



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

THE RESEARCH IMPLICATIONS OF THE STRATEGIC DECISIONMAKING LITERATURE: A DISCUSSION

Larry W. VanTassell

Vern Eidman has done an excellent job of providing an overview of the strategic management process and some of the research implications which may be applicable to our research project. My intentions are to extend the review in a couple of areas which may benefit this group.

The conventional focus of much of the strategic management literature has been slanted towards larger corporate businesses. Curtis stated that in his seventeen years as a planning consultant, most of the strategic planning techniques developed and used by large businesses are not appropriate for smaller businesses, the category most agricultural producers would fit under. He states differences in scale of operation, available resources and the role of personal objectives as the major differences between the planning issues of large and small business firms. In recent years, the strategic planning process has received much attention as researchers have attempted to adapt this process to comply to the needs of small businesses (Curtis; Fox; Robinson and Pearce). In this discussion, I'd like to focus on three areas: long-term objectives, scenario analysis, and implementation of strategies along with contingency planning.

Long-Term Objectives

As Vern noted, development of the firm's mission and objectives are paramount to the development of business strategies. Survey work done by Robinson and Pearce has shown that the formality of this process is not as important for small business as has been found in larger corporate settings. They surveyed small banks in South Carolina and asked questions concerning their performance and planning. They asked about the formality of the banks planning process and the degree of emphasis the bank's placed on their strategic decision making process. They found that the association between the banks performance, as measured by return on assets and return on equity, and the formality of the planning process was not very strong. A minimal emphasis was also placed on "abstract notions like broad goals, company missions, and long term objectives" (Robinson and Pearce, p.206). The high performing banks placed a larger emphasis on resource evaluation, assessment of capabilities, and environmental analysis. This study and others like it (Bourgeois; Lindsey and Rue) point to the fact that formal planning and long range objectives had little association with performance. Their study did not say, however, that "informal" planning meant less planning. Similar studies among agricultural producers may provide direction as to which concepts we should be stressing in our research, teaching, and extension efforts.

Larry W. VanTassell is an Assistant Professor, Department of Agricultural Economics and Rural Sociology, University of Tennessee, Knoxville.

Scenario Analysis

The second issue I would like to address is the use of scenarios. It appears that the strategic planning process partially grew out of the frustration of using economic forecasts to make long range plans. Robinson (p. 22) states "Many managers entering business in the 1950's and 1960's experienced an age of growth and predictability. Planning, such as that of new facilities, became little more than a matter of prediction. Moreover, if the forecast of market growth turned out to be wrong and a plant was built too early, the cost of the error was small as growth ensured that it would soon be fully loaded". While such planning activities, known as long range planning, were in vogue during the 1950's and 1960's, the turbulence of the 1970's and 1980's left many entrepreneurs wondering about the value of the planning process and especially the use of forecasting in that process. Drucker goes so far as to state that forecasting is not a respectable human activity and is useful for only the shortest of periods. This frustration opened the door for strategic planning with its emphasis on scenario planning.

Scenarios are defined as "hypothetical sequences of events constructed for the purpose of focusing attention on causal processes and decision points" (Beck, p.17). The emphasis with scenario planning is obviously away from single point forecasts and more towards saying "here are some of the key factors you have to take into account, and this is the way these factors could affect your line of business" (Beck, p.17). They can be used to perform the environmental analysis which Robinson and Pearce found to be connected with bank performance.

Several problems exist in incorporating scenarios into the research process. While more than one scenario is needed to dispel the single line forecast problem, only three or so tracks are manageable in a decisionmaking setting. In using scenarios, the difficulty exists of incorporating several uncertain factors such as the technical, social, political, economic, and natural environments which Vern mentioned, into a manageable number of scenarios. Assuring that these factors are internally consistent, especially when their past relationships may not continue in the future, is also a concern (Moyer).

The problem of developing scenarios is a momentous task itself. Leemhuis suggests scenarios be separated into three planning horizons: a business cycle scenario which extends approximately five years into the future; an archetype scenario with a horizon of 10 to 15 years; and a exploratory scenario which extends beyond 15 years. The archetype scenarios are the main focus for investment analysis studies. These scenarios "describe alternative developments of socio-political and economic structures" (Leemhuis, p.31). Beck suggests that the scenarios be distilled into two scenarios that focus on separate extreme situations. Firm strategies can then be examined against these scenarios to see how "robust and flexible" they are (McNamee, p.218).

The Delphi method is frequently used to develop scenarios, especially in large corporations where several in-house personnel, both managers and planning personnel, can be used in the process. This methodology is probably beyond the resources of most individual agricultural producers to utilize, but would be a laudable goal for a research group such as ourselves.

Implementation of Strategies and Contingency Planning

The closing statement in an article entitled "The Futility of Forecasting" by Moyer (p. 71), states that "reducing error is a laudable goal but coping with it may be more important to the firms welfare". This is one of the most important concepts I think we can gain from the strategic management literature. Makridakis and Heau, Moyer, and Fox point out the need to implement strategies in such a manner as to develop the specialization needed to be competitive yet maintain the flexibility and diversification needed to deal with an uncertain future. It may also be of value to focus more of our attention on the process of implementing a strategy rather than merely addressing the issue of which strategy to implement. Moyer (p.71) suggests we develop strategic plans which can be implemented on a "step-by-step" basis and that growth and expansion occur in such a fashion as to maintain "the flexibility necessary to respond to faulty forecasts." The development of contingency plans which outline alternative actions available when the environment changes are also important. Some of our methodologies already in use which allow the researcher to specify alternative subsequent decisions and environments after each decision point (e.g. discrete stochastic programming) may be one of the ways of addressing this issue.

Conclusions

The strategic management literature offers several insights into the planning process which may be used to help agricultural producers cope with the uncertain environments which they face. While many of these techniques are devoted to qualitative and descriptive analysis of industrial and inter-corporate relationships, these issues are becoming more important to agricultural firms because of the increase in farm size and the corporation of agriculture. More work is needed to understand the process agricultural producers use in making decisions, and how they cope with the uncertainty of each decision's outcome. As researchers, we may also provide assistance by examining the proper implementation of strategic decisions and the value of developing strategies with accompanying contingency plans. Scenario analysis needs to be further examined and adapted to fit into our research interests. While this research group may not be the proper vehicle for the accomplishment of all of these objectives, we would be remiss to overlook the insight the strategic management literature has to offer agriculture as we develop our new research agenda.

References

- Beck, P. W. "Corporate Planning for an Uncertain Future." Long Range Planning, 15(1982):12-21.
- Bourgeois, L. J. "Strategy and Environment: A Conceptual Integration." Academy of Management Review, 5(1980):25-39.
- Curtis, D. A. Strategic Planning for Smaller Businesses. Lexington Books, Lexington, MS, 1983.
- Drucker, P. F. Management: Tasks, Responsibilities, Practices. Harper and Row, New York, 1974.
- Fox, H. W. "Strategic Planning in Small Firms." Chapter 34 in Strategic Planning and Management Handbook, edited by W. R. King and D. I. Cleland, Van Nostrand Reinhold, New York, 1987.
- Leemhuis, J. P. "Using Scenarios to Develop Strategies." Long Range Planning, 18(1985):30-37.
- Lindsay, W. M. and L. W. Rue. "Impact of the Organization Environment on the Long-Range Planning Process: A Contingency View." Academy of Management Journal, 23(1980):385-404.
- Makridakes, S. and D. Heau. "The Evolution of Strategic Planning and Management." Chapter 1 in Strategic Planning and Management Handbook, edited by W. R. King and D. I. Cleland, Van Nostrand Reinhold, New York, 1987.
- McNamee, P. B. Tools and Techniques for Strategic Management. Pergamon Press Inc., Elmsford, N.Y., 1985.
- Moyer, R. "The Futility of Forecasting." Long Range Planning, 17(1984):-65-72.
- Robinson, J. "Paradoxes in Planning." Long Range Planning, 19(1986):-21-24.
- Robinson, R. B. Jr. and J. A. Pearce II. "The Impact of Formalized Strategic Planning on Financial Performance in Small Organizations." Strategic Management Journal, 4(1983):197-207.