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The Role of the Competitive Context in the Business Strategy- Formulation Process

Abstract: *This paper deals with the relationships that exist between the competitive context of the firm and the way it formulates its strategy at the business level. A research project surveyed a sample of strategic business areas from medium and large-sized firms in Italy. The main results are that two environmental factors are particularly relevant: changes in the needs of the firm's customers and demand growth rate. Moreover, it transpired that even larger firms do not use sophisticated tools to formulate their competitive strategy.*

The characteristics of the competitive context are considered by some authors¹ to be the factor that most strongly influences the type of strategy a company pursues or can formulate, and the level of profitability.² It is also accepted

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that a company's ability to be competitive and profitable depends not only on the type of strategy it formulates and implements, but also on the way in which it is formulated (Rogers, Miller, and Judge 1999). Some authors argue whether the methods of defining and developing a business strategy will require radical reappraisal and whether the rapidity of context change for some businesses is compatible with traditional strategic processes (Eisenhardt 2001; Stopford 2001).

An empirical research project was conducted on a sample of large and medium-size Italian and foreign companies operating in Italy to answer the following research questions:

1. Do the factors that determine the competitive pressures over the firm influence its strategic needs? How?
2. Which are the most relevant correlations between the strategic needs of the firm and the characteristics of the strategy-formulation process?
3. What are the relevant dependent, independent, and mediating variables that we need to consider in order to analyze the influence of the competitive environment on the strategic needs of the firm and the influence of these over the strategy-formulation process?

With these objectives, the formulation process of competitive strategies was analyzed, taking into account the competitive context and strategic decisions relating to individual strategic business areas (subsequently called SBAs).

Review of the literature

The formulation stage plays a central part in the strategic process (Ansoff 1965). Strategy formulation has been studied by an eclectic group of researchers from organizational studies to psychology, decision making, and problem solving.³ From Mintzberg's classification (Mintzberg, Ahlstrand, and Lample 1998), there are no less than ten schools of thought,⁴ which are referred to in studies of the strategy formation process (strategy formulation being just one stage of this process).⁵

If we focus on scholars who analyze the role played by the outer context (represented by the competitive environment) on the strategy-formulation process, we can divide them into three main streams:

1. Those who consider how specific features of the environment impact the way strategy is formulated (Boulton et al. 1982; Bourgeois and Eisenhardt 1988; Fredrickson and Iaquinto 1989; Khandwalla 1973; Lindsay and Rue 1980; Miller and Friesen 1983; Sharfman and Dean 1998; Stein 1980; Steiner 1969)
2. Those who focus on the perceptions of managers regarding the context and the role they have in strategy definition (Anderson and Paine 1975;

Daft, Sormunen, and Parks 1988; Duncan 1972; Hult 1998; Hult et al. 2000; Javidan 1984; Tyler et al. 1989)

3. Those who concentrate on the analysis of the relationships between the firm and its environment, stressing the objective or the subjective characteristics of the environment and the impact of the environment on firm strategy and strategy process (Aldrich 1979; Bourgeois 1980b, 1984; Burrell and Morgan 1979; Chandler 1962; Duncan 1972, 1973; Galbraith 1973; Hamel and Prahalad 1993; Lawrence and Lorsch 1967; Miles and Snow 1978, 1984; Pfeffer and Salancik 1978; Smircich and Stubbart 1982; Weick 1977, 1979).

The evidence of all these streams of research is often contradictory, and this has led us to a more detailed analysis of the relationship between strategy formulation and the outer context. More specifically, in this paper, we deal with the relationships that occur between the competitive environment of the firm for each of its SBAs, the strategic needs that arise because of the specific characteristics of the competitive environment, and the way strategy is formulated.

Reference model

The above theoretical insights formed the basis for a model that relates the characteristics of the strategy-formulation process (the dependent variables) to the strategic tools used and the pressure of the competitive environment (the independent variables). The influence of the external competitive context on the characteristics of the strategy-formulation process is mediated by strategic needs (the mediating variables).

Dependent variables

The strategy-formulation process is defined as a sequence of steps or phases (Fredrickson 1984; Mintzberg, Raisinighani, and Theoret 1976; Sharfman and Dean 1998) or as a set of different characteristics or dimensions (e.g., Dean and Sharfman 1993; Hickson et al. 1986). Among the most frequently used dimensions are comprehensiveness/rationality, politicization, centralization, and formalization (Dean and Sharfman 1993; Hickson et al. 1986; Lyles and Mitroff 1980; Rajagopalan, Rasheed, and Datta 1993; Sharfman and Dean 1998). In this vein, we determine the following dependent variables:

1. *The degree of formalization of the strategy process* is related to the production of documents in which the strategy is described and formalized and to the timing of strategic decisions that are preorganized, formal occasions (Stein 1980). This is similar to the “rule formalization” of Papadakis, Lioukas, and Chambers 1998, 130). The logic runs that the higher the degree of formalization of the process, then the more documents

(such as plans, programs, and schedules) in which the company's decisions are formalized are produced, and the more the competitive strategy is based on encounters and discussions that take place on predefined, organized occasions. Conversely, the degree of formalization is low when the strategy results from decisions taken intuitively.

2. *The degree of strategic analysis* (Miller and Friesen 1983) constitutes a relevant and broad dimension of decision making. The degree of analysis of the strategy-formulation process measures the intensity of the company's proactive effort to understand and evaluate environmental trends, competitors' behaviors, and customers' needs for the purpose of strategy formulation. The more the company uses studies, research, and surveys, the greater the degree of analysis. Companies that make extensive use of analysis employ models, tools, and management theories in support of their strategy-formulation activities, and they often have dedicated organizational units for this purpose (study office, strategic planning unit, etc.). This is similar to the comprehensiveness/rationality dimensions defined by Fredrickson (1984) as far as the extent to which an organization is exhaustive or inclusive in making and integrating strategic decisions is concerned. It is often cited as a critical characteristic of the strategy-formulation process (Eisenhardt 1989; Judge and Miller 1991; Langley 1989).

3. *The degree of opportunity taking* is related to the importance of seizing opportunities and adapting to the demands of the environment. The readier the company is to seize unexpected opportunities, the higher its degree of opportunity taking, which is considered to be a good indicator of the company's reactivity and orientation toward implementing nondeliberate or emergent strategies (Mintzberg 1987).

Independent variables

By *external competitive context*, we mean the competitive system applicable to the strategic business area (SBA) in question. The pressure of the competitive environment is the combination of dynamism, hostility, and heterogeneity (Miller and Friesen 1983) as determined by five factors:

1. pressure from competitors
2. demand trends
3. changes in customer needs
4. pressure on prices
5. trends toward sector concentration

In our model, account was taken of another group of independent variables—strategic tools—that can influence the characteristics of the strategy-

formulation process. These are the tools that companies use in support of their strategy-formulation activities and that can help to explain large companies' differing behaviors (Miller and Cardinal 1994). The tools considered were long-term strategic plans, SWOT (strengths, weaknesses, opportunities, and threats) analyses, and business plans (designed to evaluate the feasibility of specific business opportunities).

These factors do not have a direct impact on the way business strategy is formulated, but they influence the strategy-formulation process indirectly, making some strategic needs emerge. Because of the specific characteristics of these strategic needs, business-level strategy is likely to be the result of a more or less formal, analytical, opportunity taking-oriented process. This is why some mediating variables are included in the model used in our research project.

Mediating variables

The pressure of the competitive environment gives rise to specific strategic needs. They are defined as strategic problems (Pettigrew 1990) that must be solved in order to have an effective and efficient competitive strategy to cope with competitive changes. Four types of strategic needs are defined:

1. The need for *involvement and attraction of resources*, which arises when the company needs to obtain resources it does not possess (financial, technical, or managerial resources) in order to attain its objectives. This need provides a link between the changes that take place in the environment and the company's ability to respond to them.
2. The need for *innovation in the business formula*, which can be defined as the need to introduce significant innovations into the company's competitive strategy in the SBA in question (Burns and Stalker 1961; Lawrence and Lorsch 1967; Miller and Friesen 1983) by substantially modifying the business formula (Coda 1984). The business formula describes the target customers of the firms, the value proposition addressed by the firm to the target customers, and the characteristics of the internal structure of the firm. Whenever there is a fit among these three factors, the strategy of the firm is successful.
3. The need for *rationalization and refinement of the business formula* that arises when the competitive strategy has to be improved and refined without dramatically modifying its current design.
4. The need for *consensus regarding strategic decisions* that require support from those not directly involved in taking such decisions (minority shareholders and sometimes the management or other stakeholders). Consensus is crucial in implementing innovative strategies that modify

the company's positioning in the environment or that have a significant impact on the environment (Bourgeois 1980a; Dess 1987). The strategy-formulation process is anything but rational and analytical (Quinn 1980), and it requires consensus around strategic directions. Also, shared values, sense of purpose (Emery and Trist 1965), shared mission, and vision represent key success factors in turbulent environments (Bourgeois and Eisenhardt 1988; Hamel and Prahalad 1989).

These four needs are not mutually exclusive but can coexist, and one can further assume a degree of interaction among them depending upon the dynamics of the environments faced by each firm.

Now that we have explained the dependent, the independent, and the mediating variables of the model we refer to in this paper, we move to the description of the expected correlations among them.

Research hypotheses

The pressure of the competitive environment determines the rise of different strategic needs. Strategic needs, in combination with the use of specific strategic tools, push the company to implement a specific strategy-formulation process in terms of degree of formalization of the process, of analysis, and of opportunity taking.

The hypotheses are grouped into three sets relating to the relationships between (1) strategic needs and the characteristics of the strategy-formulation process; (2) pressure of the competitive environment and strategic needs; (3) strategic tools and the characteristics of the strategy-formulation process.

Hypotheses on the relationships between strategic needs and strategy-formulation process characteristics

The strategy-formulation process of the firm can be more or less formal, oriented to exploit opportunities, and analytical according to the characteristics of the strategic needs of the firm.

The greater the need for involvement of stakeholders and attraction of resources,

H1a: the higher the formalization degree and

H1b: the higher the degree of opportunity taking.

Formalization is necessary to communicate the firm strategy to third parties who will be asked to provide financial, managerial, and entrepreneurial resources necessary to exploit opportunities. This means that the more neces-

sary it is to involve stakeholders, the more formalized the process will be, as we expect that a firm will meet difficulties in getting loans and equity and in attracting the needed capabilities and competences if its strategy is formulated implicitly, in a very entrepreneurial way, without producing documents that explain the mission, the objectives, and the steps necessary to reach them.

The greater the need for innovation in the business formula,

H2a: the greater the degree of analysis and

H2b: the greater the degree of opportunity taking.

In order to be able to innovate, the company must be able to understand the customers' needs, define the direction that innovation will take (Miller and Friesen 1983), and take advantage of opportunities. Analysis in this case will aim at understanding the specific needs of its customers, the way and the extent to which they have changed, and how they are satisfied by the company's competitors; analysis is also expected to lead the company to define how its value proposition will have to change to cope with these needs and how to innovate the business model adopted to be successful in the future. Even though they analyze the environment and their own resources to cope with environmental changes, firms with a high need for innovation are expected to be very oriented toward exploiting opportunities in order to innovate. An example is given by companies that have a very entrepreneurial approach at strategic problems solution and have informal more than formal processes of strategy formulation.

The greater the need for rationalization and refinement of the business formula,

H3a: the higher the degree of formalization,

H3b: the higher the degree of analysis, and

H3c: the lower the degree of opportunity taking.

The identification of ways to rationalize the business formula is typically on the agenda at meetings of top management (Dean and Sharfman 1993). To refine and rationalize the business formula, it is necessary to deeply understand processes, costs related to them, and small changes that can improve the value proposition. To do that, it is necessary to analyze the way activities are performed, find where efficiency can be improved, make reports on the findings, discuss them, and make decisions. This is why the companies that need to make their entrepreneurial formula more rational are expected to have

a formalized and analytical process of strategy formulation, where taking opportunities is not a key issue.

H4: The greater the need for consensus from all stakeholders, the greater the degree of formalization.

To obtain the approval and support sought, managers need to formalize their strategy and explain it to the company's stakeholders. This means, for example, that companies that have to realize relevant unpopular changes (such as reducing the number of employees or moving production abroad) will have to formalize their strategy in documents to be used to explain to the stakeholders of the company why the proposed changes are necessary and discuss them with the stakeholders before they are realized.

As strategic needs arise because of competitive pressures, we need further hypotheses on the expected correlations between competitive pressures and strategic needs.

Hypotheses on the relationships between the pressure of the competitive environment and strategic needs

As already said, strategic needs arise because of some competitive pressures.

The greater the pressure from competitors,

H5a: the greater the need for innovation (Burns and Stalker 1961; Lawrence and Lorsch 1967),

H5b: the greater the need for rationalization and refinement of the business formula, and

H5c: the greater the need for involvement and attraction of resources.

When taking into consideration the hypothesis that relates the strategic needs to the strategy-formulation process, we expect that the greater the pressure from competitors, the greater the degree of formalization will be (which is consistent with Milliken 1987).

When pressures from competitors increase, the firm needs to react by radically changing its entrepreneurial formula (innovation) or by adapting and refining it, which explains why the firm is expected to have a greater need for innovation and rationalization. The firm that innovates, moreover, has a significant need for resources to implement the formulated changes, both tangible and intangible (more financial resources, new specific skills and competencies, different technologies, and so on). This is why the need for involvement and attraction of resources is also expected to grow.

The more positive the demand trend is,

H6a: the greater the need for involvement and attraction of resources,

H6b: the greater the need for innovation in the business formula,

H6c: the lower the need for rationalization and refinement of the business formula (as long as demand is growing, the company can afford some inefficiencies in order to meet customers' demand), and

H6d: the lower the need for consensus (because even those who do not participate directly in the decision-making process are reassured by growth).

The above hypotheses can be explained by looking at a firm that has entered a growing market and has experienced a rapid growth of demand. In such a case, an increasing amount of resources is necessary to obtain at least the same pace of growth of the industry, the business formula has to be innovated to answer the needs of the market segments that in the past had not been addressed to, some inefficiencies are tolerated, and stakeholders are expected to be very positive, because they expect that the growth will help the company to answer their requests.

H7: The greater the changes in customers' needs, the greater the need for innovation in the business formula (Miller and Friesen 1983)—innovation is the response that enables the company to meet customers' new and more sophisticated needs.

H8: The greater the pressure on prices, the greater the need for rationalization and refinement of the business formula. To face competitors that charge low prices, the firm is expected to reduce costs and improve its value proposition, which means having a greater need for rationalization and refinement of the business formula.

H9: The more positive the trends toward concentration, the greater the need for involvement and attraction of resources in order to implement a growth strategy. Both in the case the company decides to grow internally and in the case it decides to grow through mergers and acquisitions, the need for resources increases.

Hypotheses on the relationships between the strategic tools and strategy-formulation process characteristics

The greater the use of long-term strategic plans,

H10a: the greater the degree of formalization of the process,

H10b: the greater the degree of analysis, and

H10c: the lower the degree of opportunity taking.

As stressed in some of the literature, companies that frequently use planning usually have a low orientation to opportunity taking, as this often requires fast and intuitive decisions. This explains the first hypothesis above.

The greater the use of SWOT analysis,

H11a: the greater the degree of analysis, because this tool is integral to others (e.g., sector analysis); and

H11b: the greater the degree of opportunism, because those firms that are familiar with SWOT analysis may be more ready to seize opportunities.

Eisenhardt's empirical evidence (1989) suggested that fast decision makers use more, not less, information than do slow decision makers. This finding contradicts prior research (e.g., Janis 1982; Mintzberg et al. 1976; Nutt 1976).

The greater the use of business plans,

H12a: the greater the degree of formalization and

H12b: the greater the degree of analysis on account of their integration and mutual reliance on each other to deliver the objectives of the plan.

Research methodology

We used a quantitative deductive design, and the hypotheses were tested through a questionnaire survey with responses from 29 large Italian companies operating in 54 business units. Representatives from each company were asked to fill in one research questionnaire for each of their businesses or SBAs. The research was conducted in 2000, and the questions covered the period 1997–2000.

The questionnaires were sent by post and, where possible, by e-mail. The cover letter requested that the survey be completed either by the CEO or a senior executive with an overall responsibility for strategic management issues in the business unit. Following Dillman (1978), two follow-up letters and one replacement questionnaire were mailed after the initial mailing. A single informant was used for each business unit. Although the use of multiple respondents would have reduced concerns about potential response biases, we helped to control these concerns by insisting that the respondents be

knowledgeable about the firm and its competitive environment (Campbell 1955). In a sample study, identifying and obtaining responses from multiple well-informed respondents is extremely problematic. The key methodological solution in using a single respondent approach is to find the most appropriate respondent (John and Reves 1982). Thus, we qualified our respondents as individuals who held a CEO or equivalent position.

The various strategy-formulation characteristics at the business unit level were treated as dependent variables in terms of the following:

- degree of formalization of the process (FORMALIZATION OF PROCESS)
- degree of analysis (ANALYSIS)
- degree of opportunity taking (OPPORTUNITY TAKING)

These three variables were measured on a six-point Likert scale (ranging from 0 = none to 5 = high), and they were related to two sets of variables:

1. strategic needs (mediating variables):
 - need for involvement and attraction of resources (RESOURCES)
 - need for innovation in the business formula (INNOVATION)
 - need for rationalization and refinement of the business formula (RATIONALIZATION/REFINEMENT)
 - need for consensus (CONSENSUS)

All four strategic needs were measured on a five-point Likert scale (1 = much lower, 2 = lower, 3 = unchanged, 4 = higher, 5 = much higher).

2. strategic tools (independent variables):
 - long-term strategic plan (STRATEGIC PLAN)
 - SWOT analysis (SWOT ANALYSIS)
 - business plans, drawn up to evaluate specific business opportunities (BUSINESS PLAN)

All three tools were evaluated in terms of their utilization (value 0) or non-utilization (value 1).

The four strategic needs (mediating variables) were related with five changes in the pressure of the competitive environment, which were treated as independent variables:

- pressure by competitors (COMPETITORS), referring to the intensity of competition
- demand trend (DEMAND)
- changes in customers' needs (CUSTOMERS)
- pressure on prices (PRICES)
- trend toward concentration (CONCENTRATION)

The five changes in the pressure of the competitive environment were mea-

sured on an 11-point Likert scale ranging from -5 (“phenomenon declining”) to 5 (“phenomenon strongly increasing”).

The presumed relationships between (1) the three strategy-formulation characteristics, (2) the four strategic needs, and (3) the three strategic tools, and the four relationships between the strategic needs and changes in the pressure of the competitive environment were postulated to be influenced to some extent by the degree of freedom in the strategy-formulation process possessed by each business unit (FREEDOM IN STRATEGY FORMULATION), measured on a six-point Likert scale (ranging from 0 = none to 5 = high).

The testing of the hypotheses was done in two methodological steps. First, to take account of the various degrees of freedom possessed by each business unit in the strategy-formulation process, we adopted a weighted regression approach, and weight variables were identified. Second, the hypotheses were tested by determining which relationships were significant in the system of determinants postulated of the strategy-formulation characteristics. To identify the significant relationships, we employed linear weighted regression models with stepwise methods.

Findings

Figure 1 shows the significant relationships identified, because for each dependent variable, the R^2 adjusted and the standard error of estimates are reported. A continuous line represents a positive relationship and a dotted line a negative one (beta values and relative statistical significance are reported). The results of the research, therefore, confirmed some, though not all, of the hypotheses formulated.

Results on the relationships between strategic needs and strategy-formulation process characteristics

The findings regarding the relationships between strategic needs and the characteristics of the strategy-formulation process indicate that

- The need for involvement and attraction of resources is positively associated only with the degree of opportunity taking—H1b is supported, but H1a is not supported—that is, the need for involvement and attraction of resources are not related with the formalization degree.
- The need for innovation in the business formula influences the degree of analysis (H2a is supported) but is not related with the degree of opportunity taking (H2b is not supported); analysis is mainly considered important by companies that are aware that they need to innovate and,

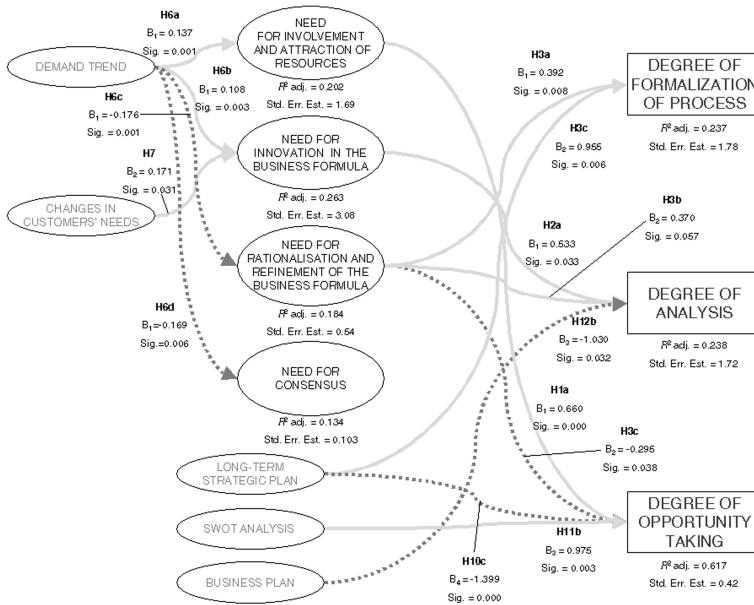


Figure 1. The significant relationships identified (Ovals represent independent variables. Rectangles represent the dependent variables. Solid lines represent positive relationships; dotted lines represent negative relationships)

consequently, wish to obtain a thorough understanding of the competition scenario and of customers' needs (Miller and Friesen 1983).

- The need for rationalization and refinement of the business formula, as expected, is positively related with the degree of analysis (H3b is supported) and negatively correlated with the degree of opportunism (H3c is supported), while a positive correlation with the degree of formalization of process also emerges (H3c is supported).
- The need for consensus does not seem to be associated with any of the postulated strategy-formulation characteristics (H4 is not supported). Our explanation for this finding is that consensus is so relevant that firms answer the need for consensus in very different ways and not just with a more formalized strategy-formulation process.

Results on the relationships between the pressure of the competitive environment and strategic needs

- An expanding demand influences all the needs: there is a positive relationship with the needs for involvement and attraction of resources (H6a is supported) and innovation in the business formula (H6b is supported)

supported), and a negative relationship with the need for rationalization and refinement of the business formula (H6c is supported) and the need for consensus (H6d is supported).

- The development of customers' needs is positively correlated with the need for innovation in the business formula (H7 is supported). The more demand grows, the more innovation is required to meet the needs of new customer segments and to provide a wide range of solutions to meet the needs of existing customers.
- However, the hypotheses regarding pressures by competitors (H5a, H5b, H5c), pressures on prices (H8), and trends toward concentration (H9) are not supported. In other words, no significant relationships were found with any of these needs. As far as pressures by competitors are concerned, the findings are totally unexpected, as they are in contrast to some relevant literature. Therefore, it is very difficult to supply a good explanation. The evidence is that competitive pressures do not raise any of the strategic needs considered in our model. Looking at the findings concerning H8, our explanation is that many firms react to pressures on prices by reducing their own prices and their profitability without seeing the rationalization of their business formula as an effective solution to such pressures. As far as H9 is concerned, the reason why it is not supported could be in the fact that, even though they are in industries where concentration trends are relevant, they are not directly involved in such processes and are not so heavily affected by them.

Results on the relationships between the strategic tools and strategy-formulation process characteristics

- The hypotheses regarding the positive relationship between the development of long-term strategic plans and the degree of formalization (H10a) and the negative relationship between the use of the plan and the degree of opportunity taking (H10c) were supported. However, no relationship with the degree of analysis emerged (H10b is not supported). One explanation for this finding is that long-term strategic plans in some firms are not used in the proper way—they are not the result of analysis, but they are developed to support some entrepreneurial or managerial visions and intuitions based more on experience than on analysis.
- SWOT analysis is not related with the degree of analysis (H11a is not supported) and, above all, is negatively related with the degree of opportunity taking when a positive relationship had been postulated (H11b is not supported). Our interpretation of this evidence is that organizational units that tend to take advantage of opportunities are inspired mainly by the hunches and experience of their executives.
- Surprisingly, no relationship emerged between the use of business plans and the degree of formalization (H12a is not supported), and a negative

relationship with the degree of analysis emerged (H12b is not supported). There is a kind of replacement effect between analysis and development of business plans, as if companies did not have enough resources to implement both. Analysis seems not to form the basis for development of business plans. As previously explained, the reason for this could be that plans and business plans are not the results of an analytical process but are mainly “communication tools” written to describe and prove the goodness of a vision coming from the top of the company.

Conclusions

The research findings reveal that the demand trends and changes in customers’ needs are able to explain the rise of strategic needs and the differences in terms of strategy-formulation procedures although pressures on prices, pressures from competitors, and a trend toward concentration do not. This confirms that the competitive environment plays an important role in shaping the way strategy is formulated, even though customers seem to be much more relevant than competitors. The explanation for these findings can be that a firm’s results are immediately affected by changes in the quality and quantity of demand but not always immediately affected by increasing competitive pressures (due to new entrants or to the implementation of new strategies by incumbents) or by increasing pressures on prices. This is true mainly for those firms positioned in the top segments of the industry, where competition is on quality and services rather than on prices. As a consequence, firms are more concerned about changes in customers’ needs—to which they react—than they are about other changes that take place in the outer context.

Two extreme behaviors seem to emerge. First, companies that formulate their strategy in a structured and formalized way are mainly those that need to rationalize their business formula (that is, slightly change it to improve efficiency and effectiveness without making radical innovations in the way the firm competes) in a difficult context, such as one characterized by falling demand. The output of this process is constituted by strategic plans that are likely to be complex. Second, companies that are strongly oriented toward the exploitation of opportunities do not draw up strategic plans but use SWOT analysis. They are characterized by a limited need for rationalization and refinement of their business formula. These companies should be well positioned in their competitive environment and rely mainly on entrepreneurial hunches and experience when choosing the type of strategy to be implemented.

These two behaviors, which recall Mintzberg’s concepts of deliberate strategy and emergent strategy, will be better understood if we consider that the degree of analysis is positively related with the degree of formalization. Companies with a strategy process characterized by a high degree of for-

malization have a greater need for rationalization and refinement, and they conduct a great deal of analysis to meet this need. Conversely, those oriented toward taking advantage of opportunities seem to rely on hunches, and any analyses they conduct are based mainly on simple frameworks like SWOT. Moreover, as the degree of analysis is negatively related with the development of business plans, systematic analyses appear only as part of the traditional planning process, but not to instigate business plans. In this respect, the strategic management of large and medium-size companies is far more similar to that of small companies than might have been expected.

Demand trends play a significant role. If we examine the way the competitive strategy is formulated, the evidence confirms that there are *planning-driven firms* for which the strategy-formulation process is similar to that identified by the planning school. This theory seems to be valid only for those firms that have a need for rationalization and refinement of their business formula, related to a demand slowdown. On the other hand, there are firms with strategy-formulation processes closer to an *emergent* process: these firms are very good at catching opportunities in a context of growing demand.

What are the implications of these findings for those involved in the firm strategy process?

1. Firms should be conscious of the fact that even though the internal context and the personal characteristics of top managers have an impact on the procedures used to formulate strategy (Papadakis and Barwise 2002), demand trends and customers' needs must be considered key factors. Because strategy is context specific, companies should be prepared to shift from one way of formulating strategy to another in order to cope with different competitive contexts, even though the track record of the firm can be a constraint to change. A way to get over this limit and have a contingent approach to strategy formulation can be that of including in the strategy formulation team new and diverse people to enhance the shifting from a planning to an emergent approach (and the other way around) whenever necessary. Firms should also invest overtime to get the right competences, skills, and capabilities to use the tools that are coherent with the specific competitive context they have to face. This means that they must be able to develop all the documents and use all the strategic tools in order to be able to use the most appropriate ones as quickly as required by the changes in the competitive environment.
2. Diversified firms should be conscious of the need to be able to formulate strategy differently for different business units. This implies being able to combine different skills, approaches, and tools in order to cope with different competitive contexts. This is not a trivial aspect if we consider that many firms, even large-sized firms, adopt exactly the same process to define the strategy of different strategic business areas. The issue is particularly relevant for those firms that, after realizing mergers and acquisitions, impose their

own approach to strategy formulation to the target firms, perhaps without being aware of the risks that can be associated with such behavior.

What are the implications of these findings for future research?

The main objective of the research has been reached, even though some assumptions were not supported.

If we had to replicate this study, we would also include small firms in order to determine the role of size in shaping the way strategy is formulated, and we would extend it to other countries to verify if the same changes in the outer context have the same or a different impact—in terms of strategy-formulation process—in different nations.

As we know that the inner context (meaning the internal characteristics of the firm) plays a relevant role in determining the way strategy is formulated, in reapplying our research project, we would focus simultaneously on the outer and the inner contexts of the firm, trying to understand whether one of the two is more relevant than the other and which factors most affect the strategy-formulation process. This means that (1) there is a lot of room for further research on this topic, (2) focusing on multinationals could be useful to underline how relevant cultural differences are vis-à-vis the process of strategy formulation, and (3) it is very difficult to realize this kind of study separating the outer from the inner context.

Notes

1. We refer in particular to members of the Positioning school, which includes well-known researcher Michael Porter (1980).

2. Other authors recognize the role of the environment but tend to attribute equal importance to the company's internal and external variables. Still others consider internal resources and skills to be crucial for the development of a successful strategy and, consequently, attribute a secondary role to the environment.

3. The main reference in this respect is represented by Herbert Simon's studies of the decision-making process (Simon 1960, 1993).

4. The schools classified by Mintzberg are the Design, Planning, Positioning, Entrepreneurial, Cognitive, Learning, Power, Cultural, Environmental, and Configuration schools.

5. In practice, the *strategy-formation process* coincides with the strategic process, because it comprises all stages ranging from analysis and diagnosis of the current strategy to checking the implementation and performance of the new strategy.

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Note to Readers: Edwin A. Locke was coauthor of the 1997 paper “Cultural Metaphors as Frames of Reference for Nations: A Six-Nation Study,” originally presented at the 1997 Annual Conference of the Academy of Management (Abstract Only). However, only the lead author, Martin J. Gannon, was involved in the final version of the article, “Cultural Metaphors, Paradoxes, and Cross-Cultural Dimensions,” published in *ISMO* 35, no. 4: 37–47. Edwin A. Locke did not know about, did not see, did not have any input into, and therefore does not endorse the published version. Martin J. Gannon, the lead author, apologizes for this inadvertent oversight. The methods section and analysis of data did not change. However, the lead author did refocus and frame the structure of the paper in terms of three research questions in light of the excellent editorial suggestions made in the *ISMO* review process. These changes were incorporated in the introduction at the beginning of the paper and the discussion at the end of it.—Ed.