exhibits consistencies in the use of form, color, and so on. Again, the procedure corresponds to ours; in our terms, Picasso's "Blue Period" would be called his "blue strategy." Another illustration of this is provided by the stream of films (and therefore decisions about those films) made by the National Film Board of Canada between 1939 and 1970 on the subject of man and his role in society. The period of 1964 to 1969, when the frequency of such films increased markedly, can by our definition be labeled the "sociology strategy," whether or not such a strategy was consciously intended before 1964 (the evidence indicates that it was not) or even recognized by 1969.

This last example illustrates the importance of defining strategy as we have. It enables us to consider both sides of the strategy-formation coin: strategies as intended, a priori guidelines as well as those as evolved, a posteriori results of decisional behavior. This is the crucial point for our research. Strategy may be viewed as intended or unintended; more exactly, the strategy-maker may formulate his strategy through a conscious process before he makes specific decisions; or strategy may form gradually as he makes decisions one by one. In the first case, the strategy determines subsequent decisions (=formulation); in the second, decisions converge into a strategy (=formation).

This definition makes the concept of strategy operational for the researcher. Research on strategy formation (not necessarily formulation) focuses on a tangible phenomenon — the decision stream; and strategies become observed patterns in such streams. Of course, this definition can lead the researcher to perceive a strategy (a pattern) where members of the

organization do not (or at least they are not fully cognizant of it), and it requires that the researcher reject as a strategy any claim to one made by a manager until that claim is manifested in a patterned stream of specific decisions. But both conclusions are fully warranted, simply because, on the one hand, organizations sometimes show themselves not fully cognizant of where actions have led them and, on the other hand, intended strategies often are not realized. It is the conventional definition of strategy that leads the observer to inconsistencies, not this one.

Now, by referring to the usual definition as intended strategy, we can begin to look at the interesting relationships between intended strategies and realized ones, that is, between what management articulates in advance as its proposed decisional behavior and what it actually ends up doing. In theory, we can delineate three different results: (1) intended strategies that get realized, which we can call deliberate strategies; (2) intended strategies that do not get realized, which we can call unrealized strategies; and (3) realized strategies that were never intended, which we can call retroactive strategies (in the sense that the organization wakes up to find itself with a strategy).

What I should like to do in this paper is outline some findings of a research project in which we are tracing decisional behavior in organizations across periods of twenty years or more in order to analyze the evolution and changing of their strategies. Thus far we have completed four major studies — of a magazine, an automobile company, a government-film agency, and a national government involved in a foreign war — and many other, smaller studies. The methodology is outlined in the appendix to this paper. Below I summarize in point form some of the findings to date concerning strategy formulation as an evolutional process.*

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*See also H. Mintzberg "Patterns in Strategy Formation" (working paper, IAE, Aix en Provence, France, March 1976); and "Strategy Formation in an Adhocracy" (working paper, McGill University, September 1976).

1. Our study reveals evidence of deliberate, retroactive, and unrealized strategies; but most interesting is the interplay among these three. For example, the development of a new strategy often involves elements of both deliberate and retroactive strategies. In effect, faced with the breakdown of its traditional strategy, the organization often does not — indeed cannot — simply formulate a new one at once in a process akin to that described in the strategic-planning literature. Rather, it must engage in a learning process with its environment. Only by making individual decisions and getting feedback on them can it find out what is appropriate. Gradually the organization converges on a theme that works, and a strategy (that is, a consistent pattern of decisions) emerges.

Of course, there are times when a strategy-maker does set out with a new intended strategy (perhaps one he has held in memory, waiting for the right moment). But even then he often finds that he must move slowly because of bureaucratic or environmental (e.g., market) resistance. And in so doing, he learns — that is, he gets feedback on his intentions, finding perhaps that the organization or its environment was not quite what he thought it was. He therefore modifies his strategy en route. The result is that he ends up with a strategy that is partly deliberate, partly retroactive.

The fact that strategy formulation most often appears as a learning process suggests that the common dichotomy between "formulation" and "implementation" is often a misleading one. This dichotomy suggests that managers formulate from on high, and their subordinates implement down below, no feedback loop joining the two. This may work for single decisions, but it hardly seems appropriate for many strategies (streams of decisions). Can organizations really function effectively by having one party conceive a set of concepts in the abstract and another set of parties attempt to make these concepts operational in a complex environment without the benefit of interaction? In reality — at least in the reality of effective organizations — so-called implementation feeds back to formulation so that implementation becomes, in effect, a part of the formulation process.

2. We have found cases in which strategies have developed in purely retroactive ways, that is, they have emerged with no deliberate intentions and sometimes even without conscious recognition. But what happens when the organization awakens to recognition of a retroactive strategy? It may, of course, get rid of it. But we have noted on a number of occasions that organizations have formalized these strategies, that is, made them deliberate ones. In other words, what was a retroactive strategy looking into the past became a deliberate strategy looking into the future.

The organization recognizes and accepts its own implicit behavior. Managers, too, recognize patterns in streams of decisions.

We are prepared to argue that such behavior can have normative justification. In a confusing environment, such as a dark room, we grope around. Eventually we find some behavior that works, perhaps despite ourselves, and we pursue it consistently. Why not formalize it? If the Audi line, among all the different models it introduced after 1965, worked best for Volkswagen, why should it not have built a new strategy around front-wheel-drive automobiles with water-cooled engines? Here, as in other cases, a series of retroactive strategies developed peripherally in the organization during a period of confusion. One was recognized as best and made deliberate.

3. But we find that the formalization of a retroactive strategy is not incidental to an organization. The very fact of explicating an implicit strategy — of stating clearly and unequivocally that it is to be the deliberate strategy of the organization — profoundly changes the attitude of the bureaucracy and the environment toward that strategy. Whereas those committed to it were previously held back, now they are given carte blanche to act. When President Johnson announced a new Vietnam strategy of direct massive intervention in 1965 — the formalization of trends that were becoming increasingly clear since 1963 — he produced tremendous changes in the Pentagon, opening the floodgates of escalation. The military could never have pursued escalation so vigorously with the implicit (that is, retroactive) strategy.

The bureaucracy actually craves an explicit strategy. To overstate its case slightly, it says to the management: "Our business is running the operation; yours is formulating the strategy. But we need a clearly defined, intended strategy to do our job — to buy our machines, hire our workers, standardize our procedures. Strategy may be a means to you, but to us it is an end. So please, give us a strategy — any strategy — so long as it is precise and stable [and lets us grow]." The danger in this innocent statement, of course, is that the bureaucracy runs like an elephant. The strategy that gets it moving may be no more consequential than a mouse, but once under way, there is no stopping it. The momentum of the bureaucracy takes over, happy to have a clear strategy and never stopping to question it. The strategy-maker may awake one day — as Lyndon Johnson did in 1968 — to find that his intended strategy has somehow been implemented beyond his wildest intentions. It has been overrealized.

This casts doubt on another popular prescription in the traditional literature, namely, "Make your strategy explicit." Clearly, under some conditions this constitutes naïve and dangerous advice indeed. The very fact of making a strategy explicit — even an implicit one that is evident to all — provides a clear and formal invitation to the bureaucracy to run with it, for better and for worse. The strategist still engaged in a learning process, perhaps unable to think through the full ramifications of a strategy in a dynamic environment, may be better off keeping it implicit.

4. This last point raises the notion that the process of strategy formulation may be thought of as the interplay among three basic forces: (1) an environment that changes continuously but irregularly, with frequent discontinuities and wide swings in the rate of change; (2) an organizational operation system, or bureaucracy, which above all seeks to stabilize its actions, despite the characteristics of the environment it serves; and (3) a leadership whose role is to mediate between these two forces to maintain the stability of the organization's operating system while at the same time adapting it to environmental change. Strategy can then be viewed as the set of consistent behaviors by which the organization establishes for a time its

place in its environment; strategic change can be viewed as the organization's response to environmental change, constrained by the momentum of the bureaucracy and accelerated or dampened by the leadership. Our studies indicate that the relative influence of these three sets of forces varies considerably among organizations.

In organizations with heavy bureaucracies, e.g., an automobile company or a military establishment, once a strategy gets under way, it becomes exceedingly difficult to change. Indeed, we find that the leadership, rather than mediating between the environment and the bureaucracy, often becomes a part of the bureaucratic momentum. Only the environment is left to induce change, and that happens only when the environment has changed so radically that the organization faces a massive threat of failure.

Much of the bureaucratic momentum can be traced to technological and economic factors, notably the heavy investment in plant and equipment associated with a given strategy. But what happens when we remove these factors? We can see the result in our study of a small magazine with a miniscule permanent staff and with printing done by contract. Here we found that the leadership emerged as the most aggressive force among the three, since it was unconstrained by a bureaucracy. (Of course, magazines attract pro-active leaders, people with something to say.) On one occasion the magazine we studied in fact made a dramatic change in every aspect of its strategy literally from one issue to the next.

And yet, during most of the period of this study, too, there was considerable momentum in strategy formulation. Why? In this case the environment was often the constraining force. Indeed, the global change mentioned above almost led to bankruptcy — the strategy could be changed quickly, but the leadership could not.

Moreover, there is another kind of bureaucratic momentum in all organizations, a momentum that is psychological in nature. The older and more successful a strategy, the harder it is to change. And when a strategy is both original and tightly

integrated (what we call a Gestalt strategy, as in the case of Volkswagen in the 1950s), it becomes even more difficult to change. The feature of originality means that the Gestalt strategy deposits the organization in a niche, a corner of the environment reserved for itself. If well chosen, that strategy can protect the organization from attack for a period of time. This is exactly what happened to Volkswagen, which was relatively free from competition through the 1950s. But the feature of tight integration makes a Gestalt strategy difficult to change. The changing of a single dimension may cause disintegration of the whole strategy. This, too, became clear when Volkswagen had to change in the 1960s. It responded to a changed environment by alternately doing nothing, grafting a new piece onto its old strategy without making any fundamental change in it, and then, finally, groping awkwardly for a new strategy.

5. A few words on Gestalt strategies are in order, since they seem to appear frequently in organizations.

First, they seem to develop at one point in time, generally when the organization is founded. One could conclude that their integrated nature makes them difficult to achieve in ongoing organizations, with already established strategies and bureaucratic momentum. A key unanswered question is how ongoing organizations can generate new Gestalt strategies.

Second, Gestalt strategies seem to be associated with single, powerful leaders. Perhaps such a sophisticated integration can be effected only in one mind. The development of a Gestalt strategy requires innovative thinking (because of its unique nature), rooted in synthesis rather than in analysis (because of its integrated nature and the requirement that its formulator perceive an integrated pattern by which the organization can interpret a complex environment). Thus, we are led to hypothesize tentatively that Gestalt strategies are the products of single brains, and appear only in organizations with a strong leadership. It is difficult to imagine one coming out of a decentralized organization, unless all the decision-makers follow the conceptual lead of one creative individual. Nor can one be

imagined resulting from a formal management science or planning process per se, these being essentially analytic rather than synthetic. (This is not to say that a creative synthesizer cannot parade under the title of planner or management scientist.) We hypothesize, then, that formal planning will normally lead to what might be called <u>mainline</u> strategies — typical and obvious ones for the organization to adopt (perhaps because the environment suggests it, or the competitors are doing it).

6. Finally, let us look at patterns in strategic change. There is no need to dwell on the point that strategy formation is not a regular, nicely sequenced process running on a standard five-year schedule, or whatever. An organization may find itself in a stable environment for years, sometimes for decades, with no need to reassess an appropriate strategy. Then, suddenly, the environment can become so turbulent that even the very best planning techniques are of no use, because of the impossibility of predicting the kind of stability that will eventually emerge. (What kind of strategic plan was Secretary of State Dulles to carry in his briefcase to the 1954 Indochina Conference in Geneva?) In response to this kind of environment, patterns of strategic change are never steady, but rather bumpy and <u>ad hoc</u>, with a complex intermingling of periods of continuity, change, flux, limbo, and so on.

But this should not lead to the conclusion that patterns may not exist. Indeed, if we are to make headway in this area, we must find consistencies that will enable organizations to better understand their strategic situations. Thus, the prime thrust of our research has been to identify patterns of strategic change.

Our studies offer evidence of two main patterns, one superimposed on the other. The <u>first</u> is the life cycle of an overall strategy — its conception, development, decay, and death. The details differ — notably the way in which the organization copes with the period of decay — but the overall pattern is often (although not always) present.

The <u>second</u> pattern is the cyclical one — periodic waves of

change and continuity. These are found within the life cycle. (Longer cycles could presumably be identified as well, from one life cycle to the next.) What this pattern suggests is that strategies do not commonly exhibit continuous change; rather, change takes place in spurts or distinct periods.

Why do organizations undergo distinct periods of change and stability? Such a pattern is consistent with human cognition. We react to phenomena in discrete steps, not continuously. We let stimuli build up to some threshold level; and then we react all at once, like a dam bursting after a heavy rainfall. Also, consistent with the Cyert and March notion of sequential attention to goals, the leadership of an organization may choose to deal with the conflicting pressures for change from the environment and for continuity from the bureaucracy by first doing one and then doing the other. To most bureaucracies — for example, the automobile assembly line — change is disturbing. So the leadership tries to concentrate the period of disturbance, and then leave the bureaucracy alone for a time to consolidate the change. But, of course, while the bureaucracy is being left alone, the environment continues to change, so that no matter how well chosen the strategy, eventually a new cycle of change must be initiated.

Conclusion

We find that strategy formulation is immensely more complex than is suggested in the traditional literature. Furthermore, a great many of the classical prescriptions and assumptions become questionable when held up to the light of empirical research.

A strategy is not a fixed plan, nor does it change systematically at prearranged times at the will of management. The dichotomy between strategy formulation and strategy implementation can be a false one, because it ignores the learning process that often takes place after an intended strategy is conceived — indeed, the very word "formulation" is misleading, since we commonly term "strategies" many consistent organi-

zational behavior patterns that were not completely (often not even largely) developed consciously and deliberately. Even the edict that "strategy follows structure" misleads, because it ignores the influence that bureaucratic momentum has on strategy formation; and making strategy explicit in an uncertain environment with an aggressive bureaucracy can do great harm to an organization.

To tell management to state its goals precisely, to assess its strengths and weaknesses, to plan systematically and "rationally," on schedule and with reams of quantitative information, to make strategies explicit, are at best insignificant guidelines, at worst, demonstrably misleading precepts to some organizations facing confusing realities.

There is perhaps no process in organizations that is more demanding of human cognition than strategy formulation. Clearly, we must respect its complexity and be less prone to jump in with prescriptive panaceas and more willing to learn from the richness of reality.

APPENDIX

The major studies of the research referred to has generally proceeded in four steps, in the following sequence:

Step 1: Collection of basic data. All studies began with the development of two chronological listings over the whole period (generally twenty years or more) — one, of important decisions and actions by the organization, the other, of important events and trends in the environment. The choices of what decisions and events to study and the sources of the data varied considerably from one study to another. For example, in the case of the magazine, decisions on what articles to publish were paramount, followed by decisions on format, price, etc. And the chief source, obviously, was back issues of the periodical (an excellent record of decisional behavior). Other sources for these data (and data for the third step) included product catalogues, annual reports, newspaper clippings, books and articles about the organization, interviews with current and re-

tired employees, in-house reports, organizational files and records, minutes of executive board meetings, congressional hearings, and so on.

Step 2: Inference of strategies and periods of change. From the chronology of decisions, divided into distinct strategic areas (for example, content, format, and administration for the magazine), various strategies were inferred to represent patterns in streams of decisions. These strategies, where possible represented in graphic form, were then compared across the entire period of study (together with other data, such as sales, budgets, staff levels, and so on) in order to identify distinct periods of change in the formation of strategy. Specifically, the following types of periods, among others, were identified: continuity (during which consistencies, that is, strategies already established, remained unchanged), limbo (during which the organization hesitated to make decisions), flux (during which no important consistencies and decision streams seemed evident), incremental change (during which new strategies formed gradually), piecemeal change (during which one strategy changed quickly while the others remained stable), and global change (during which many strategies changed quickly and in unison).

Step 3: Intensive analyses of periods of change. At this point the analysis changed from broad perception of overall patterns to intensive investigation of specific periods. When important changes in strategy were detected, a search was undertaken for as much detail and information as possible that would explain the change. In this we relied on in-depth reports and, where possible, interviews with the involved strategymakers.

Step 4: Theoretical analysis. Here a report was written, and a group then met in a series of brainstorming sessions to generate hypotheses that would explain the findings. These sessions were guided by a list of open-ended questions designed to focus attention and stimulate the flow of ideas. Questions related both to individual periods of change and to the overall pattern throughout the period of study. Some of the

main questions addressed, as they evolved in our discussions, were as follows:

— When is a strategy explicitly made that controls subsequent decisions; and when does a strategy evolve implicitly as a convergence in a stream of ad hoc decisions? What is the interplay between these two patterns of behavior? When do intended strategies differ from realized ones?

— How are different strategies related to each other (for example, in some hierarchical fashion, around a common element, in some tightly integrated configuration); or are strategies sometimes only loosely coupled or even disjointed from each other? What is the role of planning, leadership, shared goals, and bargaining in interrelating strategies?

— What influence do past decisions and strategies have on subsequent ones? What kinds of decisions set precedents; and what kinds reinforce precedents?

— When are strategic choices made by a single individual, and when by a process of bargaining? Under what conditions are formal analysis and planning used? (Indeed, what does the term "planning" mean in the context of strategy formulation?)

— What are the relative influences of external forces (for example, competition, depleted resources, economic conditions, natural occurrences, changes in dependency, technological breakthroughs), organizational forces (for example, surplus resources, structural arrangements, including the extent of bureaucracy, changes in the internal power coalition, organizational age and size, technological system used), and leadership (new management, desire to grow, etc.) in a strategy formation?

— How do organizations balance change with stability? When do they change many strategies for a short period and then consolidate (global change); when do they change one strategy at a time (piecemeal change); and when do strategies change slowly (incremental change)? In what sort of sequence do periods of change, continuity, flux, limbo, etc., appear?

— What overall pattern does the process of strategy formation follow (for example, life cycle, series of random bumps, steady evolution, growth-consolidation cycles); and under what conditions is each pattern found?