

## Is the Process of Strategy Formulation Different in Complex Organizations?

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### Abstract

This paper reviews Robert F. Grattan's *Strategic Review: The Process of Strategy Formulation in Complex Organisations* (2011), by focusing on one major implied question emerging from the title of the book: "Is the Process of Strategy Formulation Different in Complex Organizations?"

The author first examines the theoretical contents of Grattan's book relative to existing and emerging literature on the strategic process by examining several theories discussed therein. The author examines the purpose and functions of strategy formulation in general and then discusses the contents of each of Grattan's chapters as they relate this process applied to the Strategic Defence Review (SDR) process conducted by the United Kingdom's Ministry of Defence using strategic business management theory and governmental decision theory mainly based in policy analysis. Brief critical analysis of the value of Grattan's work to the literature on strategy and the strategic process, as well as recommendations regarding the use of *Strategic Review: The Process of Strategy Formulation in Complex Organisations* are made. Finally, based on the review of the process of strategy formulation which Grattan relates from chronicling "what happens in large complex organizations during a major strategic review," the author attempts to answer the major question: "Is the Process of Strategy Formulation Different in Complex Organizations?" from both proponent-based and opponent-based perspectives.

**Keywords:** Strategy Formulation, Strategic Defence Review (SDR), Complex Organizations, Strategy, Capabilities, Competences, Strategic Process, Garbage Can Model.

## **Is the Process of Strategy Formulation Different in Complex Organizations?**

### **Introduction**

Strategy describes the actions and steps that organizations take to develop themselves into robust competitive structures by understanding their internal and external environments and all the variables that contribute to success and survival in an uncertain and ever-changing market. Grattan (2011) defines strategy as “The art or skill of careful planning toward an advantage or a desired end” (p. 12), and as a “series of measures adopted to achieve a stated aim” (p. 13). There are as many definitions of strategy as there are strategic actions and approaches taken by organizations. However, one thing is common to all of the differing approaches and perspectives: the common goal or purpose of strategy and strategy formulation is to advance the organization through careful planning.

Planning for the long-term survival of organizations is a very important and continuous activity requiring understanding all aspects of the internal and external environments, especially where change and adaptability become paramount in gauging resources to develop competitive advantage. While numerous ideas about organizational strategy formulation have emerged over the past several decades, there is no universal or one-shot approach to getting strategic planning right or making strategies that do not require review and adaptation. Strategic review for organizations entails consideration of process, context, and content as these three factors fully define strategic success (Grattan, 2011). Moreover, for strategies to be successful they must confer certain capabilities and competences on organizations and the formulation process must focus on where or at what point these can be developed. Additionally, strategies must have a set of properties or characteristics to be successful. Some of these characteristics include those

developed by Rumelt (1980): consistency, consonance, advantage and feasibility. Strategies must be formulated based on realistic goals and must be measurable and flexible-adaptable.

The strategic formulation process must be undertaken with both mission and vision in mind. Companies engage in this process which is both time-consuming and difficult, because it is the only viable way to survive in the global economy where competition is constantly increasing and where economic, political-legal, social, cultural and technological changes are constantly in motion to affect strategy effectiveness and results. There are five major benefits from strategy formulation and the resulting strategies in organizations. They contribute to (a) determination of the direction of the organization's development, (b) achievement of proficiency, (c) attainment of innovation, (d) ability to concentrate on distinct products and services, and (e) achievement of performance and function efficiency in all processes to meet customer and shareholder needs (Grattan, 2011).

### **Purpose and Functions of Strategy Formulation**

Organizations engage in strategy formulation for various reasons. In his book *Strategic Review: The Process of Strategy Formulation in Complex Organisations*, Grattan (2011) explores several theories relating rationale for strategy formulation and the strategic process. These include Mintzberg's 5Ps as conceptual framework for strategy: (i) strategy as plan (ii) strategy as ploy (iii) strategy as pattern (iv) strategy as position and (v) strategy as perspective (Mintzberg, 1987); and the "Seven 'S' Model" of strategy which is a holistic model with the following elements: (a) strategy, (b) structure, (c) systems, (d) staff, (e) style, (f) shared values, and (g) skills (Pascale & Athos, 1982; Peters & Waterman, 1982). Process theories of strategy are explored in relation to ideas on incremental formulation; strategy is an incremental process (Lindblom, 1959); strategy as a rational process; strategy formulated by rational analysis of the

external and internal environment of a firm and the decisions of top management as a dominant coalition (Ansoff, 1965; Andrews, 1971; what Mintzberg (1990) calls the “Design School” of strategy. Other theories of strategy described by Grattan (2011) include the Three Modes of Formulation: (i) the Adaptive model where strategy is a match between the opportunities and threats in the environment and the capabilities of the company; (ii) the Linear model which focuses on planning through methodical, directed, sequential actions and consisting of integrated decisions, actions or plans that will establish and achieve viable organizational goals; and (iii) the Interpretive model which assumes that reality is socially constructed and based on social contract view of the organization as a collection of cooperative agreements (Chaffee, 1985).

The Garbage Can Model of strategy is postulated by Cohen, March and Olsen (1972), and views the strategy process or strategy formulation as “messy and unstructured” (Grattan, 2011, p. 31), and characterized by the preferences of the organization, the processes of the organization, and the participants with their corresponding variables. Grattan (2011) also presents the view of “Strategy as Practice” based on Jarzabkowski (2005) who views strategy formulation as a process involving the flow of organizational activity where the work of all involved affect strategy outcome or result. Other models of strategy described by Grattan (2011) include the rational actor model, organizational behavior model and governmental politics model. Additionally, strategy can be viewed from the perspective of mission-vision, as competitive approach or competition, from a resource-based approach with the following four attributes described by Barney (1991): it must be valuable, it must be rare among a firm’s current and potential competition, it must be imperfectly imitable, and there cannot be strategically equivalent substitutes. The capabilities-based approach to strategy is based on the idea of skills that can confer advantage on companies and competences as activities in which the company

excels (Grattan, 2011), what Stalk, Evans, and Shulman (1992) call competitive advantage or “hard-to-imitate organizational capabilities”. These theories and the definitions of strategy and the strategy formulation process are the subjects of chapters 2 and 3 of Grattan’s book, while chapter 1 introduces the reader to the Strategic Defense Review (SDR) which becomes the case study or complex organization to which Grattan applies the process of strategy formulation.

### **Strategic Review and Formulation**

Grattan’s subordinated title for his book would imply to the reader that the process of strategy formulation is different in complex organizations. However, reviewing the next several chapters of his book will provide insights into this idea implied in *Strategic Review: The Process of Strategy Formulation in Complex Organisations*. As chapter 1 of this book indicates, Grattan’s focus is mainly on the application of the strategic process to defense policy and defense review. Chapters 2 and 3 as described above deal extensively with strategy and strategy formulation as typical of many textbooks on the subject: definitions of strategy, purpose of strategy, the strategy formulation process, theories of strategy and the characteristics and benefits of strategic formulation and the strategy process. Chapter 4 of Grattan’s book is titled “Defence and Defence Policy” [British Publication] and continues to present background and historical information on the case as presented in chapter 1. Grattan (2011) defines “defence” and asks and responds to the question: “what is being defended?” There are two major factors identified in this chapter as key determinants of defense policy: technology and money. The author provides an overview and understanding of the Military/Industry Complex and examines the issue of the need for balance in light of current and emerging threats and commitments. The chapter focuses exclusively on Strategic Defence Review (SDR) structures and requirements in relation to strategy and strategy formulation. Chapter 5 continues developing the SDR case study by

looking at “Legacy and Precursors” effecting the Strategic Defense Review (SDR). “The Structure and Conduct of the Defence Review” is the subject of chapter 6, wherein Grattan (2011) examines the process and the policy framework of the SDR and diagrammatically presents the stages in the Strategic Defense Review (SDR). Grattan describes the planning phase and structure of the review and Grattan talks about the major five groups involved in the SDR: (a) the working groups, (b) the internal studies group, (c) policy and planning steering group (PPSG), (d) financial and policy management group (FPMG), and (e) the Cabinet. These groups are equivalent to the “people” in regular organizations that are integral to the strategy formulation process. Grattan (2011), similar to what Cohen, March and Olsen (1972) describe in the Garbage Can Model, argue that strategy formulation or the strategy process is not always an easy-flow process and sometimes exhibits anomalies as surfaced in the SDR. Similar to the strategy formulation process in non-military, non-governmental organizations (NGOs), some of the obstacles to effective strategy formulation come from finance and budgeting concerns and challenges, and from input issues, physical and human resources, capital and other resources.

The final two chapters of *Strategic Review: The Process of Strategy Formulation in Complex Organisations* are relatively short chapters, with Chapter 7 titled “Parliament” and which examines the role of this governmental body in the SDR, and provides an overview of the different political arms, committees, and their responsibilities in the strategy review and formulation process. Grattan discusses the political-legal factors in strategy formulation from the perspective of SDR, how various inputs in the SDR process and government response and reports help to determine the type of approach to strategy formulation and how these potentially affect outcomes. This is equivalent to leadership and managerial decision roles in ordinary organizations. The final chapter of Grattan’s *Strategic Review* summarizes some key principles

regarding strategy and describes strategy as a future-oriented process. Strategy formulation is seen as a process inherently involving risks because of uncertainty. Grattan discusses the seven “S” of strategic process and formulation: strategy, structure, systems, staff, style, shared values, and skills. Finally, Grattan presents the components of an evaluation model which provides four hallmarks of measurement of success for strategy formulation and application: (i) consistency, (ii) consonance, (iii) advantage, and (iv) feasibility (Grattan, 2011).

Grattan’s *Strategic Review: The Process of Strategy Formulation in Complex Organisations* is a case study overall. However, chapter 2 and 3 present a great overview of the strategy formulation process and various theories and approaches to strategy. However, the other chapters of the book are so subject specific that they offer little useful takeaway knowledge about strategy formulation to the future. This is not to say that Grattan’s work is without merit. The work demonstrates that strategy formulation is a very complex process and incorporates considerable details in describing how the strategy formulation process has been effectively applied on an extensive basis to address what to many is a policy issue. In fact, one of the unique things about Grattan’s book is the synthesis of policy, organizational and strategic theories and knowledge that the author uses to bring across the ideas and considerations when applying the generic strategic model or process in differing contexts. Grattan’s pointing out that triarchic characteristics of content, process and context is inseparable from strategy also communicates that while there is no universal or one-method strategy to addressing company issues and challenges, all companies must use a combination of the three in the strategic process.

This book is useful as a reference source on strategy formulation and theories of strategy, specifically alluding to chapter 2 and 3 that are most consistent with presented literature, theories, and approaches to studying and understanding strategy. The other chapters provide



information that will not necessary contribute to the development of knowledge about strategy and strategy formulation as process, theory and definition, but communicate that strategy cannot be context-free and also demonstrate that strategy formulation is a pervasive endeavor regardless of organizational contents. They provide sound basis and evidence of the universal need for the strategic process in organizations, regardless of their industry and classification types. These other chapters also communicate the intimate relationship that exists between strategy and policy analysis in governmental and administrative agencies and will act as basis for applying the strategy formulation process in similar contexts. This book is recommended as a useful reference source, especially for those who already have some understanding of the strategic process and its evolution.

### **Analysis and Discussion**

The foregone review of each chapter of Grattan's *Strategic Review: The Process of Strategy Formulation in Complex Organisations*, while they provided more rationale for engaging in the strategic process regardless of contexts and organizational contents, do not explicitly answer the question: "Is the Process of Strategy Formulation Different in Complex Organizations?" which is implied in the book's title. The implications, however, are that the process of strategy formulation is somewhat different in complex organizations. Grattan did not provide a definition of what he means by "complex organizations" but it is assumed that he refers to organizations as vast as governmental agencies responsible for developing policies through the strategic formulation process; an organization such as the government or its specific specialized agencies which must invariably include broader units and authority in its planning and decision making processes.

Complex organizations, as implied throughout Grattan's book, are complex because of their internal workings and external connections; their functions and responsibilities relative to the consequences of their actions. Such organizations are large in size by nature of their hierarchical structures and the customers or stakeholders they serve and affect. These organizations have several levels of leadership and rigid political and legal authority structures that make the strategy formulation process extremely formal and bureaucratic. These insights are gleaned from Grattan's description and chronicling of the Strategic Defence Review (SDR) in his book. The differences in strategy formulation in complex organizations would from such description seem to originate in those factors of complexity such as size, legal and political authority structures and rules, and the historical issues of precedence that underpin such a process. Thus, the process of strategy in complex organizations is different based on resources use and allocation, multi-layered leadership involvement, their size and capacity across markets and industries, their multiple interconnected departments and processes, and their bureaucratic approach to strategic decision-making.

Contrarily, it could be argued that there are no differences in the strategy formulation processes of complex organizations and their counterparts because the strategy formulation process involves a series of generalized actions or steps that lead to the development of strategy regardless of organizational content and context. While the purpose of strategy may vary slightly in terms of key success factors (KSFs) for each company, companies use strategy formulation for their growth, advancement, and competitive survival. Moreover, the strategy formulation process can be argued to be aimed at reacting and adapting to changing environmental conditions in all organizational contexts regardless of industry, and must necessarily involve analysis of the internal and external environments, understanding of strengths, opportunities, weaknesses and

threats (SWOTs), and effectively using these to develop an organization-specific approach or formula for success.

Small and less complex organizations like their counterparts, or large and complex organizations, must also engage in the process of strategy formulation. In fact, strategy formulation might be more imperative to the survival of small or smaller organizations because they are sometimes more sensitive to changes in the economy because of their structures or forms, their inability to absorb extensive losses, the fact that they have smaller markets and market shares and they are often dependent on limited avenues of finances, especially if they are sole proprietorship businesses. Additionally, smaller, less complex organizations need strategy because their types and forms are far and many, which essentially means greater levels of competition. Increased competition means that organizations must develop core and distinct competences to reap competitive advantages that distinguish them from their competitors. This is achieved mainly through skilful strategic formulation process as they identify new methods and processes to create value and increase satisfaction for their customers and clients.

### **Conclusion**

The global environment of business has changed dramatically to require deep intercultural knowledge and competence as part of the key success factors that organizations use to strengthen and shape their strategies to respond to diverse markets and function effectively and efficiently in changing environmental contexts (Schneider & Barsoux, 2003). This requires understanding the process of strategy formulation as one which must tune organizational culture and values for global leadership (Cohen, 2007) as both complex and small, and less complex organizations must function in a borderless world to achieve their missions and visions. The process of strategy formulation is therefore far less complex and less different between and

among organizational types in terms of formats and structures and it is important and indispensable to both forms as a vital undertaking. Organizations must engage in the process of strategy formulation if they are to deal adequately with increasing uncertainty and risks emerging from global and cultural cohesion, and if they are to integrate new and emerging practices, technologies and ideas into their bid for survival.

Strategy formulation requires understanding the relationship between variables in both the internal and external environments of the business and how to leverage these to turn weaknesses into opportunities and decrease threats from competitors and the risks and uncertainty existing in the global market. Complex organizations sometimes become overly bureaucratic and this can become a possible obstacle to effective strategic formulation, planning, and implementation. Recognizing this, flexibility must become a valued practice of 21<sup>st</sup> century organizations as they become more aware of the need to adapt and utilize diverse pools of human capital resources to drive value. The measures that organizations develop and apply in the global environment will become the defining factors of success as the global frontier undergoes unpredictable changes in the next several years. What matters therefore is not so much the process of strategy formulation as to complexity, but the results obtained for both large and small organizations.

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