STRATEGY AND THE STRATEGY FORMATION PROCESS

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In this paper an effort is made to bring new insights into the complex field of strategy by defining the concept of strategy and the process of strategy formation. The concept of strategy is an abstraction with normative qualities that has been obtained by reviewing and integrating the definitions of strategy offered by leading scholars in the field. The process of strategy formation adopts a wide variety of forms in different organizations, and it should be managed consistently with the overall strategic objectives of the firm, its management style, and its organizational culture. Dimensions to profile both the concept of strategy and the strategy formation process are identified to help diagnose the quality of strategic thinking in a firm.
Introduction

What is strategy? Is it an elusive subject, full of controversy, lacking a strong disciplinary support that evades any possible attempt to formally define it? We do not believe so. In this paper we intend to suggest a definition of strategy which serves to unify previous work in this field, as well as presenting a normative model of some desirable attributes a good strategy should possess. Moreover, we will address the complexities inherent in the process of strategy formation, comment on the diversities of content and style, and propose a diagnostic mechanism which would allow practicing managers to generate a profile for the strategy formation process in their firms.

The Various Dimensions in the Concept of Strategy

The different authors who have provided definitions on the concept of strategy have tended to give selective attention to the wide variety of issues relevant to strategy definition. By reviewing some of the most important works in the field of strategy, we attempt to identify and characterize the critical dimensions of the concept of strategy.

1. Strategy as a means of establishing the organizational purpose, in terms of its long-term objectives, action programs, and resource allocation priorities.

This intent of strategy emanates quite explicitly from the definition given by Chandler (1962):

"Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of actions and the allocation of resources necessary to carry out these goals."
The same message is extracted from Schendel and Hatten's definition (1972):

"Strategy is the basic goals and objectives of the organization, the major programs of action chosen to reach these goals and objectives, and the major pattern of resource allocation used to relate the organization to its environment."

2. Strategy as definition of the competitive domain of the firm.

It has been long recognized that one of the central concerns of strategy has to do with defining the businesses the firm is in or is to be in. This dimension of strategy is properly captured in one of the earlier and most influential books in this field written by Learned, Christensen, Andrews and Guth (1965):

"Strategy is the pattern of objectives, purposes or goals and major policies and plans for achieving these goals, stated in such a way as to define what businesses the company is in or is to be in and the kind of company it is or is to be."

3. Strategy as a coherent, unifying, and integrative blueprint of the organization as a whole.

This notion is advanced by Glueck (1976):

"Strategy is a unified, comprehensive, and integrative plan designed to assure that the basic objectives of the enterprise are achieved."

4. Strategy as a response to external opportunities and threats, and internal strengths and weaknesses.

According to this perspective, strategy is principally viewed as responding to external and internal forces which impact the organization. Argyris (1985) reflects this point of view in his definition of strategy:

"Strategy formulation and implementation include identifying opportunities and threats in the organization's environment, evaluating the strengths and weaknesses of the organization,
designing structures, defining roles, hiring appropriate people, and developing appropriate rewards to keep those people motivated to make contributions."

Similarly, Steiner and Meiner (1977) state:

"Strategy is the forging of company missions, setting objectives for the organization in light of external and internal forces, formulating specific policies and strategies to achieve objectives, and ensuring their proper implementation so that the basic purposes and objectives of the organization will be achieved."

There are some authors who tend to emphasize more strongly the need for organizations to obtain a viable match with its environment. In this case, the central role of strategy is not only viewed as passively responding to the opportunities and threats presented by the external environment, but also as continuously and actively adapting the organization to meet the demands of a changing environment. A principal proponent of this view has been Mintzberg (1979):

"Strategy is a mediating force between the organization and its environment: consistent patterns of streams of organizational decisions to deal with the environment."

5. Strategy as a central vehicle for achieving competitive advantage.

Michael Porter has been the champion of making explicit the quest for competitive advantage as the central thrust in strategy. In his first book (Porter, 1980), he defines a framework to assess the attractiveness of an industry, and discusses generic strategies for an effective positioning of a firm within that industry. In his second book (Porter, 1985), he defines competitive strategy as:

"The search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition."

In this latter book, he uses the value chain as a powerful conceptual tool to direct the firm activities toward enhancing its competitive position.
6. Strategy as a motivating force for the stakeholders.

The notion of stakeholders has gained in importance as an element of strategic concern in the past years. Stakeholders include everybody who directly or indirectly receive the benefits or costs derived from the actions of the firm; they are: shareholders, employees, managers, customers, suppliers, debtholders, communities, government, etc.

Andrews (1980), in a very popular definition, not only reinforces the notion of strategy as a determinant of organizational purpose, but explicitly incorporates the importance of stakeholders when stating:

"Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of businesses the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities."

Andrews also makes a clear distinction between the notion of strategy when defined as corporate and business levels:

"Corporate strategy defines the businesses in which a company will compete, preferably in a way that focuses resources to convert distinctive competence into competitive advantage."

"Business strategy is the determination of how a company will compete in a given business, and position itself among its competitors."

An even further emphasis on the importance of stakeholders in the definition of strategy is being given by what Chaffee (1985) calls the interpretive model:

"Strategy is defined as orienting 'metaphases' or frames of reference that allow the organization and its environment to be understood by organizational stakeholders. On this basis, stakeholders are motivated to believe and to act in ways that are expected to produce favorable results for the organization."

This definition of strategy emphasizes the need to establish social contracts, perceived as a collection of cooperative agreements entered into
by individuals with free will, which will produce a process of social inter-
change in which perceptions will be affirmed, modified or replaced.
Strategy is then the basic thrust that will enhance cooperative behavior
contributing toward the organizational well-being.

Towards a Unified Concept of Strategy

The previous observations allow us to perceive strategy as a multi-
dimensional concept that embraces all the critical activities of the firm,
providing it with a sense of unity, direction, and purpose, as well as
facilitating the necessary changes induced by its environment. We do not
see any necessary contradictions in the various definitions which have
been presented. In fact, it is an easy matter to combine all of them into
a single more comprehensive definition of strategy.

Strategy is:

• a coherent, unifying, and integrative pattern of decision,
• that determines and reveals the organizational purpose in terms of long-
term objectives, action programs, and resource allocation priorities,
• selects the businesses the organization is in or is to be in,
• defines the kind of economic and human organization the company is or
 intends to be,
• attempting to achieve a long term sustainable advantage in each of its
 businesses, by properly responding to the opportunities and threats in
 the firm's environment, and the strengths and weaknesses of the organization,
• engaging all the hierarchical levels of the firm - corporate, business,
  functional -
• and defining the nature of the economic and non-economic contributions it
 intends to make to its stakeholders.
From this unifying point of view, strategy becomes a fundamental framework for an organization to assert its vital continuity, while, at the same time, forcefully facilitating its adaptation to a changing environment. The essence of strategy thus becomes the purposeful management of change toward the achievement of competitive advantage in every business the firm is engaged. Finally, there is a formal recognition that the recipients of the firm's actions are the wide constituency of its stakeholders. Therefore, the ultimate objective of strategy should address stakeholders' benefits, providing a base for establishing the host of transactions and social contracts linking the firm to its stakeholders.

The Strategy Formation Process

Strategy, separated from strategy making, is academic at best. It is impossible to comprehend the difficulties associated with the formulation and implementation of strategy if one ignores the inseparability that exists between the concept of strategy and the process of making it a reality in a particular organizational setting. In fact, the process school of research, as defined by Bower and Boz (1979), views strategy as the outcome of three different processes contributing to strategy formation:

"1. The cognitive processes of individuals on which understandings of the environment of strategy are based;
2. The social and organizational processes by which perceptions are channelled and commitments developed; and
3. The political processes by which the power to influence purpose and resources is shifted."

They go even further when asserting that "the task of the chief executive is viewed as the administration of these processes," which require the development of a broad vision of what to achieve and the management of a network of organizational forces that lead to the discovery, evolution and
enrichment of that vision.

We discuss now some issues which we consider the most relevant to gain a deeper understanding of the concepts of strategy and the strategy formation process.

1. Problems in making strategy explicit.

Perhaps the greatest controversy surrounding the issues of strategy making centers on how explicitly strategy should be communicated both internally in the organization and to relevant external constituencies. Edward Wrapp, as quoted by Andrews (1981), suggests that there are four strata for the definition of corporate strategy:

"Stratum I - corporate strategy for the annual report. Usually this version is sterilized by top management and edited by the public relations staff. For the shareholders, it conveys a sense of direction, an assurance that management knows where it is trying to take the company.

"Stratum II - corporate strategy for the board of directors, financial analysts, and middle management. Somewhat more comprehensive and revealing than Stratum I, most boards of directors must settle for this level of enlightenment, particularly in the larger, multibusiness companies.

"Here we get glimpses of the segments of the company and perhaps good hints as to where management sees the growth opportunities. As top management discusses Stratum II with the intended audiences, the game plan usually calls for keeping it simple and camouflaging the deeper potholes.

"Stratum III - corporate strategy for top management. In an organization of any size or complexity, several members of top management can be expected to participate in discussions approaching a full consideration of moves and countermoves, the strength of the competition, the competence of operating management, and perhaps a hot topic such as odds for survival of the current management. Needing the support of this group, the CEO will usually try to reach agreement in these discussions.

"Stratum IV - the CEO's private corporate strategy. If the CEO is a strategic thinker, he is seldom inhibited by anyone - not by his top managers, not by his directors, not by his professional planners, and not by his outside advisers. He may be mulling a range of moves that he discloses to almost no one. In trying to gain a deeper comprehension of who exerts the most influence
with a CEO and why, I have discovered that even when he shares his innermost thoughts with one or two managers or directors or advisers, his strength of will and conviction dominate the discussions.

"The reasons for reticence are usually a complex tangle. Parts of the private strategy may be dictated by the CEO's self-interest; or he may be analyzing developments that those around him are not yet ready to recognize and diagnose; or he may not be willing to share knowledge of delicate maneuvers for fear of premature disclosure; or, as is often the case, he may believe he is the best qualified to sort out the pros and cons and decide how to proceed."

There are many lessons which can be extracted from these four levels of strategy distinguished by Wrapp:

First, the enormity of the influence that the CEO has both in shaping the strategy of the firm and communicating it;

Second, the degree of openness and detail at which strategy is communicated would vary significantly depending on the CEO style of management;

Third, the level of participation in strategy formation would also change quite drastically from company to company; and

Fourth, the CEO has the ability to manage the strategy formation process, in order to build up the kind of consensus necessary for effective strategy making.

2. Formal-analytical process vs. power-behavioral approaches.

There are two very different perspectives with regard to the need to formalize the process of strategy formation. One one extreme, there are those who expouse the view of integrated decision-making process relying heavily on analytical tools and methodologies to help managers, at all hierarchical levels, to reach a better quality of strategic thinking. Strategy formation is regarded as a formal and disciplined process leading to a well-defined organizational-wide effort aimed at the complete specification of corporate, business, and functional strategy. Those favoring this approach tend to

On the other extreme, there is a second school of management which rests on the behavioral theory of the firm and espouses a power-behavioral approach to strategy formation. This school emphasizes issues such as multiple goal structures of organizations, the policy of strategic decisions, executive bargaining and negotiation processes, the role of coalitions in strategic management, and the practice of "muddling through" (Cyert and March 1963, Lindbloom 1959, Simon 1976, Wrapp 1967).

These two schools of thought have made significant contributions in increasing our understanding of the central strategic issues. However, neither the formal-system planning, nor the power-behavioral paradigms adequately characterize the way successful strategy-formation processes operate. These taxonomies have been useful in providing more focused thrust to academic research work but neither approach serves as a normative or descriptive model. To get the best out of strategy making, there should be a proper blending of the power of formal analytic thinking within a context that recognizes the enormous relevance of the behavioral aspects of management. Quinn (1980), who has undertaken extensive field research on eactual strategic change processes in major corporations, asserts that:

"Effective executives artfully blend formal analysis, behavioral techniques, and power politics to bring cohesive step-by-step movements toward ends which initially are broadly conceived, but which are then constantly refined and reshaped as new information appears."

This integrative methodology is described by Quinn as "logical incrementalism."
3. Strategy as a pattern of actions as opposed to forward-looking plan.

Another element of controversy in strategy making is the relevant time implications of strategy. There are some authors who tend to view strategy exclusively shaping the future direction of the firm; thus, the strategy of the firm becomes the collection of objectives and action programs oriented at managing the future change of the organization. This view of strategy is patently clear in the definition provided by Newman and Logan (1971):

"Strategies are forward-looking plans that anticipate change and initiate actions to take advantage of opportunities that are integrated into the concept or mission of the company."

Alternatively, strategy is also viewed as a pattern of actions emerging from the past decisions the firm has undertaken. A leading proponent of this school of thought is Mintzberg. Mintzberg and Water (1985) define strategy as "a pattern in a stream of decisions." The authors claim that:

"This definition was developed to operationalize the concept of strategy, namely to provide a tangible basis on which to conduct research into how it forms in organizations. Streams of behavior could be isolated and strategies identified as patterns or consistencies in such streams. The origins of these strategies could then be investigated, with particular attention paid to exploring the relationship between leadership plans and intentions, and what the organization actually did."

Wrapp (1984), reinforcing this notion of strategy as emerging from a pattern of decisions, uses the following simple diagram to make a very important point.

```
General Manager

     ↓

Operating Problems

     ↓

Operating Decisions

     ↓

Corporate Strategy  ←  Planners
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"The illustration is of a general manager involved in operating problems and therefore in a position to influence operating decisions. Over time, a corporate strategy, apparent to the organization, evolves from the patterns discernable in operating decisions. At this point, the general manager insists that those who are making current operating decisions insure that they are consistent with the corporate strategy."

This represents one of the central issues of strategy making. Literally, thousands of decisions are being made every day in large and complex organizations. The only way to make them consistent is to establish some sense of permanent strategic direction that provides a rich framework within which those decisions can be made.

Nonetheless, interpreting too rigidly the definition of strategy as a pattern in a stream of decisions revealed from the past, might lead to an inability to shape new directions for the firm. In a strict sense, strategy could only become known and explicit ex-post, when, from an historical perspective, it would be possible to decipher it from the continuum of past events. From the point of view of a practicing manager, this concept of strategy is clearly unacceptable. Indeed, strategy is a most important vehicle to deal with intended change. Strategy should be cognizant of the past heritage of the firm, but at the same time, forward looking.

Consequently, strategy making becomes a delicate balance between learning from the past and shaping up new courses of action that will lead the organization toward a future state which might include a substantial departure from its past conduct.

4. Deliberate vs. emergent strategy as basis for a typology of strategy formation.

In the already cited work of Mintzberg and Waters (1985), besides defining strategy as a pattern in a stream of decisions, the authors introduce the concepts of deliberate and emergent strategies. Comparing intended
strategy with realized strategy, allows the recognition of deliberate strategy - which are realized as intended - and emergent strategy - patterns or consistencies realized despite or in the absence of intentions.

These two concepts, especially their interplay, have become the basis for the proposal of a typology to characterize various kinds of strategy formation processes. At one end of this continuum falls the purely deliberate strategy, with the purely emergent at the other end. Between these two extremes fall strategies which would combine various states of the dimensions we have discussed before: the degree of explicitness, openness, participativeness, centralized involvement, consensus management, formalization vs. power-behavior drives, and continuity vs. future change. Also, the type of strategy will be affected by the nature of the environment the firm is dealing with, particularly whether it is more or less benign, controllable, and predictable.

Figure 1 provides a summary description of the types of strategy formation proposed by Mintzberg and Waters.

The key conclusion to be extracted from this typology is that strategy formation has two critical forces acting simultaneously: one is deliberate, the other is emergent. Deliberate strategy is required because managers need to provide a sense of purposeful direction to the organization. Emergent strategy implies "learning what works - taking one action at a time in search for that viable pattern or consistency. Emergent strategy means no chaos, but unintended order." Emergent strategy does not have to mean that management is out of control, only that it is open, flexible, and responsive; in other words, willing to learn.

Conclusion

Part of the confusion surrounding the issue of strategy can be elucidated
Figure 1: A Typology of Strategy Formation Processes

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Major Features</th>
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<tbody>
<tr>
<td>Planned</td>
<td>Strategies originate in formal plans: precise intentions exist, formulated and articulated by central leadership, backed up by formal controls to ensure surprise-free implementation in benign, controllable or predictable environment; strategies most deliberate.</td>
</tr>
<tr>
<td>Entrepreneurial</td>
<td>Strategies originate in central vision: intentions exist as personal, unarticulated vision of single leader, and so adaptable to new opportunities; organization under personal control of leader and located in protected niche in environment; strategies relatively deliberate but can emerge.</td>
</tr>
<tr>
<td>Ideological</td>
<td>Strategies originate in shared beliefs: intentions exist as collective vision of all actors, in inspirational form and relatively immutable, controlled normatively through indoctrination and/or socialization; organization often proactive vis-à-vis environment; strategies rather deliberate.</td>
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<tr>
<td>Umbrella</td>
<td>Strategies originate in constraints: leadership, in partial control of organizational actions, defines strategic boundaries or targets within which other actors respond to own forces or to complex, perhaps also unpredictable environment; strategies partly deliberate, partly emergent and deliberately emergent.</td>
</tr>
<tr>
<td>Process</td>
<td>Strategies originate in process: leadership controls process aspects of strategy (hiring, structure, etc.), leaving content aspects to other actors; strategies partly deliberate, partly emergent (and, again, deliberately emergent).</td>
</tr>
<tr>
<td>Unconnected</td>
<td>Strategies originate in enclaves: actor(s) loosely coupled to rest of organization produce(s) patterns in own actions in absence of, or in direct contradiction to, central or common intentions; strategies organizationally emergent whether or not deliberate for actor(s).</td>
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<tr>
<td>Consensus</td>
<td>Strategies originate in consensus: through mutual adjustment, actors converge on patterns that become pervasive in absence of central or common intentions; strategies rather emergent.</td>
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<tr>
<td>Imposed</td>
<td>Strategies originate in environment: environment dictates patterns in actions either through direct imposition or through implicitly pre-empting or bounding organizational choice; strategies most emergent, although may be internalized by organization and made deliberate.</td>
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</table>
by intellectually separating the concept of strategy from the process of strategy formation. As we attempted to demonstrate in the first half of this paper, it is easy to blend the different dimensions of the concept of strategy into a single unifying definition that might provide a basis for reconciling these various points of view expressed by leading authors in the field.

The issue is more complex when bringing in the question of strategy formation. Now we face an enormous plurality of different ways to reach the ideals imbedded in the concept of strategy. But that should not be surprising to anybody. This is simply the manifestation of the enormous variety which is present in any social organization. We can say what strategy is, but we cannot propose a universal formula applicable to any conceivable firm facing any kind of environment that would have a general validity.

However, this lack of a universal recipe for the development of a successful strategy should not be viewed as implying that any strategy or any process to reach it can be equally effective. There are certain attributes of the concept of strategy that the firm should adhere to. Figure 2 gives a simple chart that can be used to obtain a profile of the concept of strategy in a firm. It is our opinion that the attributes listed in that figures can be interpreted in a normative sense, by defining a profile skewed to the left as closer to an idealized model of strategy.

Quite a different picture is obtained when addressing the issue of the strategy formation process. Figure 3 provides a chart to facilitate the profiling of that process. Now, there is no normative paradigm which is accepted. The important requirement of the process is that it should be managed consistently in accordance with the overall strategic objectives of the firm, its management style, and its organizational culture. Moreover, the strategy formation process should be integrated with the remaining
Figure 2: Profile of the Concept of Strategy

<table>
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<tr>
<th></th>
<th>STRONGLY AGREE</th>
<th>AGREE</th>
<th>NEUTRAL</th>
<th>DISAGREE</th>
<th>STRONGLY DISAGREE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>THE DECISIONS OF THE FIRM FALL INTO A COHERENT, UNIFYING, AND INTEGRATIVE PATTERN.</td>
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<td>2.</td>
<td>THERE IS AN ORGANIZATIONAL PURPOSE EXPRESSED IN FIRMS BY LONG-TERM OBJECTIVES, ACTION PROGRAMS AND RESOURCE ALLOCATION PRIORITIES.</td>
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<td>3.</td>
<td>THERE IS A CLEAR SEGMENTATION OF THE BUSINESSES THE FIRM IS CURRENTLY IN AND A PROPER RECOGNITION OF THOSE BUSINESSES IT CONSIDERS ENTERING.</td>
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<td>4.</td>
<td>THE FIRM HAS WELL-DEFINED CHARACTERISTICS OF THE ECONOMIC AND HUMAN INSTITUTION IT IS AND IT WOULD LIKE TO BE.</td>
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<td>5.</td>
<td>THE FIRM HAS AN UNDERSTANDING OF ITS MAJOR COMPETITION AND IS ATTEMPTING TO ACHIEVE LONG-TERM SUSTAINABLE ADVANTAGE OVER THEM IN EACH OF THE FIRM'S BUSINESSES.</td>
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<td>6.</td>
<td>THE FIRM ADDRESSES STRATEGIC THRUSTS AND PLANNING CHALLENGES TO EVERY MANAGERIAL HIERARCHICAL LEVEL: CORPORATE, BUSINESS, AND FUNCTIONAL.</td>
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<td>7.</td>
<td>THE FIRM DEFINES THE ECONOMIC AND NON-ECONOMIC CONTRIBUTION IT INTENDS TO MAKE TO ITS STAKEHOLDERS.</td>
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Figure 3: Profile of the Strategy Formation Process

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<th></th>
<th>STRONGLY AGREE</th>
<th>AGREE</th>
<th>NEUTRAL</th>
<th>DISAGREE</th>
<th>STRONGLY DISAGREE</th>
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</thead>
<tbody>
<tr>
<td>1. Strategy is openly and widely communicated</td>
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<td></td>
<td>A) Internally in the organization</td>
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<td>B) To all relevant external constituencies</td>
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<td>2. Strategy is generated through a heavily participative process</td>
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<td>3. The strategic process is designed to build wide consensus around intended courses of action</td>
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<td>4. Strategy is based on a disciplined formal process aimed at the complete specification of corporate, business and functional strategies</td>
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<td>5. Strategy is based on a negotiation process among all the key players</td>
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<td>6. Strategy emerges from the pattern of actions in past decisions</td>
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<tr>
<td>7. Strategy is mainly a vehicle of change that shapes up new courses of action</td>
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</table>

Classify the strategy formation process of the firm according to the following typology

<table>
<thead>
<tr>
<th>Pure Deliberate Strategy</th>
<th>Planned</th>
<th>Entrepreneurial</th>
<th>Ideological</th>
<th>Umbrella</th>
<th>Process</th>
<th>Unconnected</th>
<th>Consensus</th>
<th>Imposed</th>
<th>Pure Emergent Strategy</th>
</tr>
</thead>
</table>
administrative processes of the firm; most notably, management control, information and reward systems, as well as the organizational structure. The realization of the careful integration among managerial processes, structure and culture is what leads toward effective strategic management, a subject that we have discussed elsewhere (Hax and Majluf, 1984a, Chapter 5).

There is a great degree of subjectivity in this profiling of the concept of strategy and the strategic planning process. When different individuals and groups in a firm try to assess the characteristics of strategic thinking in the organization, their varying perceptions on this issue can be positively used to transform the strategy formation process in a way that will help to achieve the ideal of strategy as a unifying pattern for the firm.
References


