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## PERSPECTIVES ON STRATEGIC ISSUE PROCESSING: INSIGHTS FROM A CASE STUDY

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### ABSTRACT

This paper describes four perspectives on the nature of strategic issue processing (SIP) that evolved from an in-depth, longitudinal study of how twelve strategic issues were processed in a large, multidivisional corporation. The study suggests that SIP can be understood as a performance program, a control process, a channel for learning, and an agenda-building process. The application of all four lenses to strategic issue management systems will provide insights into how formal organizational systems foster and retard strategic change.

### INTRODUCTION

Strategic issue management systems embody formal structures and processes for guiding organizational adaptation (Brown, 1981). By design, strategic issue

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management (SIM) systems are intended to "manage an organization's resources and to forecast, address and respond to emerging issues potentially important to an organization" (Renfro, 1982:62).

This paper describes four unique perspectives for understanding the process of strategic issue management that evolved from an intensive case study analysis. At one level, the four perspectives expand our knowledge of strategic issue systems by forcing consideration of their multiplicity of functions. At another level, they expand our understanding of formal systems and their relationship to strategic change.

The four perspectives illustrate that strategic change comes about through the joint operation of static and dynamic processes. Formal systems create static pressures through their precise specification of procedures and routines that create a predictable flow of information. They function as output control devices by monitoring and evaluating performance of divisional units (Ouchi, 1977). At the same time, they embody dynamic forces by helping the organization "learn" by documenting changes in understanding that occur over time. In addition, formal systems foster change by disaggregating people and procedures, ensuring that actions and intentions remain loosely coupled (March and Olsen, 1976; Weick, 1979).

The static and dynamic elements of formal organizational systems help to explain the occurrence of incremental strategic change (March, 1981a). On the one hand, these systems act as performance programs and instruments of control that create forces for stability in the organization. On the other hand, these systems facilitate learning and decouple and prioritize issues or programs that together create dynamic forces for change.

The static and dynamic elements of formal of organizational systems are explored in the context of strategic issue management systems. As described above, these systems have evolved as components of public affairs departments and strategic planning systems to help organizations avoid "unpleasant surprises" (Gottschalk, 1982) or to prevent blindness to developments of potential consequence (Lenz and Engledow, 1983) by institutionalizing organizational adaptation.

Strategic issue management systems consist of a set of routines and procedures designed to identify, track, and resolve strategic issues. Strategic issues represent potentially important developments that in the minds of organizational decision makers are likely to affect the organization's ability to achieve its objectives (Ansoff, 1980; King, 1981). By design, strategic issues play a critical role in initiating the process of strategic change. They represent "signals" (Ansoff, 1980; Arrow, 1974), special studies (Quinn, 1980), potential opportunities, or threats that activate and focus organizational attention. The formation and focusing of attention is a first step in the process by which issues are transformed into organizational action (Dutton, Fahey, and Narayanan, 1983).

It is the link between strategic issues and action that makes SIM important for

understanding strategic change. SIM systems represent formalized structures intended to convert ambiguous threats and opportunities emanating from within and outside organizational boundaries into concrete initiatives for change. However, it is their existence as a formal systems that makes imperfect the relation between the detection of strategic issues and organizational responses.

This paper presents the results of an intensive case study of strategic issue processing (SIP) in a single organization. A examination of the processing of twelve strategic issues over a five-year period and their relationship to the outcomes of SIP will make the static and dynamic elements evident. The static elements are illustrated through the system's role as a performance program and control device. Dynamic forces are introduced through the system's functioning as a learning process and agenda-setting process. Together, all four perspectives on SIP demonstrate the complex web of forces that work together in producing strategic change.

## RESEARCH DESIGN AND METHODOLOGY

The absence of empirical research on strategic issue management (Lenz and Engledow, 1983) and the interest in studying strategic issue processes over time called for the use of a qualitative methodology. The research method followed in the spirit of a grounded theory approach (Glaser and Strauss, 1967), designed to build inductively a framework for understanding strategic issue processing and its significance for strategic change.

### The Research Setting

The study was conducted in a large, diversified, multinational corporation, referred to here as Capital Corporation. Capital Corporation employed a formal strategic issue system for identifying, tracking, and resolving strategic issues. The formality of the process facilitated data collection by providing an identifiable set of issues to study, as well as making traces of their processing more analyzable.

Capital Corporation instituted its formal strategic issue management system in 1976 as part of its strategic planning process. Each year, the three members of the Corporate Planning Department designated several strategic issues to be explored. These issues were identified by the Planning Department's examination of annual plans submitted by the organization's approximately 100 strategic business units (SBUs). Following their identification by the planning group, the top executive committee of the firm (the Policy and Executive Committee, PEC, consisting of the top seven officers of the company) either approved or disapproved of the issue as an "official strategic issue."

Once an issue was designated as official, the PEC appointed a task force

consisting of various division- and corporate-level managers, charged with responsibility for issue resolution. As part of its responsibility, the task force made presentations to the PEC outlining how it proposed to resolve the issue. Status on resolving the issue was checked intermittently through quarterly issue status reports submitted by the task force. The formal process generated elaborate and systematic correspondence about each of the issues collected and stored at corporate headquarters. Each issue, in effect, had an "issue file" that contained all intraorganizational correspondence that took place about the issue. The availability of these issue files greatly facilitated a historical tracking of the issues.

### The Issues

The study examined Capital Corporation's strategic issue processing through comparative histories of multiple issue-processing episodes. An issue episode began with the designation of an issue as an "official strategic issue" and ended when the PEC ruled that an issue was no longer a member of Capital's issue set. A sample of twelve issues was selected from a population of thirty-eight strategic issues, representing the complete set of issues formally identified by the strategic issue management system since its inception in 1976. Top-level managers considered these issues to be variable with respect to how uncertain, important, and immediate each was perceived to be. The issue selection process ruled out the possibility of studying top-level management's initial selection of these particular issues from the vast array of potential strategic issues. Instead the issue sample was selected to create variance on the types of issues studied so confidence in any general statements about SIP could be enhanced (Weiss, 1968).

The sample size of twelve was designed to be large enough to provide comparative data on the processing of several types of issues yet small enough to permit an in-depth tracing of each issue's history. Brief descriptions of the major thrust of the twelve sample issues are presented in Table 1.

The historical tracing of each issue was based on analysis of archival data contained in each strategic issue file and structured, open-ended interviews with key persons involved with each of the issues. The issue files contained a wealth of data on each of the strategic issues. The most important available items are described below:

1. *A formal description of the issue:* The formal description included a statement of the issue, its current status (what action, if any, was being taken on it), and a series of questions about the issue. This document was produced by the strategic planning department.
2. *Task group reports:* If an issue was considered active, the task group charged with responsibility for it was required to make a formal presentation to the PEC concerning what action was being taken on the issue. Outlines of these reports were often included in the files.

Table 1. Description, Initiating Stimuli, and Outcomes of the Twelve Strategic Issues

Issue	Number of Informants	Description	Triggering Stimulus	Outcomes
A	(2)	Question the investment necessary to build a commercial plant for the Recreation Equipment Division.	Desire to monitor implementation of project	Improved plans for plant
B	(2)	Should Capital Corporation organize to capitalize on the opportunities available from combining products from various divisions into a Hospital Services operation?	Awareness of potential market opportunity	None identified by informants
C	(3)	What strategy should be pursued in specialty products based on its position in the petrochemicals market?	Capital investment request and performance	Decision to diversify by acquisition Allocation of funds to research center for internal development
D	(2)	How can returns be improved in Capital Steel to meet Capital Corporation's goals considering the high investment requirements?	Capital investment request and poor financial performance	Change in market penetration strategy Modification of SBU arrangement
E	(6)	What is the strategy for the industrial portion of Terra Products?	Poor financial performance	Clarification of competitive strategy Change in product mix Change in marketing orientation
F	(5)	What should be done to take full advantage of the Pearlton Joint opportunity?	Awareness of market opportunity	Change in product mix Change in product technology Clarification of implementation plans for new plant
G	(1)	Should Capital Corporation's Technical Products be sold or be joint ventured with a firm in the technical field?	Awareness of market opportunity	Decision on corporate commitment to a division

(continued)

Table 1. (Continued)

Issue	Number of Informants	Description	Triggering Stimulus	Outcomes
H	(3)	What should Capital Corporation's policy be with respect to exploring bulk processing?	Capital investment request and poor financial performance	Modification of product mix Confirmed overall market strategy Building a new facility
I	(3)	How much investment does Capital Corporation want to make in computer services, and where should the emphasis be?	Capital investment request and poor financial performance	Shift in product mix Change in business policy
J	(2)	Examine the switching of the strategy in a division from growth to profitability.	Capital investment request and poor financial performance	Modification of SBU arrangement Change in distribution system Acquisition of company Decision not to divest several SBUs Commitment to new market ended
K	(3)	What should Capital Corporation's reaction be to the specialized coating opportunity?	Awareness of market opportunity	
L	(3)	In the Petrochemicals' group, what strategy would be followed in the face of falling margins and greatly increased capital costs?	Capital investment and poor financial performance	Decision to expand market Technology chosen Modification of SBU arrangement

3. *Response to the task group report:* The PEC issued a formal response to the task group that was communicated in writing to the head of the task group. In most cases, the response contained an appraisal of how satisfactory the group report had been and a statement of resource allocations made to the group.
4. *Quarterly reports:* The Planning Department coordinated a quarterly monitoring of the issues. The monitoring took the form of a description of the issue, its current status, and any additional questions that the president believed the task group should be considering. In certain cases, the responses of the task group to the monitoring questions were included in the files.
5. *Miscellaneous:* The issue files often contained other miscellaneous items such as newspaper or magazine articles.

For each issue, the corporate- or division-level manager charged with responsibility for an issue was interviewed. Through a snowball identification process, all major participants in the issues across all levels of the organization were identified and interviewed. Thirty-one unique informants were identified; four persons were interviewed for more than one issue. The distribution of informants across the twelve issues is indicated in parentheses in Table 1.

### The Interview Guide

The interviews conducted with issue informants relied on a structured interview guide. With this guide, the average informant interview took one hour, however, the length of time taken to complete the interview varied from a half-hour to six hours, depending on the level of knowledge of an informant about the issue, as well as the complexity of the strategic issue.

The interview was designed to move from very general questions about an issue to more specific details about particular characteristics of the issue's processing. Two major types of questions were contained in the interview guide: grand tour questions and open-ended directive questions.

The grand tour questions were intended to elicit verbal descriptions of the significant features of the issue-resolution process. For example, the interview began with the following question, "What in your mind have been the most important milestones or activities in working on this issue?" This type of question encouraged the informant to provide a description of the process without having to place the description within categories imposed by the researcher (Spradley, 1979).

The interview also contained a series of questions aimed at exploring several specific aspects of the issue-resolution process. The use of these specific categories of information about the process facilitated the comparison of the process across issues. Although the interviews were intended to be exploratory in nature,

the ambiguity of the issues and, in some cases, their extended lives of five years required more directive questions to help the informant map the life of the issue.

The directive questions were aimed at clarifying eight aspects of the issue-resolution process: (1) the complexity of the issue process; (2) the types of information collected; (3) the range of alternatives considered; (4) the method of choosing among alternatives; (5) the incidence of conflict; (6) the impact of events and people in the organization on the process; and (7) the types of outcomes of process (for example, changes in strategy or goals as a result of the issue). In addition, more precise information was obtained about the level and type of involvement of the informant with the issue and its resolution.

The basis for the more focused questions was previous work that had been done on decision-making processes in organizations. The questions were directed toward exposing potential rational-analytic (e.g., information, alternative evaluation), political (e.g., conflict and involvement), organizational-bureaucratic (e.g., events and people impacting the issue), and garbage-can (e.g., the presence or absence of interrupts and delays) aspects of the strategic issue process. However, the categories of information from which the questions arose were considered temporary, and they were modified based upon outcomes of the ongoing analysis of the data during the research process.

Descriptive histories of the strategic issues were built from interview and archival data. Each history reconstructed the pattern of issue processing by describing who was involved, the key alternatives considered, the outcomes generated, and communication and conflict patterns. The aim when constructing these histories (averaging twenty typed pages for each issue) was to stay as "close to the data as possible" and to delay interpretation until the analysis stage.

Several characteristics of the data collection process built confidence in the research findings. The use of multiple, expert informants for each issue (Phillips, 1981), contextualization of each issue (Christians and Carey, 1982), and the compiling of real-time and retrospective data on each issue (protecting against a purely recollection-based model of the process [Schwenk, 1982]) all contributed to the validity of the research data.

### The Analysis

Following construction of the strategic issue histories, themes were extracted, and events, relationships, or patterns emerging from the data were noted. This process was subjective and inductive. An example reveals the way subthemes were aggregated into major themes that then made sense of a variety of SIP patterns. One theme was "the effort by divisional-level management to win approval from corporate management." This theme emerged from a variety of behaviors evidenced during the processing of seven of the issues, including: (1) active revisions of task force proposals made to the PEC to present a view

consistent with corporate management's position (Issue A and D); (2) explicit statements that certain choice alternatives were ignored that task force members believed corporate management would not approve (issues C, D, and L); (3) gradual increases in levels of capital investment requests to increase the probability of corporate approval (Issue F); and (4) the task force's explicit highlighting of certain criteria for judging divisional performance in order to "score well" in the eyes of corporate-level management.

The number of occurrences of a particular theme across the twelve strategic issues provided an estimate of the theme communality, building a basis for deriving generalizations about strategic issue processing. These generalizations, in turn, were used to build the four theoretical perspectives on the nature of strategic issue processing. For example, the theme elaborated above helped to build the perspective in SIP depicting it as a type of control process.

Each perspective on SIP was extended by generating additional hypotheses about likely data patterns in strategic issue processing if this general view of the process held true. Thus, a set of second-level predictions was developed and tested to explore the relative validity of the different theme-based perspectives on SIP. In this way an understanding of SIP was built inductively and then explored systematically through the provisional testing of hypotheses (Miles, 1979).

The analysis employed in this study represented an attempt to wed inductive and deductive reasoning in order to form inferences about the nature of SIP processing in Capital Corporation. Each of the steps in the inference-forming process is summarized in Figure 1.

As the description of the analysis implies, the process of inference formation was iterative and interactive, employing a cycle of data generation-hypothesis generation and testing. The sequence of inference-forming steps clearly illustrates that the research process was largely a puzzle-solving endeavor. The outcomes of this puzzle-solving task form the basis for the findings presented below.

## PERSPECTIVES ON STRATEGIC ISSUE PROCESSING

The research revealed that the processing of strategic issues represented several processes occurring simultaneously. The themes suggested that the strategic issue management system operated simultaneously as a performance program for the organization, a control process, a channel for learning, and an agenda-setting process. Although these perspectives are not purely distinct from one another, each provides a different lens for interpreting SIP, as well as suggesting a different set of SIP patterns.

In the paragraphs that follow, each general view of SIP will be discussed by providing the themes that informed this view of SIP. Following the description of each SIP perspective, a series of second-level hypotheses is proposed. Data

Figure 1. Steps in the Inference Process.

<i>Phase</i>	<i>Major Activity</i>	<i>Type of Inference</i>
I. Data Collection	Collection of all archival records relevant to an issue Interviews with issue informants	Deductive
II. Formation of Descriptive Issue History	Each of the major events in the issue history was used to create a descriptive narration of the major incidents in the issue's processing.	Inductive
III. Extraction of Issue Themes	Significant patterns of events (themes) were extracted and their frequency of occurrence was tabulated across the 12 issues.	Inductive
IV. Theme Aggregation	The themes were aggregated into different perspectives on SIP that helped to make sense of the observed behaviors.	Inductive
V. Generation of Second-Level Hypotheses	The different perspectives on SIP were used to derive hypotheses about additional processing patterns expected if the perspective on SIP held true.	Deductive

relevant to the hypotheses are presented and discussed. In the final section, the implications of these perspectives are explored in terms of their relevance for general theories of organizational decision making and adaptation.

### SIP as a Performance Program

Organizations employ performance programs to economize on resources and to make behavior more predictable in the face of ambiguity (March and Simon, 1958). Given the ambiguity surrounding the processing and successful resolution of strategic issues, it is not surprising that the strategic issue process acted as a type of corporate-level performance program.

Several observed characteristics of the strategic issue process contributed to this view. Within Capital Corporation, the rules for communication between the top policy committee (PEC) and an issue's task group were specified. Categories for issue documentation were set, task groups were formalized, presentations were made to the PEC, and presentations were followed by a formal statement from the PEC. All of these characteristics highlight the similarity of SIP to a performance program.

The resemblance of the process to a type of performance program made it appear rational and systematic. With this type of process in place, outcomes gained a legitimate status independent of their relationship to the attainment of organizational objectives. As a result, outcomes of SIP were less suspect and subject to criticism by those affected by an issue. Interviewees frequently commented that the strategic issue process was "very sophisticated and highly advanced."

The formality of the process assuaged fears of issue participants that the process had a largely "irrational" component. This effect was evidenced during descriptions of the issue process when informants explicitly stated that they were pleased corporate management was getting involved in the issues because then "things would get better" or "the crazy politics would be minimized." Thus administrative mechanisms such as meetings, correspondence, and protocol helped to routinize the ambiguity surrounding the strategic issues (Pondy and Huff, 1988). To the extent that the SIP process was programmed and objectified, the aura of appropriateness and definitiveness was preserved (March, 1981b). To participants, the process was analytical, logical, and legitimate.

The view of SIP as a type of performance program implies that conforming to the rules and procedures directing the process is of paramount importance. Without a high level of conformity, the appearance of rationality would be lost.

On the basis of this logic one would make the following hypothesis:

**H1.** *Compliance with the performance program in issue processing will be more frequent than noncompliance.*

Hypothesis 1 can be addressed by examining the frequency of occurrence of the routinized strategic issue processing and comparing this with the occurrence of nonroutinized behavior. The major routine built into SIP was a three-part activity sequence: (1) a task group report made to the PEC, (2) a formal written response to the task group from the PEC, and (3) the monitoring of task group compliance using quarterly monitoring reports. Table 2 shows the number of times this program was confirmed during the twelve issues, as well as the number of times the program was disconfirmed (the actions were out of order or one of the actions was missing). The clear dominance of the programmed activities in SIP is evident from this tabulation. While twenty-one occurrences of the program were evident across the twelve issues, only five disconfirmations could be found.

### SIP as a Control Process

The themes also revealed that SIP served as an important system for monitoring and controlling the activities and resources of the organization. The controlling elements in SIP came from its close ties to the allocation of resources. Through the formal issue process, a public and visible justification for resources

Table 2. Evidence of Performance Program by Issue

Issue	Program Confirmed	Program Disconfirmed
A	1	0
B	0	1
C	2	0
D	1	0
E	1	0
F	1	1
G	2	0
H	2	0
I	0	2
J	3	0
K	2	0
L	<u>6</u>	<u>1</u>
	21	5

was made, and a subgroup of the organization came under the watchful eye of corporate-level management.

The controlling elements of SIP were important given the decentralized form of Capital Corporation, providing a mechanism for centralizing authority on a situational basis. Because this controlling move was irregular in the context of a very decentralized organization, it became a focus of concern among the organization's subgroups. The designation of strategic issues became one means for judging the equity of corporate attention and control. The frequent mention by division-level management that some issues did not "deserve this amount of corporate concern" is indicative of the equity concern.

Understanding that the SIP acted as a control process provides another viewpoint for understanding SIP. Once an issue was triggered, the group responsible for an issue felt compelled to take actions to signal issue-related progress. Thus, an issue's processing pattern reflected attempts to expand and restrict a subunit's resource base—attempts that may have been peripheral to the issue at hand.

Two types of evidence can be used to validate that the processing of strategic issues was a means corporate management used to monitor the performance of organizational units and to take corrective measures when necessary. One type of evidence used the data analyzed for Hypothesis 1; the other examines the initial triggers for concern with the issue.

If SIP acts as a corporate control device, then division-level managers are likely to feel the process constrains or directs their activity. Attempts at deflecting these efforts, such as through noncompliance with the SIP routines, are likely to be prevalent for the more powerful divisions in the organization. The more powerful divisions can well afford to deviate from programmed routines to

preserve their discretion, while corporate management is less willing to intervene to force compliance. Thus the hypothesis:

**H2.** *The more powerful are the division or subunits involved in a strategic issue, the less behavioral conformity there is to the strategic issue process routine.*

The data for addressing this hypothesis are very limited. However, the case of Strategic Issue I provides some support for this claim. This issue concerned the Computer Services division of Capital—clearly the "new star" and "rising hope" for Capital's recovery from a performance slump brought on by the poor performance of its steel operations. This division was internally powerful due to its uninterrupted growth and profit performance that far exceeded the performance of the other divisions. It is in the processing of Issue I (the only issue involving the Computer Services division) that the greatest incidence of non-compliance with the processing routine occurs.

If the processing of strategic issues is serving as a type of control process, this should also be reflected in the stimuli initiating SIP. One would expect that deviations from projected performance would dominate as triggers for SIP.

**H3.** *The closer that the strategic issue process is to a control process, the greater is the reliance on performance discrepancies as triggers activating the SIP process.*

The triggers for the twelve strategic issues are shown in Table 1. As the table implies, the dominant triggering stimuli were the poor financial performance of a subunit, coupled with a request for capital (Hedberg, Nystrom, and Starbuck, 1976). Discussion with issue participants revealed that corporate management used a type of implicit rule of thumb in defining divisions as problematic: capital investment requests should be proportional to the subunit's contribution to the corporate financial pie. If a request exceeded the amount judged equitable, then the action received top management's scrutiny through its emergence as a strategic issue. Examination of the triggering stimuli confirms the control process underlying SIP.

### SIP as Channel for Learning

Through the process of SIP, substantial information was transferred between corporate and division management. SIP became a vehicle for generating, collecting, and communicating information that was relevant and irrelevant to the issue at hand. Because of its role in the passage of information, SIP is a potential vehicle for learning. If organizational learning is defined as the process by which organizations develop, store, and disseminate knowledge about action-outcome relationships (Duncan and Weiss, 1979; Shrivastava, 1983), then SIP is a learning event.

Corporate-level management frequently mentioned that SIP was viewed as a way to increase levels of understanding about the nature of the organization's businesses. As the chief executive officer stated: "The process of issue resolution is a process of building consensus and building understanding." He also acknowledged the role of SIP in storing important organizational knowledge: "The strategic issue process serves as a way to document what we are doing. This documentation is important for as new people come into the organization, they can see what we are doing, why we are doing it and how we are doing it."

The role of SIP in enhancing learning was recognized at the divisional level as well. When informants were asked to identify the strengths of the strategic issue system, 52 percent mentioned that the system helped to identify issues and unknowns, and 17 percent mentioned its role in improving communication between corporate- and division-level management. Throughout the process of SIP, action-outcome knowledge was gathered and shared, and opportunities for building consensus about this knowledge were provided.

Arguments that the strategic issue process acted as a vehicle for learning would be more convincing if there was concrete evidence that, in fact, understandings of the issues changed over time. The view of SIP as a learning process suggests that issue histories tracked modifications in understandings, taking place as the definition and interpretation of the issues changed over time.

**H4.** *If opportunities for learning are dominant in SIP, the meaning of the issues should be variable over time.*

Table 3 presents, in simplified form, the dominant meanings of the issues over

*Table 3. Changes in the Definition of the Issues over Time*

<i>Issue</i>	<i>Changes in Definitions and Meaning</i>		
A	Should a new plant be built?	→ Implementation concerns about a new plant.	
B	Exploring the possibilities for a Hospital Services Group.		
C	Determine diversification for Petrochemicals through specialty products.	→ How to grow one SBU within Petrochemicals?	→ Determine diversification strategy for Petrochemicals.
D	How to improve returns in Capital Steel.	→ What's the level of corporate commitment to Capital Steel?	→ What should the strategy be for the SBUs that comprise Capital Steel?

(continued)

*Table 3. (Continued)*

<i>Issue</i>	<i>Changes in Definitions and Meaning</i>		
E	What should the strategy be for Terra Products?	→ What should the product strategy and organizational design be for Terra Products?	
F	Capitalize on new market opportunity.	→ Implementation details for new plant.	
G	What is the level of commitment to Technical Products?	→ What strategy to pursue to make Technical a viable business?	
H	Exploration of market potential for a product of Capital Steel.	→ Question the level of corporate commitment to Capital Steel.	
I	What should be the level of investment in Computer Services given large investment requests?	→ What is corporate's level of commitment to Computer Services as part of its identity?	
J	What is the right design for Furnace Products?	→ Should Furnace products be in the residential market?	→ How should one compete in this market?
K	Determine market viability of new product.	→ Determine technical feasibility of new product.	
L	What should be done to improve profits of Clear Chemicals division of Petrochemicals?	→ Should production be expanded?	→ How should production be expanded?
	How to integrate new and old production processes?		↓ How to retire the old production process?

the duration of their lives. The meanings were extracted from the formal descriptions of the issue published by the PEC and from descriptions of the issues provided by the informants. Only the most obvious revisions in meaning are noted, tending to understate rather than overstate the variability in issue meaning. The important conclusion derived from this mapping is that the issue mean-

ings were fluid over time. This fluidity confirms that there was substantial room for the incorporation of learning into SIP.

SIP as Agenda Setting

The final view of SIP highlights its role in agenda setting for the organization. The agenda perspective is useful for conceptualizing the movement of strategic issues into and out of the consideration of top decision makers. Strategic issues represented a pool of items put on Capital's formal docket. The organization used strategic issues as a way to prioritize its array of important concerns.

This view of strategic issues was explicitly recognized by the members of Capital Corporation. One informant declared, "As a strategic issue you were placed on the agenda, and then you were forced to respond in a formal manner." Another informant revealed the energizing impact of becoming an agenda item. When talking about Issue E, he related, "It focused the corporation onto our needs. It kicked us in the pants to do something. It gave us the impetus to change things." This last comment clearly points to the momentum created for a concern or issue by its' becoming a formal item on the organization's agenda.

Viewing SIP as an agenda-setting process highlights the importance of the perception that an item must be perceived as a legitimate concern for an issue to be adopted (Nelson, 1979). Interviews revealed that task force members regularly judged the legitimacy of corporate concern over an issue. In two cases (Issues A and F), members felt the issue was too clear and too certain to be a justifiable corporate issue. In another case, informants were distressed that their division's strategy was questioned as an issue because their division's financial performance had been very high relative to others. For all three issues, judgments of the issue's legitimacy affected participants' willingness to devote time and energy to resolution of the issue.

The agenda perspective emphasizes the importance of issue interdependence—that is, acceptance of one issue on the organization's agenda affects the willingness and ability of decision makers to deal with other items of concern. At least three issues studied in Capital Corporation illustrate the role of issue interdependence. All three issues concerned a single (but large) group within the organization (Issues C, K, and L). Of the three issues pertaining to this group, Issue L was the first to be placed on the docket. It was a much more fundamental issue than the other two, for it questioned the entire strategy for the group. Until the fundamental concerns of this issue were resolved, participants had neither the time nor the motivation to tackle issues C and K.

Research done on congressional docket setting leads to a hypothesis about the processing of strategic issues not readily apparent unless one considers SIP as an agenda-setting process (Walker, 1977; Nelson, 1979). For example, these studies have documented the occurrence of issue maintenance—that is, where interest in the issue is preserved to keep the item on the agenda. By maintaining an

issue on the agenda, interested parties keep lines of communication open that might otherwise be unavailable. The role of issue maintenance in an agenda-setting process leads to the following hypothesis about SIP:

- H5. Attempts to maintain strategic issues on the formal agenda will result in issues remaining on the docket even after they have been resolved.

To examine this hypothesis, an indicator of the level of activity occurring over the lives of the issues had to be constructed. Within this study, strategic issues exhibited an activity sequence (Starbuck, 1983) composed of three different levels of activity. An issue was active when regular meetings and communications were held specifically to address the issue. An issue assumed a passive status when progress on the issue was checked intermittently, but no in-depth, regular communication or analysis of the issue took place. Finally, an issue was considered dormant if no communication or analysis was being devoted to the issue. The mapping of the activity sequence for the issues is presented in Table 4.

Several points relevant to the view of SIP as agenda setting can be derived from this analysis. First, none of the issues investigated was ever officially taken off the agenda. Although the activity levels decreased to a dormant state for several of the issues, the issues seemed resistant to formal removal from the docket. This finding is consistent with studies that have shown that entry onto the agenda is easier to accomplish than agenda exit (Walker, 1977). The other point concerns the variable patterns of activity over the issues' lives. There is a tenden-

Table 4. Activity Sequence for the Strategic Issues

Issue	1976	1977	1978	1979	1980	1981
A				ACTIVE	→ PASSIVE	→
B				ACTIVE	→ PASSIVE	→
C				ACTIVE	→ PASSIVE	→ ACTIVE
D				ACTIVE	→ PASSIVE	→ ACTIVE
E			ACTIVE	→ DORMANT		ACTIVE
F	ACTIVE	→	PASSIVE	→ ACTIVE	→ DORMANT	
G	ACTIVE	→	PASSIVE	→ DORMANT		
H	ACTIVE	→	PASSIVE	→ DORMANT		
I	ACTIVE	→ DORMANT	ACTIVE	→		PASSIVE
J	ACTIVE	→				DORMANT
K	ACTIVE	→	PASSIVE	→ DORMANT		
L	ACTIVE	→				

cy to reactivate issues after they have been dormant or passive, providing evidence of a maintenance effect and showing more support for the view of SIP as an agenda-setting process.

### THE OUTPUTS OF SIP

The espoused function of strategic issue systems is to detect, process, and resolve important concerns potentially threatening to the organization's effectiveness. One explicit purpose of these systems is to convert strategic issues into effective action and change—either to capitalize on an opportunity or divert a threat. The outcomes generated by the processing of the issues provided some insight into the range of actions flowing from the issues. Inspection of the outcomes mentioned by informants and presented in Table 1 suggests that a wide range of actions were taken in response to the issues.

Outcomes of SIP tended to be modifications in the business-level strategies of divisions within the organization. For example, Issue F was concerned with determining what actions, if any, were necessary to capitalize on a product opportunity that arose from a change in demand for the product. The issue produced a modification in the product mix for the division, a change in the technology for producing it, and clarification of details for a new plant. All of these changes reflect modifications in the business-level strategy of a division as opposed to changes in the organization's corporate-level strategy.

Changes in business-level strategies occurring across the various issues were tied together by an overarching corporate-level strategy. For example, several of the changes in product mix that were considered outputs of the issues were linked together by a corporate emphasis on shifting to anticyclical businesses. In 1975–1976, corporate management had surmised that their organization's profit problems were due to a portfolio of businesses overly sensitive to cyclical swings in the economy. Consequently, corporate-level strategy was modified to emphasize computer services and other areas top management believed would insulate the firm from cyclical trends. In this case, the influence of corporate-level strategy was manifest in the preferences for action expressed in the context of strategic issues.

At the same time, the pattern of outputs associated with the strategic issues (such as changes in SBU arrangements and modifications in product-market strategies) formed a basis for modifying corporate-level strategy. For example, momentum for a shift in emphasis away from the organization's core business was affected by the commitments and decisions made in the course of several of the issues. The building of new plants intended to serve the organization's core business, the steel business (Issues H and F), and the decision to emphasize market penetration in a steel-related market (Issue E) went against the intended strategy of the organization. The realized strategy (Mintzberg, 1978) was a more

moderate and a gradual departure from the organization's dependence on steel-related products than was originally planned. This modification in corporate strategy came about through the additive effect of outputs of several strategic issues. In this way, corporate- and business-level strategy were intertwined through the strategic issue process.

The outcomes could be construed as organizational responses to the issue—where each response represents an episode of organizational adaptation. However, an inspection of the outcomes, also makes clear that there is only a loose connection joining the initial trigger for an issue, the issue's definition, and the outcomes produced. Similar to what other researchers discovered in the context of educational organizations (Cohen, March, and Olsen, 1972; March and Olsen, 1976), the outcomes of the issues were often only partially related to the questions initiating them.

The low correspondence between the content of the issues and the SIP outputs is not surprising given the multiple processes taking place within the strategic issue arena. As the different perspectives on SIP reveal, the outcomes are by-products of several processes occurring simultaneously: the playing of a performance program, attempts to monitor and control divisional performance, the modifications in issue understanding over time, and prioritization and maintenance of an organizational agenda.

### DISCUSSION AND IMPLICATIONS

None of four perspectives on SIP suggests that outcomes (choice points, investments, commitments, and so on) are the driving force behind action taking place in SIP. Instead the SIP pattern was the product of a complex web of forces occurring at different levels in the organization. This finding underlines the importance of process as opposed to outcomes in SIP. This is the same conclusion reached by researchers who have completed in-depth studies of decision processes (Bower, 1970, Mintzberg et al., 1976; Normann, 1977), internal venture activities (e.g., Burgelman, 1983), as well as by reviewers of the literature on decision making (e.g., Allison, 1971; March, 1981b).

Models of organizational adaptation do not consider the complex web of processes involved in transforming changes in the internal and external environments of the organization into action. Within the single large firm studied in this research, the chain of events between the receipt of a triggering stimulus and the eliciting of a response was complex and long linked. Modifications in strategy and design that did occur were imperfect adaptations to the triggering stimuli. Current models of adaptation (Chakravarthy, 1982; Miller and Friesen, 1980; Lawrence and Dyer, 1983) (strategic change and otherwise) must consider the possibility that the black box between environmental stimuli and organizational response is far more complex and important than previously thought.

SIP as evidenced in Capital Corporation clearly had static and dynamic elements embedded in it. Issues were instigated by performance discrepancies, and a logical, sequential routine was employed for their resolution. At the same time, the introduction of new participants, the surfacing of new issues, and the motivations of participants in old issues diverted managerial attention from one issue to the next, and the meanings of the issues were revised over time.

Despite its dynamic and static elements, the SIM process managed to produce outcomes that varied in terms of the degree to which they were directly related to the issues that triggered them. However, the pattern of outcomes over the set of issues helps to explain the incremental shift in the corporate-level strategy over time. Thus, an examination of the processes and outputs of the portfolio of strategic issues (Pondy and Huff, 1988) clarifies the process underlying the realized strategy of Capital Corporation.

### Limitations of the Study

The study of strategic issue processing at Capital Corporation represents a first step in understanding the more general processes of SIP. Any generalizations from this study are obviously limited given their origin from an intensive study of a formalized strategic issue processing system in a single large, diversified organization with a very active strategic planning group.

At the same time, discoveries about organizational systems and their relationship to strategic change should be considered by researchers studying all types of organizations. The study points to new avenues for explaining the relationship between strategy and structure—that in fact systems embedded in the structure (such as a strategic issue system) contribute to the content and process of strategic change.

At an even more general level, this intensive study alerts organizational researchers to the dangers of oversimplifications. As March (1981a) has noted, the tendency is to try to adopt one perspective on change to see if it fits a particular situation. However, as he notes, it is quite possible for all perspectives to be pertinent or for any particular history to involve them all (p. 565). In the case of SIP, the patterning of stimuli, processes, and outputs can be understood only if multiple theoretical lenses are applied simultaneously. One might agree that our views on all organizational processes (decision making, communication, conflict) would be enriched by considering the multiplicity of processes underlying these behavioral patterns.

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## LEADERSHIP AND BEYOND: THE NEED FOR STRATEGIC MANAGEMENT SKILLS

Stephen A. Stumpf

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### INTRODUCTION

The cry for more effective senior executives is getting louder each year. Although the solutions proposed sound different, they look alike. Hurst claims that strategic management is bankrupt. [1] What is needed is "creative management." Hosmer [2] proposes that senior executives must be more than managers; they must be leaders as well. McGinnis and Ackelsberg [3] want to rekindle innovation and creativity to boost strategic planning along. Others argue that we must stimulate strategic thinking [4, 5] and create new roles for senior executives. [6, 7, 8]

Are these the solutions to pursue to close the apparent gap between the skills senior executives exhibit and the skills required of them for their organizations to be successful? The Management Simulation Projects (MSP) Group at New York

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