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STRATEGY-MAKING VIA PARTICIPATION

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STRATEGY-MAKING VIA PARTICIPATION

Abstract

This paper studies the interplay between top and middle managers as a determinant of strategy-making effectiveness. Participation is a pivotal concern among different types of strategy-making process to grasp the conditions that account for effective strategy-making. We deal with how the resolution of the interplay between managerial levels fosters or hinders subsequent managerial action, by means of a multiple case design of six Spanish companies. These six organizations shared managerial participation in different degrees as a valued property of their strategy process. First round interviews with key informants provided a profile for each strategic process. Next, we gathered all key informants in an interactive discussion group, which further evidenced their diversity in the making of strategy. Lastly, we carried out a final round of interviews to enhance clarification. The targeted organizations varied in their types of process, core businesses and size. This variety provided a rich and diverse context to study interaction between upper and lower level managers. By analyzing how interaction resolved into goals and strategy within the different modes of strategy process, we dig into the resolution conditions. We present a theoretical framework that extends existing knowledge on how strategy-making, as a cooperative endeavor between managerial levels, translates strategy into organizational activities. Findings show that legitimation of strategic objectives explains the extent to which tasks are carried out and objectives are accomplished. As an interplay resolution mechanism, legitimation is a property integrated into goals and means through mutual validation by both top management and organizational members.

STRATEGY-MAKING VIA PARTICIPATION

The process of developing strategy has been described as an organizational phenomenon (Hart, 1992). However, it has usually been addressed with a focus either on top management (Hambrick, 1998) or on middle level managers (Floyd and Wooldridge, 2000). The overarching aim of this paper is to extend existing theory on how the interplay between top management and organizational members influences strategy-making effectiveness.

This paper describes a field research project using a multiple case study design. The chosen unit of analysis is the process of strategy-making in six organizations. In similar terms as in Grant (2003), we focus on the formal planning system used by these organizations, but we extend the analysis to include previous and subsequent episodes. Participation in the strategy process is used as a pivotal concept through which we enquire into the role of organizational members and top management. From observation of their interplay, we aim to develop theory. Our research question, therefore, is: How is participation shaped to substantiate the Strategy Process? Specifically, what are the conditions for participation to breed better strategy-making?

A range of views on the role of top or lower level managers as key players in strategy-making appear in the extant literature. "Issue selling" activities shape change from below by directing the attention of top management (Dutton *et al.*, 2001). Similarly, the standard process model (Bower, 1970; Burgelman, 1983a) has proposed that renewal is engendered by the identification of strategic issues at lower levels, which are autonomously brought to the company's strategy. Additionally, under this model, top management efforts to direct strategy have been regarded as increasingly tied to exploiting existing markets and products (Burgelman, 2002). Challenging the standard process theory, the model of guided evolution has set forth a more active role of top management (Lovas and Ghoshal, 2000), in which top management, besides setting the context, also foster or hinder strategic development. Moreover, by differentiating between development of existing and new capabilities in capital investment, Maritan (2001) suggests that the development of new capabilities is generated at the senior level, while existing capabilities are developed by lower level managers. These findings not only differ from the standard process model but also suggest that distinctive processes co-exist.

Considering some aspects of the standard process model as well as aspects of the more active role of top management, we will address the conditions under which participation shapes strategy-making in an effective manner. In order to integrate these views,

we build on Hart's (1992) five modes of strategy-making, namely *command, symbolic, rational, transactive and generative*[1]. These modes take into account different degrees of participation of organizational members and top management to describe different forms the strategy process may take. The key feature of Hart's modes is that more than one of them can be present along the strategy process of a specific organization.This feature permits the analysis of the roles played by participation of organizational members and top management across the strategy process.

In the first section, we will present the theoretical underpinnings that guide this study. The second section describes the multiple-case research setting and the methodology used to collect and analyze data. The third section will present the cases studied. The fourth section will show the main findings of the study. Finally, the last section offers a discussion and presents the conclusions.

Theoretical background

Involvement in strategy-making has been shown to affect organizational performance through improved quality of strategy, rather than through improved implementation (Wooldridge and Floyd, 1990). Though, intuitively, involvement and implementation seem to be related, these authors suggest that involvement by itself does not produce commitment. Hence, involvement on its own does not cause better implementation. In this line of thought, our stance is that under certain conditions involvement will foster or hinder effectiveness of strategy-making.

A second reason for the non-supported involvement-implementation link rests on top management's role, as suggested by Wooldridge and Floyd (1990). Namely, that involvement affects performance through improved implementation. In these authors' opinion, although genuine involvement was valuable for top and middle managers, when middle managers "voiced dissatisfaction with their organization's strategy, it was not in terms of objectives, but rather in how these objectives were to be accomplished" (Wooldridge and Floyd, 1990: 238). Thus, top management's key task when managing the process is to create the context for the generation and evaluation of strategic initiatives (Burgelman, 1983c). Consequently, goals and context act as an objective function, under which participation can be guided and cooperative. In line with Lovas and Ghoshal (2000), we view the strategy process as guided by top management by means of setting the strategic intent as an objective function, encouraged by which middle managers can affect the strategy process via participation.

'Behavioral integration' has been described as "the degree to which the group engages in mutual and collective interaction" (Hambrick, 1998: 188), with respect to the top management group. According to Hambrick (1998), maladaptation and organizational inertia are caused partially by the lack of behavioral integration, since the executives are isolated from each other. Although, managers may have all the required "information, insights and energies to do their own jobs and potentially to mount responses to the environment, they are unable or disinclined to actually formulate and execute organizational action" (Hambrick, 1998: 188). This concept, developed by Hambrick (1994, 1998) for the top group, can be extended to the interplay between organizational members and the top group. Although the

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[1] A description of each mode appears in Table 2.

degree of potential integration may be lessened for a wider group, the same principles may apply.

The driver of effective strategy making in the present study is the interaction between top management and lower levels. This interaction can be resolved through a variety of mechanisms, as developed in extant literature. A list describing these mechanisms is shown in Table 1. The list is not intended to be exhaustive, but merely to illustrate how comparable resolution mechanisms have previously been used. Consensus or agreement (Bourgeois, 1980; Dess, 1987) have been described as resolution mechanisms mainly for the top management group, but Bourgeois (1985) showed that the process of achieving consensus could outweigh the benefits of agreement as a resolution mechanism. Agreement can also be too costly, since it may cause group homogeneity (Hambrick, 1998) and suppress healthy skepticism about strategy (Wooldridge and Floyd, 1990). In the case of the interaction between organizational members and top management participation, the resolution mechanism must allow for heterogeneity, but also encompass accord in contents as much as willingness to act. This makes mere communication of strategy too weak as a mechanism. Thus, for the interaction between top managers and organizational members we will rely on legitimation as a resolution mechanism.

Table 1. List of potential resolution mechanisms

Concept	Description	Key Finding	Hierarchical level addressed	Reference
Strategic awareness	Knowledge of firm's strategy	Confirmed a decline in strategic awareness at descending levels of the managerial hierarchy	Top Management	(Hambrick, 1981)
Awareness and consensus	Low linkage ambiguity between managers' perceptions of the contribution of a competency to the firm's competitive advantage	Specific evidence links firm performance with middle-management awareness and consensus about competencies	Top Management and Middle Management	(King and Zeithaml, 2001)
Communication	Communication: the provision of an appropriate network and necessary data to all key actors in the project implementation	Communication is one of the planning factors that explains project performance	Top Management and Middle Management	(Pinto and Prescott, 1990)
Consensus	Commitment and understanding of strategy	They are surprising in that they show middle management involvement, but not consensus, to be associated with organizational performance.	Middle Managers	(Wooldridge and Floyd, 1990)
Consensus and agreement	Agreement on goals and means	The achieved consensus can benefit organizational performance, but the process to achieve it may negatively affect performance. While consensus might not be reachable, agreement is feasible and requires less effort than consensus.	Top Managers	(Bourgeois, 1980, 1985)
Consensus and agreement	Agreement among top, middle and lower-level managers on the fundamental priorities of the organization	Unless they understand the strategic context, however, lower level managers are unable to recognize significant events, offer sound advice, or propose good options	Top Management and Middle Management	(Floyd and Wooldridge, 1992)
Consensus and agreement	Consensus in strategy formulation	Consensus on method/strategies is positively related to organizational performance	Top Managers	(Dess, 1987)

Legitimation of strategic objectives, described as the property through which a proposed strategy is allowed or accepted by both organizational members and top management (Canales and Vilà, forthcoming in 2004), provides a promising concept to portray the interaction resolution mechanism. A legitimated strategy is far less restrictive than consensus or agreement, since it only requires acceptance from both organizational members and top management. That does not necessarily mean concurrence in all terms, but only on the indispensable ones to carry the strategy out. Instead of acting on the top management group, legitimation acts on the mutually accepted strategy. It is not extended to everyone in the organization, but is a property of the strategic objectives legitimized by organizational members as well as top management. Our stance is that if the organizational strategy is legitimized, then it can be translated into action, participation being the vehicle for this legitimation. Thus, strategy regarded as legitimate, by both organizational members and top management, would be a desirable property to achieve integration. The conditions for legitimacy, as an outcome of participation, are the subject of the present study.

The degree of participation of organizational members is increasing across the five modes proposed by Hart (1992). Table 2 describes the main features of each mode. In the *command* mode participation is minimal; in the *symbolic* mode it is subject to the vision; in the *rational* mode it is confined to the formal process; in the *transactive* mode it is engendered by mutual understanding; and in the generative mode participation of organizational members almost takes over strategy generation. All five modes can occur across the strategy process of an organization. But more importantly, the use of more modes by an organization tends to lead to better performance (Hart and Banbury, 1994). It follows that the use of more modes, by combining different degrees of participation in each mode, will tend to improve strategy-making. However, a word of caution on adding strategy-making modes: as noted by Hart and Banbury (1994), simply adding modes can be dysfunctional, as the presence of one mode may override another.

The integrative view of the strategy process, comprising different and yet co-existing modes across the process, provides a rich lens to analyze the role played by participation. It allows the analysis to be performed in light of several views of the strategy process. First, the claim of the standard process model, in which strategy is mainly the result of autonomous behavior (Burgelman, 1983b), can be identified in all modes except for the command mode. Second, issue selling (Dutton and Ashford, 1993) is permitted in all modes. Third, normative models, such as the ones offered in Hofer and Schendel (1978) or Ansoff (1987), are reflected through the five modes. Finally, models that focus on organizational actors, such as Floyd and Wooldridge (1992) or Hambrick (1994), are equivalent to roles described in Table 2.

Table 2. An Integrative Framework for Strategy-Making Process

Descriptive Style	Command	Symbolic	Rational	Transactive	Generative
	(Imperial)	(Cultural)	(Analytical)	(Procedural)	(Organic)
	Strategy driven by TM, by leader or small team	Strategy driven by mission and a vision of the future	Strategy driven by formal structure and planning systems	Strategy driven by internal process and mutual adjustment	Strategy driven by organizational actor's initiative
Role of top management	*Commander*	*Coach*	*Boss*	*Facilitator*	*Sponsor*
	Provide Direction	Motivate and Inspire	Evaluate and Control	Empower and Enable	Endorse and Support
Role of organizational members	*Soldier*	*Player*	*Subordinate*	*Participant*	*Entrepreneur*
	Obey orders	Respond to challenges	Follow system	Learn and Improve	Experiment and Take Risk

Source: Hart (1992: 334).

Methods

A Multiple Case Design

We chose six organizations following a multiple case design for this study, using a replication logic, as recommended in Yin (1994). The main selection criterion used was that participation of organizational members was either a valued feature or an element in use along the organizations' strategy-making processes. Other selection criteria were: a superior self-perceived performance over the last few years; and self-awareness that a strategy process carried out had been improved. The chosen organizations belonged to different industries, conducted their strategy processes in distinctive fashions, had different architectural designs in their structure, competed in either munificent or rather tight markets, and were locally or internationally owned. We deliberately allowed variation in all these aspects across the chosen cases. However, in the case of internationally owned firms, a significant degree of autonomy from their respective headquarters was verified for all three. This variety provided flexibility without changing the purpose of the study (Seidman, 1998; Yin, 1994).

A preliminary list containing 35 firms was prepared. Most of these candidates were eliminated after talking to industry experts and key informants. The criteria used to discard them were their use of participation in strategy-making and their willingness to participate. Then, initial contacts were made with 14 organizations as candidates for this study. From these, the six cases presented in Table 3 were carefully chosen as the best available cases to study participation in strategy-making. Theoretical replication was favored in choosing these cases, i.e. our aim was to search for contrasting results within predictable reasons (Yin, 1994). The six organizations agreed to participate in this study, but their names have been concealed.

Table 3. Main characteristics of the six chosen cases

Name (concealed)	INSSUBANC	ENGCONSULT	MOBILITY	REFOIL	TECHNO	PROSTEEL
- Ownership	Alliance	Local	Local	Subsidiary	Subsidiary	Local
- Type of Business	Insurance	Consulting and Engineering	Mobility services	Oil Refinery	Technology	Steel manufacturing
- Multi-business	No	Yes	Yes	No	Yes	Yes
- Number of years with a formal strategy process	5	28	15	31	33	5
- *Main business*	*Life insurance*	*Construction, and Engineering Serv_ces*	*Automobile related assistance*	*Refine and Sell Oil*	*IT solutions*	*Processed steel*
- Total number of employees	700	1,300	1,500	340	2,134	3,800
- Number of persons who participated in the last strategic exercise	50	80	100	30	80	120
- Proportion (measure of participation)	**7.14%**	**6.15%**	**10.00%**	**8.82%**	**3.75%**	**3.16%**
- Number of middle and lower level managers	43	120	80	25	200	440
- Number of top level managers	7	10	7	6	32	60
- Number of middle and lower level managers who participated	43	70	80	20	48	60
- Proportion of middle managers who participated	**100%**	**58.3%**	**100%**	**80%**	**NA**	**13.63%**
- Measure of Performance	16% increase in profit over the last decade	Sustained growth over the last five years	25% annual growth in revenue last 6 years	Sustained growth	Growth in last few (3) years	Sustained growth

Data Collection

A first round of interviews was held with either one or two key informants from each of the chosen companies (Seidman, 1998). An interview protocol ensured that the same themes were covered in each interview, aiming at reliability (Yin, 1994). A list of themes contained in the protocol used for the interviews is presented in **Exhibit 1**. All first-round interviews were recorded and transcribed. Interviews lasted between 90 and 120 minutes, with a median of 100 minutes. The questions were handed out to the interviewees beforehand, in the form of a thematic summary of the questions, in order to take full advantage of interview time. An indicative list of all interviews appears in **Exhibit 2**. All data obtained were classified in a database for trouble-free retrieval (Yin, 1994). Although the interviews took place in 2003, the questions asked for information on the development of the companies' strategy process over the last several years. Our approach was thus aimed at understanding how their process had improved over time. Construct validity of the interview data was pursued by regarding the interviewees' causal explanations as testable (Argyris *et al.*, 1985). It must be noted, however, that in each organization we had access to at most two key informants in the first round of interviews. Nevertheless, by checking interview data against archival data regarding the strategy processes we were able to assess the interviewee's explanations (Yin, 1994). In addition, the two researchers explicitly looked for alternative explanations and directed their attention to internal processes.

Next, the two reviewers prepared a profile for each of the organizations under study, as suggested in Miles and Huberman (1994) and Silverman (2001). The data used to develop the profiles were obtained from the interviews with key informants, as well as from internal company documents provided by the organizations. Each profile was compared with the interview transcript and archival material. Subsequently, each and every key informant was sent his/her organization's profile. All key informants were asked to validate the profile, and to correct it where needed. Validation of the profiles was done by at least two other executives apart from the key informant in each organization. When received back by the researchers, the final profiles had been approved by each organization as a sound description of its strategy process.

After the profiles had been completed, each organization was invited to participate in an 'Interactive discussion group', following the recommendation given in Balogun *et al.* (2003). Eleven participants from the sample organizations attended the discussion group, as detailed in **Exhibit 3**. The goal of this approach was to gather individuals whose opinions, attitudes, beliefs and memories were rich in relation to the phenomenon of interest, i.e. developing strategy and using participative practices (Balogun *et al.*, 2003). Thus, each participant was a key member of his or her organization and at the same time had extensive experience in strategy-making.

To guide the dialogue group, we used a questionnaire. The component concepts for the questions in this questionnaire were previously gathered from participants, according to their key concerns with respect to participation in the strategy process. Next, these concerns were arranged according to broad subjects by the researchers and handed out to participants at the beginning of the session. These broad subjects, shown in Exhibit 4, were the basic road map for the interactive discussion group. In order to encourage the participants to compare and contrast the features of each other's process, everyone had received, before the discussion group, copies of the other organizations' profiles. Our aim was to explore insights on participation, yet those insights had to be pertinent mainly for attendees and grounded on their insights. We aimed at collecting data on how attendees perceived the differences between their processes, and on the conditions in which participation in strategy-making was seen as valuable in their specific circumstances. The researchers acted only as moderators, while the way to address issues was shaped by attendees (Krueger, 1999). In this fashion the valuable time of the session was used mainly for discussion and clarification. The whole discussion group session was recorded, and transcribed immediately afterwards.

A second round of interviews was held with an additional set of key informants. In all cases these were different than the interviewees in the first round. The goal of this stage was mainly for clarification and verification purposes, aiming at reliability of the data obtained from the first-round interviews and the discussion group (Yin, 1994). The same protocol as in the first round was used to foster construct validity. A list of these interviews appears in **Exhibit 2**.

Analysis and Interpretation

Alongside the guidelines of Miles and Huberman (1994), typical methods for qualitative data display and analysis were used. We recorded, transcribed and codified interviews and the interactive discussion group using Hart's (1992) descriptive modes, detailed in Table 2. Then, we counted the mentions we had identified, for each mode. We interpreted the common features and patterns among the strategy processes, described as a

sequence of modes, for each case studied. Coding was performed for each profile and, then, in the transcription of the discussion group, using a contrast table (Miles and Huberman, 1994). Next, codes were ordered according to occurrence. The coding procedure was developed keeping track of the original data, so as not to detach interpretation from observed facts (Miles and Huberman, 1994). From coding the profiles, a distinctive pattern emerged for each of the cases studied. Subsequently, we codified the discussion group transcript and analyzed how this modified the pattern for each organization. The hierarchy resulting from the analysis of the profile was the same as for the analysis of the discussion group transcript.

These patterns turned out to show a hierarchy and a sequence of modes. We were thus able to state participation according to these modes. Additionally, it became apparent how the interplay between organizational members and top management varied across the cases under study. By comparing the common and distinctive features of these patterns, we were able to state the conditions under which participation strengthens effectiveness of strategy-making. Additionally, we were able to further develop the legitimation construct and see how it suggests successive integration among managerial levels. To strengthen internal validity (Yin, 1994), interview data were crosschecked with archival data and contrasted with data from other respondents in the second round of interviews. Each process sequence was drawn for each sample organization, and participation characteristics were obtained.

Research Setting

General Elements

Unlike Hart's (1992) conception of organizational members, we encountered participation in the sample organizations from levels 2, 3 and 4, below the CEO. These hierarchical levels match the description of middle managers, according to Dutton *et al.*, (1997) and Floyd and Wooldridge (1992). This was the layer within the organizations that developed projects or objectives to be brought into strategy. Participation of middle managers took place either at an initial reflection stage or during the stage of designing means to achieve desired ends. In the words of one of the informants, "commitment is nurtured through participation in deciding the 'how' as much as in suggesting ideas".

Another commonality of the cases was the role of top management. This role can be perfectly described as setting the strategic intent in the form of an objective function as modeled by Lovas and Ghoshal (2000). The objective function, defined as those long-term goals that reflect the preferred future position of the firm, as articulated by its top management, optimizes the firm's long-term performance by providing a focused purpose for middle managers. Akin to Canales and Vilà (forthcoming in 2004), clearly stated and grounded in the organization, the objective function formed a canvas over which managers developed strategy.

The interactive role of top with middle management portrays strategy-making as a collaborative endeavor. This representation differs from the standard process model (Bower, 1970; Burgelman, 1983a) since it places renewal efforts at the core of this interaction, and not as a fundamentally autonomous process in which lower level managers have to convince top managers of their initiatives. It also differs from traditional normative models such as Hofer and Schendel's (1978), since it is interaction between managers that brings forth strategy and not communication from higher to lower levels. The structure of the processes studied, together with the features of participation, resemble what Grant (2003) has called emergence

planning, in the sense that a planning or deliberate force cooperates with an emergent one, which is the contribution of middle manager participation.

We have summarized the interaction between top and middle managers in the schematic form shown in Figure 1. This scheme is based on the one developed in Canales and Vilà (forthcoming in 2004). For each sample company, we have illustrated the interaction between top and middle management, highlighting the stage where, according to the informants, the outcome, as a legitimized strategy, surfaces. It must be noted that this outcome, i.e. strategy converted into either specific projects or implementation plans, is the resulting phase of this interaction. These illustrations have been drawn from the individual profiles of the organizations studied. In the following section we will present a brief description of the strategy processes observed in the organizations studied.

Description of the Organizations

Inssubanc: Inssubanc is a life insurance company formed through a joint venture between a foreign and a local partner. In 13 years of existence it has become a major player in the Spanish market. They have structured their strategy process as a result of top management's concern that the lower levels of the organization did not share the company's strategy. Top management gets together every year to devise and revise medium and long-term objectives of the company. Then, top management invites each member of the middle management to propose his/her unit's goals and projects to top management under the umbrella of a broad corporate strategy, synthesized in twenty corporate goals. This formal interaction between top and middle level management forced middle managers to look cross-functionally instead of only at their unit. The results of this practice have been that the owners of goals and projects are middle managers, and they drive subsequent action. Top management uses a scorecard to observe progress.

Engconsult: Born as an engineering firm formed by freelance professionals, Engconsult has remained true to the spirit of 'free-association'. They reject hierarchical levels and push the organization to remain a network of professionals instead of a multilayered hierarchy. This design is thought to serve their multi-need customers, which may want to be served in a variety of services, such as architecture, engineering, and even management consulting. Every five to eight years, a broad managerial base sets the type of company they want to be, from broad goals delineated by top management. They aim at coming out of this stage with breaking objectives for the future. Meanwhile, middle level managers in close contact with the customers offer and develop projects. Strategy then emerges from lower levels, closely coupled with market needs. If customers need a service not included in the broad goals, consideration will be given to broadening those goals. Hence managerial action is linked to projects, which result from the joint decision of the devised future of the company.

Mobility: A long-established institution in Spain, Mobility serves customers in their mobility-related services, from car assistance to travel. They have been growing intensely in the last seven years due to a proactive strategy. Their strategy process has developed into different degrees of formalization and involvement over that same period. The system has a wide reach, from planning to implementation and tracking. The core of the process is the planning exercise, performed every three years. This exercise is formalized but flexible. For four months, multidisciplinary groups carry out everything from environmental scanning to project definition. Corporate strategy defined by top management, based on market analysis, is deployed into business level strategy, mostly developed by middle level managers. Middle
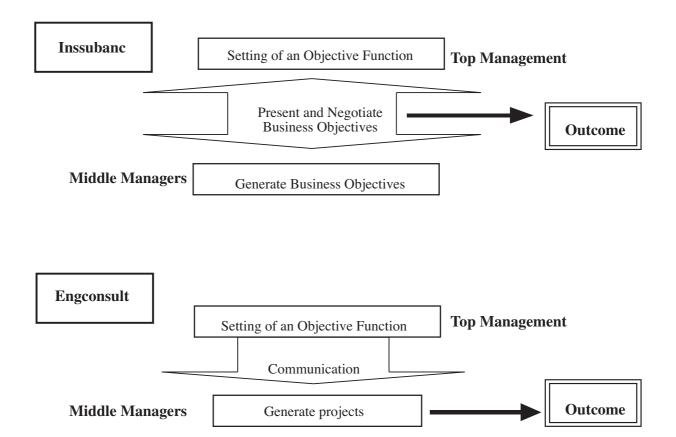
and lower level managers participate in proposing projects, which are discussed in the executive committee. After projects and goals have been determined, a thorough system keeps track of their progress.

Refoil: This is an oil-refining subsidiary of a major oil company, whose mission is to cover the needs of a major part of the Spanish territory. Top management receives non-negotiable goals in key performance areas from headquarters. Their basic concern is to keep production fitted with local needs, but the key decisions bear a lag that requires at least a one-year decision span. This stage generates a preliminary document. In the second stage, this preliminary document is discussed in a broader assembly, and personal implication is sought via participation in working groups. This stage finishes with a performance contract including unit and individual commitments to the headquarters' objectives. These objectives deal with operational, security, environmental, financial and people themes. Periodically, progress in objectives is communicated at individual and organizational levels.

Techno: This is a subsidiary company of a major information technology multinational. Although a significant part of its activity is to adapt global solutions to the local market, it also conducts R&D in a specific segment. Organized into four main business groups, it has evolved from a highly structured planning process into a more results-oriented system. Due to a highly competitive market, this company has moved from a system of highly formalized planning to a more substantive annual exercise. In this subsidiary, strategic reflection is carried out by the business group top management team, which then incorporates the guidelines from headquarters, adapting them to local needs. This turns out to be the general frame within which each department, and finally each person, states his or her objectives on a participative basis. The strategy to go to market is devised on the basis of local needs and headquarters' requirements of each business. Once the go to market has been locally defined, the requirements in products and distribution channels are allocated.

Prosteel: This company produces steel from scratch. The basic decisions deal with how much to produce and the cost of raw material. Their strategy process is hierarchical. Top management would challenge middle managers with new purchases to increase volume or innovation strategies, while middle managers have to keep pace in putting these decisions into practice. The main building block of their process is the annual meeting, in which top management presents the general long-range guidelines and business managers present their strategies. The strategic guidelines that stem from this meeting are turned into budgets and medium range objectives.

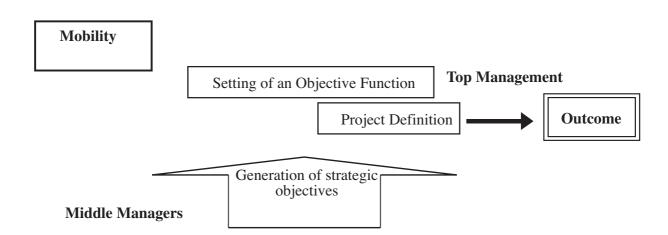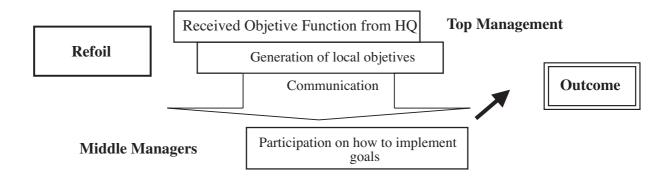**Figure 1. Diagrams of the Strategy Processes in the Organizations Studied**

Inssubanc

Setting of an Objective Function **Top Management**

Present and Negotiate
Business Objectives **Outcome**

Middle Managers Generate Business Objectives

Engconsult

Setting of an Objective Function **Top Management**

Communication

Middle Managers Generate projects **Outcome**

Mobility

Setting of an Objective Function **Top Management**

Project Definition **Outcome**

Generation of strategic
objectives

Middle Managers

Figure 1 (continued)

Refoil

Received Objetive Function from HQ   Top Management

Generation of local objetives

Communication

Outcome

Middle Managers

Participation on how to implement goals

Techno

Received Objetive Function from HQ   Top Management

Adaptation to local needs

Agreement

Middle Managers   Cascade of Goals to individual level

Outcome

Prosteel

Proclamation of objetive function   Top Management

Definition of Strategy

Middle Managers   Implementation

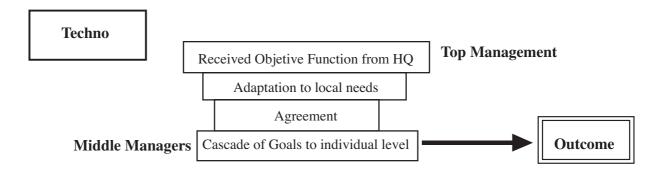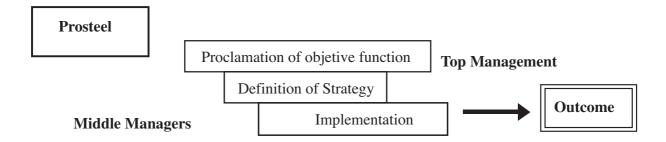Outcome

Research Finding

Participation did not always breed better strategy-making. Depending on the outcome sought, participation was deemed beneficial or detrimental to the strategy process. Along the formal exercise, all the organizations in our sample fostered participation, which resulted in top and middle manager interplay. Participation sought to embed objectives and projects in middle and top managers, as they accepted them as legitimate. Nevertheless, participation in subsequent or previous episodes was seen as a less valuable effort. As one of the participants of the discussion group put it:

> "If we invest several months and effort in order to come up with projects that are accepted, from then on it is time to proceed along the agreed guidelines… Unless we require a new planning retreat, the established guidelines should prevail. We cannot invite participation every time a decision has to be made."

Participation was seen as a beneficial part of the formal process since it dressed up the objective function. The objective function stood as an ill-defined problem that was refined and shaped as the top and middle manager interplay progressed towards legitimation. If managers considered goals and initiatives as legitimate, then participation had helped to build a common platform. One key concern in establishing such a platform was a satisfactory reward system, as a necessary condition.

The outcome sought from the interplay was a sound and, at the same time, mutually accepted strategy. "Participation can generate commitment, knowledge and information sharing, and so on… but unless we hit the market with the appropriate strategy, we are doomed." Hence, the data analyzed suggest a twofold outcome to the value of participation. First, that it fosters the generation of better quality strategy. Second, that the strategy development process itself is perceived as valuable.

In the following section we will illustrate and develop further the findings of the cases studied. We will do this using the lens of Hart's modes for strategy-making.

Hart's Modes in the Organizations Under Study

In order to obtain a thorough account of how strategy-making differed among the six organizations in our sample, we used Hart's (1992) typology. The strategy-making modes identified in these organizations confirm Hart's claim that different modes can co-exist. Furthermore, our study shows how each mode is used for different purposes along the strategy-making process. By coding mentions according to Hart's typology, we developed Table 4, which presents the results of this analysis.

Table 4. Identification of Hart's models*

Name	Inssubanc			Engconsult			Mobility			Refoil			Techno			Prosteel		
Main trait	Ordered			Emergent			Wide participation			Obedient			Creative			Command		
Description																		
First mode	Transactive	12	30%	Generative	24	47%	Rational	13	27%	Transactive	11	33%	Rational	14	39%	Command	10	48%
Second mode	Rational	12	30%	Transactive	8	16%	Transactive	11	23%	Generative	8	24%	Transactive	7	19%	Transactive	6	29%
Third mode	Generative	8	20%	Symbolic	7	14%	Generative	11	23%	Command	7	21%	Symbolic	7	19%	Symbolic	5	24%
Fourth mode	Command	4	10%	Rational	6	12%	Symbolic	11	23%	Symbolic	4	12%	Command	5	14%	--	0	0%
Fifth mode	Symbolic	4	10%	Command	6	12%	Command	2	4%	Rational	3	9%	Generative	3	8%	--	0	0%
Total	40			51			48			33			36			21		

* Occurrence of each mode according to mentions in company profiles and transcription of interactive discussion group. Absolute occurrence is not interpreted as meaningful by itself.

All modes were observed in all the organizations to different degrees, except for Prosteel, where just three modes were present. This is perfectly compatible with Hart's hypothesis. All five modes can be present along the strategy process of a single organization to different degrees. Yet, additionally, by combining the fine-grain data obtained from the case studies, we aim at describing how the distinct modes combine to build capabilities of strategy-making. Moreover, we aim at portraying how the different modes combine through middle managers' participation.

Mobility was the organization that showed a more balanced use of the five modes, except for the command mode. It used the command mode fundamentally for setting the objective function at the beginning of the strategic exercise. The most prevalent mode was the rational one, since the system used to form strategy was the skeleton from which the other modes were brought up. However, all through the company's strategy process, the four other modes were present, as participation was also persistent. The symbolic mode was used to convey the objective function, while the generative mode was used to engender new projects by middle managers. The transactive mode was used as a means for mutual acceptance of strategic goals and projects.

Prosteel was the organization that had fewest modes. Additionally, the command mode turned out to be the most important, not only to convey the objective function but also to put in place most aspects of strategy. Opposite to Prosteel was Engconsult, for which the generative mode was predominant. One reason for this difference is the type of business in which each operated. While Prosteel was oriented to transform steel, which is a rather unvarying activity, Engconsult was devoted to delivering tailor-made services to a variety of customers.

Techno, like Mobility, relied on their system to develop strategy, but the rational mode seemed to be more present in Techno than in Mobility. Techno's reported long tradition in strategic planning suggests that their strategy-making capability was sustained within the system they had developed. In changing environments such as the one Techno was facing, the skill to cascade objectives down through the organization suggests a strategy-making capability.

The case of Refoil shows a marked presence of the transactive mode. For Refoil, the key decision has to do with how to put into practice the guidelines from headquarters; hence, mutual acceptance was kept as the mechanism that translated goals into concrete activities. However, in all six organizations the transactive mode emerged as either the first or second most frequently used mode. The transactive mode is based on mutual adjustments and is the mode in which the functionality of participation seems clearest. However, the transactive mode and the effectiveness of participation seemed to depend on the existence of the other four.

Conditions for Participation to be Effective

Participation 'per se', or at every stage of strategy-making, was up front considered inadequate. Non-effective participation in strategy-making was generally reflected in two ways: first, informants' sense of wasting their time; and second, the need for participation to produce a 'good' strategy. Related to the first, interviewees expressed a general perception of strategy-making as taking away time from line responsibilities. This perception demanded that time used in developing strategy be seen as worthwhile. To illustrate, one informant indicated, "that he would prefer to be told what to do, rather than filling out forms that would

never have any effect". In fact, participation was deemed as requiring feedback ex-post on the decisions that had been made. Otherwise, no sense of ownership was developed. In a similar vein, informants agreed that the call for participation was embedded in the design of the strategy process and that it had to be used with precision regarding how and when.

Related to the second aspect, the opinions of the informants coincided in that, regardless of participative practices, if the resulting strategy was not appropriate, the fact that participation had taken place did not lead to better results. One informant said, "The participative development of strategy must head towards improving the way we do things". These concepts were discussed in depth during the interactive discussion, where a significant degree of agreement was reached regarding these two components of effective strategy-making.

The two emergent components somewhat resemble the concepts of process performance and product effectiveness (Brown and Eisenhardt, 1995). These authors developed this dependent variable for a model of product development. We will use it to root the construct of strategy-making effectiveness. Process performance refers to the speed and productivity of the process: "Process performance is driven by the amount, variety, and problem-solving organization of information and by the resources available to the team (1995: 366)". Product effectiveness refers to the integrity of the outcome, in this case, strategy: "Product effectiveness is driven by the input of leaders, senior management, and customers into the formation of a clear product vision (1995: 366)". Borrowing from these definitions, we characterize participation effectiveness as composed of two elements, namely, the effectiveness of the process and the effectiveness of the final outcome, the former being the perception of a good use of time and effort, and the latter the perception of obtaining superior strategy.

The case studies suggest that the command mode coupled with the symbolic mode provided the minimum necessary ground for participation to be effective. The command mode, which appeared in different degrees in all the organizations studied, was used to deliver up-front the strategic intent as the objective function, which broadened the level of ambition of participants. If clearly stated and grounded in the organization, the objective function gave a target to aim at, and was helpful in avoiding searches for projects outside it. The symbolic mode was used in a similar manner, but reinforced the effect of the command mode by challenging the organization to aim higher. While the command mode was used mainly in initial stages, the symbolic mode prevailed as the organization moved closer to carrying out strategic activities.

The generative mode was driven mainly by middle managers. With support from top management, the initiatives generated by middle managers produced plans and projects, which could be carried out within the scope of the objective function. Being the mode in which participation is most important, the transactive mode is also effective to the extent that it reinforces the generative mode. The generative mode provided the initiatives that could be either accepted or not by the interplay that took place, mainly in transactive mode, between top and middle managers. Finally, the rational mode appeared as the common thread that kept the other four modes together by fostering or hindering the managerial interplay. The rational mode, supportive to the other four, gave participants a sense of sound progress, since it provided a road map.

The data obtained from the six sample organizations suggest that participation can be key to linking thinking and acting through strategy making. One fine example was the one given by one of the informants in Inssubanc. This informant told the story of the medieval

workers building a cathedral. During the construction of a cathedral, when asked what their work was, the quarry workers would answer that they made building blocks. In contrast, the workers who built the scaffold would answer that they were building cathedrals, even if their work vanished when the building was over. Following from this, the informant commented that by promoting participation and ownership over strategy, Inssubanc sought to encourage their middle managers to answer as the scaffold workers: the strategy process helped them see the end result of their work as integrated with that of others.Thus, mere participation was not enough; it had to change the way people pursued objectives.

The integration of the five modes is what gives meaning to participation. Participation is different in each mode. How participation is organized depends on how the balance among the five modes is settled. According to this study, participation only substantiates strategy-making if participation takes place within the structure of the five modes of strategy-making. The use of one mode on its own would probably lead to lack of progress in strategy-making.

The data from the six case studies suggests that the conditions under which participation may effectively shape the strategy process are: (1) that participation be framed by a clearly stated and ambitious strategic intent; (2) that business goals and subsequent lower levels goals, as well as projects, be generated with deep involvement of middle level managers; (3) that an interplay develop among top and middle managers; and (4) that this interplay be translated into acceptance by both managerial levels with respect to overlapping responsibilities. The mechanism to achieve this level of acceptance between managerial levels, as suggested by these case studies, seems to be legitimation.

Legitimation

For participation to be effective, a mechanism that settles the interplay between managerial levels must be present. Data from the six cases studied support the concept of legitimation. One key concern of all informants was that promoting participation generated an obligation on top management to explain why some middle managers' proposals had not been accepted. The answer provided by informants for this pitfall of participation was to establish an instance by which all proposals were discussed. Then, acceptance or refusal decisions would have a justification attached, especially in cases where they were rejected. This notion refers directly to the concept of legitimation.

Three conditions for legitimation to exist emerged from the case study data. First, that the interplay between middle and top management was based on discussion and evaluation of arguments, not on mere opinions or imposition. Second, that in the course of the interplay, roles were defined up-front and the distinction between the judge and jury was clearly stated from the outset. If agreement were not reached, a body appointed to resolve the impasse would act as a judge; most commonly this would be the CEO. Thirdly, that discussion be based on objective fact rather than on value judgments or mere opinion. Legitimation can be described as the property through which a proposed strategic issue, be it a strategic goal or a project, was made official and subsequently was encouraged to be carried out by both top and middle level managers. A strategic issue was used as a subject of acceptance, with potential true impact on subsequent action. These conditions resemble the conditions obtained in Canales and Vilà (forthcoming 2004).

Additionally, the study of the six cases makes clear an additional necessary condition, i.e. the perception that the reward system is satisfactory. Akin to Boyd and

Salamin (2001) and Marginson (2002), informants regarded the appropriate design and application of a reward system as a necessary way to build commitment. However, we will not go into particulars, as this is a subject that goes beyond the scope of this paper. In general, the rational mode is assumed to have included a satisfactory reward system

The general impact that participation had on the strategy process was that it produced a sense of ownership of the accepted strategy, which we have described as legitimation. Thanks to participation, middle managers recognized the value of the proposed strategy. Whether or not they themselves had proposed it, middle managers' responsibilities were tied to a certain course of action, and they knew why they were carrying it out, as the strategic goals or projects had legitimacy. This knowledge gave them a feeling that the strategy-process was worthwhile. In line with the concept developed by Brown and Eisenhardt (1995), legitimated goals and projects can lead to participation effectiveness. As a second advantage of a participative process, all informants reported that they had developed better projects thanks to information exchange between middle and top management. In line with Wooldridge and Floyd (1990), participation in strategy-making influenced the quality of strategy. A diagram showing this theoretical development is presented in Figure 2.
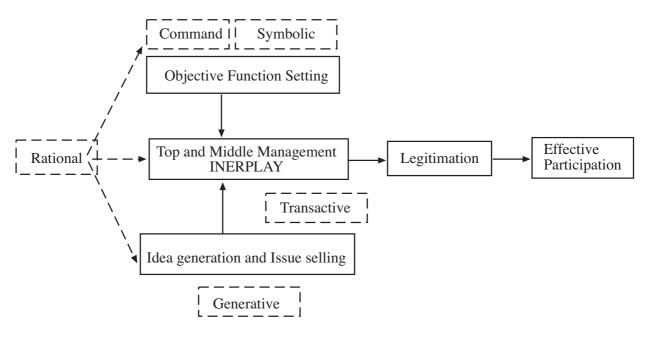
Figure 2. A Framework for participative strategy-making

Discussion and Conclusions

Discussion

Caution is advised in discussing the results of this study. Even if a multiple case design is considered more robust (Yin, 1994) than a single case design, this study has some limitations. First, it has been carried out in a Spanish context, and cultural elements may explain part of our findings. Second, being a multiple case study, a replication logic has been used which differs from the sampling logic, making generalization problematic. Finally, we

have used qualitative data, which require interpretation. While this approach is highly powerful for developing theory, it does not provide unequivocal results. Nevertheless, precautions have been taken to strengthen validity and reliability, and further quantitative designs in future research will strengthen the framework and concepts presented here. Moreover, most of the concepts used in this paper have been operationalized in Hart and Banbury (1994), or Brown and Eisenhardt (1995), thus allowing for wide sample verification in the future.

In this paper we offer some fresh concepts that may lead to a better understanding of how strategy is created and disseminated. This tendency is shared with some authors who, in line with Chakravarthy and Doz (1992), aim at addressing how firms achieve and maintain effective decision processes to remain competitive. This has been done, for instance, in the relationship between organizational learning and renewal (Crossan and Berdrow, 2003), in the work of strategists (Samra-Fredericks, 2003), or in the relationship between business planning and the development of new ventures (Delmar and Shane, 2003), and in managing the emotional states of middle managers in a context of radical change (Huy, 2002). The process model developed in this paper aims at linking participation practices and strategy-making, following the line of research opened by Wooldridge and Floyd (1989, 1990). The lack of relationship between involvement and implementation found by these authors might be explained by the absence of a mediating element. We aimed at shedding light on this mediating element by using the concept of legitimation and combining Hart's modes. Although not conclusive, this opens avenues for research in the critical task of making strategy happen. All in all, the formal arrangements we describe enhance individual problem solving capability and favor individual discretion, so that participants contribute their talents and energies to a wider task (McGregor, 1960).

In a recent publication, Peteraf (forthcoming 2004) seeks to establish bridges from the Resource Based View (RBV) to the Bower-Burgelman process model. One of the crucial elements this author draws on in order to build this bridge is the role of top management in relation to that of middle management. According to Peteraf, capabilities from either level will tend to be distinctive and nested within the organization. Hence, the relationship among these levels and consequently among their capabilities, as treated in this paper, could suggest a path for how strategy-making capabilities are developed. Moreover, Peteraf puts forward that there are unanswered questions as to whether a resource-based strategy can emerge without guidance from the top. The approach used in this paper, combining top-down and bottom-up elements, may be useful in understanding how guidance is developed under emerging events. Legitimation of a strategy created in a generative fashion by middle managers could be a resource-based strategy. If in the course of managerial interplay resources are assessed, the competitive capabilities of rivals and the features of the competitive landscape are discussed, and the companies' own capabilities and limitations are identified, the result will be what Peteraf (forthcoming 2004) calls a resource-based strategy. Additionally, if strategy-making were developed with participation, the process were effective and the outcome were precisely such a resource-based strategy, then participation would have been used effectively.

Effectiveness of participation, as described in this paper, has been linked to the achievement of legitimation between top and middle managers. While quantity and quality of information exchange, collaborative behavior, and joint decision-making are elements of behavioral integration (Hambrick, 1994, 1998), we argue that to some extent these elements are present in legitimation. Joint decision-making between top and middle managers is transformed to mutual interaction, top management being the judge. In contrast, collaborative behavior and information exchange remain valid for legitimation to exist. All the same, we

must add that information shared will have to be mainly objective, rather than mere opinion, for legitimacy to develop. In general, we can say that legitimation precedes integration and may be a necessary condition for the latter.

Conclusion

This paper has shown one possible way to combine Hart's modes to take advantage of participation. In doing so we have aimed at advancing theory regarding the interplay between top and middle managers. This interplay substantiates the strategy-making process inasmuch as participation by organizational members in general, and middle managers in particular, exists. Our aim in this paper has been to untangle how participation can shape the strategy process to make it more effective. Our target was to analyze how top management's interplay with organizational members would lead to cooperative behavior, in much the same way as behavioral integration is a desirable quality of top management groups (Hambrick, 1998).

We have proposed that participation can be a useful characteristic of the strategy-making process under the conditions that emerged from our multiple case study and in light of Hart's modes of strategy-making. Additionally, we have further described the concept of legitimation as the mechanism that resolves middle and top management interplay in such a way that goals and means are mutually accepted. These two concepts depart from the standard process model in that they offer a more integrative view of how strategy-making develops.

We have built on concepts of issue-selling (Dutton *et al.*, 1997) and middle management involvement in the strategy process (Floyd and Wooldridge, 2000) to create a model that combines these bottom –up forces with top down forces–. Thus, we have described how top and middle managers may interact to generate strategy-making so that subsequent action linked to strategy is reached. All in all, the present study is an attempt to overcome the either top-down or bottom-up view of the strategy process and put together a more accurate view that may eventually be useful for management practice.

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Exhibit 1

Interview protocol for study in chapter 4

- Frequency in carrying out a strategic exercise?
- What are the outputs obtained?
- What improvements has the process undergone and how has it evolved?
- What are the main difficulties encountered?
- How is strategy revised, when necessary?
- How satisfied are they with the present process with respect to:
  - Internal agreement?
  - Team coordination?
  - Integration of teams?
  - Autonomy of subordinates?
  - Delegation capacity?
  - Efficacy in managerial action?

Exhibit 2

List of interviews

	Company Name	Interviewee's position	Round
1	Inssubanc	Human Resources Director	1st
2	Inssubanc	Human Resources Director	1st
3	Inssubanc	Commercial Director	2nd
4	Engcosult	General Director Barcelona	1st
5	Engcosult	Innovation director	1st
6	Engcosult	General Director Barcelona	2nd
7	Engcosult	Project Director Barcelona	2nd
8	Engcosult	Project Director Barcelona	1st
9	Mobility	Planning Director	1st
10	Mobility	CEO	1st
11	Mobility	Planning Director	1st
12	Mobility	Planning Director	2nd
13	Refoil	Human Resources Director	1st
14	Refoil	Staff External Relations	2nd
15	Techno	Business Planning director	1st
16	Techno	Business Planning director	1st
17	Techno	Business Planning director	2nd
18	Techno	Planning staff	2nd
19	Prosteel	General Director	1st
20	Prosteel	Human Resources Director	2nd

Exhibit 3

Number of participants in the interactive discussion group

Company Name	Number of participants
Inssubanc	2
Engconsult	2
Mobility	3
Refoil	1
Techno	1
Prosteel	2
Total	11

Exhibit 4

Issues for discussion in the interactive discussion group session

1. To what extent is FORMALIZATION desirable in the way you use the strategy process?
   – In which parts of the process is it most effective in your company?
   – Would you cascade objectives or use direct communication, in your case?
   – How do you achieve flexibility and adaptability if line managers are apart from the corporate office, in your case?
2. How is PARTICIPATION by different managers in the strategy process achieved in your company?
   – In which parts of the process is the participation of lower level managers required in your company?
   – Is it possible to involve everybody in developing strategy in your company? How do you achieve brain-share of managers for the planning exercise in your company?
   – In strategic reflection, where would you use broad participation versus a reduced group?
3. How do you make the PROCESS (of formulation and implementation) valuable and perceived as such?
   – How do you gain managerial "Passion-Share" in the implementation period in your company?
   – Where do you encounter most hurdles to the smooth development of the strategy process in your company?
4. Which parts of the process would you design to be strictly BOTTOM-UP and which, strictly TOP- DOWN?
   – How do you go from the more general to the more detailed?
   – How do you conduct good ideas from the base of the organization so that they reach the summit?
   – How do you balance centralization and decentralization?
5. How do you ensure that STRATEGY is widely SHARED?
   – Would you look for consensus or mere agreement, or what other forms in your case?
   – How can you be sure that executives know and agree with the strategy?
   – Is it necessary to reach consensus on strategy in your company?
   – How do you get people to be committed?
6. How do you make the LONG AND SHORT-TERM STRATEGY compatible?
   – How do you make day-to-day demands compatible with broad objectives?
   – How do you establish priorities for allocating resources among different projects?