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DO FIRM STRATEGIES EXIST?

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The central issues addressed in this paper are what it means for strategies to exist and for strategies to change. The concept of strategy is developed progressively as a coordinated series of actions, having a comprehensive scope, and being conditional on environmental events and actions of others. Strategies can be inferred from decisions as well as being stated by top management and can be described in both structured categories as well as in unstructured terms. The framework is utilized to provide guidelines for studying changes in strategies. An analysis of key empirical studies demonstrates the difficulties in answering the question of whether firm strategies exist.

OVERVIEW: THE FOCUS AND THE ISSUES

In studying the topics of 'organizations,' 'strategy' and 'decision making,' one quite naturally takes these terms for granted. After all, on a personal level, we spend much of our lives in organizations, we think strategically, and we are continually confronted with the need to make decisions. So there would not seem to be any reason to question whether they are meaningful concepts. Correspondingly, in talking with others or reading, it may seem as if there is no ambiguity about what an organization is, what a strategy is, or what a decision is. This paper, though, is based on the premise that these concepts do need to be examined carefully and by raising these basic questions we can obtain deeper insights.

Differential attention will be directed to the issues of whether decisions exist, organizations exist and strategies exist. Primary attention will be focused on the concept of strategy. Although business executives, football managers, and military generals talk as if they had strategies, do we really know what is entailed in developing and following a strategy? If strategies exist, do they change and, if so, why and how do they change? In order for organizational strategies to exist, the concept of an organization must be meaningful. To what extent can an organization at one point in time be equated to an organization at another time? Our examination of the concept of strategy will focus particularly on one type of organization, the business firm. While decision making will underlie the whole discussion it will be more implicit than explicit.

The structure of this paper reflects the deliberate ambiguity in the title. Does 'firm' refer to business firms in which case the title would mean 'do business firms have strategies?' Or does 'firm' refer to rigidity in which case the title would mean 'do strategies change?' We will consider both senses. The paper will be organized around six key questions. The connections among the questions are shown in Figure 1. The top set

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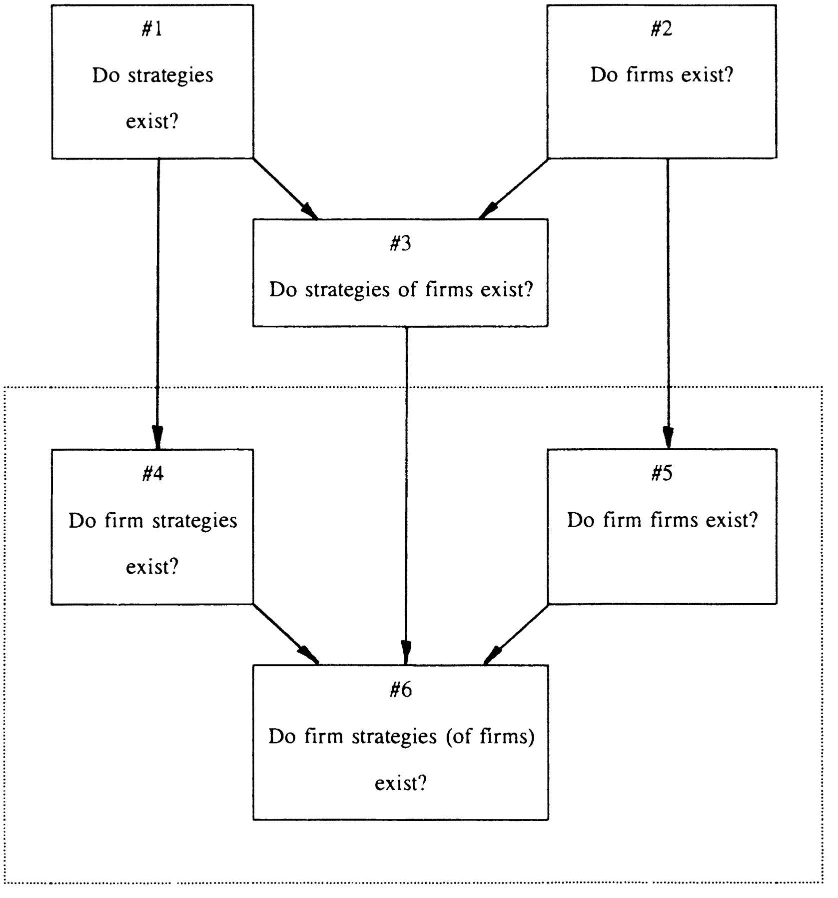

Figure 1. Firm strategies: The focal questions

of questions (#1, #2 and #3) pertain to the existence of strategies at some specific time period whereas the bottom set of questions (set off in the dotted box) deal with change from one time period to another. Questions #1 and #4 involve the basic concept of strategy in any area; Questions #2 and #5 involve the basic concept of a business firm; Questions #3 and #6 involve the conjunction of strategy and business firms. We will consider each of the questions in the order shown in the figure.

QUESTION #1: DO STRATEGIES EXIST?

What is a strategy?

To address the question of whether strategies exist, one needs to understand the concept of 'strategy;' that is, one needs to answer the question, 'what is a strategy?' Three concepts of strategy will be examined.

C^1 a Coordinated series of actions,
C^2 a Comprehensive, Coordinated series of actions, and
C^3 a Conditional, Comprehensive, Coordinated series of actions.

We will discuss each of these types of strategy in this section. While this discussion will have something to say about existence, more specific questions of existence will be discussed in a later section.

C^1 Strategies: Coordinated actions

A single action would not be called a strategy but a set of actions might be, at least if the actions were systematically chosen to try to achieve goals. The two most basic properties required for any strategy are:

1a. *Strategy is a series of related actions involving resource deployments.*
1b. *Strategy is goal-directed with the goals serving to coordinate the actions.*

Resources are an important part of the strategic process and are the basis for taking actions; actions are made possible by the strategic unit's capabilities. The series of actions must be connected in some systematic manner. Individual actions must be part of a whole: the actions must have a cumulative effect. Goals bind the actions together. Properties (1a) and (1b) together imply that strategy is a set of thematic actions that fit together in a connected, systematic way.

The term C^1 will be used to emphasize the importance of Connectedness (or coordination) between actions and actions, between goals and goals, and between actions and goals. A term that captures the central focus of C^1 type strategies is 'plans.' The essence of a plan is a series of integrated actions designed to accomplish an overall objective.

C^2 Strategies: Coordinated, Comprehensive actions

Properties (1a) and (1b) may be sufficient to characterize some strategies but the general concept of strategy implies broad coverage, as suggested by:

2. *Strategy has a wide scope in space and time.*

While some strategies may be localized, the concept of 'strategy' usually implies breadth of scope. A strategist is often working in many domains and the strategy pursued often infuses all the activities. To some degree a strategy will have a global character. In addition to breadth in space, strategy deals with an extended period of time and so a full strategy deals with the totality of operations over time.

Properties (1a), (1b) and (2) together imply that strategy involves top level goals, activities that affect the whole operation of the strategic unit, and extend over the long run. Thus type C^2 strategy emphasizes *C*omprehensiveness in addition to *C*onnectedness. When the term 'plan' is applied to C^2 strategies, it usually has a modifier such as 'long-range plan' or 'global plan.'

C^3 Strategies: Coordinated, Comprehensive, Conditional

Actions

One shortcoming of strategies that satisfy only Properties (1a), (1b) and (2) is that they do not directly take into account the possible changes in the environment nor do they deal with the existence of other strategic units. Thus we need to introduce properties that explicitly deal with the relationship between the strategist and the environment in which it operates.

3a. *Strategy is conditional upon environmental events including actions of other agents.*

Property (3a) implies that strategy is anticipatory with respect to both general environmental events and actions of others. The actions are contingent on information to be received about the likely future states of the environment. Thus strategies have a parametric form based on information sets. By definition, the term 'conditions' relates to uncontrollable events because if the events were controllable, one would simply set them up in the desired way and would not have to develop conditional actions. If something is uncontrollable it is a source of uncertainty. Strategies with Property (3a) are often called 'decision rules.'

In this pure parametric form of uncertainty, one does not necessarily differentiate between passive events in the environment that are not affected by one's actions (such as weather) and the actions of other strategic units. Thus we add a property dealing with the interactions among strategic units.

3b. *Strategy takes account of the effect of one's actions on other units, the possible actions of other units, and the various interactions that arise.*

It is important to recognize that strategy influences and is influenced by actions (past, present and future) of others. This process of mutual influence, when combined with the other properties, especially (2), suggests that such interaction can occur over a broad area and over a long period of time.

Thus type C^3 strategy emphasizes *C*onditionality of strategy as well as *C*onnectedness and Comprehensiveness. The importance of linking conditions with ends and means was emphasized in MacCrimmon (1988). The football term 'game plan' has come into popular use to denote the set of coordinated, comprehensive and conditional actions of the whole activity.

QUESTION #2: DO FIRMS EXIST?

What is a firm?

In this section of the paper we shift our attention away from strategies to firms themselves and address the issue of whether firms exist. One test of existence of an entity is to directly experience it. For example, one can see and talk to Akio Morita and thus could conclude that he exists. On the other hand, how does one see and talk to Sony Corporation (of which Morita is CEO)? How can we tell if Sony, or any other business firm, exists?

Traditionally it has been taken for granted that firms exist and in economic theory they often have been treated very narrowly, often as simply a cost curve and a demand curve. Coase notes the lack of attention to this topic:

> The firm in modern economic theory is an organization which transforms inputs into outputs. Why firms exist, what determines the number of firms, what determines what firms do ... are not questions of interest to most economists. (1988: 5)

Although the form and rationale for firms is a logical part of our overall framework, the topic is somewhat peripheral to our central focus on strategy so we will be brief.

In order to ascertain if firms exist, we need to consider the question 'what is a firm?' Barnard, in an early contribution to the topic, defined a formal organization as 'A system of consciously coordinated activities or forces of two or more persons' and described the key elements as '(1) persons able to communicate with each other, (2) who are willing to contribute action, (3) to accomplish a common purpose' (1938: 81–82). Under this view, a firm is a specific kind of organization; an organization engaged in economic transactions. Related views characterize the firm as a rent seeking organism, an assembly of capabilites and resources, a network of information processing nodes, a coalition of decision makers, and so forth. Each of these perspectives can be useful for different purposes.

More recently, a prominent viewpoint is that a firm is much more amorphous, as Jensen and Meckling (1976) assert:

> The private corporation or firm is simply one form of *legal fiction* which serves as a nexus for contracting relationships and which is also characterized by the existence of divisible residual claims on the assets and cash flows of the organization which can generally be sold without permission of the other contracting individuals.

They go on to note that 'it makes little or no sense to try to distinguish those things that are 'inside' from those things that are 'outside'.' This observation clashes directly with standard definitions in organization theory, such as those of Aldrich (1979) for whom one of the three defining characteristics of an organization is 'boundary-maintaining' (the other two are 'goal-directed,' and 'activity systems').

One might even take a more extreme contracting viewpoint and question the 'legal entity' part. Is it sufficient for a firm to be a legal entity? A shell company is a legal entity but is it a real firm? Does it exist in a substantial sense? Presumably a firm needs to be actively engaged in economic transactions. If it is not *sufficient* for a firm to be a legal entity, is it *necessary* for a firm to be a legal entity? It is necessary for the firm to be an identifiable entity (e.g., something that can be named) but the particular legal status would seem to be a mere detail. Two separate legal entities may act so as to be indistinguishable from a single entity. For example, a particular supplier may sell all its output to General Motors and so, for all intents and purposes, it can be thought of as being controlled by GM, even if it has a separate legal status. On the other hand, a supplier division of Texas Instruments may be free to sell its output on the open market even to competitors of TI. Is it meaningful to treat the latter case as a single firm but the former case as two independent firms simply because of the legal status?

Thus, for an extreme contracting view, it is irrelevant to ask whether a firm exists. If a firm is viewed as only a nexus of contracts, the natural follow-up question is not whether a firm exists but whether the contracts exist and what form they take. It is common to assume that most behavior is covered by implicit contracts. Clark (1985) raises some cautions about the vague and misleading conclusions that can be reached by using a very loose definition of the term 'contract.' He identifies four major concerns with the 'nexus of contracts' position: (1) it deflects attention away from a careful study of actual rules and processes, (2) it tends to assume the optimality of existing institutions and rules, (3) it does not treat underlying preferences at a fundamental level, and (4) it usually yields indeterminate results. Years earlier Samuel Goldwyn had expressed similar concerns in stating that, 'A verbal contract isn't worth the paper it's written on.'

Why do firms exist?

A deeper question than 'Do firms exist?' is 'Why do firms exist?' Various economists and management scholars have addressed this question. Fundamental contributions to this topic were made more than 50 years ago by Barnard, Coase, and Commons.

It is useful to distinguish activities that single individuals could not perform alone and hence require cooperative action (this is the main focus for Barnard) from activities that involve multiple people but can be carried out separately by means of contracts among the individuals versus being carried out within some common formal organizational structure (this is the main focus for Coase). The first issue, of why individuals work together with others, was the key building block for Barnard. He analyzed the formation of associations with others to accomplish tasks that could not be accomplished by single individuals. There are many activities that fall under this heading but it is neither a necessary nor a sufficient condition for cooperative action.

Coase takes as given that many activities in society require cooperative action and addresses the question of why transactions between individuals occur within an organizational context rather than through separate contracts. In his recent book he states the main point of his famous 1937 paper succinctly:

> In my article on 'The Nature of the Firm', I argued that, although production could be carried out in a completely decentralized way by means of contracts between individuals, the fact that it costs something to enter into these transactions means that firms will emerge to organize what would otherwise be market transactions whenever their costs were less than the costs of carrying out the transactions through the market. (1988: 7)

Thus firms exist because the transactions costs are less than they would be in pure market exchange. Further elaboration of the types of transactions costs and the interrelationship between the properties of the individual and the environment are developed in Williamson (1975).

QUESTION #3: DO STRATEGIES OF FIRMS EXIST?

Introduction

Now that we have presented a typology of strategies and considered various aspects of a firm, let us address the central question of whether strategies of firms exist. We will consider each of the three types of strategy presented earlier.

Do C^1 Strategies of firms exist?

Background

For C^1 strategies to exist, one needs to ascertain whether firms have planned, coordinated sequences of actions? This is equivalent to asking whether firms undertake any organized actions at all. The answer is a clear 'yes.' Even small firms take thousands of actions that are highly interrelated. Elaborate procedures usually exist for attempting some coordination of these actions. As emphasized by Cyert and March (1963) organizational standard operating procedures (SOPs) are an important form of coordination. Even the most intuitive managers attempt to coordinate the activities, at least localized ones, of the firm.

Business strategies as coordinated series of actions directed toward attaining specific goals is inherent in all concepts of business strategy. Ohmae, in *The Mind of the Strategist*, states that

> strategy is defined as the way in which a corporation endeavors to differentiate itself positively from its competitors, using its relative corporate strengths to better satisfy customer needs. (1982: 92)

In Ohmae's framework, the three central elements are the corporation, the customers and the competitors. To interrelate all three requires considerable coordination. Remember that for this C^1 definition of strategy it is not necessary that all of the firm's operations be guided by the same strategy or that it extend over a long period of time.

Example: Generic strategies

The generic strategies presented by Porter are of the C^1 form. Based on underlying dimensions of strategic advantage (also called competitive advantage) and strategic target (also called competitive scope), Porter (1980) identifies three generic strategies: overall cost leadership, differentiation and focus (which may be subdivided into cost-based focus and differentiation-based focus). Consider the strategy of 'overall cost leadership.' As Porter notes:

> Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimization in areas like R&D, service, sales force, advertising, and so on. (1980: 35)

The goal is implicit but, as stated earlier by Porter, involves obtaining 'a superior return on investment for the firm' (1980: 34). It is apparent from the quote above that a large number of activities must be coordinated to achieve this end—the essence of the C^1 approach. As Porter notes

> A great deal of managerial attention to cost control is necessary to achieve these aims. Low cost relative to competitors becomes the theme running through the entire strategy ... (1980: 35)

The last quote suggests that some breadth of scope may be implied by the strategy (thus pushing toward the C^2 concept). Without denying that such generic strategies might be very broad, it should be noted that Porter's focus is at the level of a single industry and the firm that is a low cost competitor in one industry may adopt a different strategy in other industries. There are also numerous cases of firms (e.g., Honda) that adopt a low cost strategy to break into a market but then shift, say to a quality emphasis, in a later time period.

Do C^2 Strategies of firms exist?

Background

Chandler, in his classic book *Strategy and Structure*, states that:

> *Strategy* can be defined as the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals. (1962: 16)

In addition to explicitly highlighting the two main properties (goals and actions) of C^1 type strategies, this definition clearly emphasizes the long-term nature of business strategy and, by implication, the broad scope.

Drawing on Chandler and others, Hax and Majluf examine a number of different discussions of business and corporate strategy and combine them into 'a single more comprehensive definition of strategy' as follows:

Strategy
- is a coherent, unifying and integrative pattern of decisions;
- 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;
- attempts to achieve a long-term sustainable advantage in each of its businesses by responding properly to the opportunities and threats in the firm's environment and the strengths and weaknesses of the organization;

- engages all the hierarchical levels of the firm (corporate, business, functional); and
- defines the nature of the economic and non-economic contributions it intends to make to its stakeholders. (1988: 102)

While some firms have only localized strategies (i.e., type C^1), others do considerable planning that encompasses the whole scope of the firm's operations and extends over a long time horizon. Thus such firms satisfy the requirements for type C^2 strategies. For business firms, there is a gradual shading between categories C^1 and C^2; as noted above, some Porter-type generic strategies have a broad scope and so belong in the C^2 category.

Example: Top management belief structures

Donaldson and Lorsch (1983) study the strategy of 12 companies in four major industry groups: high technology, commodity products, consumer products and conglomerates. They rely heavily on interviews with the corporate management team. Their focus is on the 'complex choices about corporate goals and the means to achieve them, choices that outline the strategic direction of the company.' Note that they explicitly specify properties (1a) and (1b) described in section 2 of this paper. It is clear that they also require property (2) when they illustrate the types of choices they focus on, including those that:

- 'define the rate at which companies may grow in size and profits,'
- 'determine how earnings will be divided between dividends for shareholders and funds to be retained for future internal investment,'
- 'define the products and markets in which the company will compete,' (1983: 6)

as well as addressing such questions as:

- whether and how to enter new business domestically,
- how much to spend on research and development,
- whether to expand internationally,
- whether to grow and diversify through acquisition.

Clearly, Donaldson and Lorsch are using a C^2 definition of strategy. Throughout the book they emphasize the attention that top management pays to explicating their beliefs as the primary basis for strategy. Thus if we accept that strategy exists if top management thinks it exists, this study provides ample evidence for its existence.

Example: Diversification categories

An important area of strategy (at the corporate level) deals with the composition and orientation of businesses that a firm is engaged in. Building on categories of Wrigley, Rumelt (1974, 1986) distinguishes seven types of diversification strategy:

(1) Single business
(2) Dominant business
 (a) Vertical (b) Constrained (c) Linked/unrelated
(3) Related business
 (a) Constrained (b) Linked
(4) Unrelated business

In this work the question of whether firm strategies exist is taken for granted, the strategy is assumed to be the category that the researcher infers from the composition of the portfolio of the firm's businesses. Because of their nature, the categories imply a broad scope, thus a comprehensive (C^2 type) strategy. So if the ability of an observer to characterize a strategy reliability into one of a set of categories is sufficient, then this study and related ones provide evidence for C^2 strategies.

Do C^3 strategies of firms exist?

Background

Luce and Raiffa, in their pioneering book on game theory, point out the difficulties with C^3 strategies in real applications, specifically business strategies. They note that the game-theoretic concept of 'strategy,' requires one to:

> ... write down all the different possible situations which may arise and to specify what shall be done in each case ... Such a detailed specification is called a (pure) strategy ... for practical reasons, it is generally not possible to specify economic strategies in full, and as a result a business strategy is only a guide to action with respect to pricing, production, advertising, hiring, etc., which neither states in detail the conditions to be considered nor the actions to be taken. The game theory notion of strategy is an abstraction of this ordinary concept in

> which it is supposed that no ambiguity remains with respect to either the conditions or the actions. (1957: 7)

For these reasons, no firm could possibly have a complete C^3 strategy and there are few, if any, published accounts of firms having elaborate C^3 strategies. About the closest thing one can find is an attempt to develop partial C^3 strategies, by focusing on condition–action linkages, generally in the context of scenario analysis. Shell and GE have been in the vanguard here.

The major difficulty with developing C^3 strategies is that there are an uncountable number of events that can affect the total operations of the firm. Indeed, even a small part of the firm is subject to an infinite number of influences. How does a firm begin to specify the possibilities? Even if such an account could be prepared, it would likely to be too unwieldy to use. On the other hand, firms need to think in C^3 terms because every strategy is predicated on particular environmental assumptions and if those assumptions are violated—as they almost surely will be—the firm needs to be prepared to adapt.

It is surprising how little attention conditionality receives in the business strategy literature. Even in the long list of Hax and Majluf (1988: 102) summarizing concepts from any definitions of business strategy, the only aspect of conditionality comes in the fifth item dealing with the environment, and that is stated rather indirectly. Extending his earlier definition, Ohmae (1982: 248) notes that, 'strategy is really no more than a plan of action for maximizing one's strength against the forces at work in the business environment.' Here, too, although 'environment' is mentioned, the development of conditional strategies is not apparent.

Example: Typology of firms

Miles and Snow (1978) provide a classification of firms that takes explicit account of environmental conditions; the descriptions are as follows:

Prospectors: organizations which almost continuously search for market opportunities, and they regularly experiment with potential responses to emerging environmental trends.

Analyzers: organizations which operate in two types of product-market domains, one relatively stable, the other changing. In their stable areas, these organizations operate routinely and efficiently ... in their more turbulent areas, (they) watch their competitors closely for new ideas, and then they rapidly adopt those which appear to be most promising.

Defenders: organizations which have narrow product-market domains ... (and) do not tend to search outside of their domains for new opportunities.

Reactors: organizations in which top managers frequently perceive change and uncertainty occurring in their organizational environments but are unable to respond effectively.

Although the focus is only indirectly on strategy, clearly the typology of firms is based on a strategy concept. While we would not call it a real example of C^3 strategies, it does begin to bring in the environmental influences directly.

STUDYING THE EXISTENCE OF, AND CHANGE IN, STRATEGIES

Overview

Now that we have considered the issue of existence, and before we deal with the issue of change, let us review some differences in the way that strategy is studied. We will continue to make the standard holistic assumption that the strategist (i.e., the firm) behaves as a single unified actor. Although this is a limiting and surely a dubious assumption, virtually everyone makes it, and in order to constrast studies of strategic change we will continue the holistic approach here. Note, though, that the distinctions we make in this section are just as relevant in nonholistic studies. For a detailed discussion of these studies, see MacCrimmon (1994).

For studying either the existence of, or change in, strategies, it is important to recognize two dichotomies: (1) Characterizing strategies in simple categories versus characterizing them as amorphous and complex, and (2) Identifying strategies by asking the strategist what it is doing versus inferring strategy from behavior. We will now consider each of these approaches.

CHARACTERIZING THE STRATEGIES OF A FIRM

Overview

Realizing that firms differ widely from one another, how can one develop a concept of strategy that will allow for the comparison of strategies of different firms? Indeed how can one develop a concept of strategy that will allow one to compare the strategies of the same firm over long periods of time? Two extreme positions can be identified. On the one hand, one may view strategy as falling into one of a set of simple categories, as in the Miles and Snow or Rumelt studies discussed in the preceding section. On the other hand, strategy is so complex it is virtually impossible to describe it (see, for example, the Donaldson and Lorsch study). Although one may adopt a position between these extremes, an examination of the extreme cases is instructive.

Structured: Simplistic

If the strategy of a firm can be placed into one of several categories, then it becomes relatively easy to study the existence and change in strategy. Under such an approach, strategy would exist as long it could reliably be assigned to one of the standard categories. Correspondingly, if the strategy of a firm were assigned to different categories at different periods of time, then one would conclude that the firm's strategy had changed. Clearly, this approach is simplistic. Everyone, including the proponents of this approach, realizes that strategy is very complex. The categorization approach is taken in order to make the study of strategy manageable and, especially, to facilitate comparisons.

Obviously there are many categories that could be developed to characterize a firm's strategy. How does one settle on meaningful categories? Should categories be established based on common characteristics or on prototypes (Lakoff, 1987)? Even if meaningful categories can be assigned, how can complex strategies be shoe-horned into such categories. Would multiple observers assign a firm to the same category? Even if they did so, would it be a meaningful assignment or simply relective of common biases? Shouldn't the firm itself have to have some understanding of the strategy it is supposed to be pursuing?

Unstructured: Confusion and comparability

At the other extreme from simple categorization is the viewpoint that the strategy of a firm is so complex it can only be described in book-length terms, even allowing that a description is possible. With long, convoluted descriptions, comparability is impossible. Not only is one precluded from comparing one firm to another but also comparing a given firm at one period of time to the same firm at another period of time is also infeasible. With long, subjective descriptions, there is virtually no way to try to validate the description. Different people can be expected to come up with very different descriptions. Given that there are advantages to a firm in not making its strategy known, there is a built-in tendency for firms to prefer unstructured characterizations of strategy. It becomes difficult to exploit or criticize a firm's strategy if it is difficult to specify.

UNCOVERING THE STRATEGIES OF A FIRM

Overview

How can one discover the overall strategy that a firm is using? There are two basic approaches to uncovering holistic strategies: (1) direct: ask the firm what strategy it is pursuing, and (2) indirect: infer the strategy from the actions of the firm. Do we accept an actor's statement of the strategy being pursued or do we try to infer the strategy from actions. Both approaches are used in empirical studies; an example of the direct approach was the Donaldson and Lorsch study while the indirect approach was exemplified by the Rumelt research. There are advantages and disadvantages of each.

The direct approach: Misrepresentation and misperception

The first approach, asking the firm, encounters an immediate problem—who to ask? If a firm was truly a single actor there would be no problem, just ask the actor himself/herself. In real firms where there are many people involved, perhaps the best that can be done is to interview the Chief Executive Officer (CEO) or the top management team, if access is feasible.

The main advantage of direct inquiry is that one can probe the intentions of the strategic unit, as well as getting an inside view of the actions that are taken. Of course, there is the basic difficulty that the firm has little incentive to reveal the strategy they are pursuing. What do they have to gain by truthfully revealing their strategy? Obviously in competitive environments, revealing one's strategy can proffer an advantage to rivals. So there is a strong incentive to misrepresent one's strategy to throw rivals off-guard. Even in noncompetitive environments, revealing strategy exposes one to the possibility of disdain if the strategy is too modest or to scorn if an expansive strategy is not fulfilled. If we assume that a firm's actions are taken to advance its interests, how does it benefit the firm's interests to ever reveal its true strategy?

Even if the firm was trying to be truthful, there is a strong potential for misperceiving its own strategy. What they thought they were doing may not be what they really are doing. The actions taken may not be the appropriate ones for the intended strategy. Managers tend to think of themselves as bigger risk takers than they really are (MacCrimmon and Wehrung, 1986). Strategy is complicated and is likely to exceed the information processing limitations of any human mind. If the results do not correspond to the intended strategy, there is an inducement to make the strategy fit the outcomes so that the firm does not look incompetent.

The Indirect approach: Intention and subjectivity

The second approach, inferring strategies, has the advantage of focusing on the actions that the firm has taken—not what it intended to do, or what it thought it was doing, or what it would like an observer to think it was doing. However, the indirect approach has the disadvantage of being based solely on the observer's perception. Since different people see different things, there is no guarantee that what the observer perceives bears much resemblance to what the firm had in mind as a strategy. It is very difficult to separate outcomes from actions and even harder to infer intentions from actions. Thus, even though direct inference can overcome the misrepresentation problem it encounters major perception problems.

As we noted earlier, a common definition of strategy (C^1) is simply a clustering of a set of actions that 'hang together' in some way. If a strategy is simply a collection of actions for which one can tell a coherent story, then virtually any actor can be said to have a strategy. The actor itself would not have to be the one to come up with the story, any observer could do so. A strategy then could be a sympathetic concept formed in the mind of an observer instead of in the mind of the focal actor. For example, the USSR initiates a reform of its economy and asks the West for economic aid, the request is initially rebuffed, an apparent coup takes place, after a few days the coup leaders are deposed, the USSR renews their request for aid, and this time the West is more forthcoming. Can we conclude that the USSR had a strategy of using a coup to obtain more aid from the West?

Can there be a strategy without prior intention? For even our most basic definition of strategy (C^1), we require that the actor be pursuing goals. This concept leaves open the possibility that strategy is in the minds of the actors ahead of time but they cannot articulate it until afterward. Thus, a more subtle question is whether there can be a strategy without a conscious knowledge of intention on the part of the actor when the actions are taken. Not only does the actor need to intend its actions, it needs to be aware of these intentions, particularly with respect to the interconnections of intentions across sets of actions (Hampshire, 1959).

If one requires intention, do enacted actions have to correspond to intentions? There are many possibilities for a discrepancy. Suppose that the actor has a very clear strategy in mind but, through mistakes or whatever, is unable to carry it out. Inferring the strategy from the actions taken, would give a very different picture from the strategy that was intended. Presumably one acquires a deeper understanding of strategy from knowing both 'strategy in mind' as well as 'strategy in action.'

If a strategy is only in the mind of an observer, what happens if there are multiple observers and mutiple descriptions. Different people see things in different ways. There is no 'true' description; descriptions are always subjective, as suggested by the following story.

> A man had commissioned Picasso to paint a portrait of his wife. When shown the picture he was stunned and complained that the picture didn't look anything like her. Picasso then asked the man what his wife looked like. The man took a photograph out of his wallet and showed it to Picasso. Picasso studied it carefully then remarked, 'She's rather small and flat isn't she?'.

Has anyone ever seen a strategy? What does the strategy of a firm, such as Unilever look like? Does anyone have a picture of the strategy in their wallet?

QUESTION #4: DO FIRM (I.E., STABLE) STRATEGIES EXIST?

Introduction

In earlier sections of this paper we considered the existence of strategies and firms; the focus of the next three sections is on changes in strategies and firms, assuming now that they exist. In this section, we briefly consider changes in simple strategic contexts. In the following section we very briefly consider changes in a firm. In the final section, we get to the central question about changes in the strategy of a firm. In the current section the question 'Do firm strategies exist?' is taken to mean 'Do strategies change?'

To address this question one should consider differences among the various types of strategies discussed earlier. Because a C^1 strategy is very specialized, it can be changed by adopting a different set of local actions on a piecemeal basis. The performance of one set of localized strategies may affect the strategies that get adopted in other areas of the total operation. Attention does not have to be devoted to the whole enterprise, as is the case with C^2 strategies. C^2 strategies entail much more sweeping change. Here change is more likely to come about by forces in, and comparisons with, the external environment. Changes in the external environment, though, are already built into the basic concept of C^3 strategies. For C^3 strategies to change, the strategist must adopt a different action-event conditional linkage. In more sophisticated versions of C^3 types, the probabilities assigned over the set of action-condition linkages have to change.

Even though we have pointed out a conceptual difference between changes in type C^1 and type C^2 strategies, there is not a significant difference between them when compared to changes in C^3 strategies. Thus, in this section, we will lump changes in C^1 and C^2 strategies together and treat them as a group separately from changes in C^3 strategies.

Change in strategy as a change in action

For both C^1 and C^2 strategies, there is evidence of a change in strategy when we observe a change in action. For example, a manufacturer that had emphasized low price products now begins to emphasize high price products. How can we tell if a change in action implies a change in strategy? Is a change in action itself sufficient to imply a change in strategy? If so, does any change, no matter how small, count? If not, how big a change in action is necessary?

What reasons might there be for a change in actions? Among the most important reasons are the following: (a) as a result of information about performance, the strategist changes goals, (b) needed resources are unavailable or new resources become available, and (c) the environment changes, including unanticipated actions by other strategic units.

Change in strategy as a change in action–condition linkages

For C^3 strategies a change in action is clearly not sufficient to indicate a change in strategy. In fact we expect changes in action as part of a single (conditional) strategy because for C^3 strategies we would expect a different action when the conditions are different. After all the strategy specifies what actions should be taken under different possible conditions. As the conditions change, the action changes. The major conditions that affect actions are (a) internal conditions and (b) external conditions. Internal conditions primarily involve resource availabilities and changes in goals. External conditions involve aggregates of behaviors, behaviors of other entities (esp. competitors, and uncertainty of natural events).

How then does one recognize changes in C^3 type strategies? In lieu of a change in action, we need to observe a change in the action–condition linkages. That is, the strategist must be taking a different action in response to an identical condition than was observed previously. There are several difficulties here. First, no two situations are truly identical so it is difficult to maintain that the linkage has changed. Second, the strategist may be following a mixed strategy in which it deliberately chooses a different action in response to the same conditions—but this is part of the overall plan of the mixed strategy. In a probabilistic strategy we need to consider whether the probability distribution has changed.

Change in strategies as a change in the probabilities associated with condition–action linkages

In the preceeding discussion of C^3 strategies, we were assuming a deterministic set of condition–action links. Thus for a particular condition, a specific action would be chosen. The next step beyond fixed action–condition links is to choose, on a probabilistic basis, from a collection of associated strategies for each condition. By using such probabilistic strategies in a competitive situation, one can avoid being exploited (and can guarantee the value of a game). In such settings it is important to make the choices on a random basis, as Dixit and Nalebuff state it,

> If you choose a definite course of action, and the enemy discovers what you are going to do, he will adapt his course of action to your maximum disadvantage. *You want to surprise him; the surest way to do so is to surprise yourself.* (1991: 185)

It becomes extremely difficult then, to tell a change in strategy because a natural part of a given probabilistic strategies is to take a different action when the same particular event occurs. As an external observer, one would need to have a number of observations to try to ascertain if the probabilities had changed.

QUESTION #5: DO FIRM FIRMS EXIST?

Introduction

Just as in the preceding section we assumed that strategies exist and asked what it means for them to change, in this section we assume that firms exist and ask what it means for them to change. For example, what does it mean to identify IBM in 1949 with IBM in 1969 or 1989? Or more pointedly, is it meaningful when one talks about Apple Computer of 1989 (denoted 'Apple_{89}') as if it were the same company as Apple Computer of 1979 (denoted 'Apple_{79}'). Consider some differences:

- Apple_{79} had one product, the Apple II, whereas Apple_{89} had a number of products and the Apple II was a thing of the past;
- Apple_{79} had fewer than 1000 employees whereas Apple_{89} had over 12,000 employees;
- Apple_{79} had sales of less than $50 million whereas Apple_{89} had sales of over $5,000 million;
- Apple_{79} was privately owned by Jobs, Wozniak, Markkula and a few others whereas Apple_{89} was a widely owned public company;
- Apple_{79} was controlled by Steve Jobs, one of the technology-oriented founders of the company, whereas Apple_{89} was run by John Sculley and a team of professional managers; Jobs (and Wozniak) were no longer connected with the company.

It is obvious that Apple_{79} and Apple_{89} are very different companies; in what sense can they be considered to be the same company? Other small companies in the computer industry in 1989 could be considered more like Apple_{79} than Apple_{89} was. One may even question the comparability of firms over a much shorter time period, just think of IBM_{92} and IBM_{93}.

If the Apple Computer example is not convincing enough, consider two hypothetical companies in which Firm_1 is sold to new owners and all the personnel of Firm_1 leave and start a new company, Firm_2. At Firm_2 they adopt the same goals, products, styles, etc. as in the original Firm_1. Meanwhile the new people running Firm_1 completely reorient it. Although the new Firm_1 is a legal entity with the same name, it bears no other resemblance to the original Firm_1. This thought experiment should cause the reader to question what it means for a firm to stay the same. As Barnard (1938: 37) noted firms 'are never stable, because of changes in the environment and the evolution of new purposes.'

Of course an important change that can occur in a firm is a change in its strategy, so to keep the issues distinct, one should focus here on changes in firms that are not primarily changes in strategies. While change in firms is an important topic, we will not explore it further in order to keep our focus on strategy. For a classic description of long-run change in firms, the reader should see the examples in Chandler (1962).

QUESTION #6: DO FIRM STRATEGIES OF FIRMS EXIST?

Introduction

Now we have finally arrived at the focal question, 'Do strategies of business firms change?' Here we will assume that strategies for business firms exist. The general issues of change in strategy have been covered in a previous section so the present section should be viewed as an application of those basic topics to business firms. The two central questions with respect to the dynamics of strategies of firms are: (1) How can we know when a firm changes strategy? and (2) Why does a firm change strategy?

As noted earlier, C^1 and C^2 strategies often are hard to differentiate and when studying change we will lump them together. As also noted, public amounts of firms having strategies of pure type C^3 are nonexistent or at best rare. The general issues of change in C^3 strategies, discussed in previous sections, would apply to such strategies if they are found, but given their absence we will not tend to distinguish them in this section. It should be observed, however, that virtually all firms take some aspect of the environment into account, even if it is only reluctantly responding to major environmental threats, so we find some C^3 elements in most strategies.

To highlight the topic of change in strategies for firms, we first present four studies of strategic change and then provide some general commentary.

Example: Firmness in strategies for hospitals

Zajac and Shortell (1989) point out the dearth of studies on strategic change and observe that, '... research on generic strategies needs to be extended to include a conceptual discussion and empirical analysis of changes in generic strategies over time in response to changing environmental conditions both on a firm-by firm and industry-wide basis.' They present an empirical study of strategy change after a major environmental jolt. The 'firms' are 570 hospitals (more than 80% are profit-oriented) and the environmental change is due to the U.S. Government switching the Medicare reimbursement system from a cost-plus basis to a schedule of fixed payments for specific services.

The authors characterize strategy using the categorization of Miles and Snow in which firms are classified as 'prospectors,' 'analyzers,' 'defenders' and 'reactors.' The results indicate that more than half the hospitals changed strategies over the 2-year period. The changes were common across most of the sample in that many more organizations were classified as Prospectors and Analyzers than in the earlier period. The variable with the strongest effect was the prior strategy and firms that were characterized as Defenders were most likely to change.

The assignment of firms to cateogories was based on questionnaires sent to the CEOs after the Medicare reimbursement change. The respondents were given one paragraph descriptions of prototypical hospitals for each of the four categories and were asked to mark, on 7-point scales, how their hospital corresponded to the prototypes at the present time and 2 years previous. A validation was attempted based on an examination of services offered in the current and prior periods. In terms of richness of the concept of 'strategy,' this procedure is about as minimal as one can get. In this study there are further concerns because, as the authors point out, 'anecdotal evidence suggests that this environmental shift has led hospitals to adopt a more 'business-like' posture ...'. Obviously, CEOs have an incentive to show that they are alert to new opportunities.

Example: Firmness in diversification strategies

As noted, it is a common practice to characterize strategies of a firm on a categorical basis. In an earlier section, we examined the categories for corporate (diversification) strategies developed by Rumelt (1974, 1986). Now that we are focusing on changes in strategies, we return to this approach and ask: (1) When a firm changes categories does it imply a basic change in the firm's strategy? (2) When a firm does not change categories does it imply a fixed strategy?

The answer to the first question depends on the type of strategy we are considering. For C^1 or C^2 strategies, a change in categories would seem to imply a change in strategy because a firm does not shift categories automatically—it must make overt changes by entering or by exiting businesses. However a C^3 strategy may be of a form that straddles categories, for example, 'begin by entering business P, then when conditions X occur expand vertically into business Q, then when conditions Y occur add related businesses R, etc:' Thus to find the firm in different categories over a period of years may simply be the result of tracing the trajectory of a single conditional strategy. Note that many of the changes found in the Rumelt data seem quite natural, such as moving from Single Business to Dominant–Constrained or from Dominant–Constrained to Related–Constrained. Such shifts could easily have been pre-formed as part of a conditional C^3 strategy.

Now let us turn our attention to the second question and look more specifically at the Rumelt data. Of the 246 firms in the sample, 188 companies were classified in all 3 years (1949, 1959, 1969). The remaining 58 firms that were not classified in all 3 years are interesting with respect to change (because they were starting up, being terminated, being acquired etc.), but we will confine our attention to the set of firms whose strategy was identified on all three occasions. Of the 188 companies with full listings, 45 percent (85 companies) were listed in the same category in 1949, 1959 and 1969. Thus these companies are good ones to examine if we want to identify firms that seem to have fixed strategies. To have a more up-to-date focus, though, we have updated the categorization of these 85 firms for the year 1989. For purposes of illustration, for each of Rumelt's seven (revised) categories, we have chosen one firm that seemingly did not change categories over the whole 40-year period. The representative firms we have chosen are:

- Single Business: *Donnelly*
- Dominant Business:
  - Vertical: *Texaco*
  - Constrained: *Caterpillar*
  - Linked: *Armstrong*
- Related Business:
  - Constrained: *Eastman Kodak*
  - Linked: *GE*
- Unrelated Business: *Grace*

It does not take a great deal of inside knowledge of these firms to realize that each of them has undergone radical change over the four decades from 1949 to 1989. Interestingly enough, each of these firms has changed significantly even in the past few years.

To take another example (obviously one not in the Rumelt data base), consider the status of Apple Computer from 1979 to 1989. Although in both these years (as well as the intervening ones) they probably would be categorized as 'Single Business,' there have been enormous changes in the company and its strategies over this period of time. Thus one must doubt the hypothesis that firms which are in the same category in two different time periods have not changed their strategy.

Note, then, that we have concluded that: (1) a change in category does not necessarily imply a change in strategy and (2) no change in category does not necessarily imply a fixed strategy. Thus this brief analysis suggests that we need to go beyond simple categorizations if we want to obtain a fuller understanding of changes in strategies.

Example: Firmness in strategies as seen from the top

In a previous section we pointed to the Donaldson and Lorsch study as a prime example of the existence of strategies in the minds of corporate managers. Do these top level executives perceive a change in strategy? If so, to what extent do they see themselves as directing the change rather than it being imposed on them from the outside (or the inside for that matter). It seems that the managers did perceive the need for change, 'we did discover many instances in which our executives were forced to confront the fact that their beliefs no longer led to successful strategies' (1983: 132).

Donaldson and Lorsch identify three major forces for change stemming from the three major constituencies: (1) capital markets, (2) product markets and (3) the organization itself. They note that there are major barriers to effecting change but various situations such as economic crises 'produced a set of circumstances in which the organization's capacity to resist change was weakened.' They observe that the 'first response is likely to be an incremental change in beliefs and strategy' but that 'more systematic restructuring will come only when a number of such events and circumstances occur at the same time and so persistently that the corporate managers feel a clear and unequivocal discontinuity with the past' (1983: 135).

In many of the companies, significant changes in strategy are described. The managers confronted weakness in past performance and the need for reorientation. Thus, at least in the minds of the managers involved, strategies did change—and they were responsible for the change. Of course, it is in the self-interest of the interviewees to claim credit for (successful) strategic change. One also wonders about the authors being lucky enough to interview their sample at a time when almost everyone acknowledges that they were currently thinking about strategic change but were willing to admit that such sensitivity had not been the case in the past.

Example: Firmness in strategies of the National Film Board

A study of change in strategy over an extended period of time is Mintzberg and McHugh's (1985) examination of the strategies of National Film Board of Canada (NFB). Although the NFB is not a business firm, unlike many other government agencies it competes primarily with private companies for the attention of the public and it could have been set up as a private company; so we will stretch the definition of 'firm' to include this study.

The authors track strategic change at the National Film Board from its founding in 1939 for a period of almost four decades. The NFB was in large part the vision of a charismatic documentary film maker, John Grierson. The early days had their roots in the great depression, so the social and economic devastation of this period profoundly influenced the documentary film makers who first joined the organization. Then, within months of its startup, new challenges were brought on by the Second World War. In commenting on the 1939 to 1945 period, the authors say, 'Although specific strategies changed, the fundamental norms established in this period did not—a concentration on documentary-style film-making, a concern for the social impact of film, grass-roots distribution, and high standards of excellence and innovation' (1985: 176).

During the War, there were obvious patriotic themes that helped to tie the operations together, so when the end of the War came, the NFB was hit with a severe enviromental jolt. At the same time, an internal jolt hit—John Grierson resigned. The next seven years (1946–1953) are described as a period of 'groping': 'The NFB, now without focus or purpose, let the market define purpose' (1985: 177). The authors describe strategy in this period as, 'Strategy-making behavior changed just as dramatically from integrated, visionary, proactive, and somewhat deliberate and centralized, to diverse and disjointed, lacking in direction, emergent, reactive, and more decentralized' (1985: 178).

In the early and mid 1950s the popularity of television was having a major impact on all film making including the NFB. For many film production companies TV was viewed as a threat but early on, perhaps as a result of its public status, television was viewed as an opportunity by the NFB. Focus shifted toward production of films for TV and so its concept of the desired content, as well as the appropriate distribution channels, changed in a fundamental way. It would seem then that a clear top-level effort had led the way, but as Mintzberg and McHugh describe it

> Yet this focus did not reflect any deliberate strategy emanating from central intentions. Quite the contrary, the film content strategy emerged as one decision set a precedent that stimulated a pattern of actions by many people at the base of the organization, a pattern in contradiction to the intentions of senior management. (1985: 180)

There was, however, a growing concern that the rigidities of TV were sapping the creativity of the NFB and so a rather abrupt withdrawal from television took place and the next decade (1958–68) was one of experimentation. The social changes during the 1960s also had a profound effect on the organization and the authors note this impact in stating that, '... for a third time, the NFB found focus not in any intended strategies of its own managers but in the conditions of its environment' (1985: 184). The final period covered in the research, 1969–75, begins with major budget cuts by the Federal Government thus triggering an outreach, trying to involve the community at large in film making, especially minority groups.

If one requires a significant *a priori* intention for strategy, one does not seem to find it at the National Film Board of Canada. Not only is the C^3 concept of strategy absent (in that there was no apparent contingency planning at any time), but there seems to be little evidence for a C^2 concept since, during each period, the variety of activities do not suggest a broad scope and output seems to be continually changing based on outside forces with little internal direction. In fact, one might even question a C^1 concept in that goals do not seem to be a strong influence (at least in the post-Grierson period).

Reflections on change in strategies of firms

We have chosen our examples to reflect different methodological approaches and different ways of characterizing strategy, as outlined in an earlier section. Two of the examples involved inferring changes in strategies from actions, while the other two examples involved asking top management what changes in strategies they perceived. Two of the examples assigned strategies to specific categories (and hence change meant a change in category), while the other two examples treated change in strategy in more unstructured terms. The studies, organized in terms of these characteristics, are shown in Figure 2 below. Note also that the coverage ranges from a single firm in a single industry through many firms in many industries, with the intermediate cases being many firms in one industry and a few firms in a few industries.

The answer to our main question in this section ('Do firm strategies of firms exist?'), would seem to be equivocal. While firm strategies do seem to exist, there is plenty of evidence that strategies do change. In some cases it would seem that prominent examples of firm strategies exist for half a century while in other cases strategies change dramatically from one year to the next.

To a large extent the differences in results are due to different concepts of 'strategy;' the definition differs widely from study to study.

	STRATEGY DESCRIBED BY STRUCTURED CATEGORIES	STRATEGY DESCRIBED IN UNSTRUCTURED TERMS
STRATEGY INFERRED FROM ACTION	188 firms in numerous industries (Rumelt)	Single organization (Mintzberg and McHugh)
STRATEGY STATED BY TOP MANAGEMENT	570 hospitals (Zajac and Shortell)	12 firms in 4 industries (Donaldson and Lorsch)

Figure 2. Characteristics of the empirical studies of strategic change

Even in the few studies we have examined, 'strategy' varies from a single rating on a single seven point scale to a very diffuse characterization of beliefs of top management. The very structured concepts, using simple categories, are not rich enough to track changes in strategy. On the other hand, the completely unstructured concepts are too ambiguous to be able to draw firm conclusions.

None of these studies directly dealt with the distinctions we have made in specifying C^1, C^2 and C^3 types of strategies, although all studies had some elements of each of these types. Some strategies seemed very clearly examples of C^1 and C^2 but we saw no examples of C^3 strategies and, as stated earlier, it would be very difficult to identify a change in such strategies. To track such changes, a direct approach would be required since an indirect approach would require more data than would ever be available.

The studies, perhaps necessarily so, involve very subjective assessments. In the categorical studies, would everyone assign the firms to the same categories? Is this because the firms in a given category have the same strategy or because the researchers share common presumptions when trying to fit a very complex phenomenon to a very simple structure? On the other hand, when complex strategies are not fit into simple categories, how reliable are the judgments of the researchers? It is to be expected that different observers will see different things. Suppose

Mintzberg–McHugh had studied Donaldson and Lorsch's firms, and vice versa, what conclusions might be expected?

Given that strategies change, we need to know more about why they change and how they change. These studies all tell us that differential environmental circumstances result in a shift in strategy. We are not given much evidence as to whether the changes are forced on the firms or whether the firms play a strongly proactive role in bringing change about. It is clearly in the self-interest of top-level managers to take the credit for being amenable to change—at least the favorable changes. As discussed in the context of the NFB study, the five properties and the three strategy types we presented earlier can serve as useful guides to studying strategic change.

CONCLUSIONS

In this paper we have systematically developed the concepts of 'strategy' and 'strategic change.' We first considered questions of existence: whether strategies exist, whether firms exist and whether strategies of firms exist. This led to an exploration of the meaning of strategies, the meaning of firms and the meaning of firms having strategies. With this background, we could then study the topic of change. We have examined how general strategies change and how firms change on our way to analyzing how strategies of business firms change. The analysis included both the empirical and theoretical sides of the topic.

We distinguished three types of strategies. The most basic type, C^1, involves a coordinated set of actions directed at attaining particular goals. C^2 extends this concept by broadening the scope to encompass all the activities of the strategic unit and also considers a long time frame. Type C^3 focuses explicit attention on the environment and views strategy in terms of action-condition linkages. C^1 strategies are common for business firms, as are C^2 strategies. C^3 strategies, however, require enormous information processing capabilities and are nonexistent or, at best, rare.

We raised questions about standard ways of identifying strategies and emphasized the importance of an *ex ante* view—the strategic unit has to intend the strategy and know it intends it. That is not to say, though, that things have to work out as intended. While it is useful to make inferences from outside about a firm's strategy, a concept of strategy that is only in the minds of outside observers provides limited insight into the actions of the firm.

We have raised some cautions about believing stated strategies, after all, isn't it an essential part of strategic thinking to mislead others? We also raised doubts about standard categorization approaches to strategy, especially in studying change. Changes in categories are neither necessary nor sufficient to conclude that some major changes in strategy have taken place. Given the complexity of the concept of 'strategy' we need to be modest about our conclusions of what a firm strategy really is and whether it has changed.

Our analysis of some of the empirical studies of changes in firm strategies made apparent the need to have richer yet explicit concepts of strategy. Hopefully the concepts and analyses provided here can contribute toward a better understanding of the existence and change in strategies.

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