



How is Strategy Formed in Organizations? A Multi-Disciplinary Taxonomy of Strategy-Making Approaches¹

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ABSTRACT

This paper presents an integrative framework for understanding organizational direction and the strategy-making process, developed primarily from the roles of top managers and employees in the strategy-making process. The paper offers a multi-disciplinary taxonomy of several themes from historical models of strategy formulation and implementation in the organization theory, political science, public policy, and strategic management literatures. Five approaches to strategy making are identified: *autocratic*, *transformational*, *rational*, *learning*, and *political*. Descriptions of each strategy-making approach, roles of top managers and employees of the organization for each, and proposed contingent factors for prevalence and effectiveness of each approach are discussed.

Introduction

A great deal of criticism has fallen on the traditional prescriptive (normative) models of strategy making (Allison, 1971; Drucker, 1974; Grandori, 1984; Hart, 1992; Farjoun & Lai, 1997). This criticism argues that traditional perspectives present an idealistic (Mintzberg & Waters, 1985) view of the strategy-making process, far removed from the practical and realistic side of strategy formulation in organizations. These historical models of strategy have been described as perhaps too incomplete or outdated "as we approach the new competitive milieu" (Prahalad & Hamel, 1994). Given the paradigmatic instability of the strategic process in the literature, some synthesis of multiple perspectives and viewpoints is needed to better understand organizational direction and the strategy-making process.

Much has been written about organizational direction and the strategy-making process over the past three decades (Mintzberg, 1994; Hoskisson, et al, 2000). Multiple paradigms have been used to address this issue (Allison, 1971; Ansoff, 1965; Barnard, 1938; Drucker, 1974; Mintzberg, 1973; Steiner, 1979; Hillman & Hitt, 1999), causing a great deal of confusion and overlap of conceptual models. Several theorists have used typologies to describe organizational direction and the strategy-making process (Bourgeois & Brodwin, 1984; Chaffee, 1985; Mintzberg, 1978; Nonaka, 1988), and the empirical studies conducted in strategy (Fredrickson & Mitchell, 1984; Wooldridge & Floyd, 1990) have measured such a wide range of considerations (a nightmare to the positivist) that little cumulative knowledge has been gained. This article offers an integrative framework necessary for understanding the strategy-making process, based on the roles of top managers and organizational members. Five modes of strategy making are proposed: *Autocratic*, *Transformational*, *Rational*, *Learning*, and *Political* (see Table 1).



Strategy-Making Approaches

Autocratic Approach

This strategy-making approach features a leader who defines organizational goals and strategies, by maintaining full control of most decisions in the organization. Similar to public policy's "elite theory" (Dye & Ziegler, 1970), where "elites" actually shape mass opinion on policy. In the organizational context, the "elite" represents top managers, and the views and aspirations of such "elites" often become the goals and missions of an organization. Strategy making under the autocratic approach is highly centralized in the decision-making process and is operationalized at the top of the organizational hierarchy (Mintzberg, 1973). Strategic analysis and the setting of alternative courses of action are the sole responsibility of the strong autocratic leader. Organizations are designed and function solely to accomplish a leader's personal goals, desires, and aspirations (Drucker, 1970). Often, the leader relies on intuition or experience in making strategic choices (Steiner, 1979). Strategies developed from this process will be purely deliberate (Mintzberg & Waters, 1985). The top manager is the dictator of organizational direction, and the workers in the organization are responsible for carrying out the functional strategies as prepared by top management (Bourgeois & Brodwin, 1984).

The autocratic approach is descriptively similar to Drucker's (1974) management-by-objective approach to strategy making. It also resembles the entrepreneurial approach described by Mintzberg (1978) and Mintzberg and Waters (1985); Steiner's (1979) intuitive approach; the command(er) approach of Bourgeois and Brodwin (1984) and Hart (1992); and Shrivastava and Grant's (1985) managerial autocracy approach to strategy making."

In each of these articulations of strategy making, the leader of the organization navigates the strategic direction primarily, with little or no input from employees. The role of employees is to receive orders and strategic plans from leader(s) and to execute the specifics of the plans.

Examples of leaders who have used an autocratic approach in designing strategy include Henry Ford (Ford Motor Company), Tom Watson (IBM), Steven Jobs (Apple), and many family owned and operated businesses. In each case a strong leader successfully imposed a comprehensive business strategy throughout an organization. Employees acted as executors of the strategy, carrying out orders as requested (Drucker, 1974; Nutt, 1984), but in this approach had no role in the strategy-making process (Mintzberg, 1978).

Transformational Approach

The transformational approach involves the creation and inspirational articulation of a compelling vision and a clear set of organizational goals or missions, which give meaning to all sets of activities throughout an organization. Much of the transformational leader's emphasis may be on transcending self-interests in an ideological framework (Chaffee, 1985; Mintzberg & Waters, 1985) to get employees to adopt and pursue organizational goals (Bass, 1990). The use of symbols and metaphors also may be central to this process (Conger & Kanungo, 1988). The role of management in the transformational process is to motivate and inspire organizational members (Nonaka, 1988) toward organizational goal attainment. The focus is on bringing



workers together for the common purposes at hand (Grandori, 1984; Mintzberg, 1987) and developing and maintaining continued efforts toward the shared values (Bourgeois & Brodwin, 1984) and emotionally appealing corporate vision.

The transformational approach is similar to Mintzberg and Waters' (1985) ideological approach to strategy making, Bourgeois and Brodwin's (1984) cultural approach, Grandori's (1984) cybernetic approach, Chaffee's (1985) interpretive approach, Mintzberg's (1987) perspective approach, Nonaka's (1988) compressive approach, and Hart's (1992) symbolic approach to strategy making. Each of these articulations of strategy making includes an element of enthusiasm generated by leaders who adopt shared ideals and pursue common interests.

Examples of individuals who employ the transformational strategy-making process include Max du Pree (Herman Miller, Inc.), John Chandler (Cisco), Lee Iococca (Chrysler Corporation) and Alfred P. Sloan (General Motors). These leaders articulate (d) emotionally driven visions for their respective organizations and motivate (d) members to direct their efforts toward achieving organizational goals. These leaders employing the transformational strategy making approach served as change agents for their respective organizations. Employees in a transformational strategy-making approach play the role of team players, exerting effort to do their part in attaining the articulated vision. Although employees do not take a large part in the forming of goals or organizational mission, they may take an active role in developing creative processes for attaining these ends (Bourgeois & Brodwin; Mintzberg & Waters, 1985; Bass, 1990).

Rational Approach

The rational model focuses on thoroughness of analysis (Chaffee, 1985; Nonaka, 1988) and evaluation of all possible courses of action (Mintzberg, 1987). The metaphor of information processor (Hart, 1992) could be used to describe those who employ this strategy-making process. Formal, structured analyses (Shrivastava & Grant, 1985; Ansoff, 1987), such as environmental scanning, portfolio analysis, and industry analysis (Porter, 1990), are used in this rational strategy-formulation process to define opportunities and threats (Steiner, 1979; Grandori, 1984). The result of this process is a highly detailed plan of action with multiple alternative courses of action, detailed with financial and resource related information (Chaffee, 1985). This approach often features the classic S.W.O.T. (strengths, weaknesses, opportunities, threats) analysis to develop strategy.

This rational approach (Allison, 1971; Hart, 1992) is descriptively and operatively similar to the planning approach to strategy making described by Mintzberg (1978; 1987) and Mintzberg and Waters (1985), Nutt's (1984) bureaucratic approach, Grandori's (1984) optimizing approach, the collaborative approach of Bourgeois and Brodwin (1984), Shrivastava and Grant's (1985) systematic bureaucracy, Chaffee's (1985) linear approach, Ansoff's (1987) systematic approach, Nonaka's (1988) deductive approach, Grant's (1991) and Vicente-Lorente's (2001) resource-based approach, Herring's (1992) intelligence approach, Duncan, Ginter, and Swayne's (1998) competitive advantage approach, and Li and Deng's (1999) analytical approach to strategy making. Each of these articulations incorporates an assessment of the organization and environment, combined with an assumption that the environment and industry are not changing



rapidly. Managers own the chief task of rational assessment, while employees' input may or may not be used in the process.

Examples of the rational model are fairly prevalent in industry. Texas Instruments and IBM have received widespread attention for the comprehensiveness of their formal planning systems (Hart, 1992). Organization members' roles in the rational strategy-making approach are limited by employee access to, and ability to share, necessary data and information (Hart, 1992).

Learning Approach

The learning approach to strategy making involves continual learning and interaction (Fiol & Lyles, 1985), with heavy reliance on flexibility (Mintzberg, 1978; Ansoff, 1987) and adaptation (Chaffee, 1985; Mintzberg, 1973), rather than on a predetermined and specifically outlined plan of action. Synergizing the strategy-making and strategy-implementation processes takes place due to bounded rationality (March & Simon, 1958) and environmental uncertainty (Lyles & Mitroff, 1980; Deming, 1986). Strategy formulation and implementation require on-going dialogue (Shrivastava & Grant, 1985) between organization and its key stakeholders -- customers, employees, stockholders, suppliers, and regulators -- consistent with a TQM framework (Deming, 1986). In this case, top managers are concerned with on-going communication; they continually seek to understand and better meet the needs and demands of key stakeholders (Grandori, 1984), often with incremental improvements to established processes (Lindblom, 1959). This learning approach to strategy making is evident in efforts by many companies to foster employee involvement, customer focus, organizational learning (Fiol & Lyles, 1985), and continuous improvement (TQM) (Deming, 1986; Lawler, 1986).

The learning approach is descriptively similar to the adaptive approach of Mintzberg (1978), Nutt (1984), Chaffee (1985), Shrivastava and Grant (1985), and Ansoff (1987). Each of these strategy-making approaches features incremental changes or improvements to the strategies being pursued. The learning approach is also similar to Lindblom's (1959) incrementalism, Grandori's (1984) satisficing approach, Mintzberg and Waters' (1985) process approach, Mintzberg's (1987) pattern approach, Hart's (1992) transactive approach, and Farjoun and Lai's (1997) process approach to strategy making.

Examples of companies that employ the learning approach include Motorola, Xerox, and Ford, which have dedicated great energy to fostering stakeholder driven processes. The Deming Prize in Japan and the Malcolm Baldrige National Quality Award in the United States are granted based on an organization's ability to demonstrate strong organizational learning capability fostered by on-going communication with customers, employees, and suppliers (Hart, 1992). Employees are encouraged to discover and innovate on the job, finding better ways to meet the needs of stakeholders (Deming, 1986).

Political Approach

The political mode of strategy making relies on the independent behavior of organizational members (Ansoff, 1987). Strategy is made using new product ideas that merge upward (Mintzberg & Waters, 1985; Nonaka, 1988) while employee initiative shapes the



organization's strategic direction (Bourgeois & Brodwin, 1984). Allison's (1971) organizational process model offers a similar approach to organizational decision-making where decisions are the result of the political maneuvers of the organization's coalitions. Strategy would be selected according to the political interplay among the various internal and external coalitions of the organization. Simon (1964) described operative goals and strategies as those stemming from a political approach within an organizational decision-making group, similar to this mode of strategy making.

Members of an organization who can gain support for their ideas from colleagues or upper management will typically get their proposals accepted, whereas politically unsupported ideas will fall by the wayside. Decisions from the political model of strategy formulation will typically reflect the political processes within the organization (Shrivastava & Grant, 1985; Mintzberg & Waters, 1985).

This political approach to strategy making is similar to Allison's (1971) organizational process, Grandori's (1984) random approach, Bourgeois and Brodwin's (1984) coercive approach, Shrivastava and Grant's (1985) political expediency, Mintzberg and Waters' (1985) imposed approach, Ansoff's (1987) organic approach, Nonaka's (1988) inductive approach, Hart's (1992) generative approach, Hossein's (1997) network approach, and Hillman and Hitt's (1999) political approach to strategy making. In each of these articulations of strategy making, the political processes in the organization ultimately determine the strategic focus and content that the organization pursues.

Universities, hospitals, and professional organizations are well known for their political activities. Other organizations that use the political mode of strategy making can be identified; in fact, many more organizations may use this form of strategy formulation than is typically acknowledged (Simon, 1964; Thompson, 1967), particularly when considering those strategies that are actually pursued and attained. The norms of rationality suggest that even the most "rational" sounding options will have political positions embedded in them (Thompson, 1967). To summarize, the employees' role in strategy making for an organization using a political approach is the most active and involved of the five modes. Ideas are generated from below, by the employees, and lobbied upward in the organization.

Table 1
Conceptualizing the Multi-Disciplinary Strategy Making Approaches

Autocratic:	Elitist Theory (Dye & Ziegler, 1970)
	Management-By-Objective (Drucker, 1974)
	Entrepreneurial (Mintzberg, 1978)
	Intuitive (Steiner, 1979)
	Normative (Nutt 1984)
	Commander (Bourgeois & Brodwin, 1984)
	Managerial Autocracy (Shrivastava & Grant, 1985)
	Entrepreneurial (Mintzberg & Waters, 1985)
	Command (Hart, 1992)



Transformational: Cultural (Bourgeois & Brodwin, 1984)

Cybernetic (Grandori, 1984)

Ideological/Umbrella (Mintzberg & Waters, 1985)

Interpretive (Chaffee, 1985)

Perspective (Mintzberg, 1987)

Compressive (Nonaka, 1988)

Symbolic (Hart, 1992)

Rational: Rational (Allison, 1971)

Planning (Mintzberg, 1978)

Bureaucratic (Nutt, 1984)

Optimizing (Grandori, 1984)

Collaborative (Bourgeois & Brodwin, 1984)

Systematic Bureaucracy (Shrivastava & Grant, 1985)

Planned (Mintzberg & Waters, 1985)

Linear (Chaffee, 1985)

Plan; Position; Ploy (Mintzberg, 1987)

Systematic (Ansoff, 1987)

Deductive (Nonaka, 1988)

Resource-based (Grant, 1991)

Rational (Hart, 1992)

Intelligence (Herring, 1992)

Competitive Advantage (Duncan, Ginter & Swayne, 1998)

Analytical (Li & Deng, 1999)

Resource-based (Vicente-Lorente, 2001)

Learning: Incrementalism (Lindblom, 1959)

Adaptive (Mintzberg, 1978)

Behavioral; Group; Adaptive (Nutt, 1984)

Satisficing (Grandori, 1984)

Adaptive Planning (Shrivastava & Grant, 1985)

Adaptive (Chaffee, 1985)

Process (Mintzberg & Waters, 1985)

Quality (Deming, 1986)

Pattern (Mintzberg, 1987)

Adaptive (Ansoff, 1987)

Transactive (Hart, 1992)

Process (Farjoun & Lai, 1997)

Political: Organizational Process (Allison, 1971)

Random (Grandori, 1984)

Crescive (Bourgeois & Brodwin, 1984)

Political expediency (Shrivastava & Grant, 1985)

Imposed (Mintzberg & Waters, 1985)

Organic (Ansoff, 1987)

Inductive (Nonaka, 1988)



Generative (Hart, 1992)
Network (Hossein, 1997)
Political (Hillman & Hitt, 1999)

Contingent Factors

It has been demonstrated that organization performance differs with respect to the strategy-making approaches used (Fredrickson & Mitchell, 1984; Hart, 1992). Consistent with general systems theory (Thompson, 1967), organizations would need to choose appropriate strategy-making approaches with internal and external considerations in mind, such as organization size and the competitive volatility of its environment (Porter, 1990). With these two factors in mind, each of the five strategy-making approaches identified can be discussed with regard to their optimal external and internal factors.

Autocratic Approach

Because of the total centralization of all strategy-making decisions in an autocratic strategy-making approach, many organization members are under-utilized. This under-utilization will likely weaken the competitive viability for such organizations in a highly dynamic or complex environment. For this reason, the autocratic approach will likely be best suited for environments that have low-level complexity. Similarly, to maximize human resources in the organization, a smaller organization would likely be best suited to this approach to strategy making.

Proposition 1a: The *autocratic approach* to strategic decision process will be most prevalent in small organizations competing in relatively simple (non-changing) environments

Proposition 1b: The *autocratic approach* to strategic decision process will be most effective in small organizations competing in relatively simple (non-changing) environments.

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Transformational Approach

Because of the great emphasis placed on “selling” the vision throughout all levels of the organization, it stands to reason that the transformational strategy-making approach would be well suited to industries that are vastly dynamic, suited to radical change, or highly volatile. The transformational strategy-making process may be most appropriate for organizations that are relatively small in size, with few levels of hierarchy. Since the fundamental functions of top managers in this mode are to inspire workers to adopt organizational goals and to provide links between employees’ tasks and the organizational goals, organizations need to make employees aware of the impact of their efforts. If employees are allowed to become lost in the organizational shuffle or left unaware of their impact on the attainment of goals of the organization, they will likely lose their motivation to pursue organizational goals as well as their commitment to these organizational goals (Bass, 1985). Furthermore, given the dynamics of this



strategy-making approach, organizations undergoing major structural renovations or strategic changes will likely benefit from using this approach (Hart, 1992).

Proposition 2a: The *transformational approach* to strategic decision process will be most prevalent in fast growing or rapidly changing organizations competing in highly volatile (changing frequently) environments.

Proposition 2b: The *transformational approach* to strategic decision process will be most effective in fast growing or rapidly changing organizations competing in highly volatile (changing frequently) environments.

Rational Approach

Thoroughness and comprehensiveness of analysis is the fundamental characteristic of the rational strategy-making approach, and research has shown this is best suited to a predictable and stable environment (Fredrickson, 1983; 1986). It has been argued that the enormous inputs of information in this rational approach cause managers to become overwhelmed, and therefore this approach would be even more demanding and difficult to operate in dynamic or rapidly changing environments (Hart, 1992). Also, large corporations may be better suited to this form of strategy making due to the quantity of information needed, inherently requiring more employees to gather information. This approach to strategy making also will be best suited for organizations with established markets, emphasizing retention of these markets, as opposed to innovations or new ventures (Miles & Snow, 1978).

Proposition 3a: The *rational approach* to the strategic process will be most prevalent in large companies with established markets competing in fairly stable environments.

Proposition 3b: The *rational approach* to the strategic process will be most effective in large companies with established markets competing in fairly stable environments.

Learning Approach

High involvement of employees and continual assessment and improvement of processes intended to meet the demands of stakeholders characterize the learning approach. Such conditions may exist in environments with complex customer demands or in organizations positioned in several markets. Given its emphasis on continual improvement and internal process, the learning approach may be most prevalent in large organizations participating in mature industries (Chaffee, 1985; Ansoff, 1987). Incremental improvements are characteristic of this strategy-making approach, and organizations may commonly use this approach if a great number of competitors are vying for market share in a mature environment.

Proposition 4a: The *learning approach* to the strategic process will be most prevalent in complex environments with fairly large organizations positioned in several mature markets.

Proposition 4b: The *learning approach* to the strategic process will be most effective in complex environments with fairly large organizations positioned in several mature markets.



Political Approach

The political approach is characterized by the highest employee involvement of the five approaches, and extensive political processes develop as employees lobby for precious resources to support their innovative projects. Because top managers play the role of strategy selector and resource allocator, this approach is best suited to highly innovative organizations in complex and rapidly changing business environments (Allison, 1971; Hart, 1992). Most strategies in an organization using this approach will be emergent (Mintzberg & Waters, 1985), as changes in the environments and the organizational politics will likely determine the courses of action for the organization.

Proposition 5a: The *political approach* to the strategic process will be most prevalent in flat, hierarchical organizations engaged in high technology processes, competing in highly innovative industries.

Proposition 5b: The *political approach* to the strategic process will be most effective in flat, hierarchical organizations engaged in high technology processes, competing in highly innovative industries.

Discussion

Many debates have evolved in the literature over the last several decades, with researchers arguing for and against descriptive and prescriptive models, rational and political models, and strategy making versus strategy-implementation dilemmas for organizations. Many of the arguments and ensuing models that have emerged from these discussions have focused on specific characteristics of the organization, but few have considered the roles of both managers and employees – as well as the environmental factors surrounding the organization – when articulating strategy-formulation approaches.

The model of the strategy-making process proposed here considers the roles of organization leaders and employees, organizational characteristics, and environmental factors. The five approaches developed from the literature encompass a fuller range of the strategy-making process than has previously been developed in the literature, and it provides a much-needed synthesis. Understanding that each of the five approaches to strategy making -- *autocratic*, *transformational*, *rational*, *learning*, and *political* -- can succeed if the appropriate contingent factors exist will help researchers and practitioners alike understand organizational direction and individual organizations' strategy-making processes.

Future research efforts will need to empirically test these approaches and the predicted prevalence and success of each, given the managerial and employee roles, organizational characteristics, and environmental factors associated with each from the proposed model.



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