

**SWP 25/91 SURFACING MANAGERIAL PATTERNS OF
COMPETITIVE STRATEGY: INTERVENTIONS
IN STRATEGY DEBATES**

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ABSTRACT

SURFACING MANAGERIAL PATTERNS OF COMPETITIVE STRATEGY: INTERVENTIONS IN STRATEGY DEBATES

This paper reports on the use of a research instrument to elicit managers' understanding of competitive strategy, and facilitate debate on issues of strategic management in their firms. Cases of such intervention are given which illustrate the value of surfacing managerial patterns of competitive strategy.

This paper reports on research into cognitive dimensions of the strategy of organizations; and particularly on the way in which the research instrument has been used to intervene in and aid managerial decision processes.

The paper commences with a brief review of the literature on the processes of strategic management, highlighting implications for the research project on which this study is based. It then explains the research tool used to surface managerial constructs of strategies in the study, a tool which allows the researchers to examine cognitive dimensions of generic strategies of firms, both in terms of managerial constructs of strategy and how these correspond to received wisdom in the literature. Finally the paper discusses how the surfacing of such managerial dimensions of strategy facilitates intervention in the processes of strategy debate and formulation: here a number of case examples are provided.

IMPLICATIONS OF COGNITIVE PROCESSES IN STRATEGY FORMULATION

Many of the assumptions implicit in traditional planning models of strategic decision making are not borne out in an examination of managerial action. Planning systems are not central to the formulation of strategy (Hall, 1973; Mintzberg et al., 1976), strategic options not systematically analysed (Fahey, 1981) and objectives often ill-defined, diverse and not agreed upon (Norburn and Grinyer, 1973/4), post-rationalised (Mintzberg et al., 1976), unstated, or very generalised (Quinn, 1980). The formulation of strategy is better explained as a relatively unstructured, highly iterative, socio-political process (Mintzberg et al., 1976; Lyles, 1981; Pettigrew, 1985; Johnson, 1987).

This is not to say that managers are irrational. Rather that strategies are formulated within cognitive limits (Stubbart, 1989) and a context of action. "Managers are distinguished by very strong active experimentation skills and are very weak on reflective observation skills" (Kolb, 1974, p.33): they do not tend to consider in abstract the responses to perceived problems but seek to enter active stages of problem resolution and implementation. Schon (1983) suggests that it is a mistake to think of managerial thought and managerial action as separable: management is characterised by 'reflection in action', the continuing

interweaving of cognition and action. As Weick (1983, p.223) argues: 'when managers act, their thinking occurs concurrently': there is a 'presumption of logic'.

Further, it is argued that cognitive dimensions are not a purely individual phenomena. There exists in organizations a 'relatively coherent sets of beliefs that bind some people together and that explain their worlds in terms of cause and effect relations' (Beyer, 1981, p.166). It is an organizational view of the world which helps interpret the changes the organization and the individual within it meet. These sets of core beliefs and assumptions are referred to, for example as 'myths' (Hedberg and Jonsson, 1977), 'dominant logic' (Prahalad and Bettis, 1987), and 'paradigms' (Sheldon, 1980; Johnson, 1987). However the extent of their homogeneity within an organization is a matter of debate (Saffold, 1988): it may be that, whilst differences occur within an organization, managers within that organization subscribe to a more common set of assumptions than between organizations; but that managers in different organizations within an industry subscribe to a more common set of assumptions - the industry 'recipe' - (Grinyer and Spender, 1979; Spender, 1989) than those outside that industry.

Some implications arising from this brief re-statement of cognitive processes of strategic management provide an agenda for the wider research project from which the studies for this paper are derived. These are now reviewed briefly.

There are those who argue the importance of surfacing that which is taken for granted in the processes of strategy formulation (Mason and Mitroff, 1981; Cosier and Schwenk, 1990): that by surfacing the taken for granted, managers are able to critique such assumptions; and as a result there is a lower risk that strategies will be bounded by past experience, and therefore a lower risk of strategic inertia. The research instrument described below has been used in this way, and the paper reports on the benefits and outcomes of such interventions. The particular issues surfaced also arise from a socio-cognitive perspective on strategy formulation, and are identified in the following points.

Organizations may have formalized systems of decision making which may give rise to espoused strategies: but the social, cultural, political and cognitive processes at work in the organization may give rise to realised strategy differing from that which is espoused. The research project aimed to uncover and clarify such realised strategies. The interventions upon which this paper is based sought to surface these for debate by senior management teams with whom the researchers have been working.

The notion that strategy formulation is the preserve of the board has been questioned since the social, cultural and cognitive context of strategy making must involve influence by other managers. Moreover implicit in the normative literature is the notion that agreement on strategy across the firm is likely to result in superior performance than in organizations where such consensus does not exist. The issue has received attention recently (Dess, 1987; Wooldridge and Floyd 1989; Bourgeois, 1980). This project has examined the extent to which such consensus exists, not only within top management teams, but also between these and functional management teams - again an issue surfaced in the interventions described here.

The notion of managerial paradigms, or industry recipes as they relate to the context of strategy is not well developed empirically. This research advances empirical work on the phenomenon, and allows managers within an industry to observe the extent to which their firm's strategy follows an industry pattern.

As Stubbart (1989) points out, there exists a difference between normative views of strategy as explained by writers on the subject, and the views of managers. This research project has been designed to investigate such differences, and this review reports on these briefly. In the design of the research introduced it was therefore also important to ensure that such normative constructs could be compared with managerial constructs of strategy.

This paper is, then, drawn from a wider research project three purposes of which are most relevant here. First to examine the extent of consensus around dimensions of competitive strategy, both within the Top Management Team (TMT), and between the TMT and

functional groupings of managers in organizations. Second the extent to which there are differences between notions of strategy in the normative academic literature, and the understanding of strategy by managers themselves. Third, and the prime subject of this paper: to provide a mechanism to intervene in processes of strategy debate in such a way as to surface assumptions about strategy, and the extent of agreement about strategy in managerial teams. This activity has been undertaken in a variety of firms at a senior level. The rest of this paper reports how the research instrument has been designed and used for this purpose; and how it has aided managerial debate on organizational strategy.

A METHODOLOGY FOR RESEARCH AND INTERVENTION

The wider research study addresses links between consensus, realized strategy, and performance. In exploring these, we have developed measures of consensus (Stagner, 1969; Bourgeois, 1980; Dess 1987) and performance (Dess, 1987), though these are not central to this paper. The main research instrument reported on here is a twenty-one statement questionnaire which requires managers to rate their perceptions of current SBU strategic posture. The database of such output consists of 600 managers in 38 SBUs across three main industry types - manufacturing, service and publishing.

Previous studies have focussed on "goals" and means, competitive methods (Bourgeois, 1980; Dess and Davis, 1984; Dess, 1987; Govindarajan, 1988); strategic priorities (Wooldridge and Floyd, 1990); and distinctive competences (Snow and Hrebiniak, 1980; Hitt and Ireland, 1985). Also past research into perceptions of strategy dimensions has focussed on the top management team. An important difference in this research is the inclusion of managers below the TMT in the survey. Whilst these managers may be unaware of some of the broader strategic dimensions of their firms such as debates about overall corporate development, it is reasonable to assume that issues of competitive strategy of the SBU may be understood at middle and lower levels of the hierarchy, especially since many impact on their everyday managerial work.

Following Dess and Davis (1984), this study uses strategic priority statements derived from Porter's (1980; 1985) generic strategy concepts. Boeker argues for the use of strategic typologies in this kind of research: "such typologies are especially useful for parsimoniously conveying fundamental differences in the strategic approaches taken by organizations" (Boeker, 1989, p.491). Dess and Davis reviewed Porter and other strategy researchers (including Child 1975; Bourgeois 1980, and Khandwalla 1976) to enhance the content validity of their statements of competitive methods. Similarly, here strategic management texts (Porter 1980, 1985; Johnson and Scholes 1989; Thompson and Strickland 1989) were consulted, and discussions held with academic colleagues "selected on the basis of their experience and expertise in the field of strategic management" (Dess and Davis, 1984, p.474). It is recognised that the link between statements so derived and the "actual" way the manager sees the strategy of the SBU is problematic since managers may define categories differently from researchers (Ford and Hegarty, 1984; Srivastava and Lim, 1984). However there are precedents for such an approach (Hambrick 1985, 1980; Dess and Davis 1984; Miller 1988) and it must be remembered that, in the context of this paper, the results are used as a means of surfacing issues for debate and discussion by managers. Moreover, as will be shown later in the paper, the research design allows the constructs of the data to be re-examined to explore the managers', rather than academics', views of strategic typologies.

To avoid presenting managers with an overly dichotomised choice between "Cost Leadership" and "Differentiation", each of the generic strategies was disassembled into a set of statements about strategic priorities which related to one or other of the strategies. In so doing a risk was introduced insofar as the selected statements, taken as a set, may not accurately reflect Porter's intended description of each generic strategy. However, statements were required to which managers could easily relate. Hence, the term "differentiation" was never used in any of the statements; instead strategic orientations and priorities that were related to Porter's "differentiation" strategy were converted into broad statements about current SBU practice, and discussed with managers in the pilot testing of

the questionnaire. Here it was found that "Cost Leadership" was variously interpreted. For some, it meant being lowest cost to the customer (i.e. lowest price); others interpreted as Porter intended but felt that it would be difficult to pursue such a strategy. However, in spite of these problems one statement was retained which reflected the "pure" cost leadership strategy ("We aim to be the lowest cost producer in our industry"). Other statements were constructed in managerial language to reflect cost control activities, which taken together, would be required for a firm to achieve cost leadership. Also as a result of feedback from discussions with managers in the pilot testing and development phase, when interpreting results from the final version of the questionnaire "cost leadership" was referred to as an "efficiency" orientation.

In addition to statements concerned with competitive strategy, seven statements that addressed dimensions of change within the SBU were included. These "change" statements are not the focus of interest in this paper. The questionnaire requires managers to rate their SBU on a five-point scale where 1="This statement does not apply to our firm", and 5="This statement accurately describes the situation in our firm". Numbers (2) to (4) enable them to indicate intermediate positions between these two extremes. The introductory rubric also makes clear that the statements refer to what the firm is doing now, not what respondents think it might in the future.

The questionnaire was then pilot tested initially with a group of middle/senior managers to see whether practicing managers were able to complete the questionnaire without difficulty, saw the statements as meaningful and were capable of relating them to their firm. The managers completed the questionnaires without difficulty but as a result of questions of clarification, some wording in the introduction to the questionnaire was amended. The questionnaire was further tested with a mixed group of 18 managers. In addition to testing for ease of use and any remaining problems in interpretation, the opportunity was taken to test whether the questionnaire results accorded with respondents' view of the strategy of their firms. Managers were asked to complete the questionnaire after which they were introduced to Porter's generic strategy concepts via a video, and a class discussion. They

were then asked to locate their SBU on a simple graph which required them to judge whether their SBU was pursuing an efficiency orientated strategy, or a differentiation strategy. 14 of the 18 managers located their position as the same as the questionnaire result: two other managers were non-committal, locating their firms on a line dividing efficiency orientation from differentiation orientation. These results helped confirm that the questionnaire was reflecting the perceptions the managers have of their SBU's strategy. Two further tests of validity of the questionnaire were conducted. The first involved the application of the questionnaire to an SBU that, a priori, we would suppose would display high consensus about its strategic priorities, namely the partners of a small strategic management consultancy. Wilkins and Ouchi suggest that "smaller professional or functional groups or relatively small organizations will develop "thick" social understandings that are specific to the organization" (1983, p.472). The application of the questionnaire to this SBU revealed a very high degree of consensus around the strategy of Differentiation. The second test involved the selection of an SBU that, a priori, we would expect to display low consensus. An SBU from a large multinational corporation was selected, and newly recruited graduates were asked to complete the questionnaire. The combination of relative newness to the SBU, a spread of functional experiences, and being located at low levels of the hierarchy would suggest that these trainee managers would not share the same perceptions of strategic priorities. Indeed, the tests on this SBU produced low consensus.

The data base of all the managers in the research programme was factor analysed specifying a three factor solution. This analysis produced three factors that correspond with the intended structure of the questionnaire i.e. a "Cost Leadership" factor, a "Differentiation" factor, and a "Change" factor. The factor score coefficients were then applied to the responses for each SBU manager to yield a factor score for each manager. The factor scores were then adjusted (by means of a standard algorithm) to percentiles for the purpose of conveying the results to the managers. (It was found that managers could not easily interpret the factor score plot where the axes were presented in terms of standard

deviations). These adjusted factor scores were then used to construct two-dimensional plots for each SBU as shown in Figure 1. Managers located in the "Efficiency" quadrant scored statements to do with cost control high, and other statements low. Managers located in the "Differentiation" quadrant scored statements about being unique, innovative and offering distinctive products/services highly, and cost related statements low. The "Hybrid" quadrant includes managers who have scored both Efficiency and Differentiation statements highly. In the "Impoverished" quadrant managers who have not rated their SBU highly on either group of statements are located.

After a number of SBUs had been analysed and a data base was developing, managers subsequently were exposed to illustrations of plots from other firms such as those in Figures 1-6. They were invited to comment on, and interpret these plots. This process helped the managers' understand of the significance of the plots, and prepared them for the interpretation of their own SBU plot.

Because the two dimensional plots use aggregated data, it was possible that an overall lack of consensus could disguise quite high levels of agreement about individual statements. Accordingly, descriptive statistics (means and standard deviations) were also calculated for each statement. These statistics were subsequently used to construct "Strategy Fingerprints", which are explained later in the paper.

SURFACING MANAGERIAL PATTERNS OF STRATEGY

The research instruments were used in a variety of managerial debates on strategy. These included workshops with boards of directors and senior executives; as feedback within managerial meetings discussing strategy; or to the chief executives of SBUs on an individual basis. A number of benefits were observable from the use of the research instruments in such interactions. These are illustrated in this section and amount to a commentary on the ways in which such interventions and feedback can aid managerial learning on complex issues of strategy formulation.

Mapping Levels of Managerial Agreement

The degrees of consensus on strategy found in firms varied considerably. The managers in Figure 1 are from a firm with a high degree of consensus around a strategy of differentiation, and in Figure 2 the managers, though more scattered, show a tendency towards an impoverished view on strategy. However, Figure 3 is, perhaps, a good illustration of the way in which such feedback galvanized important debate about levels of managerial consensus.

Insert figures 1-4 here

Figure 3 represents the main board team of a major retail organization which had suffered some years of deteriorating performance. The board had been debating the need for strategic change for some months. The debate had proceeded as though members of the board had a common understanding of what the current strategy was and the broad direction in which it should be moving. Indeed, to the outside observer, the espoused strategy seemed clear enough: the company had been acquired by a group, the chairman of which was wedded to the notion of "design excellence"; as such the stated strategy of the firm was to gain competitive advantage by a merchandising and store design policy which emphasised the importance of customer oriented design. However the questionnaire uncovered considerable differences.

In Figure 3 the chief executive is A; he sees a push towards efficiency and low cost as the current strategy: however, whilst the personnel director (D) and finance director (C) have a similar understanding, the merchandise director (F) is less clear and the property director (E) and particularly the development director (B) also believe the current strategy to be one of differentiation - a hybrid strategy. Not only is there a clear difference between the views of the board and the espoused strategy, but the differences within the board are considerable, and were startling to them. It was even more of a shock for them to find that, when they looked at their senior management team by function (Figure 4) the spread of views was even wider. Although most of the senior managers in the store operations (V W X Y Z) and finance (S T U) functions coalesced around an efficiency strategy, the

spread of managers in the merchandising function (I to R) was initially seen as remarkable. However it emerged that it might be understood as a reflection of the historic role of the product group for which they were responsible. M, a senior buyer for a product range which had never been successful in the company, has a view of the company's strategy as "impoverished": H is the senior buyer for a fashion range, with a view of strategy as to do with differentiation and nothing to do with cost or efficiency: and I is responsible for the range with the greatest profit contribution historically, and sees the company strategy as both differentiation and efficiency based.

Differences were, then, surfaced between members of the board, between functions and, in the crucial merchandising area, within function. It also changed the nature of the strategy debate. Hitherto this had assumed common understanding about the agenda for debate and the assumptions about strategic issues facing the company: it shifted towards unearthing and changing fundamental strategic assumptions about competitive positioning.

A second example shows how such investigation of managerial differences uncovered problems in the processes of managing the business. Figure 5 represents the management team of an engineering business which had suffered years of performance declines. A comparison with findings in the other firms in the sample showed that managers here had a lower level of overall agreement than any other firm in the sample. There was little the executive team did agree about, except that there was constant pressure on overheads, and since there was very little emphasis on product line changes, or innovation, managers believed the company had to maintain competitive prices. Executives could only see a basis of competition on low cost and low price, since there was no attempt at anything else. Other problems were unearthed of impact on managerial processes. There were disagreements on what the firm had been trying to achieve between the Contract Manager who received orders, and the Production Manager who processed them. Within the marketing team, the Sales Director was generally more bullish about the innovatory capabilities of the firm, whilst his Sales Manager could see the firm doing very little more than attempting to cut costs. Worse, the Production Manager saw the firm's strategy quite

differently from members of the Executive; and yet he was responsible for the team briefings introduced in the factory: as the Managing Director said: "God knows what the workforce think we're doing if we don't know and Bill doesn't agree with us".

Insert figures 5 and 6 here

Mapping Strategic Tendencies

It has already been seen from Figure 1 that it is possible from the data to see the general strategic tendency of a firm, particularly when there is a high degree of consensus around that direction. It was, however, found that some very clear directions were seen as rather surprising to the managers themselves. Figure 6 is another major retailer and shows a clear consensus around an efficiency driven strategy. However this business competes in a maturing market, with high levels of competition; and the notion that it can derive sustainable competitive advantage from cost leadership is highly questionable and the threat of entry from more innovative potential competitors was, at least notionally, recognised by senior management. However, this management team had enjoyed a decade of profitable growth in which they had come to dominate their market; a management team that referred to their company as "biggest and best". The proven formula for success and the assumptions underpinning it had become entrenched; and profitability had increasingly become dependent on a drive for lower operating costs. However, the extent to which this had come to dominate managerial perceptions of strategy was not apparent until the mapping illustrated in Figure 6 was presented. Once surfaced, this tendency was seen as potentially risky by the managers themselves and helped galvanize an increased search for bases of differentiation and innovation. As such the mapping of strategy not only allowed the strategic posture to be uncovered, but its wisdom to be examined by the managers.

Uncovering Managerial Generic Strategies

A series of strategy workshops were held with the TMTs of four regional newspaper publishers. TMT and FMT managers from each were asked to complete the questionnaire. The results of the analysis were used at the workshop to reflect current perceptions of strategy, but also uncovered other patterns which allowed them to look at the implications

of industry recipes; and also surfaced some intriguing questions about ways in which managerial patterns of strategy differ from academic views.

Two of the SBUs displayed a confusing picture with regard to Porter's "Cost Leadership" strategy. The managers scored four of the "Cost Leadership" statements uniformly high (means scores between 3.8 and 4.75). but the statement referring specifically to cost leadership ("We aim to be the lowest cost producer in our industry") was scored by both centres very low (1.6 and 2.1). This suggested that these managers perceived a strategy of cost reduction as a major strategic thrust, but they were clearly not trying to become the lowest cost producers in their industry. This outcome raised important questions about differences between managerial perceptions of realised strategy and academics' prescriptions about competitive strategy. As a result the factor analysis on data base of 600 managers was revised, in order to uncover richer patterns of managerial views on strategy.

The factor analysis used to generate the two-dimensional plots assumed a 3 Factor solution: 'Cost Leadership', 'Differentiation', and change. However, inspection of the eigen values indicated that five factors had values > 1 . This suggested that, although the research design was constructed around 3 factors, a five factor solution may better represent the underlying structure of the data. Accordingly, a five factor analysis was undertaken which produced some interesting results, corresponding to "Managerial generic strategies" which could be interpreted as follows:

Factor 1 cost control: This factor is focussed on cost control. The statements that load on it (> 0.50) are about monitoring and controlling operating costs, cutting overheads, maintaining capacity utilization, securing low cost supply. Interestingly, "We aim to be the lowest cost producer in our industry" does not load strongly on this factor (0.234).

Factor 2 change: Statements about changing operations, changing strategic direction and changing organizational structures and processes all load onto this factor. However, the statements about product change, and new product development do not load, suggesting that managers do not perceive organizational change and product change as necessarily occurring simultaneously.

Factor 3 new product development: The product change statements load on this factor. But, in addition "We try to offer unique products/services enabling us to charge premium prices" also has a loading greater than 0.5 (0.508), suggesting that new product development is linked to the achievement of uniqueness, and to premium pricing.

Factor 4 price competitive: This factor embraces statements to do with competing on price, offering similar products/services to the competition and having price sensitive customers. "We aim to be the lowest cost producer in our industry" also loads on this factor (0.616). This combination of variables suggests that, if the firm is competing on price, it must strive to be the lowest cost producer in the industry.

Factor 5 superior products : This factor has statements about offering superior, and unique products, emphasizing distinctive products in marketing communications and where sales performance information is considered to be more important than cost control information. Factor 5, then is about offering superior products/services, and being sales, not cost orientated.

Insert figures 6-10 here

The five factor solution was used to construct "Strategy Fingerprints" for each SBU. The statements that loaded on each factor were grouped on the "Fingerprint", and the mean scores were plotted (with the standard deviations) for the SBU. This disaggregated form of presentation helped to focus attention on particular statements, and on statements related to each other from the managers perceptions, rather than from an academic's views. The Strategy Fingerprints for the two newspaper SBUs can be found in Figures 7 and 8. The fingerprints show the high efficiency orientation (statements 13, 5, 8, 6) combined with the very low mean scores for statement 19 (the cost leadership statement).

The strategy fingerprints helped to uncover a remarkable degree of congruence between the realised strategies of two other Newspaper SBUs. These two SBUs, were of similar size, and age, and published a similar range of newspapers. They were each based in a large city and each dominated their local markets. Their Strategy Fingerprints can be found in Figures 9 and 10. The mean scores for the Efficiency statements (13, 5, 8, 6), and for the

Price Competitive (21, 15, 19) statements are remarkably similar. Whilst mean scores for the other groups of statements differ, the plots are not radically different. These Strategy Fingerprints were used as the basis for a discussion about how this congruence might have come about. The discussion uncovered that staff regularly moved between SBUs, and between rival companies in the Newspaper Industry; that there was a widespread view that "there is only one way to manage a newspaper business", and that both SBUs were facing the same market conditions.

These findings also raised the interesting prospect that the concept of industry "recipes" (Spender 1989) as they relate to competitive strategy might be explored in this way.

CONCLUSION

This paper has shown how research to uncover the realized strategies in organizations and the levels of managerial consensus around these strategies has been employed as a basis of intervention in strategy debates in organizations. The value of such an approach lies in the extent to which managers can examine organizational strategy from their perspective whilst relating it to typologies of strategy derived from "objective", economic analyses of strategy and firm performance; and also examining such perspectives in terms of operational meaning and managerial processes and inter-relationships in the firm.

However, it is worth noting too that the exercise has proved to be of as much value to the process of learning for the researchers too: it became clear that the managerial logic uncovered by taking this approach in itself provided a critique of the academic literature. This has been illustrated briefly in the discussion of the newspaper business and the derivation of "strategic fingerprints" described above and is discussed more fully elsewhere (Bowman, 1991). Such lessons perhaps allow us to raise the interesting prospect of the emergence of a profitable dialectic between traditional academic analysis and managerial logic surfaced through cognitive bases of research in strategy.

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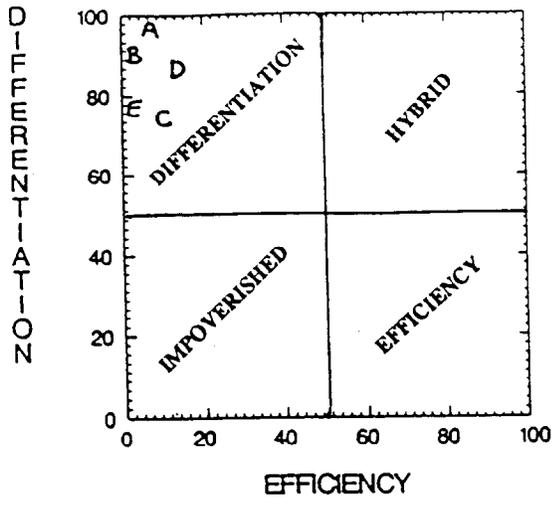


Figure 1

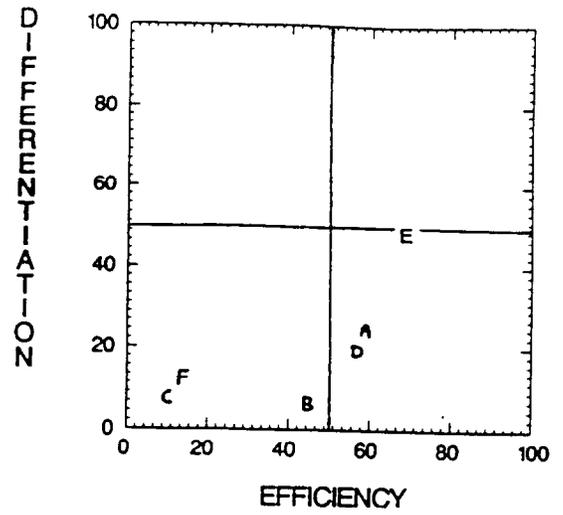


Figure 2

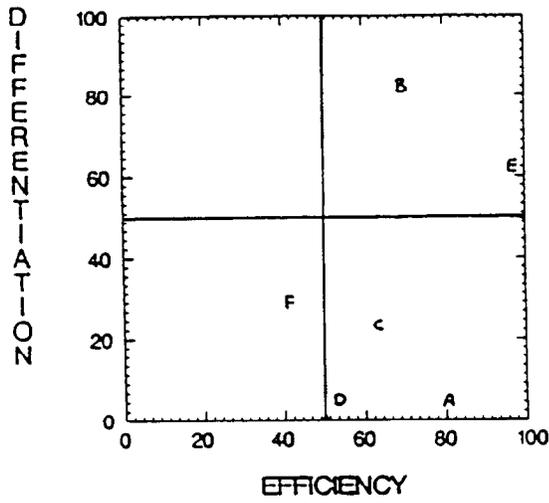


Figure 3

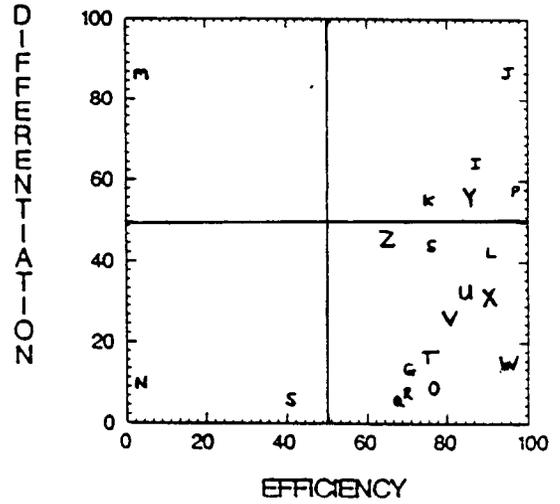


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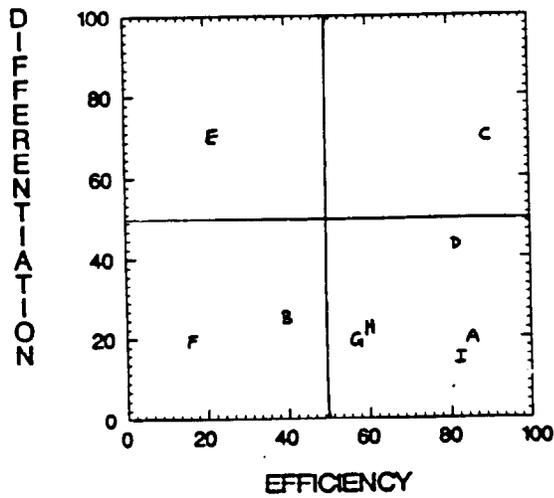


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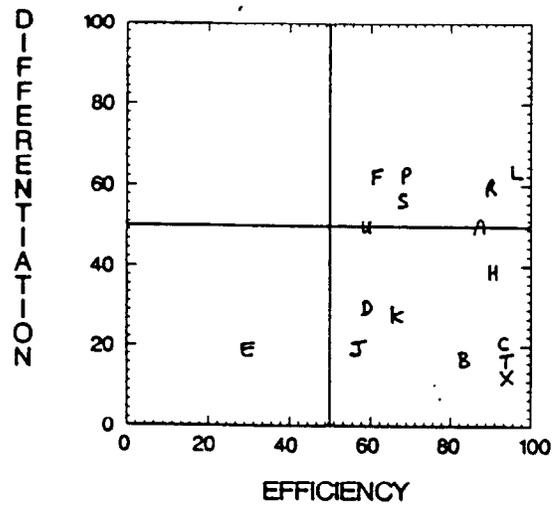


Figure 6

STRATEGIC FINGERPRINT

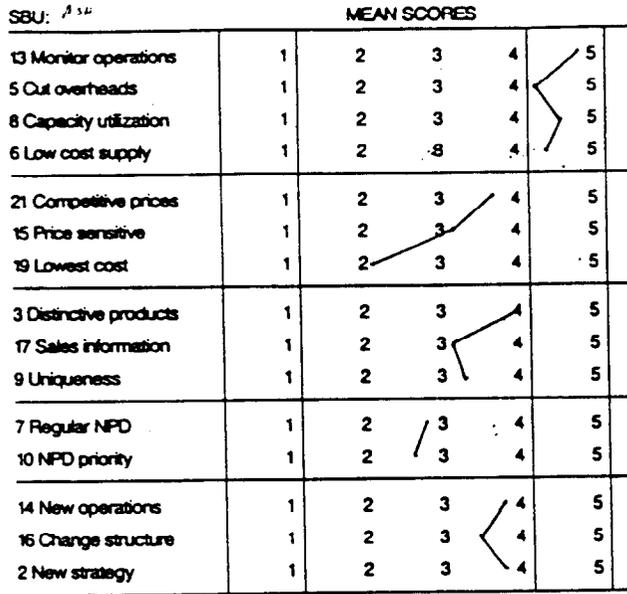


Figure 7

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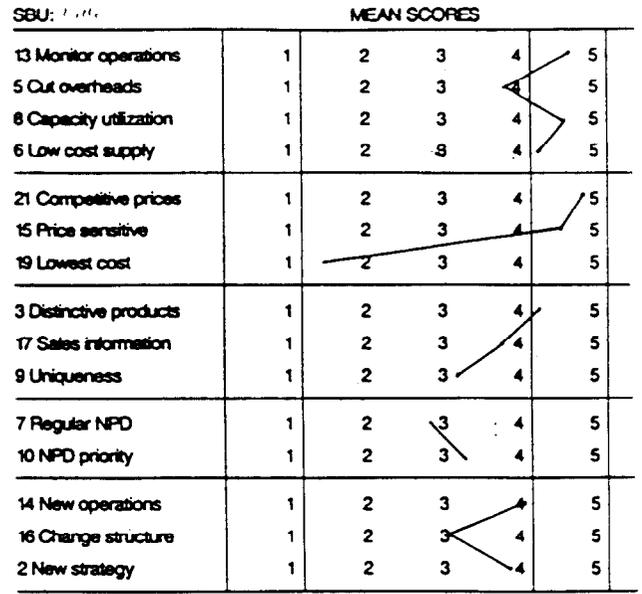


Figure 8

STRATEGIC FINGERPRINT

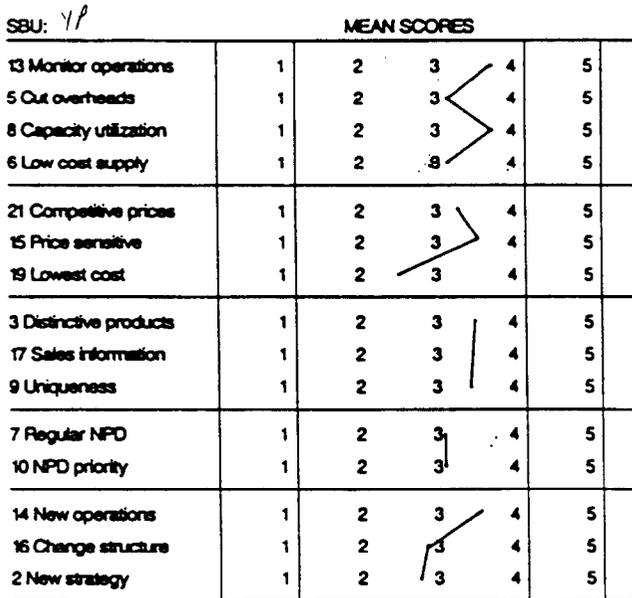


Figure 9

STRATEGIC FINGERPRINT

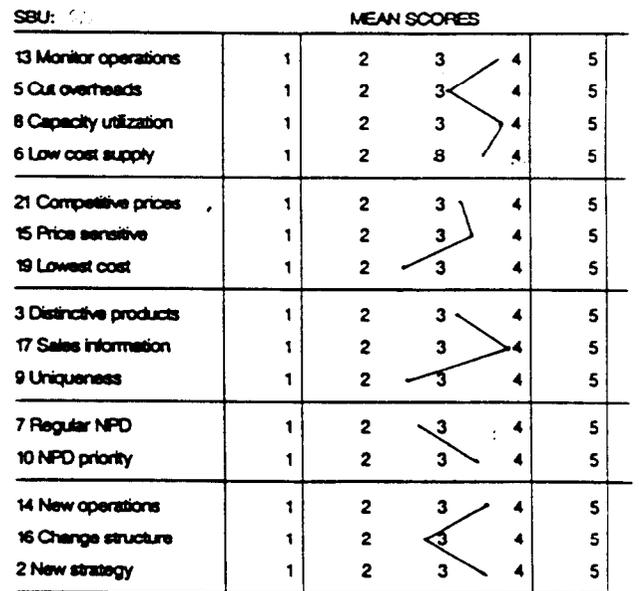


Figure 10