

Strategy-Making in Three Modes

How do organizations make important decisions and link them together to form strategies? So far, we have little systematic evidence about this important process, known in business as *strategy-making* and in government as *policy-making*. The literature of management and public administration is, however, replete with general views on the subject. These fall into three distinct groupings or "modes." In the *entrepreneurial* mode, found in the writings of some of the classical economists and of many contemporary management writers, one strong leader takes bold, risky actions on behalf of his organization. Conversely, in the *adaptive* mode, described by a number of students of business and governmental decision-making, the organization adapts in small, disjointed steps to a difficult environment. Finally, the proponents of management science and policy science describe the *planning* mode, in which formal analysis is used to plan explicit, integrated strategies for the future.

I shall begin by describing each mode as its proponents do, in simple terms and distinct from the other two. Considered in this way, each may appear to be a naive reflection of the complex reality of strategy-making. But taken as a set of three, as I shall do in subsequent sections, to be combined and alternated by managers acting under different conditions, these modes constitute

a realistic and useful description of the strategy-making process. To illustrate this point, I shall cite studies of the strategy-making behaviors of a number of very different kinds of organizations—hotels, hospitals, car dealerships, modeling agencies, airports, radio stations, and so on. Finally, I shall discuss some important implications for strategic planning.

The Entrepreneurial Mode

The entrepreneur was first discussed by early economists as that individual who founded enterprises. His roles were essentially those of innovation, of dealing with uncertainty, and of brokerage. The entrepreneur found capital which he brought together with marketing opportunity to form, in the words of Joseph Schumpeter, the well known Harvard economist, "new combinations."

In a recent book called *The Organization Makers*, Orvis Collins and David Moore present a fascinating picture of those independent entrepreneurs, based on a study of 150 of them. The authors trace the lives of these men from childhood, through formal and informal education, to the steps they took to create their enterprises. Data from psychological tests reinforce their analysis. What emerges are pictures of tough, pragmatic men driven from early childhood by a

powerful need for achievement and independence. At some point in his life, each entrepreneur faced disruption ("role deterioration"), and it was here that he set out on his own:

What sets them apart is that during this time of role deterioration they interwove their dilemmas into the projection of a business. In moments of crisis, they did not seek a situation of security. They went on into deeper insecurity. . . .¹

A number of management writers view the entrepreneurial mode of strategy-making not only in terms of creating new firms but in terms of the running of ongoing enterprises. Typical of these is Peter Drucker, who writes in a recent article:

Central to business enterprise is . . . the entrepreneurial act, an act of economic risk-taking. And business enterprise is an entrepreneurial institution. . . Entrepreneurship is thus central to function, work and performance of the executive in business.²

What are the chief characteristics of the entrepreneurial mode of strategy-making as described by economists and management writers? We can delineate four:

1. *In the entrepreneurial mode, strategy-making is dominated by the active search for new opportunities.*—The entrepreneurial organization focuses on opportunities; problems are secondary. Drucker writes: "Entrepreneurship requires that the few available good people be deployed on opportunities rather than frittered away on 'solving problems'."³ Furthermore, the orientation is always active rather than passive. Robert McNamara, when he was Secretary of Defense, stressed the active role for the government administrator:

I think that the role of public manager is very similar to the role of a private manager; in each case he has the option of following one of two major alternative courses of action. He can either act as a judge or a leader. In the former case, he sits and waits until subordinates bring to him problems for solution, or alternatives for choice. In the latter case, he immerses himself in the operations of the business or the governmental activity . . .

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I have always believed in and endeavored to follow the active leadership role as opposed to the passive judicial role.⁴

2. *In the entrepreneurial organization, power is centralized in the hands of the chief executive.*—Collins and Moore write of the founder-entrepreneur: "The entrepreneurial personality . . . is characterized by an unwillingness to 'submit' to authority, an inability to work with it, and a consequent need to escape from it."⁵ In the entrepreneurial mode, power rests with one man capable of committing the organization to bold courses of action. He rules by fiat, relying on personal power and sometimes on charisma. Consider this description of an Egyptian firm:

The great majority of Egyptian-owned private establishments . . . are organized closer to the pattern of the Abboud enterprises. Here the manager is a dominant individual who extends his personal control over all phases of the business. There is no charted plan of organization, no formalized procedure for selection and development of managerial personnel, no publicized system of wage and salary classifications.

. . . authority is associated exclusively with an individual . . .

Abboud is the kind of person most people have in mind when they discuss the successful Egyptian entrepreneur.⁶

But while there may be "no charted plan of organization," typically one finds instead that strategy is guided by the entrepreneur's own vision of direction for his organization—his personalized plan of attack. Drucker writes:

Every one of the great business builders we know of—from the Medici and the founders of the Bank of England down to IBM's Thomas Watson in our days—had a definite idea, indeed a clear 'theory of the business' which informed his actions and decisions.⁷

3. *Strategy-making in the entrepreneurial mode is characterized by dramatic leaps forward in the face of uncertainty.*—Strategy moves forward in the entrepreneurial organization by the taking of large, bold decisions. The chief executive seeks out and thrives in conditions of uncertainty, where his organization can make dramatic gains. The entrepreneurial mode is probably most alive in the popular business magazines such as *Fortune* and *Forbes* which each month devote a number of articles to the bold actions of manager-entrepreneurs. The theme that runs through these articles is what has been referred to as the "bold stroke," the courageous move

that succeeds against all the odds and all the advice.

4. *Growth is the dominant goal of the entrepreneurial organization.*—According to psychologist David McClelland, the entrepreneur is motivated above all by his need for achievement. Since his organization's goals are simply the extension of his own, we can conclude that the dominant goal of the organization operating in the entrepreneurial mode is growth, the most tangible manifestation of achievement. *Fortune* magazine came to this conclusion in a 1956 article about the Young Presidents' Organization entitled "The Entrepreneurial Ego":

Most of the young presidents have the urge to build rather than manipulate. 'Expansion is a sort of disease with us,' says one president. 'Let's face it,' says another. 'We're empire builders. The tremendous compulsion and obsession is not to make money, but to build an empire.' The opportunity to keep on pushing ahead is, indeed, the principal advantage offered by the entrepreneurial life.⁸

In summary, we can conclude that the organization operating in the entrepreneurial mode suggests by its actions that the environment is malleable, a force to be confronted and controlled.

The Adaptive Mode

The view of strategy-making as an adaptive process has gained considerable popularity since the publication of two complimentary books in 1963. Charles Lindblom and David Braybrooke wrote *A Strategy of Decision* about policy-making in the public sector, while Richard Cyert and James March published *A Behavioral Theory of the Firm* based on empirical studies of decision-making.

Lindblom first called this approach "the science of 'muddling through,'" later "disjointed incrementalism."⁹ The term "adaptive" is chosen here for its simplicity. As described by Lindblom, the adaptive policy-maker accepts as given a powerful status quo and the lack of clear objectives. His decisions are basically remedial in nature, and he proceeds in small steps, never moving too far from the given status quo. In this way, the policy-maker comes to terms with his complex environment.

Cyert and March's strategy-maker, although working in the business firm, operates in much the same fashion. Again, his world is complex and he must find the means to cope with it. Cyert and March suggest that he does so in a number of ways. He consciously seeks to avoid uncertainty, sometimes solving pressing problems instead of developing long-run strategies, other times "negotiating" with the environment (for example, establishing cartels). Furthermore, because the organization is controlled by a coalition of disparate interests, the strategy-maker must make his decisions so as to reduce conflicts. He does this by attending to conflicting goals sequentially, ignoring the inconsistencies:

Just as the political organization is likely to resolve conflicting pressures to 'go left' and 'go right' by first doing one and then the other, the business firm is likely to resolve conflicting pressures to 'smooth production' and 'satisfy customers' by first doing one and then the other.¹⁰

Four major characteristics distinguish the adaptive mode of strategy-making:

1. *Clear goals do not exist in the adaptive organization; strategy-making reflects a division of power among members of a complex coalition.*—The adaptive organization is caught in a complex web of political forces. Unions, managers, owners, lobby groups, government agencies, and so on, each with their own needs, seek to influence decisions. There is no one central source of power, no one simple goal. The goal system of the organization is characterized by bargaining among these groups, with each winning some issues and losing others. Hence, the organization attends to a whole array of goals sequentially, ignoring the inconsistencies among them. The organization cannot make decisions to "maximize" any one goal such as profit or growth; rather it must seek solutions to its problems that are good enough, that satisfy the constraints.

2. *In the adaptive mode, the strategy-making process is characterized by the "reactive" solution to existing problems rather than the "proactive" search for new opportunities.*—The adaptive organization works in a difficult environment that imposes many problems and crises. Little time remains to search out opportunities. And even if there were time, the lack of clear goals in

the organization would preclude a proactive approach:

... if [the strategy-makers] cannot decide with any precision the state of affairs they want to achieve, they can at least specify the state of affairs from which they want to escape. They deal more confidently with what is wrong than with what in the future may or may not be right.¹¹

Furthermore, the adaptive organization seeks conditions of certainty wherever possible, otherwise it seeks to reduce existing uncertainties. It establishes cartels to ensure markets, negotiates long-term purchasing arrangements to stabilize sources of supply, and so on.

3. *The adaptive organization makes its decisions in incremental, serial steps.*—Because its environment is complex, the adaptive organization finds that feedback is a crucial ingredient in strategy-making. It cannot take large decisions for fear of venturing too far into the unknown. The strategy-maker focuses first on what is familiar, considering the convenient alternatives and the ones that differ only slightly from the status quo. Hence, the organization moves forward in incremental steps, laid end to end in serial fashion so that feedback can be received and the course adjusted as it moves along. As Lindblom notes, "... policy-making is typically a never-ending process of successive steps in which continual nibbling is a substitute for a good bite."¹²

4. *Disjointed decisions are characteristic of the adaptive organization.*—Decisions cannot be easily interrelated in the adaptive mode. The demands on the organization are diverse, and no manager has the mental capacity to reconcile all of them. Sometimes it is simply easier and less expensive to make decisions in disjointed fashion so that each is treated independently and little attention is paid to problems of coordination. Strategy-making is fragmented, but at least the strategy-maker remains flexible, free to adapt to the needs of the moment.

Lindblom provides us with an apt summary of the adaptive mode:

Man has had to be devilishly inventive to cope with the staggering difficulties he faces. His analytical methods cannot be restricted to tidy scholarly procedures. The piecemealing, remedial incrementalist or satisficer may not look like an heroic figure. He is nevertheless a

shrewd, resourceful problem-solver who is wrestling bravely with a universe that he is wise enough to know is too big for him.¹³

The Planning Mode

In a recent book, Russell Ackoff isolates the three chief characteristics of the planning mode:

1. Planning is something we do in advance of taking action; that is, it is *anticipatory decision-making*...

2. Planning is required when the future state that we desire involves a set of interdependent decisions; that is, a *system of decisions*...

3. Planning is a process that is directed toward producing one or more future states which are desired and which are not expected to occur unless something is done.¹⁴

Formal planning demands rationality in the economist's sense of the term—the systematic attainment of goals stated in precise, quantitative terms. The key actor in the process is the analyst, who uses his scientific techniques to develop formal, comprehensive plans.

The literature of planning is vast, and is growing rapidly. Much of the early writing concerned "operational planning"—the projecting of various budgets based on the given strategies of the organization. More recently, attention has turned to the planning of organizational strategies themselves, the more significant and long-range concerns of senior managers. Two techniques have received particular attention—strategic planning in business and planning-programming-budgeting system (PPBS) in government.

George Steiner has written what up to this point is the definitive book on business planning, entitled *Top Management Planning*. The general prescriptive flavor of the planning literature is found throughout this book. For example, "Plans can and should be to the fullest possible extent objective, factual, logical, and realistic in establishing objectives and devising means to attain them."¹⁵ Steiner outlines a stepwise procedure for business planning which begins with three studies: (1) fundamental organizational socioeconomic purpose, (2) values of top management, and (3) evaluation of external and internal opportunities and problems, and company strengths and weaknesses. Strategic plans are then devised, and these lead to the formulation of medium-range programs and

short-range plans. In Steiner's opinion, comprehensive planning is important because it simulates the future, applies the systems approach, prevents piecemeal decision-making, provides a common decision-making framework throughout the company, and so on.

In PPBS, the focus is on the budget rather than the general plan (although a budget is, of course, one type of plan). The steps in the process are, by now, well known—the determination of overall governmental goals and objectives, the generation of program proposals to achieve these, the evaluation of these proposals in terms of costs and benefits, the choice of a group of proposals that will satisfy the objectives while not overextending the resources, and the translation of these into five-year and one-year budgets for implementation.

We can delineate three essential features of the planning mode:

1. *In the planning mode, the analyst plays a major role in strategy-making.*—The analyst or planner works alongside the manager, and assumes major responsibility for much of the strategy-making process. His role is to apply the techniques of management science and policy analysis to the design of long-range strategies. A U.S. Senator notes the reasons for this:

I am convinced that we never will get the kind of policy planning we need if we expect the top-level officers to participate actively in the planning process. They simply do not have the time, and in any event they rarely have the outlook or the talents of the good planner. They cannot explore issues deeply and systematically. They cannot argue the advantages and disadvantages at length in the kind of give-and-take essential if one is to reach a solid understanding with others on points of agreement and disagreement.¹⁶

2. *The planning mode focuses on systematic analysis, particularly in the assessment of the costs and benefits of competing proposals.*—Formal planning involves both the active search for new opportunities and the solution of existing problems. The process is always systematic and structured. As one business planner wrote recently:

No doubt much of top-level management is unscientific. But by applying a systematic, structured approach to these problems, we have a better basis for analyzing

them. We may identify more specifically the challenges and needs in the situation and see how they are interrelated.¹⁷

Formal planning follows a stepwise procedure in which particular attention is paid to the cost-benefit evaluation of proposals, where the planning methodology is best developed. The planner tests proposals for feasibility, determines their efficiency (or economic value), and relates them to each other. The planner deals best with conditions known to the management scientist as "risk"—where the uncertainty can be expressed in statistical terms. Conditions of certainty require no planning; those of pure uncertainty cannot be subjected to analysis.

3. *The planning mode is characterized above all by the integration of decisions and strategies.*—Ackoff notes that "the principal complexity in planning derives from the interrelatedness of decisions rather than from the decisions themselves."¹⁸ But this interrelatedness is the key element in planning. An organization plans in the belief that decisions made together in one systematic process will be less likely to conflict and more likely to complement each other than if they were made independently. For example, planning can ensure that the decision to acquire a new firm complements (or at least does not conflict with) the decision to expand the product line of an existing division. Thus, strategic planning is a process whereby an organization's strategy is designed essentially at one point in time in a comprehensive process (all major decisions made are interrelated). Because of this, planning forces the organization to think of global strategies and to develop an explicit sense of strategic direction.

To conclude, the planning mode is oriented to systematic, comprehensive analysis and is used in the belief that formal analysis can provide an understanding of the environment sufficient to influence it.

The upper part of Table I presents in summary form the characteristics of the three modes of strategy-making, while Figure 1 depicts these three modes in graphic form. The first figure shows the taking of bold steps consistent with the entrepreneur's general vision of direction. In the second figure, we see a purely adaptive organization taking incremental steps in reaction

TABLE I.—Characteristics and Conditions of the Three Modes

Characteristic	Entrepreneurial Mode	Adaptive Mode	Planning Mode
Motive for Decisions	Proactive	Reactive	Proactive & Reactive
Goals of Organization	Growth	Indeterminate	Efficiency & Growth
Evaluation of Proposals	Judgemental	Judgemental	Analytical
Choices made by	Entrepreneur	Bargaining	Management
Decision Horizon	Long Term	Short Term	Long Term
Preferred Environment	Uncertainty	Certainty	Risk
Decision Linkages	Loosely Coupled	Disjointed	Integrated
Flexibility of Mode	Flexible	Adaptive	Constrained
Size of Moves	Bold Decisions	Incremental Steps	Global Strategies
Vision of Direction	General	None	Specific
Condition for Use			
Source of Power	Entrepreneur	Divided	Management
Objectives of Organization	Operational	Non-Operational	Operational
Organizational Environment	Yielding	Complex, Dynamic	Predictable, Stable
Status of Organization	Young, Small or Strong Leadership	Established	Large

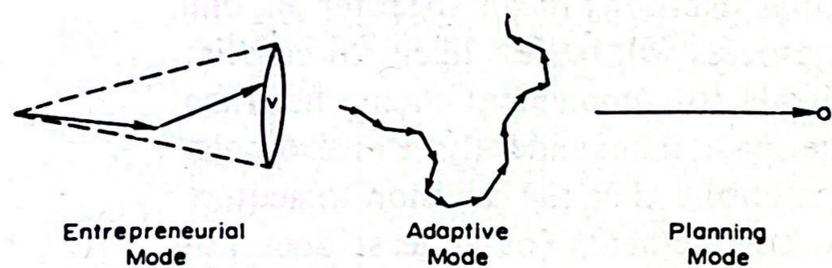


Figure 1.—Paths of the Three Modes

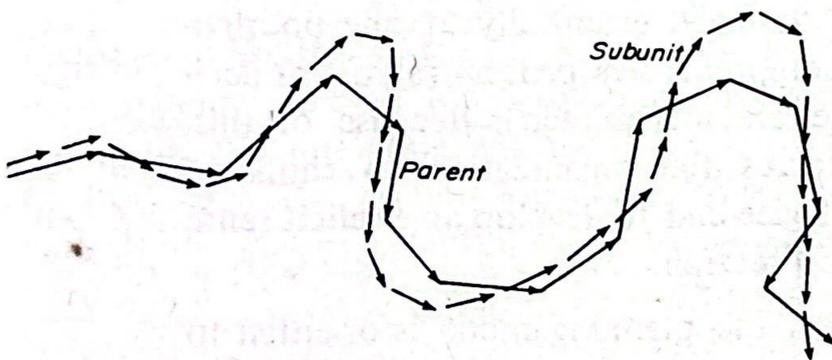


Figure 2.—Muddling Through Times Two

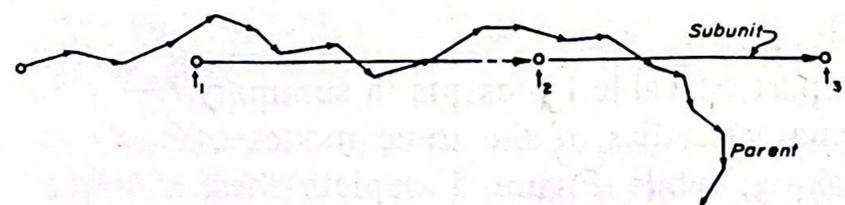


Figure 3.—Planning in an Adaptive Environment

to environmental forces, while the third figure indicates a precise plan with a specific, unalterable path to one clear end point.

The Determination of Mode

What conditions drive an organization to favor one mode of strategy-making over the others? We may delineate a number of characteristics of the organization itself, such as its size and the nature of its leadership, and features of its environment, such as competition and stability. These are discussed below and are summarized in the lower portion of Table I.

The *entrepreneurial* mode requires that strategy-making authority rest with one powerful individual. The environment must be yielding, the organization oriented toward growth, the strategy able to shift boldly at the whim of the entrepreneur. Clearly, these conditions are most typical of organizations that are small and/or young. Their sunk costs are low and they have little to lose by acting boldly. Young organizations in particular have set few precedents for themselves and have made few commitments. The way is open for them to bunch a number of key decisions at an early stage and take them in entrepreneurial fashion. This behavior may also be characteristic of the organization in trouble—it has little to lose by acting boldly, indeed this may be its only hope. In a study of the Montreal radio industry, one student concluded that the less successful stations were predisposed to adopt an entrepreneurial approach in order to catch up and displace the leader (whose behavior was primarily adaptive).

To satisfy the condition of centralized power, the organization must be either a business firm (often with the owner as chief executive), or an institutional or governmental body with a powerful leader who has a strong mandate. The entrepreneurial mode is often found with charismatic leadership. Charles de Gaulle could have been characterized as an entrepreneur at the head of government.

Use of the *adaptive* mode suggests that the organization faces a complex, rapidly changing environment and a divided coalition of influencer forces. Goals cannot be agreed upon unless they are in "motherhood" form and non-operational

(they cannot be quantified). Here we have a clear description of the large established organization with great sunk costs and many controlling groups holding each other in check. This is typical of most universities, of many large hospitals, of a surprising number of large corporations, and of many governments, especially those in minority positions or composed of coalitions of divergent groups. Indeed, the American system of government has been expressly designed to create conditions of divided power, and it is, therefore, not surprising that Charles Lindblom, the chief proponent of the adaptive approach, is a student of the U.S. public policy-making process.

In order to rely on the *planning* mode, an organization must be large enough to afford the costs of formal analysis, it must have goals that are operational, and it must face an environment that is reasonably predictable and stable. (This last point inevitably raises the comment that planning is most necessary when the environment is difficult to understand. This may be true, but the costs of analyzing a complex environment may be prohibitive and the results may be discouraging. As one Latin American chief executive commented: "Planning is great. But how can you plan—let alone plan long-term—if you don't know what kind of government you'll have next year?"¹⁹)

The above conditions suggest that formal comprehensive planning will generally be found in business firms of reasonable size that do not face severe and unpredictable competition and in government agencies that have clear, apolitical mandates. NASA of the 1960s is a prime example of extended use of the planning mode in government. Its goal was precise and operational, its funding predictable, its mission essentially apolitical in execution. The communist form of government with its five year plan is another good example. The power system is hierarchical, goals can be made operational, the home environment can be controlled and made more or less stable and predictable (at least as long as the crops are good).

Mixing the Modes

What is the relationship between our three abstractions and strategy-making reality? Clearly,

few organizations can rely on a pure mode. More likely, an organization will find some combination of the three that reflects its own needs. Management students at McGill University have examined a number of business and public organizations according to these three modes, and they have uncovered a variety of ways in which organizations mix these modes. I shall discuss four combinations below, citing examples from these studies to illustrate each.

Combination 1: mixing the pure modes.—As we have seen, the literature tends to delineate three modes which are quite distinct in their characteristics. This trichotomy provides a convenient starting point for analysis; however, we cannot preclude the existence of other modes that mix their characteristics. Indeed, studies have revealed various combinations of the modes. We have, for example, found a number of adaptive entrepreneurs. One owned a car dealership. Reluctant to delegate authority but unable to achieve further growth without doing so, he was content to hold power absolutely, like the entrepreneur, but to avoid risk and move in incremental steps, like the adaptive strategy-maker.

We can find the two other combinations of the pure modes as well. In entrepreneurial planning, the organization takes bold, decisive steps in terms of a systematic plan for growth, while in adaptive planning the organization reaches a specific goal through a flexible path. Herbert Simon describes an example of adaptive planning found in nature:

We watch an ant make his laborious way across a wind- and wave-molded beach. He moves ahead, angles to the right to ease his climb up a steep dunelet, detours around a pebble, stops for a moment to exchange information with a compatriot. Thus he makes his weaving, halting way back to his home. . . . [His path] has an underlying sense of direction, of aiming toward a goal. . . . He has a general sense of where home lies, but he cannot foresee all the obstacles between. He must adapt his course repeatedly to the difficulties he encounters. . . .²⁰

Combination 2: mixing modes by function.—Within single organizations, we have found different modes in different functional areas. One group of students carefully studied all departments of a large downtown hotel, and found evidence of all three modes. Where opera-

tions were largely routinized and predictable, as in housekeeping and the front office, the planning mode was used. In marketing, where there was room for imagination and bolder action, the hotel tended to act in an entrepreneurial fashion, while in the personnel department, which faced a complicated labor market, the mode was clearly adaptive.

Another group studied a modeling agency and found that in the area of fashion it was forced (as were all its competitors) to adapt to the dictates of the hautes couturieres of Paris, while it was free to be entrepreneurial or to plan in the areas of marketing and operations. Clearly, different parts of an organization can employ those modes which best fit their particular situations.

Combination 3: mixing modes between parent and subunit.—Neil Withers, a member of a group studying the Montreal International Airport (which comes under the purview of the Canadian Department of Transport), became interested in the relationship between a parent organization and its subunit (a division, a subsidiary, an agency, and so on). The question he addressed was: If the parent uses a particular mode, what limitations does that impose on the subunit (assuming, of course, that there is not enough decentralization to allow the subunit to operate independently)? Withers considers all nine possible combinations in which each could use one of the three modes, and he draws some interesting conclusions.

Figure 2 shows the use of the adaptive mode by both parent and subunit—a situation Withers refers to as “muddling through times two.” In this case, the subunit merely follows the path of the parent, adapting to its incremental moves, and following a slightly more varied and lagged path. Withers concludes that the adaptive mode is, in fact, always an acceptable one for the subunit, no matter what the mode of the parent.

Withers believes “entrepreneurial duets”—whereby both parent and subunit employ the entrepreneurial mode—to be “the worst possible combination.” The subunit is subjected not only to its own bold moves but to the unexpected bold moves of the parent. The disruption may

prove intolerable. One is led to conclude that no centralized organization is big enough for two entrepreneurs. Sooner or later one must make a bold, unexpected move that interferes with the other. (In contrast, another group described a decentralized social work agency where strategy-making was largely in the hands of the social workers. They were all entrepreneurs, acting independently to initiate original programs and seeking approval from the main office whose behavior was described as adaptive.)

Finally, Withers considers the conditions under which the subunit can plan. Figure 3 shows a situation where the subunit plans while the parent organization adapts. The subunit at time t_1 anticipates the trend of the parent's strategy and plans accordingly.

Up to time t_2 , no difficulties are incurred, and the subunit continues to extrapolate. But soon the parent's direction begins to change, and the subunit finds itself in conflict with the parent. According to Withers, “The use of planning in this uncertainty may not yield sufficiently improved results over [adapting] to justify the cost of planning and the long-term commitment of resources.” Withers concludes that subunit planning will work only if the parent plans and if the two planning centers are properly coordinated.

Combination 4: mixing modes by stage of development.—A number of writers have described the growth of organizations in terms of three or four basic stages—generally corresponding to a life cycle beginning with youth and ending with maturity. It appears that we can characterize the various stages by the mode of strategy-making employed.

Generally, the young organization is entrepreneurial—it has few committed resources, it stands to lose little and to gain much by taking bold steps, leadership tends to be charismatic, and there is much spirit associated with its mission. This is the period of expansion and growth. But each new strategic decision commits additional resources, and gradually the organization locks itself into specific strategies, bureaucratic structures, and demanding pressure groups. The adaptive mode sets in. For example, one group of students studied a Montreal hospital

which began in a most entrepreneurial fashion, with dramatic innovations in design and operation. Some time later, when the hospital was established, the provincial government took over increasing control of its budgets and by the time of the study these students felt that the adaptive mode was most descriptive of this organization's strategy-making behavior.

The adaptive mode may signal the final stage of maturity, or the conditions may be such that an organization can attempt to regenerate itself through a new period of entrepreneurship. In fact, it appears that the way to turn around a large, adaptive organization requiring major change is to bring in an entrepreneurial leader. Only by consolidating power in the hands of one strong newcomer will it be possible to override the established factions and the entrenched attitudes.

Some organizations appear to develop cyclical patterns in which periods of entrepreneurship are alternated with periods of adaptiveness. They make a set of bold changes in order to grow, then settle down to a period of stability in which the changes are consolidated, later embark on a new period of growth, and so on. Perhaps in some cases these follow economic cycles—an entrepreneurial mode in an expanding economy, an adaptive mode during recession.

Some time ago, I interviewed the president of a hotel chain who traced his firm's strategy through to the third distinct cycle of change and consolidation. The first stage of growth, as a real estate firm, involved the purchase of a number of older downtown hotels as property investments. Later, realizing the potential of investments, the firm entered a period of consolidation in which the properties were developed into an efficient hotel chain. Having reached this point after some years, a second wave of entrepreneurial growth began. First the firm became public in order to obtain expansion capital and then it entered into a major expansion program involving primarily the construction of a chain of modern motor hotels. Toward the end of the program, the firm found that its financial resources were overextended, partly due to higher expansion costs than anticipated. Again growth was halted while the firm consolidated its new units, concentrating on making them efficient, and waiting until

its financial reserves were sufficient to begin to grow again. About three years later, at the time of the interview, cycle three has just begun, this time with the emphasis on the construction of larger downtown hotels.

Such an approach to strategy-making may, in fact, be a sensible one. It proceeds on the assumption that it is better to keep the modes distinct, concentrating fully on one mode at a time rather than mixing them and having to reconcile the different styles of strategy-making.

Other organizations, as they mature, tend to use the planning mode—the development of new strategies by controlled, orderly change. As these organizations grow large, they commit more and more of their staff resources to planning. Indeed, this is the thesis of John Kenneth Galbraith who claims, in *The New Industrial State*, that large business firms are controlled by the planners (the “technostructure”) who use their techniques to enable the firms in turn to control their markets.

Our studies have not covered these large firms, but analyses of the strategy-making behaviors of a diverse array of smaller organizations—airlines, brokerage firms, universities, race tracks, cultural centers—suggest that virtually all start in the entrepreneurial mode, most later shift to an adaptive mode, and some move on to planning or back to entrepreneurship in their maturity.

Implications for Strategic Planning

What can we conclude from this description of strategy-making? One point merits special emphasis. *Planning is not a panacea for the problems of strategy-making.* As obvious as this seems, there is little recognition of it in planning books or by planners. Instead, one finds a focus on abstract, simple models of the planning process that take no cognizance of the other two modes of strategy-making. Little wonder then that one finds so much frustration among formal planners. Rather than seeking panaceas, we should recognize that the mode used must fit the situation. An unpredictable environment suggests use of the adaptive mode just as the presence of a powerful leader may enable the organization to best achieve its goals through the entrepreneurial mode.

Some situations require no planning, others only limited planning. Often the planning mode can be used only when mixed with the others. Most important, planners must recognize the need for the manager to remain partially in the adaptive mode at all times. Crises and unexpected events are an important part of every strategy-maker's reality. Conventional planning requires operational goals which managers cannot always provide (the coalition may simply not agree on anything specific). Furthermore, it must be recognized that good planning is expensive, it often requires unrealistic stability in the environment, and, above all, it is the least flexible of the strategy-making modes. All this is not to conclude that planning is useless; rather, it suggests that the planner must become more realistic about the limitations of his science.

Often there is a need to redesign the formal planning process. Adaptive planning would differ from conventional planning in a number of important respects. The plans would be flexible so that the manager could adjust as the future unfolded itself. He would be able to time his moves accordingly—to begin construction on the new plant when interest rates fall, to reorganize the structure after certain executives retire. The plans would also provide for different options—alternate locations for a new plant depending on impending state legislation, different possible acquisition strategies depending on the success of recent acquisitions, and so on. In other words, like the path of the ant described earlier, strategic plans would specify end points and perhaps alternate routes, but they would also leave the manager with the flexibility necessary to react to his dynamic environment.

In addition, the planner could draw up a series of contingency plans to help the manager deal with any one of a number of possible events that could have a sudden, devastating effect on the organization. He could also be prepared to "plan in the real-time," that is, to apply his analytical techniques quickly for the manager who faces an unforeseen crisis. By preparing in this way, planners can more closely adapt themselves to the realities of strategy-making.

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