Five C[illegible]hallenges in Strategy Making

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Empirical rese[illegible]ears has made significant cor[illegible] strategic management field. Th[illegible]ever, have not provided comp[illegible]many of the core strategic dilem[illegible]p executives (Hambrick and[illegible]001). In many respects, strate[illegible]t remains an intuitive and p[illegible]dertaking. As such, managers are [illegible]ome critical judgment calls whe[illegible]trategy for their companies, ea[illegible]lves apparent contradictions [illegible]gotiated if a firm is to succeed. [illegible]f these practical decisions shou[illegible] philosophy grounded in e[illegible]ch, and reason.

There is inc[illegible] that strategy formulation is [illegible] executive's philosophy an[illegible]otey and Meredith, 199[illegible]'s self-interest, personalities, i[illegible]nd influences on strategy have [illegible]ed (Guth and MacMillan, 19[illegible] Smircich and Stubbart, 1985[illegible]ey, 1986). Simply stated, examin[illegible]formulation process witho[illegible]e personal and philosophical [illegible] the manager is shortsighted.

This paper outlines five critical strategic philosophical questions that influence strategic decision-making. Although resolutions to these concerns are not always clear, opposing perspectives — along with their support in the literature — are presented. Suggestions for improving strategic decision-making are provided in the final section of the paper.

Question 1: Is Strategy an Art or a Science?

The art versus science debate is the most fundamental issue in strategy formulation. While it may appear to be an academic dispute, a person's perception of the strategy phenomena — specifically the process of strategy formulation — is a key building block of strategy. In other words, the view of *how* the strategy process should function is inseparable from the view of *what* the strategy should be (i.e., content).

The difference between the art and science interpretations of strategy is substantial. According to the art perspective, the lack of environmental predictability and the fast pace of change render elaborate strategy planning suspect at best. Instead, strategists should incorporate large doses of creativity and intuition to design a comprehensive strategy for the firm (Ford and Gioia, 2000). In contrast, followers of the science perspective see the business environment as largely objective, analyzable, and at least somewhat predictable. As such, strategic managers should follow a systematic process of environmental, competitive, and internal analysis, and build the organization's strategy on this foundation (see table 1).

Table 1 **The Art and Science Approaches to Strategy**

Characteristic	Art	Science
Systematic Analysis of Environment	Difficult at best	Possible and essential
Environmental Predictability	Very limited	Extensive
Perception of Environment	Subjective	Objective
Planning Steps	Varies by organization; no one best way	Similar for most or all organizations
Key intellectual influence	Imagination	Analysis

Most strategy literature has traditionally favored the science, or planning model, whereby strategic managers are encouraged to systematically assess the firm's external environment and evaluate the pros and cons of myriad alternatives before formulating strategy. The search for causal relationships and objectivity are central to the process. By definition, strategic managers should be trained, highly skilled analytical thinkers capable of digesting a myriad of objective data and translating it into a desired direction for the firm.

In contrast, Mintzberg's (1987) notion of a craftsman — encompassing individual skill, dedication, and perfection through mastery of detail — embodies the artistic model. The strategy artist senses the state of the organization, interprets its subtleties, and seeks to mold its strategy like a potter molds clay. The artist visualizes the outcomes associated with various alternatives and ultimately charts a course based on holistic thinking, intuition, and imagination.

Mintzberg (1987) coined the terms "deliberate" and "emergent" strategies in part to distinguish between the strategies that emanate from the two schools of thought. Nonetheless, most scholars continued to proceed with the assumption that deliberate strategies are preferred, and emergent strategies invariably result from ineffective planning or environmental unpredictability.

The relevance of this philosophical debate is clear. "Strategy scientists" tend to minimize or reject altogether the role of imagination and creativity, and are not generally receptive to alternatives that emerge from any process other than a comprehensive, analytical approach. "Strategy artists" often view strategic planning exercises as time poorly spent and may not be as likely as those in the science school to make the effort necessary to maximize the value of a formal planning process (Hamel, 1996; Huffman, 2001).

Question 2: Should Strategies be Visible or Hidden?

In many respects, the evidence for the existence of a strategy can permeate an organization. Its customers appreciate knowing what a company is attempting to accomplish and prospective investors tend to hesitate when they do not have a clear grasp of the firm's position and future priorities. Sharing strategic information with lower-level managers and employees may enhance both job comprehension and organizational commitment. Hence, the arguments for a "public" strategy are intuitively obvious.

However, a number of challenges arise from a free dissemination of the organization's strategy. Open discussion with any group outside of top management (e.g., middle managers, investors, community leaders, etc.) may be easily translated into competitive intelligence for rival firms. Participants in the strategy process become more attractive to other industry players and may be lured away. As a result, most strategic managers argue for at least some degree of privacy.

The Chinese warrior Sun Tzu is often cited as proponent of the hidden strategy perspective (Michaelson, 2001). In the military context, he argued that all war is based on deception, and that effective military maneuvers are those not easily predicted by the opponent. Business strategists, therefore, surmise that the best strategy must be one that competitors cannot understand.

It is difficult to argue with this notion of deceptive strategies *prima facie*. However, secrecy may not only keep a strategy hidden from those who might wish to exploit it but also from those who can contribute to its development or are responsible for implementing it. However, in an environment where managers frequently move from one company to another, forthright strategic discussions with employees may ultimately result in sharing confidential strategic intentions with competitors. In addition, effective communication with investors and business media can be critical to a firm's stock price, although it can involve the dissemination of sensitive information.

Question 3: Is Strategic Commitment More Important Than Strategic Flexibility?

An organization's strategic managers may choose to commit to a course of action for an extended period and enjoy the benefits of organizational learning and a clear customer image. Alternatively, an organization can remain flexible so that it does not become committed to products, technology, or market approaches that may become outdated. In a perfect world, organizations commit to predictable, successful courses of action, and strategic change is incremental. However, outcomes are not always predictable in a dynamic environment. Hence, for most firms, strong arguments can usually be made for substantial strategic shifts, even when performance is not lacking (Grewel and Tansuhaj, 2001).

Interestingly, the business press has been consistently inconsistent with regard to this debate. When traditional firms perform poorly, their strategic managers are exhorted to promote flexibility and strategic renewal. In contrast, when bold strategic changes fail, pundits assert that a company must return to its "core business." Hence, it is easy to migrate freely from one side of the debate to the other, often with convincing empirical and intuitively appealing arguments.

Proponents of the strategic change and flexibility school make four primary arguments. First, such strategies tend to lead to superior performance when implemented in appropriate environments. Without strategic flexibility, an organization cannot adapt to its changing external environment (Parnell, 1997). Following this logic, changes in competition and technology necessitate a change in the knowledge base within the organization if it is to survive (Hannan and Freeman, 1977; Ulrich, 1987; Whipp, Rosenfeld, and Pettigrew, 1989). The state of the environment is not always fully understood by strategy formulators, and top managers may be most likely to contemplate a strategic change when environmental uncertainty is high (Wernerfelt and Karnani, 1987).

Second, an organization can seek first-mover advantages by entering a new market or developing a new product or service before the competition (Gannon, Smith and Grimm, 1992; Petersen and Welch, 2000). Being a first mover can help secure access to scarce resources, increase the organization's knowledge base, and result in substantial long-term competitive advantage, especially when switching costs are high (Lieberman and Montgomery, 1988).

First-mover advantages tend to be greatest when competitors are roughly the same size and possess similar resources (Wernerfelt and Karnani, 1989). When this is not the case, large competitors with vast resources can afford to wait while others make initial investments, subsequently responding to market successes with superior reach, distribution channels, and economies of scale. Likewise, smaller competitors with more limited resources may wish to "pass" on a new idea. Even when small competitors are successful first-movers, a larger firm can still enter the market (Mascarenhas, 1992).

Third, it is argued that an organization must modify its strategy as its set of unique human, physical, capital, and informational resources change (Barney, 1991; Lado, Boyd, and Wright, 1992). Proponents of the resource-based view of strategy have noted that competitive advantage often arises from such organizational attributes as informational asymmetries (Barney, 1986), culture (Fiol, 1991), resource accumulation (Dierickx and Cool, 1989), and the minimization of transaction costs (Camerer and Vepsalainen, 1988), and that strategies should reflect change in these capabilities. Resource shifts necessitating strategic change may be more prevalent in some organizations than in others (Hitt, Keats, and DeMarie, 1998).

In a similar vein, strategic change can improve an organization's ability to adapt by forcing healthy changes within the business. The initial pain associated with change may be offset by the emergence of a lean, rejuvenated organization with a fresh focus on its goals. On the contrary, organizations that maintain strategic consistency over time may become stagnant, limiting the creativity and potential contributions of its members.

Fourth, strategic changes may be necessary if desired performance levels are not being attained. In many cases, top managers may believe that a change in strategy will improve the ability of the business to generate revenues or profits, perhaps increase market share, and improve financial returns. Many studies have concluded that declining profitability is the most common catalyst for strategic change (Boeker, 1989; Webb and Dawson, 1991). Interestingly, organizational performance, age, and length of tenure of the founding entrepreneur influence the degree to which a founding strategy endures and thus, the prospects for strategic change (Boeker, 1989). In fact, new CEOs are often recruited to attempt strategic changes upon entering the organization (Greiner and Bhambri, 1989).

Proponents of the strategic consistency school argue for stability on four grounds. First, a change in any key strategic, environmental, or organizational factor may entice strategic managers in a business to modify its strategy to incorporate these changes. However, since such variables are constantly evolving, this is challenging process, and inaction may minimize uncertainty. Indeed, a strategic change is most risky when competitors are better equipped to respond if the change is successful (Wernerfelt and Karnani, 1987). Further, a successful strategic change is often seen as unsuccessful in the short run, and therefore must survive efforts to return to the former strategy when organizational "losers" — typically those whose careers may suffer as a result of the change — mount a stiff opposition (Gaertner, 1989; Yoshihara, 1990). Further, Strategic change can challenge the assumptions of all organizational members and may be difficult to implement even with employee support (Saffold, 1988; Scholes, 1991).

Second, measures required to implement a change in strategy may necessitate substantial outlays of capital. For example, a shift from a prospector or analyzer strategy to a defender strategy may require investments in sophisticated production equipment to lower production costs (Miles and Snow, 1978). Likewise, a shift from a defender or analyzer strategy to a prospector strategy may require outlays to develop or enhance research and development facilities.

As mentioned, when an organization initiates a strategic change — especially one that delves into a new arena — competitors often take a "free ride" (Lieberman and Montgomery, 1988). Large firms can afford to enjoy the ride since they have the resources to respond effectively when necessary (Wernerfelt and Karnani, 1987). Indeed, one business may subsidize a change that benefits the entire industry.

Third, consumer confusion may result from strategic change. For example, if a business employing a low-cost strategy attempts to switch to a differentiation strategy, its price-oriented customers may become confused and seek another low-cost leader, while those willing to pay a premium price for differentiated products may not recognize the organization's strategic change. Many will likely recall remnants of the previous strategy — perhaps advertising campaigns — and may not even consider doing business with the organization.

Finally, even when strategic change results in a successful new product or service, there is no assurance this success can be maintained. Indeed, competitors may distort consumer perceptions and reap the benefits of the initial change. For example, many consumer goods companies implement an "imitation strategy" (Foxman, Muehling, and Berger, 1990). As a result, consumers purchase the imitation product thinking it is the original. If the consumer dislikes the product, this dissatisfaction can be transferred to the original. If the consumer likes the product, he or she may realize it is an imitator and transfer the positive associations with the original product to the imitator. Either scenario can prove costly to the originator (Loken, Ross and Hinkle, 1986).

Question 4: What Degree of Risk is Inherent in Strategy Formulation? How Much Competitive Intelligence is Enough?

Strategy is about making choices (Porter, 1985), some of which appear to be riskier than others. Environmental scanning is at best an inexact science, and strategic managers are inevitably left with varying amounts of risk associated with each strategic alternative. According to one school of thought, however, top managers should not forego attractive opportunities because of a lack of certainty. A second school contends that risk reduction is the primary responsibility of top management. Executives, therefore, should be skilled at processing information so that risk can be avoided — or at least severely minimized — in strategy formulation. Risk, they argue, will inevitably lead to failure.

Although managers in a number of innovative firms have touted the advantages of embracing risk, fast-food giant McDonald's historically has eschewed risk is strategy making, opting instead to promote and expand its concept of consistent, quality hamburgers and related food products. Although McDonald's is generally considered to be successful, it is interesting to note that of its three most substantial innovations over the past three decades — the Big Mac, the Egg McMuffin, and Chicken McNuggets — two were invented by franchisees and the third by the company only after seven years of testing (Ghemawat and Khanna, 2000).

Question 5: Should Strategy Formulation Use Top-Down or Bottom-Up Approaches?

Most scholars agree that at least some nonexecutive-level managers should be involved in the strategy formulation process. The key issue is finding the most appropriate degree of involvement. Top-down proponents argue that seasoned executives are the only ones with the collective experience, acumen, and fiduciary responsibility to chart the strategy. In contrast, bottom-up proponents argue that a strategy eventually must be implemented by middle- and lower-level managers, who, therefore, should play a central role in its development.

Indeed, research has greatly emphasized the role of multiple managers in building the superior performing organization (Hurst, Rush and White, 1990; Markoczy, 2001; Sayles, 1993; Wooldridge and Floyd, 1990). However, much of the strategy research in the 1970s and early 1980s followed Ansoff (1965) and others (Andrews (1971; Schendel and Hofer, 1979), relying on perceptions of the top manager for insight into an organization's strategic intentions. Although the concept of middle-management involvement in strategy is not new, the last decade has produced evidence to suggest that strategy formulation and implementation can reflect a diverse array of top- and middle-management inputs (Hart, 1992; Hiam, 1993; Westphal and Fredrickson, 2001). Mintzberg and Waters' (1985) notion of deliberate and emergent strategies acknowledges the significant role of both levels in the strategic management process. As Nichol (1992) put it, strategy synchronization is a team effort, requiring contributions and knowledge from both middle and senior managers.

Recommendations for Strategic Managers

The academic answers to these key strategy dilemmas may be elusive, but two basic considerations govern the strategic manager's approach to them (see Table 2). First, the validity of the opposite extremes suggests that a working balance must be sought between the apparent contradictions. Second, each top executive must understand how the unique business environment in which he or she operates influences the proper response. Based on these principles, suggestions for each of the five key questions are provided next.

Art vs. Science. There is substantial evidence

Table 2
Summary of Five Critical Strategic Dilemmas

Dilemma	First Argument	Second Argument	Recommendations
Art vs. Science	Strategy is an art and should be crafted	Strategy is a science and should be managed by systematic and analytical tools	Follow a comprehensive, systematic strategic management model, but augment with creative approaches
Visible vs. Hidden	Everyone associated with the company should completely understand the strategy if they are to effectively implement it	As much of the strategy as possible should be concealed, as the best strategies are those understood only by the strategy makers	Publicize the core strategic principles, but do not disseminate critical data or competitive intelligence.
Strategic Consistency vs. Flexibility	Executives should avoid the temptation to "react" to the environment, while maintaining a consistent, clear strategy over time	Given today's fast pace of change, organizations must remain flexible and maintain the ability to adapt to environmental changes quickly and seamlessly	Maintain consistent strategic values, but be willing to change the means through which those values are realized
Risk vs. Certainty	Risk is inherent in strategy and should not be avoided	Uncertainty should be eliminated to such an extent that little or no risk is incurred in strategy implementation	Minimize strategic risk as much as possible, while recognizing that it can never be eliminated
Top-down vs. Bottom-up	Only top management has the skills and experience to formulate the organization's strategy	Because middle- and lower-level managers, as well as non-managerial employees, are more familiar with the day-to-day activities of the organization than are top executives, they should initiate the strategy formulation process	Strategies should be formulated by top management, with assistance from others in the organization to the extent they are able to contribute

to suggest that strategy is both an art and a science. On the one hand, a comprehensive process of strategy development and implementation is likely to improve prospects for success. This may be more critical for businesses that face low levels of uncertainty (Courtney, Kirkland, and Viguerie, 1997). On the other hand, however, the creative dimensions of strategy, such as brainstorming and qualitative forecasting, should not be eschewed. Strategic managers should follow a systematic strategic management model, while recognizing that the steps in the model are neither all-encompassing nor specifically sequential.

Visible vs. Hidden. In a perfect world, strategic managers would involve all key individuals in the organization, as well as other key stakeholders (e.g., suppliers, customers, etc.) in the strategic management process, without disseminating key knowledge to those who may have a current or potential competitive interest against the firm. Although this balancing act is difficult, if not impossible, distinguishing the most critical and confidential data and decisions from those of little value is central to the process. Specifically, executives should identify a narrow scope of data and competitive intelligence that should remain confidential to top managers and take steps to ensure that such information is not disseminated beyond the inner circle.

Strategic Consistency vs. Flexibility. Indeed, commitment to a set of core strategic principles can pay dividends by focusing employees on a clear goal and increasing the organization's predictability among customers and other key stakeholders. However, organizations must be capable of embracing positive change. The key for strategic managers is to identify the parameters that should define the organization (e.g., quality, value, servicing a specific market niche, etc.), and promote flexibility within them.

Risk vs. Certainty. Clearly, certainty is preferable to uncertainty. Strategic managers have a number of analytical and qualitative techniques at their disposal to transform their strategic environments in the direction of certainty. Strategic managers must identify key decision criteria and then develop systematic resources to glean current and reliable data that can readily drive these decisions.

Top-down vs. Bottom-up. Historically speaking, the trend toward bottom-up approaches to decision making is recent. With this approach, executives establish strategy because they have the expertise to "see the big picture." In many respects, this argument is still true. However, the increased education of the work force at all levels and the general trend toward decentralization over the past two decades suggest that a strict top-down approach may not produce the best strategy. The research is clear: Top executives should exhibit leadership and accept full responsibility for the management of the organization. However, progressive firms augment this reality with systems that encourage the input of middle- and lower-level managers — and even nonmanagers — to the extent to which they are willing and able to contribute.

Future Research

It is unlikely that research will substantially reduce the responsibility of top executives with respect to these five judgment calls. Nonetheless, scholars must recognize the assumptions on which their research programs are based and seek to address issues inherent in these assumptions. Failing to do so can severely limit or even eliminate the practical applications of their research, especially for managers who do not share the researchers' philosophical basis.

Taking the art-science debate as an example, strategic managers who adopt the "strategy as art" perspective may not be willing to consider findings associated with the planning perspective. New or modified planning approaches will likely be seen as cumbersome, academic exercises devoid of practical relevance. In this case, researchers can strengthen the relevance and acceptance of their findings by addressing these concerns directly and, if possible, incorporating aspects of the alternative perspectives into their research designs or considerations of managerial implications. Hence, it is suggested that researchers integrate the philosophical dimension into their examinations of strategy formulation and content. This will result in findings that tend to be richer and more applicable to top executives.

Dr. Parnell has published over 100 articles in numerous journals in areas such as competitive strategy, organizational behavior, and strategic decision-making.

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beginning to realize the opportunities that temporary employment can offer. This study examined how today's college student perceives the temporary staffing industry and offered suggestions on how temporary firms can better recruit this emerging applicant pool.

Dr. Gainey's research has appeared in numerous journals including Personnel Psychology, Industrial_Relations, *and the* Human Resource Management Journal. *Laura Barnett, Charity Davis, and Michelle T. Bell participated in the study conducted for this article as students in the Human Resources Management program at the State University of West Georgia. Bill Curvino, president of Restaff, Inc., of Atlanta, has been in the temporary staffing industry for over 10 years.*

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