Building Strategy from the Middle

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Menu

- The problem – organizational inertia
- The process context – 5 archetypes
- Workshop: What’s my organization’s process type?
- The challenge – strategic initiatives
- Strategic leadership roles of middle managers
- Workshop: What kind of strategic leadership do I observe in my organization? Is it appropriate for the context?
Cognitive inertia

- How can watermelons be made "stackable"?
What do these firms have in common?

- Kodak
- Microsoft
- IBM
- Nokia
The challenge -- overcoming inertia

- Individual biases
- Group norms that preserve cohesiveness
- Shared mental models and group think
- Psychological commitment to strategic status quo
- Investments in structure, processes & routines
- Entrenchend political interests
- Values (culture)
- Resource allocation systems geared to perpetuation of current strategy

What has made us successful in the past may undermine our future.
The purpose of strategy is to counteract organizational inertia and enable effective responses to competitive and technological change.

BUT ...

Where do strategies come from? What are the sources of effective strategy?

How are strategies formed? What transforms a decision into coherent organizational activity?

How can the strategy process be managed? What roles do middle managers play in developing strategy?
Agenda

- The problem – organizational inertia
- The process context – 5 archetypes
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Strategy processes are the organizational activities associated with making strategic decisions and realizing strategic intent.

- They are exercised along a continuum from “ad hoc problem solving” to “fully patterned, repeatable and reliable” routines; they tend to differ in terms of how deliberate they are and the extent to which they involve organization members beyond the top management team.
- Although organizations are complex and their processes cannot be captured fully in a single pattern, some patterns are more common than others and organizations tend to have a dominant approach.
- There appear to be five archetypes of strategy process and these differ with respect to expectations in the extent and type of involvement of middle managers.
Modes of strategy-making

- Generative Mode
- Transactive Mode
- Rational (Planning) Mode
- Symbolic Mode
- Command Mode

Deliberateness of Vision
- Low
- High

Involvement of Organizational Members
- Low
- High
Rational (Planning) Mode

- It is based on a systematic, comprehensive analysis and formal processes.
- The role of top management is to set direction (goals and planning assumptions) and evaluate/control behavior and outcomes.
- Risk of cognitive overload and unresponsiveness in dynamic environments.
- Found to some degree in most large organizations of all kinds, especially where defending established positions is more important than innovation.

Examples:
- Most large industrial firms

Works well in large organizations in more stable environments

Source: Hart, 1992
Strategic Planning at Sulzer

1. Understand Industry dynamics
2. Target attractive segments
3. Assess key factors for success
4. Determine competitive advantage
5. Develop measures for competitive advantage
6. Develop strategy alternatives
7. Financially assess alternatives
8. Choose & Implement a strategy
Strategic Planning at the Business Unit Level (Clariant)

**Deliverables**

- Business description, strategy project definition
- External environment
- Internal capabilities
- Strategic grouping

- Options for way forward
- Proposal
- Path to selected strategic Choice

- Action plan implementation,
- Change case
- Strategic commitment contracts
“Structured dialog” is a process throughout the year (it involves all 105 business units)

<table>
<thead>
<tr>
<th>February</th>
<th>July</th>
<th>November/December</th>
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<tbody>
<tr>
<td>Annual analysis</td>
<td>Strategic dialog with</td>
<td>Planning with</td>
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<td>Allianz Group planning</td>
<td>operating business units</td>
<td>business units</td>
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<td>(Corporate Center)</td>
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<td>Top down indication</td>
<td>Key figures planning</td>
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<td>Communication of targets</td>
<td>Target setting</td>
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<td>and preparation of</td>
<td>Medium-term planning and</td>
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<tr>
<td>strategic dialog</td>
<td>budgeting for the following</td>
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<td>(strat. survey, s-charts)</td>
<td>year</td>
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</table>

Quarterly meetings of the International Executive Committee to discuss Group issues
Realized strategy is a blend of deliberate and emergent processes. 

Realized strategy is the actual pattern of decisions and actions.

From Mintzberg & Waters, 1985
Modes of strategy-making

- **Generative Mode**
- **Transactive Mode**
- **Rational (Planning) Mode**
- **Symbolic Mode**
- **Command Mode**

Involvement of Organizational Members: Low to High

Deliberateness of Vision: Low to High
More deliberate (top-down) strategy-making

Simple organizations + stable environments
- Taking charge in the command mode

Growing organizations + dynamic environments
- Directing by vision and mission in the symbolic mode
Command Mode

- Defined by strong and dominant direction emanating from top management.
- The "commander" at the top of the organizational hierarchy defines organizational goals and strategies and seeks control over most decisions in the organization.
- Organizational members behave like obedient "soldiers" following the received orders and being responsible for executing.

Examples:
- Small family-owned firms

Works well in less complex environments and small organizations

Source: Hart, 1992
Symbolic Mode

- Defined by the creation of a compelling vision and mission that are widely shared by organization members and serve as a guide to their behavior.
- The organization is thus not led by explicit orders and direction - as in the command mode - but it operates based on intrinsic motivation of members.
- The use of symbols and metaphors may be central to making people feel like part of an important enterprise.
- Top management’s role is to motivate and inspire organizational members to attain shared goals.
- Although they do not take a large part in the forming of goals or organizational mission, employees are active in developing creative means for attaining these ends.

Examples: Cisco and Oracle (Chambers and Ellison)

Works well in growing firms and dynamic environments

Source: Hart, 1992
## More emergent (bottom-up) strategy-making

<table>
<thead>
<tr>
<th>Networked environments + dependent organizations</th>
<th>Technology- + knowledge-intensive organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Strategy by consensus in the <strong>transactive mode</strong></td>
<td>- Strategy by initiatives in the <strong>generative mode</strong></td>
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Transactive Mode

- Defined by the participation of key stakeholders and on-going dialogue to achieve a consensus among stakeholder interests
- Interaction with external stakeholders facilitates social acceptance and legitimizes the organization's strategy
- Cross-functional communication and organizational learning is central
- Processes such as continuous improvement and six sigma are typical

Examples:
Toyota and large public universities

Works well in mature firms within complex supplier or customer networks and in organizations that depend on external groups for support

Source: Hart, 1992
Generative Mode

- Defined by the entrepreneurial, bottom-up initiatives of organization members that determine product / market strategies
- The role of top management is limited to nurturing and ratifying initiatives from below and managing the resource allocation process
- Relies on a culture of experimentation and risk taking
- Product champions and team-based innovation are key ingredients

Examples: Intel, Google and R&D organizations

Works well in complex and dynamic environments where formulating product/service strategy depends on knowledge at operative levels

Source: Hart ,1992
Assessing your competitive environment

☒ The box that applies best

The organization exists in a relatively **stable** competitive environment characterized by a well known set of competitors and product technologies. In response, the organization must essentially stay the course, effectively **deploying** its capabilities across existing markets—relying upon, exploiting, and where necessary, incrementally expanding its current scope of products and services.

The organization exists in a **dynamic** environment of new competitors, over capacity, intense price competition, customer segmentation, and other indicators of a mature market entering a period of transition and shake-out. In response, the organization must maintain a flexible posture—questioning existing strategic priorities and **modifying** capabilities to respond to competitors or to pursue new product and market opportunities.

The organization exists in a **hyper-competitive** or turbulent environment in which firms cannot achieve long-term competitive advantage but instead compete by continually creating short-lived advantages. In order to succeed in this environment, the organization must continuously seek out new markets, develop innovative products and **redefine** the capabilities that comprise its competitive advantage.
<table>
<thead>
<tr>
<th>Environment</th>
<th>Process Types</th>
<th>Process outcomes</th>
</tr>
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<tbody>
<tr>
<td>Stable</td>
<td>Rational Planning</td>
<td>Initiatives focused on efficient implementation</td>
</tr>
<tr>
<td>Dynamic</td>
<td>Symbolic</td>
<td>Initiatives focused on flexibility and adaptation</td>
</tr>
<tr>
<td>Hyper-competitive</td>
<td>Generative</td>
<td>Initiatives focused on innovation</td>
</tr>
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<td></td>
<td>Rational Planning</td>
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</table>
Workshop or Homework

1. As an individual, think of an organization and determine which strategy process type is dominant.

2. In groups of 3, discuss the organizations selected and challenge one another to define the best classification. Try to confirm or disconfirm the individual analysis.

3. Make a list of the types observed in the group and be prepared to explain the classifications.

4. Ask: “Does the type of strategy process fit the conditions in the business environment?”
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Robust strategy-making process combines planning and initiatives

Strategic Planning
- Formulation
- Implementation

Strategic Initiatives
- Variation
- Selection
- Retention

Calendar-based
- Staff as process owner

Issue-based
- Manager as process owner
What are strategic initiatives?

Coordinated undertakings by members of a coalition (or project team) to identify and analyze issues, experiment with alternative approaches, create new routines and propose responses on a wide spread basis (Lechner & Floyd, 2003)

- The content of initiatives may include new products, process improvements, new business ventures, etc.
- Initiatives may be formal (induced by top management) or informal (autonomous activity at middle and lower levels)
- Initiatives are the principal means („learning laboratories“) by which organizations learn to do new things (change existing or develop new capabilities)
Initiative development – from ideas to capability

Source: Floyd, Ortiz-Walters & Wooldridge, 2007
Strategy making as the evolution of strategic initiatives

Variation:
Generating strategic initiatives

Selection:
Evaluating strategic initiatives

Retention:
Resourcing strategic initiatives

On-going business operations
How can one recognize the process?

Variation

Selection ends for a particular initiative when it survives the evaluation process and gains resources or when activity stops.

Retention

Variation ends with the definition of a portfolio of initiatives.

Retention ends when an initiative is absorbed as a part of the capability of the on-going business.
GE implements their vision through initiatives

**Vision elements**

- “Set aggressive goals”
- “Hate bureaucracy”
- “Reduce costs, speed up, be self-confident, energetic”
- “Be open for other ideas”
- “Create a vision and communicate it”
- “Think global”
- “Live quality”
- “Beat the dot.coms with their own weapons”

**Initiatives for Implementation**

- “Be number one or number two”
  - “Elimination of all non-value adding costs” - “Work out”
    - “Speed, simplicity, self-confidence”
      - “Boundary-less company”
      - “No type 4 manager”
    - “Globalization”
      - “6 Sigma quality improvement”
      - “Aftermarket and services”
      - “Destroy your own business”

Initiatives build on each other

Source: GE annual reports; BCG analysis
Continuous strategy-making by creating and reviewing initiatives

CEC Strategy Meetings: The Corporate Executive Committee meets 20 times per year for a half-day to discuss issues, allocate resources to strategic initiatives and review projects that are already underway.

Deep Dives:
Analysis of 6-9 strategic issues by a “core team“ and „executive decision team“ over about 90 days results in a specific set of proposals

4 CEC Strategy Conferences
Globale Market trends (Mar)
Open (June)
Resource allocation (Aug)
Global technology trends (Dec)

The Corporate Strategy Team identifies approximately 20 strategic issues in an annual report on Global Market Trends. The goal of this report is to synthesize market trends and external issues confronting IBM.

Source: McKinsey
What can we learn from these examples?

- Identifying strategic issues and creating strategic initiatives are at the center of strategy making in some firms.

- Top management designs ("architects") the process (strategic and structural context), and managers at middle and lower levels identify issues and propose strategic initiatives.

- Top management selects initiatives, allocates resources and reviews progress.

- Evolutionary strategy-making may be more appropriate for organizations and sub-units facing dynamic and hypercompetitive environments, where responsiveness in "real time" (versus periodic response) is important.
Initiative development – transformation processes

Source: Floyd, Ortiz-Walters & Wooldridge, 2007
Transformation processes

- Idea generation – Creative spark
- Interpretation – Gives idea strategic meaning
- Coalition formation – Group support
  - Issue selling – Persuades others of strategic meaning
  - Articulation – Communicates issue-action links
  - Elaboration – Broadens coalition boundaries
- Ratification – Official resource allocation
- Execution – Implements on widespread basis

Each process requires leadership from middle managers
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Types of initiatives and strategic leadership

3 Types of Initiatives

- **Innovation**
  - Ratify
  - Champion
  - Experiment

- **Adaptation**
  - Recognize
  - Synthesize & Facilitate
  - Respond

- **Implementation**
  - Direct
  - Implement
  - Conform

- **Top Management**
- **Middle Management**
- **Operating Management**

- Innovation initiatives are more likely to be autonomous.
- Implementation initiatives are more likely to be induced.

Source: Floyd & Lane, 2000
Roles and relationships in the capability building process

- Everyone involved in 3 types of initiatives
  - Implementation – more deliberate / induced
  - Innovation – more emergent / autonomous
  - Adaption – deliberately emergent
- 10 entrepreneurial roles for managers at all levels
- Internal information flows and organizational learning

*Middle managers are at the center of the process. They are the clutch strategy-making.*
Middle managers as strategic leaders

- **Uniquely positioned**
  - To **recognize** the need for change
  - To **influence** perceptions of the need for change in others – up, down and across the hierarchy
  - To **lead** initiatives
Middle management’s strategic leadership roles

<table>
<thead>
<tr>
<th>Divergent</th>
<th>Upward</th>
<th>Downward</th>
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<tbody>
<tr>
<td><strong>Champion Strategic Alternatives</strong></td>
<td>Persistent and persuasive communication of proposals that either provide the firm with new capabilities or allow the firm to use existing capabilities differently</td>
<td><strong>Facilitate Adaptability</strong></td>
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<tr>
<th>Integrative</th>
<th>Synthesize Information</th>
<th>Implement Deliberate Strategy</th>
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<tr>
<td>Derive strategic meaning from events; connect ideas to strategic issues and sell issues to top management and others in the organization</td>
<td>Align the unit’s actions with the firm’s strategic intent</td>
<td></td>
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</table>

Source: Floyd & Wooldridge, 1996
Initiative development and strategic leadership

Facilitating  Synthesizing  Championing  Implementing

Idea generation  Interpretation  Elaboration  Coalition  Project  Org’l Capability  Execution

Idea  Issue  Coalition  Pilot  Ratification

Issue-selling

Coalition Formation

Source: Floyd, Ortiz-Walters & Wooldridge, 2007
### Assessment of strategic leadership

Write a number in each column to represent the frequency of each behavior in your organization.

<table>
<thead>
<tr>
<th>Currently</th>
<th>Required</th>
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</table>

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Never</td>
</tr>
<tr>
<td>2</td>
<td>Rarely</td>
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<tr>
<td>3</td>
<td>Occasionally</td>
</tr>
<tr>
<td>4</td>
<td>Regularly</td>
</tr>
<tr>
<td>5</td>
<td>Frequently</td>
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</table>

1. Monitor and assess the impact of changes in the organization’s external environment.
2. Implement action plans designed to meet top management objectives.
3. Integrate information from a variety of sources to communicate its strategic significance.
4. Evaluate the merits of new initiatives and approaches that allow the firm to do different things.
5. Evaluate the merits of initiatives and approaches generated in my unit, encouraging some, discouraging others.
6. Translate organizational goals into objectives for individuals.
7. Provide a safe haven for experimental programs.
8. Assess and communicate the business level implications of new information to higher-level managers.
9. Search for new opportunities and bring them to the attention of higher-level managers.
10. Communicate and sell top management initiatives to subordinates.
## Assessment of strategic leadership

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**Write a number in each column to represent the frequency of each behavior in your organization**

- **Currently**
  - How frequently have you observed the following behaviors in your organization?
- **Required**
  - How frequently should the following behaviors be performed in your organization?

11. Define and justify the role of new programs or processes to upper level managers.

12. Encourage multidisciplinary problem-solving teams.

13. Proactively seek information about your business from customers, suppliers, competitors, business publications and so on.

14. Monitor and communicate to higher level managers the activities of competitors, suppliers, and other outside organizations.

15. Justify to higher-level managers programs that have already been established.

16. Provide resources and develop objectives/strategies for unofficial projects.

17. Translate organizational goals into departmental action plans.

18. Relax regulations and procedures in order to get new projects started.

19. Propose new programs or projects to higher-level managers.

20. Monitor activities within your unit to ensure that they support top management objectives.
## Scoring strategic leadership – What "is"

### Scoring - Currently

<table>
<thead>
<tr>
<th>Add your scores on items 4, 9, 11, 15 and 19</th>
<th>Add your scores on items 1, 3, 8, 13, and 14</th>
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<tbody>
<tr>
<td><strong>Champion Strategic Alternatives</strong></td>
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<tr>
<td>Persistent and persuasive communication of</td>
<td>Derive strategic meaning from operational</td>
</tr>
<tr>
<td>proposals that either provide the firm with</td>
<td>information and communicate it to top</td>
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<td>new capabilities or allow the firm to use</td>
<td>management</td>
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<td>existing capabilities differently</td>
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</tr>
<tr>
<td>Add your scores on items 5, 7, 12, 16, and 18</td>
<td>Add your scores on items 2, 6, 10, 17, and 20</td>
</tr>
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<td><strong>Facilitate Adaptability</strong></td>
<td><strong>Implement Deliberate Strategy</strong></td>
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<td>Encourage cross-functional problem solving,</td>
<td>Align your organization’s actions with the</td>
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<tr>
<td>experimentation and learning and create</td>
<td>firm’s strategic intent</td>
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<td>arrangements that increase organizational</td>
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<td>flexibility</td>
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**Align your organization’s actions with the firm’s strategic intent**
**Scoring strategic leadership – What "should be"**

**Scoring - Required**

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Add your scores on items 1, 3, 8, 13, and 14

Add your scores on items 5, 7, 12, 16, and 18

Add your scores on items 2, 6, 10, 17, and 20
Workshop or Homework

- Consider each of the following questions individually and develop tentative responses.
- Discuss your responses within the small group and get feedback.
- Develop a summary of the group discussion
  - Which leadership behaviors were most common?
  - Was there fit between the strategic leadership behaviors observed and required ("is" vs. "should be")?
  - Is there enough of the right kind of strategic leadership from middle managers?
  - What action steps were suggested by the analysis?
- Appoint a spokesperson to report out to the larger group.
Summary

- Strategy process is more than strategic planning
- Robust strategy-making combines process modes
- Managing strategic initiatives requires focus on variation, selection and retention
- Development of strategic initiatives requires strategic leadership from the middle of the organization
- Building strategy-making process capacities should be a high priority for senior executives
“There is nothing
...more difficult to carry out
...more doubtful of success
...more dangerous to handle
than to initiate a new order of
things.”

Machiavelli
1446-1507
Questions?

I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions. I will use Google before asking dumb questions.
Steven W. Floyd is the Eugene M. Isenberg Professor of Management at the Isenberg School of Management, University of Massachusetts - Amherst. He has held endowed chairs at the University of Virginia and the University of Connecticut and served as a Chaired Professor and Director at the Institute of Management, University of St. Gallen.

Professor Floyd has taught executive education courses, conducted in-house programs and provided advice on strategy process for many leading companies in Europe and the United States. He teaches entrepreneurship and strategy courses to undergraduates, masters and PhD students. In 2007, he was elected by students at the University of St. Gallen as the Best MBA Teacher of a Core Course. His courses are highly interactive, and he emphasizes the use of theory to address practical business problems.

His research on strategy-making and corporate entrepreneurship has been published in leading academic journals. He is the co-author of three books, Strategic Management: Logic and Action, Building Strategy from the Middle: Re-conceptualizing Strategy Process and The Strategic Middle Manager. In 2006, a paper on strategic initiatives won the Research and Practice Award at the Academy of Management. Current research focuses on entrepreneurial competence, strategic planning as ritual and the management of strategic initiatives.

He is an Associate Editor of the Strategic Management Journal and a member of the editorial board of the Academy of Management Journal. In 2007, he was elected to the Board of Directors of the Strategic Management Society where he continues to serve as Treasurer.