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STRATEGY FORMATION EFFECTS ON MANAGERIAL ACTION: STRATEGY IN THE BACK OF YOUR HEAD

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Abstract

This paper examines the interplay between top and middle level managers as strategy-making settles and in subsequent managerial action. It reports on an exploratory case study at a car service company that has an aggressive expansion strategy. The study examines the context and character of the strategy-making process and the specific evolution of fourteen strategic initiatives. Of particular interest was that the interplay between top managers and middle managers was resolved through a legitimizing mechanism. This interplay took place through deliberation and agreement, with extensive participation, and developed into shared views of strategy which provided legitimation. Once settled, strategic initiatives were subsequently developed in harmony with the strategic intent. This agreement provided guidance to carry out strategic initiatives and was a source of resilient strategic conversation. From analysis of the case, a model presenting how strategic intent interacts with the creation of strategic initiatives is presented. This model aims at overcoming the mutually exclusive bottom-up and top-down sources of influence, integrating both in a process model.

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Introduction

One strand of theory and research has investigated how top managers shape strategy-making (Dess and Origer, 1987; Eisenhardt and Bourgeois, 1988; Fredrickson, 1984; Hambrick, 1981; Hambrick and Mason, 1984; Schwenk, 1995). In contrast, another large body of research has studied how middle managers act as agents of strategy-making (Dutton *et al.*, 1997; Floyd and Wooldridge, 1992; Kanter, 1982; Wooldridge and Floyd, 1990). However, the process through which these two organizational levels interact to influence strategy-making has received less attention. Similarly, the influence of managers on strategy-making has been expressed as either top-down or bottom-up, each source developing rather independently (Burgelman, 1991). Strategic intent (Hamel and Prahalad, 1989) has been established as the main top-down source, while issue selling activities (Dutton and Ashford, 1993) have been identified as the bottom-up source. Yet, little theory has been developed regarding the interplay between these two sources of influence. This paper focuses on the interplay between top and lower managerial levels, and between their sources of influence, as a property of strategy-making. Our purpose is to build theory on how the strategy-making process is used by top management to translate strategic intent into action.

Strategy acts as a guiding element to the extent that the strategy-making process enables managers to grasp strategy (Guth and MacMillan, 1986). The strategy-making process has been described as an organization-wide phenomenon (Hart, 1992), in which strategy formation is neither exclusive to top management (Floyd and Wooldridge, 1997) nor only a bottom-up, emergent event (Hambrick, 1981). Rather, it is the interplay between these organizational levels that explains strategy-making (Burgelman, 1983a; Hart, 1992). The motivation for the present research is to gain understanding of how and to what extent strategy is translated into action effectively, so that managers grasp strategy. We argue that the characteristics of the strategy-making process will determine the extent to which managers use strategy to drive daily action.

We regard strategy-making as intervening between the strategy concept and managerial action. Following the line set by Johnson (1988), we intend to view strategic management processes essentially from an organizational action perspective. Accordingly, strategy-making is not restricted to planning and analysis but is viewed as the broad organizational phenomenon through which strategy is formed (Burgelman, 1983a). Core to

strategy-making, though, is its formal planning phase, as a mechanism for problem and opportunity identification, as well as for strategy evaluation (Johnson, 1988).

In this study, we examine which conditions can turn strategy-making into an organizational mechanism for seeing to it that strategy translates into managerial action. Inquiring into this relationship is important because it contributes to a core issue in the field of strategic management, namely, how strategy can make a difference by translating organizational purpose into specific initiatives. Research has emphasized the difficulties that leaders encounter in aligning organizational action with strategic intent as the objective function, as identified by Mintzberg *et al.*, (1998). This study aims to shed light on these difficulties by studying the interplay between the middle and top levels and their respective sources of influence. In addition, with this study we face a key challenge of strategy process research, as pointed out by Chakravarthy and Doz (1992): "The challenge now is to cut across the three tracks of [change] concept, administrative systems and managerial behavior so as to produce strategic action and firm performance (1992: 9)." This study provides insight into how strategy can affect managerial action through strategy-making, in order to produce renewal. Strategic renewal is defined as "an evolutionary process associated with promoting, accommodating, and utilizing new knowledge and innovative behavior in order to bring about change in an organization's core competencies and/or change in its product market domains (Floyd and Lane, 2000: 155)". Consistent with Burgelman (1991), Floyd and Lane (2000) and Huff *et al.* (1992), we view strategic renewal as an iterative organizational process of developing the organization's core competencies with the purpose of aligning the organizational strategy with changing environmental circumstances.

Theoretical Background

In this section we will present the basic concepts of strategy-making that we have used in our case research. These concepts involve the roles of the participants in strategy-making embedded in the two main processes that describe strategy-making, namely induced and autonomous.

Strategy-making can be viewed as the result of multilevel organizational interplay (Bower, 1970; Hart, 1992). Different modes of strategy-making result from the varying roles top management and organizational members play in strategy-making and, consequently, how those roles interrelate (Hart, 1992; Hart and Banbury, 1994). Building on Hart's (1992) modes of strategy-making, we specify possible roles for top and middle management levels. The role played by top management can range from one in which they dispatch strategy to organizational members, to one in which top management sponsors lower level managers' initiatives emerging from below. Likewise, organizational members' role can range from one in which they merely receive strategy and then implement it, to one in which they undertake entrepreneurial initiatives. Each combination of these roles portrays an extreme mode of strategy-making. In between these two extremes, top management's role will usually be to provide a sense of direction, while organizational members' role will be to participate to some degree in strategy-making (Hart, 1992). These modes, developed from different forms of multilevel interplay, will determine strategy-making characteristics.

Along this multilevel interplay, strategy-making processes have been described as comprising induced and autonomous behavior (Burgelman, 1983c; 1983a; 1983b; 1991; 1996). Induced behavior represents the guiding character of strategy. "The induced process concerns initiatives that are within the scope of the organization's current strategy and build

on existing organizational learning (Burgelman, 1991: 241)", generally but not always carried out by top management (Burgelman, 1983a). "Top management takes a role in which strategic change may take place before it is recognized or acknowledged as such by top management" (Burgelman, 1996: 209). Although for Burgelman, in the induced part of strategy, top management behavior is viewed as a major inertial force, we allow for induced behavior to be also a source of strategic renewal, as suggested by Floyd and Wooldridge (2000).Top management may set the path for change in advance by conveying the strategic intent as the objective function, thus giving it a guiding character.

Setting and conveying the strategic intent is understood in this study as the opening stage of the interaction between middle and top level managers. The guiding character of strategy may materialize across a range from the complete formulation of strategy and plans, at one extreme, to the setting of a broad purpose or objective function, at the other. Yet, the idea of top management being able to formulate a complete strategic plan has been proved inaccurate (Bower, 1970; Burgelman, 1983c; Floyd and Wooldridge, 1992; Noda and Bower, 1996). The view of top management as setting the objective function for the organization portrays a more realistic role of strategic direction (Lovas and Ghoshal, 2000). Similarly, for Barnard (1938), the guiding element is the organizational purpose. Its function is to bind the organization together, and in order to do this the purpose must be accepted and believed by potential contributors.

In this study, we broaden the definition of autonomous behavior, allowing for renewal to be favored also by bottom-up initiatives that are aligned with current strategy. Hence, the sub-process of idea generation and issue selling may be aligned with the strategic intent. If by combining autonomous initiatives with the firm's strengths, middle managers generally, but not always, can conceptualize new strategies (Burgelman, 1983c), in our approach we also allow for initiatives to support the objective function. The role of middle managers is crucial in supporting autonomous initiatives from operational levels, from the generation of ideas to the issue selling process (Dutton and Ashford, 1993; Dutton *et al.*, 1997). Arising from organizational members, issue selling can also fall in line with the strategic intent. Burgelman (1991) reserves autonomous behavior for initiatives that "emerge outside of current strategy and provide the potential for new organizational learning (1991: 241)". Autonomous processes give ground for organizational renewal since they stem from experimentation beyond existing strategy and may come from various organizational levels (Burgelman, 1991). Nevertheless, by restricting renewal as stemming only from autonomous behavior outside the current strategy, Burgelman somehow disregards the power of conscious adaptation (Floyd and Wooldridge, 2000). Accordingly, we consider renewal as a possible outcome of both conscious adaptation and autonomous behavior, akin to Floyd and Wooldridge (2000).

All in all, we recognize that managers at all levels of the organization may play a role in strategic renewal and that their behavior may be both purposeful and inadvertent (Mintzberg, 1978). Three sub-processes are targeted in this case study. First, the induced process of setting and conveying the strategic intent as the objective function; second, the process followed from idea generation to issue selling; and a third sub-process in which the previous two meet. This third process is the process of day-to-day managerial work and current project development. Through managerial work, strategy is translated into action, and it is here that we can observe whether the strategy-making process has produced a strategy that matters for managers and is thus included in regular work. A diagram presenting these three sub-processes is presented in Figure 1.
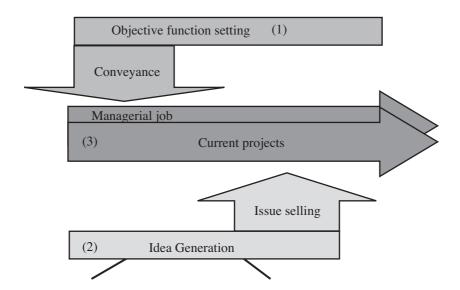
Figure 1. Ex-ante conceptual framework

This diagram shows three interconnected processes. In the first process we regard top management as setting and conveying the objective function, in an induced manner. This guiding element is deployed into unit-based strategies, which materialize in managerial jobs (Hamel and Prahalad, 1989). The second process is the eventual birth and growth of new initiatives stemming from managerial work, in autonomous behavior or merely induced by the firm's strategy (Burgelman, 1991). Through the interplay between top management setting and conveying the objective function and organizational members generating specific strategic initiatives, strategy is developed.The third process is the one that accounts, on a daily basis, for managerial action, whether derived from current strategy or not. Most managers will perform a dual role in their day-to day work. In their daily work they will develop existing projects or strategic initiatives and at the same time contribute to the organization with their functional duties. Managers will tend to have deeper information about issues directly relevant to their functional areas. Hence, their role in generating ideas and selling issues to top management will be closely related to their day-to day work or project development (Dutton and Ashford, 1993).

The nature of the interplay between the conveyance of strategic intent and the generation of ideas, which through issue selling can become strategic initiatives, will reveal the conditions under which the guiding quality of strategy arises. We expect to derive the precise mechanism that solves the interplay between top management and organizational members, and consequently forms strategy.

In the following section, we describe the research development as well as the research setting and methodology used. Next, we describe the main findings of our study and develop a theoretical framework. In the final section we present and discuss the conclusions of the study.

Research Development

A Case Study Approach

The purpose of this study makes the use of a case study particularly appropriate. There are several reasons for this. First, the nature of the strategy-making phenomenon, as a multilevel and organization-wide process, lends itself to fine-grained inquiry rather than quantitative measurement (Chakravarthy and Doz, 1992). Second, in view of the subject matter, understanding the dynamics in a single setting seemed necessary. Third, the use of exploratory case research enables consideration of new ideas and propositions to be applied in further research (Yin, 1994).

We have used the concepts of interplay between top management and lower managerial levels as well as induced and autonomous behavior as ingredients for an *a priori* framework to approach the case study. As indicated by Eisenhardt (1989) and Yin (1994), we relied on a preliminary framework based on existing theory and research on the strategy-making process. This framework is presented schematically in Figure 1. Several methodological reasons support the use of an *ex ante* framework. The first reason is that this approach allows for iterative contrasting of theory against evidence, leading towards analytic generalization. As a result, the framework we devise is open-ended to allow promising new concepts to be noticed. The second reason is that using this approach prevents ongoing research from diverging from the original intention. It provides direction in determining what data to collect and what scheme to use to analyze them. We enforced concreteness by focusing on our research question: how is the top and middle management interplay resolved to translate strategy into managerial action?

The company chosen for this study, RACC Club, has exceptional features and appears to be a revelatory case. First, it is a multi-business organization, yet all business units share the same domestic customer. Multi-business is especially valuable to observe managers' participation in the strategy-making process, given the autonomy and specific knowledge they have of their business units. Second, the company uses well-defined strategic initiatives to promote change. Third, the CEO guides strategy formation[1] by means of an objective function. Fourth, the nature of the institution as a multi-service provider forces the company to operate in different markets, providing diversity of contexts and different levels of analysis. This type of complexity usually tends to be found in larger organizations, yet in this case the situation is replicated on a smaller scale. Fifth, the company has recently implemented a singular approach to strategy formulation which diverges from the traditional practice of strategic planning and promotes participation by organizational members. Finally, the access allowed at the research site was substantial; the researchers were given ample access to company documents, decision-making procedures, and records on strategic initiatives.

Research Setting

The case study company, RACC Club, was founded in 1906 as a sports association in Catalonia, one of the most prosperous regions in Spain. Since then, although its

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[1] We lean on the concept of strategy formation (Burgelman, 1988; Floyd and Wooldridge, 2000; Mintzberg and McHugh, 1985; Slevin and Covin, 1997; Wooldridge and Floyd, 1990), which integrates thinking and acting in an ongoing manner and extends strategizing beyond the formulation-implementation dichotomy.

foundational goal has not changed, the organization has been able to renew itself several times. From the outset, RACC offered a number of related services to facilitate daily use of motor vehicles, such as roadside assistance, car insurance, car servicing, assistance in obtaining driving licenses and permits to drive abroad. RACC's business is similar to that of other automobile clubs such as the American Automobile Association. They also own facilities such as a car-racing circuit and organize sporting events such as the Formula 1 grand prix.

From 1986 to 1995, RACC established a number of business units and focused on key business areas, such as assistance, insurance, sports. The emphasis was on getting closer to a broader base of car users through improved service offerings within Catalonia. During this same period it expanded its membership from 86,000 to 320,000 and built up the scale of its activities to become an institution covering the whole of Catalonia. Competition had increased in two directions. On the one hand, another automobile club had started operating in Spain, and on the other, a number of specialized companies were offering competitive services within each segment.

The appointment of Josep Mateu as CEO in October 1995 marked a turning point. Mateu stressed the need to achieve a certain professional management profile, with proactive managers trained in strategic management. At that point, though a strategic plan was in place, it offered only "wishful thinking", as Josep Mateu put it. With Mateu's arrival the primary objective became to put the organization in order. From then on, the objective function, in the form of strategic intent, became to expand aggressively beyond Catalonia towards the whole of Spain. Next, a new strategic exercise became necessary, and was completed by mid-2000. A clear strategic intent was formulated, and the participation of all layers of the organization was sought. The unit chosen to shape the strategic renewal was that of the project, each project being formulated and developed by a different team. This final stage is the one we studied.

By the year 2000, RACC had become a group of twelve companies, each focused on a business area around the concept of mobility. Its management structure recognized three dimensions: business areas (membership, assistance, insurance brokering, travel, sports, and other member services); geographical operations (distribution units in four regions within Spain); and functional areas. Also, strong corporate service units were established (including corporate development, organization and quality, and auditing). With thirty-two executives in key management positions and a total of 1,050 employees, RACC has achieved impressive growth over the last few years. Between 1998 and 2001, it grew 230% in turnover and 163% in number of members. Each area expanded its services to create stronger ties with members and moved to provide assistance to other companies in addition to its own members. RACC became Spain's leading insurance broker in Spain in terms of number of auto policies. Over the previous decade, the company championed the construction of sports facilities and had no rival in organizing the three motor sports world championships: Formula 1, motorcycling and rally races.

Data Collection

We collected data on RACC's strategy-making process from various sources, including interviews with the CEO, with the entire group of second-line managers, the personnel of the Supervision and Planning Department, as well as from internal documents and archival data. The interviews took place between May 2001 and January 2003. We conducted, in total, 14 interviews, ranging from 2 to 3 hours in length, with a median of 140

minutes. A list of interviews and participants' ranks is given in Appendix 1. The respondents ranged in rank from CEO, as level one, to level four managers. The internal documents, which added up to about 573 pages, consisted of documents produced during the strategic planning exercise, and specific documents defining fourteen strategic initiatives. In addition to these, two IESE teaching cases were used for the study. Archival data and company and internal documents were filed into a database for trouble-free retrieval. Multiple data sources gave us the means to figure out the internal and external contexts in which strategy-making developed at RACC. Additionally, having different types of evidence allowed for triangulation in later data analysis (Miles and Huberman, 1994).

For data collection we followed a two-stage approach. The purpose of the first stage was to comprehend the strategy-making process as a whole. For that we used company documents and in-depth interviews. The company documents used in this phase were the internal forms used for developing the strategic plan, the schedules and lists of participants in each stage of the strategic exercise, and the actual strategic plan, including strategic lines, objectives, measures, executives responsible, and timings. Interviews conducted at the beginning of the study sought to clarify the characteristics of the strategy-making process. An indicative list of the themes covered is given in Appendix 2. By comparing company documents and interview results we were able to start to establish a chain of evidence, aiming for construct validity (Yin, 1994). Our purpose was to study the effect the objective function setting had on strategy development and managerial action. We therefore examined the interplay between top management and organizational members, through archival data and interviews, during the formal planning process, as well as in previous and subsequent episodes. More specifically, we inquired into top management interaction with organizational members regarding conveyance of strategic intent, as well as participation and contribution during the formal planning exercise. From these data we were able to describe the formal phase of strategy-making as well as previous strategic exercises. The evidence shown in this stage was iteratively tested for consistency during the second stage.

The second stage focused on the evolution of strategic initiatives. Drawing on the perspective of the managers interviewed we were able to picture their idea of the evolution of strategic initiatives. From the evidence on the evolution of strategic initiatives, we inquired about the role of participants, and the flows of idea generation and decision-making. In order to gain insight into the subtle nature of these interactions, we selected the tactic of embedded units of analysis (Yin, 1994), strategic initiative and managerial action. Hence, managerial action was embedded from inception to conclusion of strategic initiatives. We tried to delve into managers' use of strategy and how the strategic intent was deployed throughout the life of strategic initiatives. Another reason for centering on strategic initiatives was to provide the interviewee with a context in which managerial action takes place, avoiding anecdotal talk and centering on facts rather than opinions (Silverman, 2001). Besides, by contrasting interpretations with company documents, information provided by the interviewees could be verified.

We followed fourteen strategic initiatives of different kinds. The strategic initiatives followed covered periods ranging from two to seven years, the median being two and a half years. These data were obtained from in-depth interviews with key managers as well as internal company documents. An indicative list of all initiatives is given in Table 2. The interviews were conducted with the manager responsible for each strategic initiative, and with executives from the planning and supervision department. 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 is given in Appendix 3. The questions were handed out to interviewees beforehand, in the form of a thematic summary of the questions,

in order to take full advantage of interview time. Validity of the constructs was extracted from the interview data by considering the interviewees' causal explanations as testable (Argyris *et al.*, 1985). In addition, looking for alternative explanations between the two researchers and directing attention to internal processes was self-imposed. We have used three sources of evidence to analyze the evolution of each strategic initiative (Yin, 1994).

Our aim, as presented during the interviews, was to know what factors, in the interviewees' opinion, had shaped the evolution of strategic initiatives from inception to conclusion. Inception described the point at which the idea first appeared, while conclusion was the situation in which the project was being carried out. Our inquiry was directed to finding out whether strategic initiatives occurred more in an autonomous or more in an induced manner. Consequently, we asked under what conditions strategic initiatives took place and how managerial action shaped them.

We specifically studied the evolution of fourteen strategic initiatives, choosing an embedded case study design. The initiatives were selected following snowball sampling (Miles and Huberman, 1994). In the interviews with planning staff, we asked for specific projects that could illustrate the interviewees' statements. The criterion used for selecting a project was the extent to which the strategic initiative aimed at strategic renewal, i.e. the extent to which it brought about change in core competences and/or product market domain. Once a project was fully explained it was either selected or discarded. Next, we asked for further illustration on a different project. In this fashion we collected data on the fourteen strategic initiatives. These initiatives accounted for 72% of the projects included in the company's portfolio. We stopped gathering initiatives when the projects chosen, in the strategic planning director's estimation, covered a major part of the company's strategic effort. Having selected the strategic initiatives, we requested interviews with the managers responsible for each one. By following this procedure we were able to get in-depth insight into the development of each initiative and, at the same time, triangulate and contrast archival data, or different interviewees' views, on the same initiative. To strengthen internal validity (Yin, 1994), interview data were crosschecked with archival data and contrasted with other respondents.

Analysis and Interpretation

Standard practices for qualitative data display and analysis were used, following the guidelines of Miles and Huberman (1994) and Seidman (1998). We recorded, transcribed and codified interviews. We examined the evolution of each of the fourteen strategic initiatives. By comparing them and studying the context of the strategy-making process we verified the existence of potential constructs. In interpreting and analyzing the evolution of strategic initiatives we used the Bower-Burgelman (B-B) process model (Bower, 1970; Burgelman, 1983a). The first reason for using this model is that it displays a critical path documenting the strategy-making process. This makes it possible to compare initiatives, as they can be plotted together in the same matrix. The second reason is that it allows bottom-up and top-down forces to be presented simultaneously and offers an integrating graphical representation of these two sources of influence.

On the one hand, this model makes the assumption that project development is part of a multi-level process, with three distinct phases. The first phase, definition, is when the economic and technical aspects of a new investment are clarified. The second phase is impetus, when the proposal goes through an evaluation process. The third phase, commitment, occurs when resources, whether financial, operational or personal, are deployed

around the new project. At the same time, this model assumes three generic levels of managers: senior, middle and bottom. For our specific case we considered that the organizational levels are: the CEO and Board of directors as the senior level, the second and third line managers as the middle level, and the operating level managers as the bottom level. The second level managers, who were the core of our interviews, played a pivotal role in connecting the CEO with other organizational members. On the one hand, they were part of an 'executive committee' alongside the CEO; on the other, they were heads of their respective units. These second level managers operated as managers of their business units and at the same time had access to top management and deliberation with the CEO. It must be noted that, through the interviews, we had access to the top, second and third levels; the inferences we make about the operational level are based on company documents and the views of the CEO and second level managers. Our intention was to observe the translation of the strategic intent into action. Therefore, the data on the evolution of strategic initiatives obtained from the interviews, along with archival data, was sufficient for our purpose.

It must be noted that an alternative argument for managerial use of strategy and its guiding character is managerial incentives or reward systems, as developed by Boyd and Salamin (2001). We did not include this analysis in our research, aiming at parsimony. The alignment of incentive and reward systems with current strategy can be a decisive factor in the use managers give to strategy and the extent to which strategy has a guiding character (Boyd and Salamin, 2001). Lack of such alignment could have biased our findings. We isolated this issue as an alternative explanation by asking interviewees for their general impression as to the alignment of the reward systems with current strategy. All informants indicated that "generally speaking, the incentives established and the rewards given were consistent with the strategic objectives". In addition to this, all interviewees evaluated the reward system as satisfactory. This implies that the analysis we have conducted is at least not biased by the effects of a problematic reward system.

Research Findings

We will present the main findings in two segments. First, we will present the general context in which strategy-making developed. The aim of the first segment is to describe the system employed and to state the expected role of organizational members. Second, we will present the analysis we have made of the evolution of the strategic initiatives, in an attempt to shed light on the dynamics of the interaction between strategic intent and specific strategic initiatives. At the end of that second section, we will present the refined conceptual framework, integrating evidence and analysis, to extend our understanding of strategy-making and its relationship with managerial action.

The Strategy-Making Process

The company divided the formal strategy-making process into five stages: analysis, formulation, implementation, tracking and revision. During this process, the company identified specific responsibilities or roles for each level, the levels being the CEO and the Board of Directors, the second level, and the executive committee. The second level managers, mainly business unit managers, and the CEO made up the executive committee, considered as the collegiate body in which bottom-up and top-down sources converge. This committee was the arena in which relations between top management, including the Board and the CEO, and unit managers was conducted. The duties of top management, unit managers and the executive committee are summarized in Table 1.

Table 1. Description of the strategy-making process and the behavior of each management level

Behavior/Stage	Analysis	Formulation	Implementation	Tracking	Revision
CEO and Board of Directors	- Objective function (O.F.) setting - Invitation to participate	- Rank projects - Test for fit with O.F. - Coordinate and facilitate generation of strategic initiatives	- Resource allocation according to previous ranking - Delegation of responsibilities	- Monitor evolution of strategic initiatives - Feedback from key indicators	- Monitor and control objective achievement - Assess reasons for achievement
Second and Third Level Manager	- Individual reflection and group deliberation	- Propose strategic initiatives - Scratching for value adding potential - Each area proposes a strategy	- Request resources for projects - Disseminate underlying reasoning to organizational levels	- Unit evaluation meetings - Day-to-day tuning - Look for solutions to emergent problems	- Contingency detection - Task force reaction, scratching and gather information - If necessary, issue selling
Executive Committee: Relationship between levels	- Group deliberation - Ranking of objectives - Reach agreement - Legitimation of analysis and goals - Assistance of external consultants as facilitators	- Fit with objectives - Agreement based on reasoning on objectives and performance indicators - Legitimation of strategic initiatives	- Balanced scorecard model - Strategic conversation - Discriminate which strategic initiatives to promote and which to hold back	- Supervising area feedback - Executive committee evaluation meetings	- Communication of global performance - Revision of under or over-developed strategic initiatives and objectives - If needed, propose major revision of strategy

The formal strategy-making exercise at RACC took place over a period of five months, from May to September 2000. This exercise covered the stages of analysis and formulation, as shown in Table 1. Participation was sustained as a key feature. About eighty managers were said to have played a part in the making of strategy. In a first phase, thirty-five people from four levels below that of CEO identified and debated four strategic dimensions, resulting in a rank by agreed priority. Then, the same thirty-five people, working in small groups, derived seven main strategic tracks in order to approach the external scrutiny. Using these tracks as valuable insight, a total of eighty people, enlarging each of the previous groups, worked out the external scrutiny. The internal scrutiny was carried out in an analogous way, but devoting less effort. After this extensive reflection, top management studied and then ratified the analysis carried out by the different groups. Top management set and conveyed the objective function (of reaching exponential growth) and translated the conclusions of the external scrutiny into strategic organizational objectives. The objective function was embodied in five strategic lines. From these lines, bearing the strategic intent in mind, teams within each company unit were formed to generate strategic initiatives in line with the strategic objectives. The resulting initiatives were presented to top management, who ranked them according to strategic objectives. The number of proposed initiatives was greater than could be carried out, due to limited human and financial resources. Accordingly, the previously devised strategic lines and objectives were used to rank initiatives and provide

guidance for resource assignment. The proposed initiatives were evaluated at the team level and then either ratified or rejected by top management.

This participative strategy-making process made a broad base of managers face and explore strategic issues. In the numerous meetings they attended, they were able to take part in decisions. Whether or not the decision was subsequently ratified by top management, middle and lower level managers had been exposed to the arguments and possible alternatives that justified ratification or rejection. Participation was used not only to generate new ideas, but also to diffuse strategy throughout the organization. The purpose of the strategic exercise, as described by the CEO, was to reflect, ponder and mull over ideas, drawing nourishment from managers and organizational participants. As seen by the respondents, "the purpose of the strategic plan was not to produce a document, but to mull over ideas sufficiently, so managers could subsequently keep them in the back of their minds". Although significant effort was involved, managers had gained an understanding of strategic issues, as well as having had the opportunity to argue the case for or against. Evidence at RACC suggests that better understanding and joint resolution of strategic issue ownership produced a higher quality of strategy than restricted participation. In this case, as in Wooldridge and Floyd (1990), involvement in strategy-making not only improved the quality of strategy, but also helped managers to internalize strategy and develop a sense of strategy ownership.

Four basic columns supported the implementation stage. The first column was the measurement system, via key indicators, which were based on the Balanced Scorecard model. This model was designed initially to monitor the progress of strategic objectives and then, in an enhanced form, to track the progress of strategic initiatives. The second column was regular follow-up via area meetings, held in preparation for executive committee meetings. The priorities recognized previously for the initiatives established the criteria for implementation. The third column stemmed from the thorough and careful formulation of the plan. The fact of having developed a participatory system of analysis and formulation improved the quality of the plan, allowing the objectives and the underlying reasons for those objectives to permeate the different organizational levels. This system allowed each intermediate manager to know what he/she had to do, what was expected of him/her, and how results would be measured, as noted by the CEO. Another effect of the way the plan was formulated, through deliberation and reasoned argument, was that the criteria for decision-making were perfectly clear to the managers we interviewed. That is not to say that all the managers thought exactly the same, merely that there was broad agreement. As noted by informants, at least in the analysis and formulation stages, all alternatives had been discussed before a criterion was chosen. Every manager from levels 1, 2, 3 and 4 had discussed the content of this agreement. Finally, for all these reasons the plan was implemented on the basis of delegation of responsibilities.

The strategy-making tracking system at RACC was built on two interrelated elements: measurements and periodic meetings. First, the key performance measures for each strategic objective (settled while implementing the plan) made it possible to know the status of each objective in real time. An example of these measures is the quality of service index. At the start of the plan, there were too many indicators for each objective. As the system was perfected, however, key measures were identified and redundant ones were trimmed. As a result, key performance indicators were available for each initiative. These indicators had been improved over time to give a more precise measure of results. The area in charge of measurements and indicators was the Planning and Supervision department. The second element was the periodic meetings held at unit level. In these meetings, performance of strategic objectives and initiatives was evaluated. Each area would meet at least once a week

to appraise initiative performance. The spirit of these meetings was to deliberate and analyze how or why objectives had or had not been accomplished, and strategic conversation arose around previously settled objectives and performance measures. The goal was not to find the guilty person, but to build solutions. This finding differs from that of Marginson (2002), who found that control systems created dysfunctional tension in strategy development. The aim that emerged in the course of our case study was to seek deliberation, among second and third level management, and deduce the reasons for the state an initiative was in at a given moment. At the company level, the executive committee would meet every one or two weeks. The participants in these meetings were the second level management, including Supervision and Planning, and the CEO. The main goal was to review progress on strategic objectives and initiatives, and work out how they had been achieved, if that was the case, or how to achieve them, if not. The link between unit follow-up meetings and executive committee meetings was provided by the second level managers. We have named this process in which strategic initiatives were monitored, and if necessary altered, "strategic conversation".

Finally, RACC's strategic plan was not a dead end. The plan was seen as a guide for daily action. Thus, the organization was always ready to review aspects of the plan in light of changes in the environment or unforeseen events. This is the review stage shown in Table 1. Generally speaking, there were two criteria for reviewing the plan. The first was whether success or failure in achieving the objective was due to management having been more or less efficient. The second was whether the previous analysis had been called into question by unforeseen circumstances that called for a review.

Reviews were conducted by two bodies. The first was the executive committee, which met every two weeks and examined the progress of the business and goal achievement. The committee would make corrective decisions and provide communication. By considering goal achievement, the executive committee could amend the plans in favor of the goals with the lowest levels of achievement. The whole plan was reviewed each year in light of progress. Yet, if at any time, even before the plan was due to be completed, the executive committee considered it necessary, it could encourage a new strategic orientation. The second body was more timely and nimble, better able to react with flexibility to changes in the environment. This mechanism could be triggered by any organizational unit that identified a contingency to be dealt with. Likewise, any unit could react to a market opportunity. This mechanism was neither ruled nor defined, yet it was available and had a known procedure, ingrained in organizational routines. It started with the unit forming a team, which would study the situation ("scratching"). Once a possible solution or action had been identified, the unit head, who would be a second level manager, would take the proposal to the executive committee, where the final decision would be made. Thus, the option to renew the strategic plan was always open. All informants agreed that the primary aim of the strategic planning exercise was not to produce a document but to influence the way people thought about the company. Any idea that might help to solve a problem or exploit an opportunity had a channel through which it could be directed, either through the head of the unit taking it to the executive committee, or through the mechanism described previously.

Participation as a means to promote agreement and commitment among organizational members was the outstanding feature of RACC's strategy-making process. The sequence observed, from objective function setting to participative strategy-making, ending in agreed upon objectives from which strategic initiatives were generated, is shown schematically in Figure 2. This refined framework presents a multi-level interplay between middle managers (MM) and top managers (TM). Top management sets and conveys the objective function, which is grounded in the organization and perceived as ambitious and

feasible. The interaction between participation and conveyance produces dialogue and deliberation between top management and lower managerial levels. Thus, the objective function and its subsequent strategic objectives build into a shared understanding or agreed upon guidelines. Subsequently, strategic initiatives are generated in compliance with strategic objectives. The dotted box for strategic initiatives denotes that this segment's finding will be discussed in the next section.

Evidence at RACC suggests that this participative practice strikes the very purpose of strategy-making. Through strategy-making, strategy is not only formed, but also endorsed by lower level managers. In addition, thanks to this same pattern of interaction between managerial levels, the system is open to revise strategic objectives when needed. In contrast to our *ex ante* framework, this framework does not show three sub-processes. Though the objective function setting (process 1) turns out, as expected, to be driven by top management (TM), it converges into participative objective setting and results in agreed strategic objectives. At this stage, TM interacts with middle managers (MM). Process 2 (issue selling and idea generation) happens partly within participation and partly within strategic initiatives; while process 3 (managerial work and project development) does not appear as a key process. On the contrary, during participation in strategy-making the emphasis was placed on analysis of the potential future and not on current projects. In addition, managerial interplay was found to occur periodically, through tracking and revision, rather than just once, as had been expected.
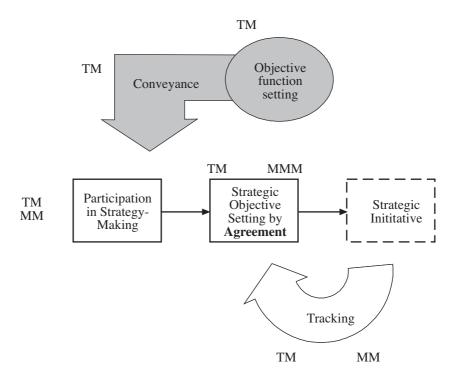
Figure 2. Diagram for Strategy-Making

Patterns in Strategic Initiatives

Using the Bower-Burgelman scheme, we inductively interpreted field data for the evolution of fourteen strategic initiatives at RACC. Our aim was to build theory on how strategic intent was translated into action through the development of strategic initiatives. An example of a critical path, as was developed for all initiatives, is shown in the examples in Figure 3, and a brief description of each initiative is given in Table 2. The data for each initiative, obtained through interviews and company documents, was placed into the matrix, according to whether activities were performed by top management, middle management or bottom members. Next, a chain of causation was deduced from the data and a critical path was drawn, showing which activities had driven the initiative from definition to impetus and, finally, to commitment.

Table 2. Description of fourteen strategic initiatives studied

	Initiatives	**Type**	**Release** [*1]	**Brief description**
1	Geographic Expansion	Cascade	2	Main initiative, it embodies the core of the strategic intent. It sets exponential expansion as the target
2	RACC Master Card expansion	Flow	2	Expand the use of affiliated credit card to new territories
3	Driving academy product	Flow	2	Customize and extend driving academy service
4	Admin. paperwork service	Flow	2	Customize and expand admin. paperwork service
5	Increase travel service	Cascade	2	Expand production of travel service
6	Expansion positioning	Flow	2	Expand brand image in new territories
7	Car Mechanic Shop	Cascade	3	Expand service to new territories
8	Vehicle rental	Failure	2	Offer car rental as new integrative product
9	Travel services in new domain	Spring	3	Sell travel services to small companies
10	Active channel development	Spring	1	Develop alternative sales channels
11	Central Operations Service (COS)	Spring	1	Centralize back office
12	Insurance	Flow	3	Redefine intermediary relationship
13	Marco Polo	Cascade	2	Offer customized travel products
14	Life insurance	Failure	3	Create a life insurance company

[*1] = Developed Previously; 2 = Developed along the Strategic Plan; 3 = Developed after the Strategic Plan.

Of the fourteen strategic initiatives, eleven were completed, with varying degrees of success; one was at the resource allocation phase at the time of the study; and two were unsuccessful. After drawing the critical path for each initiative, we divided them into three groups, based on common patterns and characteristics. We left out the two unsuccessful initiatives to be analyzed separately. We named the first group 'flow', the second group 'cascade', and the third 'spring', to indicate the nature of their distinctive features. A diagram presenting the representative sequence for each group is shown in Figure 3.

Figure 3. Groups of strategic initiatives (draw from common development patterns)

Group 1: **Flow** (Strategic Initiative # 2, 3, 4, 6, 12)

Level	Definition	Impetus	Commitment
Top			
Middle			
Bottom			

Example of Flow:
Insurance: Strategic Initiative # 12

Structural Context: Aggressive and ambitious expansion
Strategic Context: Face external risk in major business

Level	Definition	Impetus	Commitment
Top	Insurance business must change and move towards the business of an insurance company	Approval granted to the new business approach to adapt the company to changing conditions	Resources allocated
Middle	Perceived gradual market change	Underwritting agency defined as a core company project. The whole focus of the business is changed towards a closer relation with the supplying insurance companies	Maintain relationship with insurance companies with a partnering approach
Bottom		Internal procedures redefined to sell insurance with risk considerations	Operate as an underwriting agency

Group 2: **Cascade** (Strategic Initiative # 1, 5, 7, 13)

Level	Definition	Impetus	Commitment
Top			
Middle			
Bottom			

Example of Cascade:
Geographic Expansion: Strategic Initiative # 1

St.C: Aggressive and ambitious expansion defined as objective function
Strategic Context: Big potential market full of opportunities faced

Level	Definition	Impetus	Commitment
Top	Sets strategic line of growth in planning exercise	Legitimization of strategic initiatives based on successul pilot project carried out in a new geographical area	Financial Resources allocated to legitimized strategic initiatives
Middle	Strategic Reflection. Generation of strategic initiatives. Agreement on goals and development of plans	Centered in core products and services to favour geographic expansion. 11 strategic initiatives translate strategic lines into concrete corporate level objectives	Monitor and control evolution of strategic initiatives
Bottom	Feasibility of projects according to operating capabilities	Adaptation of operational processes	Aligned with strategic objetive

Group 3: **Spring** (Strategic Initiative # 9, 10, 11)

Level	Definition	Impetus	Commitment
Top			
Middle			
Bottom			

Example of Spring:
Travel Services in new Domains: Strategic Initiative # 9

Structural Context: Business Domain defined for expansion is household customers
Strategic Context: Abrupt decline in sales on traditional domain

Level	Definition	Impetus	Commitment
Top	Sets strategic line of growth	Temporary legitimation since it does not contradict existing lines. Left for future strategic revision	No major new resources are needed. Only the existing ones
Middle	Plans designed to grow in existing customers	Aggressive plan to attack middle and small size companies with air tickets and hotel services to compensate for decrease in sales	Selling goals have been achieved, yet strategic fit is under consideration. Finally new domain is accepted
Bottom	Big decrease in sales due to September 11	Aggressive selling to company customers to use slack and achieve selling goals	

The first group, 'flow', presents strategic initiatives originated and formulated at middle level, in this case at the level of unit head. 'Flow' initiatives were conceived and evaluated at middle level, without top management intervention. Once evaluated for feasibility, they were presented to top management for approval. Yet this presentation was not strategy blind; typically, initiatives had been developed within the spirit of the objective function. The second group, 'cascade', portrays initiatives originated at top management level and developed by middle management and bottom level. 'Cascade' initiatives would

appear to match the typical top-down approach. Yet the mechanism used to set out the initiatives was not command and control; rather, the initiatives were established mostly as extensions of the agreed upon objective function. Hence, they were seen as logical extensions of the objective function, propagated by top management. The third group, 'spring', represents initiatives generated to some extent from bottom levels. 'Spring' initiatives were developed through autonomous behavior, although at the same time they embodied the objective function. Their main feature is that they were closely related to the bottom level's daily work; by improving their daily work, the bottom level contributed to the objective function. The 'spring' group includes one initiative developed though an autonomous strategy-making process, and two developed partially autonomously. The three groups include five, four and three initiatives, respectively.

The major common feature observed among these three groups is that when both top and middle management judged strategic initiatives to be valid and sound, the initiatives were carried out quite smoothly. Given such consensus, middle and top management interplay was resolved and agreement was reached. We have named this common feature *legitimation*, as this term conveys the idea that strategic initiatives were officially allowed or accepted by both middle and top management. That means that each party's impression had been validated with respect to which goals were desirable and what course was to be followed to accomplish them. The eleven successful initiatives all had this quality, regardless which group we had classified them in. Legitimation can be described as the property through which a proposed strategic initiative is made official and subsequently is encouraged to be carried out.

While initiatives that were supported across the organization had legitimation, three initiatives did not succeed in getting support: the two unsuccessful initiatives and one from the 'spring' group. This shows the importance of legitimation. Legitimation validates strategic initiatives through the interplay of top managers and middle managers and subsequently opens the way for the initiative to be developed and put into action. We will explain these three initiatives in more detail further on, but first we will present the mechanism by which legitimation was achieved.

Four conditions stand out as necessary for legitimation to occur. First, through strategy-making, each group's roles must have been clearly defined. As shown in Table 1, the responsibilities of middle and top managers were specific, and everybody knew what they were. Second, at no point could one actor act as judge and jury at the same time. Members of the executive committee, as a collegiate body, either presented a project or judged it, but not both. Third, objectivity had to prevail over any other considerations. Although the political game, as documented in Eisenhardt and Bourgeois (1988), was played, it was not promoted in the research setting. Analysis of possible options, along with reflection and discussion, relegated political activity, as a basis for agreement, to a secondary plane, thus fostering legitimation. Fourth, the main feature of the evaluation and analysis carried out during strategy-making was that it had to be rigorous: analysis, as the basic means to produce strategic engagement, had to be done thoroughly.

These conditions illustrate how legitimation was a result of top and middle sources of influence. Top management did not grant legitimation alone; initiatives had to be assessed favorably by unit level management as well. This assessment was developed through what informants called "scratching on the project". Scratching was described as the thorough assessment for feasibility, which resulted in unit level managers either believing in the initiative or discarding it. This concept of scratching was used in the sense of digging below the surface, as deep as possible, to evaluate the potential value and feasibility of an initiative,

particularly if new capabilities were needed. Once they had scratched on an initiative, unit level managers would typically set goals, timing, an action plan, and pertinent indicators. If new capabilities were considered necessary, the proposal had to include a way to achieve them. The scratching was aimed at finding sufficient arguments for the initiative to acquire legitimation. Top management appraisal, on the other hand, was based on the quality of the arguments derived from the scratching, and the fit of the initiative with strategic intent. Initiatives were presented to the executive committee. The CEO and the unit managers would act as judges, while the unit manager in charge of the initiative would have to argue the case for it. It is at this stage that the four conditions for legitimation mentioned earlier took on a major role. The four conditions were needed in all three groups in order to reach legitimation, yet the sequence for each group was different. Next, we will describe how distinctive features of each group influenced whether legitimation was reached or not.

In the 'flow' group, scratching was performed regardless of top management direction, yet the objective function was kept as a guiding element. Once the scratching phase was complete, keeping roles rather independent from top management, initiatives were presented in the executive committee. If, at that stage, the assessment was carried out rigorously and objectively, the committee acted as an unbiased judge.

Initiatives generated through 'flow' often achieved legitimation and were carried out. Strategic initiative number twelve is a good example. This initiative began in reaction to changes emerging from the external environment that demanded a major change in the company's main business. It involved a major restructuring of the insurance brokerage business. A gradual change in market conditions, after the strategic plan had been set, forced the company to realize that the future of its main business was threatened. As a result of this reflection, a major restructuring of the main business was decided. To respond, top management steered to readjust, first, the business model and, then, the systems, procedures and sales force. The restructuring process demanded efforts from the whole organization, as the subsistence of the business unit was at stake. In this initiative, legitimation was achieved before second level management had scratched on the project. At the definition phase, the fit with existing strategy was deemed agreed between managerial levels. The specific assessment was done after legitimation, inverting the sequence observed in other initiatives. The reason for this was that change was perceived as necessary, and any specific scratching would not alter that fact. Hence, top management gave way for second level managers to translate the idea of change into a specific initiative.

The legitimation mechanism gave official sanction to a new way to follow the strategic intent, since the former plan was not a stiff and rigid program. The development of initiative twelve suggests that, although change was prompted by an external event, second level and top management interplay unraveled the predicament. Top management was judicious enough to let second level management figure out the specific characteristics of the project, trusting that it would make the best possible choice. This trust stemmed from top management's awareness that the frame of reference, carried in the back of second level managers' minds, would suffice. Revitalization originated in induced behavior, and it succeeded because managers drew from internalized strategy.

In the 'cascade' group, top management, namely the Board of Directors, delivered initiatives. Then, a unit manager would be given the assignment. He/she, together with the unit's team, would then evaluate its feasibility and potential value. Subsequently, initiatives had to be presented to the executive committee. In the 'cascade' group, it was hard for an initiative to achieve legitimation unless it was widely considered as crucial. Support in the organization depended on how grounded the initiative was in the organizational members. In

one of the unsuccessful initiatives, namely initiative number 8, the definition was devised ambiguously by top management, was not seized by unit level managers (middle level), and so was kept asleep. Although top management believed that it fitted with the existing strategy, the initiative was not grounded in the organization. Specifically, it was a service that fitted into the logic of the strategic intent, as it involved providing the whole package of services along with vehicle rental. Despite its fit, it did not take root at unit level. That prevented any interplay between top and lower level managers. Without interplay, no legitimation took place. While the initiative was kept as a project, it was never developed any further. We were informed that this initiative would probably be abandoned in the future.

However, not all 'cascade' group initiatives failed. Initiative number one, for instance, was also developed in cascade, but was deeply grounded in the organization, as the logical path for the company's growth. Furthermore, it had a strong emotional component for RACC's employees. Organizational alignment with the purpose of the initiative was motivated by two reasons: an emotional attachment of the organization's participants, and its feasibility. The attachment was due to the fact that the CEO was able to capture a hidden wish of the organization's members and incorporate it into the objective function, which was deployed into this strategic initiative. The subsequent scratching activity at unit level was intense, providing ideas and generating the capabilities to put this initiative into practice. Though induced, this initiative was not imposed. It fitted in with the logic of organizational members and was proven successful even before it was eventually launched. The development of this initiative suggests that change can be achieved through induced strategic initiatives. Successful renewal, involving a new market-product orientation, was done top-down yet was grounded in the organization. The directing role of top management was crucial in the 'cascade' group. It is not that a heroic CEO was essential, but one who was able to perceive the demands of the social context and enact them. On the one hand, the challenge was perceived as feasible, and on the other, the initiative was induced and encouraged by top management. The condition for this to happen seems to be that the CEO's purpose is clearly set forth, is grounded in the organization, and is perceived as feasible.

The initiatives from the 'spring' group were delivered by line managers, mostly with a sense of urgency and in response to market stimuli. Scratching was done either immediately or once the new initiative was already operating. Although scratching could provide the rigorous and objective analysis needed for legitimation, it generally lacked strategic fit with the objective function. This is the case of initiative number nine. With no legitimation, this project was started as an autonomous response from line managers to a market problem. Due to external events, the capacity installed to sell travel services to household customers was used for small enterprise customers. This autonomous initiative was allowed, but not legitimized. It was seen as useful merely to cope with a passing crisis and meet sales targets, but there were doubts about its fit with current strategic intent. Although it provided growth, this was not a market in which the company wanted to grow. Autonomous initiatives like this may be allowed to go ahead, and yet they may not be allowed to grow if they lack fit with the objective function. In Burgelman's (1983b) terms, initiatives such as this were not allowed to determine the strategic context. The 'strategic context' reflects managers' attempts "to link autonomous strategic behavior at the product market level into the corporation's concept of strategy" (Burgelman, 1983b:66). In this study, the corporate concept of strategy, contained in the objective function, guides the emergence of strategic initiatives from the bottom level, thus fostering the generation of initiatives consistent with the objective function.

Although the four conditions, i.e. distinct roles, not playing judge and jury, objective discussion and rigorous analysis, are necessary to reach legitimation, the conditions of strategic fit and organizational grounding are decisive. This evidence suggests that

strategic initiatives will not succeed if there is no interplay between top and lower levels of management. Consequently, the legitimizing mechanism seems to appear as the result of interaction between these two levels. In all groups, legitimation was a condition for the further development of a strategic initiative and was the joint responsibility of top management and middle level managers.

Evidence from the development of strategic initiatives found at RACC guided us through the theory development process. The diagram in Figure 4 zooms in from Figure 2, describing the shaping of strategic initiative. From the research findings and concept development, we have improved the quality of our *ex ante* framework. The framework presented in Figure 4 goes in detail into the development of strategic initiatives and aims at integrating the concepts of how top and middle level management interplay is solved.
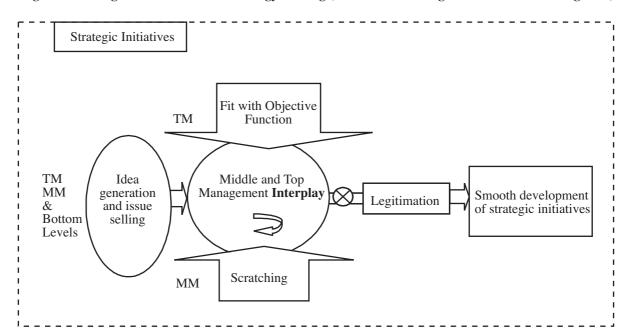
Figure 4. Strategic initiatives within Strategy-making (zooms in on strategic initiative block in Figure 2)

The key issue in Figure 4 is that the interplay between top and middle management brings into being strategic initiatives. This interplay is the co-optation in which top managers and middle level managers yield legitimation. Internalized objectives and priorities as well as performance indicators produce strategic conversation, through which initiatives are developed. Idea generation and issue selling were observed as originating from all levels of the organization (i.e. top management (TM), middle management (MM) and organizational members (Bottom level), yet stemming from previously agreed strategic objectives. Once presented, initiatives are brought into middle and top management interplay. While middle managers contribute to this interplay with what we have called 'scratching', top management contributes with an assessment of strategic fit with the objective function. If this interplay produces legitimation, strategic initiatives will tend to develop rather smoothly. If legitimation is not granted to the initiative, it will tend to get stuck. The process conditions for legitimation to happen are the four conditions: distinctive roles, not playing judge and jury, objective discussion and rigorous analysis. The content conditions of each initiative are: to fit the objective function, and to pass the scratching scrutiny.

Discussion and Conclusions

Discussion

The refined model presented in Figures 2 and 4 shows one way to combine the strategy-making modes described by Hart (1991; 1992) and Hart and Banbury (1994). This is relevant since Hart and Banbury (1994) suggest that the capability to combine different modes enhances organizational performance. The five modes are present in the refined model as a result of the interaction between top management and organizational members. In the setting and conveyance of the objective function, the symbolic and command mode predominate, since the CEO offers a vision and sets the starting point of the strategy-making process. Through the participation of organizational members, the transactive mode appears, inasmuch as strategy is made on an iterative basis, involving organizational members in dialogue. The agreed on strategic objectives resonate with the rational mode, in which a plan is the guiding element. Strategic initiative development provides the basis to identify new innovative approaches or products, resembling the generative mode. This array of the different modes seems to be one way to combine strategy-making modes.

Elaborating on the idea of combining modes, Miller (1993) and later Lumpkin and Dess (1995) assimilated simplicity to a combination of the command and symbolic modes. These two modes, in our model, are only the top-down sources of influence. For Lumpkin and Dess (1995), simplicity in strategy-making was positively associated with performance in early stages of company development, yet detrimental in late stages. If top-down sources of influences are kept as the sole foundation of strategy-making for long periods, and no interplay with organizational members takes place, it may be analogous to Burgelman (1991), where top-down forces are seen as merely maintaining the status quo. In fact, the sole effect of the command and symbolic modes resembles the concept of inertial force (Huff *et al.*, 1992), as opposed to stress. However, the three other modes tend to, at least, counterbalance inertia. In our model, the five modes presented by Hart (1991) seem to be present.

The interaction between modes in our framework permits different level perceptions to interact. This is significant since perceptions at different levels are dissimilar and diverse (Ireland *et al.*, 1987), particularly perceptions of environmental uncertainty. Disagreement in managers' perceptions regarding the need for change generates strategic role conflicts in individual managers (Floyd and Lane, 2000). Our model acknowledges the importance of these different perceptions and specifically indicates the possibility of sharing them through the interplay between levels, either during the setting of the agreed upon strategic objectives, or subsequently through middle and top management interplay in the development of strategic initiatives.

Not only do perceptions vary among organizational members, but they also affect the capacity to generate commitment among organizational members. As suggested by Guth and MacMillan (1986), three perceptions of middle managers may hinder or favor strategic development. First, perceived inability to execute a proposed strategy; second, perceived probability that the strategy will work; and third, perception that outcomes will not satisfy individual goals. Any of these perceptions, if negative, will inhibit any strategic intent from top management. Our framework sets the grounds for these possible negative perceptions to appear. In particular, the co-opted legitimizing mechanism sets an instance in which differences of perception may arise and be solved in order to enhance commitment. If "there is a need to seek strategies that are both competitively effective and capable of getting organizational commitment (Guth and MacMillan, 1986: 321)", the legitimation mechanism serves to test the organizational process where initiatives will be installed, in addition to the competitive character of a particular strategic objective.

The process focus is at least as useful for the strategic management level of the organization as is the content focus (McGrath *et al.*, 1995). In an attempt to develop a process-centered paradigm for competence development, these authors identified two constructs to build their model, deftness and comprehension. Comprehension involves the process through which those involved in pursuing an initiative come to understand what combination of resources will allow them to achieve their objectives. Deftness is the set of working relationships which allows those responsible for the initiative to execute it effectively, in the light of comprehension. Comprehension leads to deftness, which in turn leads to competence (McGrath *et al.*, 1995). This sequence is reflected in the model presented here. In our view, organizational members who scratch on the strategic initiatives, looking for feasibility, seek comprehension. Then, as the interplay with higher levels develops, deftness is created, and only if it is obtained can these conditions generate a specific competence, resonating with legitimation. However, we present the model as guided by what McGrath *et al.* (1995) call the strategic management level. Hence, the generation of comprehension and deftness is not random, but driven by conscious adaptation to generate competence. It is guided by the strategic intent.

The evidence from this study confirms the findings of others, namely that strategy as a guide, and its internalization by organizational members, is desirable in companies. For Bartlett and Ghoshal (1993), shared norms and values that shape the way individual managers think and act help to maintain organizational coherence in the face of increasing complexity and uncertainty. For Lovas and Ghoshal (2000), the guiding character of strategy is a key way to achieve coherence. Similarly, for Masifern and Vilà (1998), strategy guides daily action if coherence is achieved through a shared framework in the minds of managers. Evidence from RACC indicates that participative practices enhance strategy-making value by strengthening the guiding character of strategy and shaping managerial action. More work needs to be done, not only towards understanding the guiding character of strategy, but also regarding the value and extent of participation in building this guiding character. Likewise, results of the present research suggest that a crucial issue is how the interplay between organizational members can be managed to favor renewal but without losing current capabilities.

Conclusions and Implications

Analysis of this case study offers a rich picture regarding how strategy is built by managerial interplay, and then is used to guide daily action. Strategy-making on a stable participative basis helps to keep strategy present in managerial action. Furthermore, the interplay between managerial levels is developed through deliberation and reasoning, hence grounding strategy. The induced strategy-making process, under these conditions, enables the objective function to bind the organization together. The setting of an objective function will be pointless if that function is not conveyed in such a way as to permeate most of the organizational levels, and particularly the middle management level.

Top and second level interplay, resolved through legitimation, requires the integration of viewpoints from both levels. On an ongoing basis, legitimation provides a shared framework for company strategy and the objective function (Masifern and Vilà, 1998). This shared understanding keeps thinking closely coupled with action in daily work. This conception favors further strategic conversation, whether on existing strategic initiatives or emerging ones. The results of this study encourage further research in a larger number of organizations, yet this illustrative case signals a future path. We have explored how strategy

can influence managers through strategy-making. If strategy is ingrained in managers, the benefits of developing a strategy are increased. Strategy formation seems to be more efficient if done with the participation of a broad managerial base, and ambitiously triggered by top management.

Several cautions are necessary in interpreting these exploratory findings. First, we have reported on strategic initiatives in one organization, operating in a particular type of competitive environment. Further research should include companies from different competitive environments to extend the present inquiry. Second, the case study was based on the development of strategic initiatives as a context for strategic action, yet strategic action was not directly observed. The methodological advice to address this limitation is to perform direct observation. Although it was not possible to do that in this study, we have built reasonable confidence in construct building by contrasting different sources of evidence, and active alternate explanation dialogues between the two researchers. Third, the data and analysis are mostly descriptive. We need explanatory studies to strengthen the validity of any evidence found. Despite these limitations, the study and analysis suggest that top and middle manager interplay helps to ensure that the strategic intent is translated into strategic initiatives. Understanding the effects that strategy-making has on managerial activities is becoming imperative, not least because such knowledge will help firms overcome the difficulties they have in carrying out intended strategies, and thereby secure desired strategic outcomes.

Finally, we are able to state three concluding remarks regarding how strategy is used to guide managers. First, developing strategy with active participation and conceptual deliberation helps to generate a shared understanding around the strategic intent. While promoting participation demands higher organizational effort than a pure top-down approach, it nurtures strategy internalization, which is evoked well beyond the strategy formation stage to guide managerial action. Second, the legitimation mechanism, through which strategic initiatives are brought into being, is a promising construct through which the interplay between top management and organizational members is reflected. Deliberation on ideas, agreement on goals and integration of objectives are the components of this managerial interplay. Finally, we have explored further the effect of induced and autonomous behavior in strategy-making. In doing so, we have proposed that renewal may also take place considering conscious adaptation, provided that both induced and autonomous behaviors interact.

Overall, the results of the study emphasize the importance of understanding strategy-making not only as a way to produce strategy, but also as a way to influence managerial action.

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