STRATEGY DEVELOPMENT PROCESSES: A CONFIGURATIONAL APPROACH [1]

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ABSTRACT

Building on a multidimensional framework of strategy development, this paper reports on research which employs senior executives' perceptions of the strategy development process to examine how context specific configurations of dimensions explaining such processes can advance our understanding of strategic management.

THE STRATEGY DEVELOPMENT PROCESS

Different explanatory theories as to the nature of the strategy development process have been postulated. Much literature emphasizes a deliberate process of managerial choice. Ansoff (1965) and others advocate a *planning* approach, an intentional process involving a logical, sequential, analytic and deliberate set of procedures. The notion of *logical incrementalism* (Quinn, 1980) has it that strategy formulation, though purposeful and intentional, takes place through "successive limited comparisons" (Lindblom, 1959). Others have emphasized the role of top management as leaders, exercising *"command"* (Bourgeois & Brodwin, 1984) or creating a *"vision"*.

Others argue that strategy development needs to be seen as the outcome of decision making processes rooted in the social fabric of organisations (Mintzberg & Waters, 1985). Organisations are *political* entities and as such strategies are susceptible to influence from stakeholders (Hickson *et al*, 1986) who have different concerns and attempt to achieve their own ends. Differences are resolved through bargaining, negotiation and compromise with goals, strategic issues and strategies themselves being derived from this process rather than objective, analytical assessment. Strategies can also be attributed to *cultural* influences. Organisations' taken for granted beliefs and assumptions, enable new situations to be perceived in ways which are not unique and established routines provide ready organisational responses. Such frames of reference and routines exist at the organisational (Johnson, 1987) and industry level (Spender, 1989).

Those who take an *ecological* perspective, argue however, that managers in organisations have little control over the choice of strategies. Factors in the environment impinge on the organisation so as to select and encourage the adoption of structures and activities which best fit that environment (Hannan & Freeman, 1989), prescribing strategies and limiting the role managers play in their selection. Strategies tend to be common within industries, with changes coming about through variations in processes and systems which may occur unintentionally (Aldrich, 1979).

An Integrated Approach to Strategy Development

Rather than assume a unitary explanation of the strategy development process, it is recognized that the process is likely to be multifaceted (Eisenhardt & Zbaracki, 1992). An area of growing importance has been the conceptual development of integrated frameworks to explain the strategy development process (eg Chaffee, 1985; Eisenhardt & Zbaracki, 1992; Hart & Banbury, 1994; Hickson *et al*, 1986; Schwenk, 1988). Much of this research, however, must be qualified by the situation in which the strategy development process has been explored, whether in terms of the industry sector, a concentration on a particular type of strategic issue, or reliance on a single respondent for data. Such research suggests it is unlikely that the sort of explanations advanced earlier are mutually exclusive; rather that they exist in combination. This research builds on an integrated explanation of strategy development, to relate such processes to different contextual factors. The research accomplishes this by utilising multiple respondents in organisations across different industries, yielding "configurations" of strategy development processes (Dess *et al*, 1993; Meyer *et al*, 1993).

The paper is structured around an exploration of two propositions. The multidimensional nature of strategy development means, as with other multidimensional phenomena, that the possible combination of attributes which could exist is potentially infinite. This variety of combinations though is likely to be "limited by the attributes' tendency to fall into coherent patterns" (Meyer *et al*, 1993 pp 1176). Consequently, it may be hypothesized that common patterns or configurations of the process occur, thus *Proposition 1: There will be discernible configurations of strategy development processes.* However, Pettigrew (1985) has argued convincingly that it is necessary to consider strategy development within context because context influences the way in which strategies come about. For example, differences might be expected which relate to the competitive intensity of markets, the extent of industry growth, and so on. There are also different types of organisation within the same industry in terms of size, ownership structure, scope and so on. Again it might be expected that differences could relate to such factors, thus *Proposition 2: Configurations of strategy development will relate to contextual variables both at an industry level and at an organisational level.*

METHODOLOGY

Six explanatory dimensions of strategy development were derived from the literature and generally fit the descriptions above. These dimensions have been modified and validated statistically and through academic and managerial assessment. For a full discussion of the development of the research

instrument and underlying framework see Bailey & Johnson (1993). The dimensions used were the *planning dimension* (strategy development as a rational, analytical, and intentional process); the *incremental dimension* (an iterative process of limited comparison); the *political dimension* (a process of bargaining, negotiation and influence between internal interest groups); the *cultural dimension* (a process directed by the cultural and cognitive aspects of the organisation and its members); the *command dimension* (a process directed by a powerful individual and their desires for the organisation's future state); and the *enforced choice dimension* (a result of prescriptive external pressures limiting the organisation's ability to determine its strategies).

41 items were used to operationalise the dimensions. 8 items related to the planning dimension, 6 to the incremental, 7 to the political, 7 to the cultural, 6 to the command, and 7 to the enforced choice. These items were located within a larger questionnaire concerning strategy development, organisational context and related issues. The questionnaire was then administered to a large sample of executives. Respondents assessed each item in relation to their organisation using a 7 point Likert type scale ranging from 1 (*strongly disagree*) to 7 (*strongly agree*).

RESULTS

Completed questionnaires were gained from 686 managers in 122 organisations in the manufacturing, service and public sectors across the UK, ranging in size from 10 to <100,000 employees and turnover from >£1M to <£1,000M. By gaining information on the strategy development process from a cross section of organisational members, each with a detailed knowledge of the process, an estimate could be developed of the process occurring. Further, the use of multiple respondents addresses the concerns regarding single respondents as the source of data.

An Empirical Test of Dimensions of Strategy Development

A principal components analysis (PCA) with oblique rotation was performed to identify the underlying structure of responses, allowing the empirical validation of the relationship between the items and the dimensions. For inclusion of items in the factor model an item factor loading (on basis of the structure matrix loading) of 0.45 or above was required. To assess the stability of the factor solution a split half procedure was employed. The solutions for the two halves were highly similar. The PCA used is based on the data set as a whole. The number of factors for extraction was estimated using Cattell's scree plot which indicated a six factor solution (accounting for 48.7% of the variance in the items). Further, a six factor solution would be expected based on the theoretical underpinnings of the research and from which the item pool was derived. Having extracted the principal components, composition and reliability were examined. Five of the factor scales produced internal reliability (as measured by Cronbach alpha) of greater than 0.7. The remaining factor scale (incrementalism) attained an alpha of 0.66. However,

given the factor structure and the theoretical underpinnings this was retained in the study. Whilst it is argued that these six dimensions identified through the PCA represent components of the strategy development process, they are not presented here as definitive: it is acknowledged that other accounts of the process may exist. However, the resulting framework represents a rigourously developed, theoretically and empirically grounded basis upon which an examination of configurations of strategy development processes could be examined.

Identifying Configurations of Strategy Development

Cluster analysis lends itself to dealing with problems in the strategy area and has been widely used in strategic management research. Since cluster analysis identifies empirically those cases which are most closely related across a number of variables and locates these within the same clusters or groups, it provides a means through which inductive configurations can be developed. Strategy development types were developed on an organisational basis. Aggregated data from the multiple respondents were used to develop a set of scores on the six dimensions for each organisation. Whilst involving some level of simplification, it avoids the risk of idiosyncrasy and is justified as the unit of analysis in the remainder of this paper is the organisation. Standardised organisational level scores were subsequently employed within a hierarchical cluster analysis, using Ward's method. In all subsequent analysis non standardised data was used.

The cluster solution suggested 6 strategy development types, with a sharp break in the efficiency of classification being identified at the 116th step. The characteristics of each of the clusters (strategy development types) in terms of their means on the six strategy development dimensions are shown in Table 1 (Part A), and provides a reference point for interpretation. Cases where the mean significantly deviates at the 0.05 level from the combined mean for the other 5 clusters on any dimension are highlighted. Those above the mean are under-scored while those below the mean are in italics. These are now used to highlight distinguishing characteristics of each cluster.

DISCUSSION OF FINDINGS

Only 12.3% of the 122 organisations in the sample were seen to have a process characterised by one dimension in isolation. For the remaining organisations the process was characterised by multiple dimensions, supporting what has been suggested theoretically and seen in other empirical studies.

In terms of the propositions, the first that *there will be discernible configurations of strategy development processes* is supported. It is evident that discernible configurations underlie the strategy development process. However, to assess whether the resultant groups differ in reality or represent natural groupings in the data, a MANOVA and a discriminant function analysis were performed. The results of both indicated that the clusters significantly differed on the

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classifying variables. While these results are not surprising they give support to the notion that the clusters represent meaningful groupings of data. Additional support is seen in terms of whether the patterns make sense in relation to the strategy development process (discussed below).

A Description of Strategy Process Configurations

Type 1 - *Planning*. The first cluster is the smallest (3 organisations), but represents an archetypical approach to strategy development, that of planning. This process is driven by precise strategic objectives against which strategic options are evaluated. Systematic analysis and procedures are in place to aid the search for solutions to strategic issues and for achieving goals. Strategy is made explicit through precise plans. This precision is possible because of a clear intent or vision for the organisation's future.

Type 2 - *Logical Incremental*. As with the previous cluster, strategy development is characterised by the planning dimension but in conjunction with the incremental dimension. The remaining four dimensions are not seen to characterise the process. Here the process is characterised by standardised procedures used to develop potential strategic options which are assessed against objectives. There is systematic collection and assessment of information and the definition of strategic objectives, though within an iterative adaptive approach to the environment. Strategy is adjusted to match changes in the market place; changes which are sensed through constant analysis. While there are clear strategic objectives the means of attaining these are altered and refined as changes occur in the environment, such that strategy develops through ongoing small scale adjustments and iterative refinements. Early commitment to a strategy is tentative and subject to review, only being finalised once a strategy's impact on the organisation is known. This corresponds to the notion of Logical Incrementalism (Quinn, 1980).

Type 3 - *Rational Command*. Strategy development within this cluster is associated with both the planning and command dimensions. It is about a senior figure whose aspirations for the future provide the focus for strategic direction, approximating to a vision. However, there are likely to exist clear strategic objectives, which form a basis against which potential options can be evaluated. A final decision to follow a particular strategic option, although influenced by the senior figure, will only be made after consideration of both business and internal environments. Once determined, the strategy will be disseminated throughout an organisation through plans and through a shared purpose and mission.

Type 4 - *Muddling Through*. The fourth cluster is characterised by the cultural, incremental and political dimensions but not by the planning dimension. Strategy develops through a process of bargaining and negotiation between groups or individuals; and compromise which accommodates conflicting interests of powerful groups and individuals. The greater the power a group can exercise, for example through the control of resources or information, the greater their chance of having their favoured strategic option

developed as strategy. These political processes operate in conjunction with cultural influences and past experience. A "way of doing things" and the associated beliefs and assumptions, together with routines based on, and a reflection of, organisational history, influence the identification of issues and options, and mediate choice of strategy. This cultural influence also results in resistance to strategic change which goes against the culture. As a result strategy develops incrementally, but there is less of a notion of managers being in control; and certainly not through the sort of analytic, evaluative rationality of the previous three configurations. This is incrementalism which is the outcome of the political and cultural aspects of an organisation (Johnson, 1988).

Type 5 - *Externally Dependent*. This cluster is characterised by the enforced choice and the political dimensions. Strategy is determined and imposed by external forces. These forces may represent a dominant environment, a parent organisation, legislation, or direct governmental pressure. As such freedom of strategic choice is restricted and strategic change is likely to be instigated from outside. While all decisions are not determined by external bodies, barriers in the operating environment restrict strategies which can be pursued, so common strategies may be followed across an industry. Organisations are limited in their ability to influence their environment but rather operate to buffer themselves from it.

This external influence operates in association with the political processes of an organisation. Those groups who deal with the external environment and operate as boundary spanners, who control resources which are externally derived and who control information relating to the imperatives of the external environment attain greater influence over strategy. Groups may interpret external influences to reflect their own strategic agendas, and so increase the chances of the adoption of their strategic option. Similarly, changes in strategy may be attained through the restriction and blockage of a strategy's implementation. However, organisations in this group are no less likely to have a dedicated planning department than organisations in the other clusters. This configuration corresponds most obviously to the ecologists' view of how strategies develop in organisations. Only to a limited extent, can managers influence the strategic direction of their organisations: they may set up planning systems; and may seek to buffer the deterministic influence of external forces through political activity within and between the organisation and those forces; but it is external forces that effectively set the strategic direction.

Type 6 - *Embattled Command*. The process here is characterised by cultural influences, with a senior organisational figure having a high level of control over strategy as well as the enforced choice and political dimensions. The process is not related to planning or a logical adaptive approach; rather strategy reflects the vested and conflicting interests of particular groups which influence strategy development through the provision of "appropriate" information or control of resources; and gain influence by blocking or restricting implementation. Strategic direction is also seen to be related to powerful individuals or groups,

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TABLE 1
Cluster Means on Dimensions of Strategy Development and Contextual Variables

Part A	Cluster/Type	1	2	3	4	5	6	Mean	SD
	Dimensions								
	Planning	1.81	0.84	0.46	-1.36	0.13	-0.95	-0.02	0.93
	Incremental	-1.47	0.36	-0.09	0.48	0.16	-0.31	-0.01	0.53
	Cultural	-1.93	0.09	-0.02	1.08	-0.14	0.37	0.09	0.73
	Political	-1.65	-0.58	-0.17	0.77	0.37	0.65	0.17	0.72
	Command	-1.07	-0.90	0.50	-0.30	-0.01	1.04	0.22	0.80
	Enforced Choice	-1.08	-0.72	-0.55	-0.21	0.58	0.78	0.06	0.88
	No. Organisations	3	11	36	11	36	25	122	
Part B									
	Contextual Variables								
	Declining/Growing **	5.00	4.73	4.87	4.45	4.27	3.88	4.61	0.89
	Unstable/Stable **	4.18	4.77	4.54	3.62	3.91	3.71	4.11	0.99
	Hostile/Benign	3.73	3.84	3.78	4.01	3.64	3.59	3.73	0.97
	Mature/New	2.23	2.84	3.22	3.62	3.18	3.31	3.20	1.01
	Competitive High/Low *	1.88	2.17	2.08	2.83	2.62	2.88	2.47	1.18
	Number Employees	4100	1700	9000	760	13400	1750	7342	26339

* significant at 0.05 level; ** significant at 0.01 level

notably the CEO's view of the future. The control of the CEO is authoritative and results in the imposition of strategic decisions, though his/her power is moderated by political and cultural pressures. Strategy then reflects a shared acceptance of a "way of doing things" which relates to common beliefs about what the organisation should be doing. These beliefs direct the search for information and the assessment of strategic options, but are not overly tied to organisational history, rather they represent shared values and beliefs relating to the organisation's future. Although there is a strong internal orientation to the process, it is not entirely internally driven. Barriers exist in the business environment which restrict strategic choice, or may determine and impose strategy. Organisations are not seen to be able to greatly influence the business environment in which they operate.

It is important to re-emphasize that these configurations are based on managers' perceptions of strategy development processes. It can, then, be argued that there is likely to be an orientation towards concepts of greater managerial influence and control. Whilst this is acknowledged, it is interesting to note the patterns of managerial influence perceived to exist; that these do not typically conform to archetypal planning notions; that they support developing concepts of incremental strategy development (both "logical" and socially constructed); and that they bear out the strong influence of political and cultural processes within most of the explanations of strategy development. Moreover, the explanatory power of the configurations is further enhanced when contextual factors are explored.

Relating Configurations to Contextual Factors

In this section the strategy development types are examined in terms of proposition 2, that *configurations of strategy development will relate to contextual variables both at an industry level and at an organisational level.* These contextual variables related to industry sector, environmental

conditions, and organisational size. Table 1 (Part B) presents a summary of the descriptive statistics. The proposition is supported, though limitations are acknowledged and discussed below. The primary discriminants between the strategy development process types are associated with perceived environmental stability, growth or decline and industry sector.

The first strategy development type - *Planning* - consists of organisations operating in the service sector, however it must be borne in mind that this group consists of only three organisations. These are large organisations in which the environment is relatively stable with some growth though with a move towards maturity. The market is more competitive than the markets which characterise the other clusters.

The environment of the *Logical Incremental* type, while not as growth orientated as the first and third types, is still characterised by growth, stability and maturity. Firms come from both the manufacturing and the service sectors. While the service firms in this type operate in competitive markets, manufacturers operate in fragmented markets with lower levels of competition. This, then, describes a more benign market, in which experimentation within an overarching rational and intentional approach can be followed.

The *Rational Command* type is characterised by large manufacturing organisations and financial service organisations (60% of all manufacturing organisations in the sample fall within this type). These manufacturers differ from the others in the sample in that they tend to manufacture consumer goods. These also differ particularly from the *Externally Dependent* type in that they are less likely to be subsidiaries. Again the environment is growing and stable, though it may be competitive - indeed in the manufacturing organisations the environment is seen to be highly competitive. However, the interaction between the leadership role and planning process is seen to provide an organisational context through which pro-active strategic moves are made.

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The picture which emerges from the descriptions of contexts associated with the first three configurations is that these include organisations with a good deal of autonomy, operating within relatively benign environments, which squares with the underlying view of managers having the capacity to directly influence strategy development.

The fourth strategy development type, *Muddling Through*, is made up predominantly of professional service firms (eg consultancy or law), independent in status and relatively small in size (760 employees) as compared to other organisations in the sample. Their environment is turbulent and unstable, though the market in which they operate tends to be seen as new and growing. The strategy development process is driven by internal processes with a tendency to do things in ways which they have always been done; with the external world being less significant than internal routines in setting strategy. Partnerships, which are likely to characterise these professional service firms, operate in a less structured manner than other organisations; and decision outcomes are more likely to reflect the influence and desires of individuals and groups.

The fifth type, *the Externally Dependent*, is characterised by organisations operating in the public sector and by larger manufacturing and financial service subsidiaries. Over 50% of the public sector organisations in the sample are classified by this strategy process type and, of the private sector organisations, these tend to be subsidiaries. Organisations within this type operate within threatening, declining, unstable and hostile environments. These organisations then are under pressures whether from their market, a parent corporation, government or a combination of these. Not surprisingly given the environment the non public sector organisations have low sales growth and low increases in market share.

The sixth type - *Embattled Command* - is again characterised by an unstable environment and declining market. The organisations tend to be smaller than in the previous type and are typically specialist manufacturers and financial service providers, with a number of public sector organisations, which operate under commercial pressures, particularly from the threat of competition. Whether in the public or private sectors competition is high. The market share commanded by these organisations is lower than their competitors as is the rate of market share increase. In this situation there is a greater degree of command - reflecting pro-active strategizing - or "battling through". This may reflect a shift in the orientation of the organisation with the introduction of a new senior figure, so often the case in subsidiaries under threat, or public sector organisations facing new challenges.

CONCLUSIONS AND FUTURE RESEARCH

The results suggest that there is a link between the context of an organisation and the strategy development process which is employed. An extension of this research to assess the stability of the strategy development types and to explore the process context relationship more closely may enable clearer

relationships to be identified to the dimensions of organisational environment: such as uncertainty, change, dynamism, complexity, & munification.

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