# MANAGING THE STRATEGY PROCESS

## A Framework for a Multibusiness Firm

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Balaji S. Chakravarthy
Peter Lorange

# INTRODUCTION

## BEYOND ANALYSIS

Strategic management has benefited enormously in the past two decades from the development of new analytical techniques. The appendix to this book provides a brief review of some of the common techniques that are used today.[1] Although superior analytical approaches are invaluable aids to top management for *evaluating* a firm's strategies, these approaches are not as helpful in either *forming* or *implementing* the firm's strategies. In this book we focus primarily on the process through which strategies are formed and implemented in a multibusiness firm, and on how that process can be managed better.

In a multibusiness firm, it is difficult for top management to play the strategist in all the firm's diverse businesses. Often individual business managers are more expert at this. Moreover, the bulk of the information required by top management to evaluate the strategies proposed by the firm's business managers is typically provided by the evaluees. This information asymmetry between top management and the firm's business managers can be a potential problem, unless the firm's administrative context encourages the open and full sharing of all business information across its managerial hierarchy.[2]

Also, the multiple strategists in a diversified firm can disagree on the goals that should be pursued. For example, the relative emphasis that should be placed on short-term profitability versus long-term growth can be a bone of contention; or in a multinational corporation, the corporate need for global integration can be in conflict with the more parochial interests of country managers.[3] In the case of new organizational forms, such as joint ventures and cooperative networks, the multiple stakeholder groups that are involved can have opposing claims. Goal incongruence is another serious challenge for top management in a multibusiness firm.

This book describes how top management can use the strategy process to minimize the problems of both information asymmetry and goal incongruence.[4]

The key role of top management as envisaged here is not one of making strategic decisions per se,[5] but rather of managing the administrative context[6] within which the firm's strategies are formed and implemented.

The administrative context of a firm is defined by its organizational structure, its strategy process, and its informal organization. The literature on organizational structure and how it influences a firm's administrative context is voluminous.[7] We have chosen to de-emphasize this aspect of the administrative context because most multibusiness firms are organized similarly—in a divisional structure.[8] We have also chosen not to elaborate on the very important role played by a firm's informal organization, including its organizational culture, in shaping its administrative context. The literature on this topic is rich and diverse,[9] and we felt that it deserves more than a token mention.

This book seeks primarily to describe how the strategy process can shape the administrative context of a multibusiness firm and the critical role that top management can play in managing this process. We include in the firm's strategy process its strategic planning; monitoring, control, and learning; incentives; and staffing systems. We will address, where appropriate, the important links between these systems and a firm's formal and informal organizations.

## BASIS OF THE BOOK

The book is based largely on our own research on multibusiness firms. The perspective we provide has been drawn from the experiences of over fifty well-managed multibusiness firms, a dozen of which we studied in depth.[10] In addition, we interviewed senior managers from twenty other firms to complement the data we had on them from the research of our academic colleagues. Case studies on several of these firms are included in this book. Although some of our ideas were also tested on a larger sample of firms, the frameworks that we offer here are essentially descriptive. They provide useful starting points for managing a firm's strategy process. For presentation purposes, however, the book is written in a normative style.

## ABOUT THE BOOK

This book has three major themes: (1) identifying the critical elements in the strategy process, (2) emphasizing tailormaking and alignment, and (3) managing change and adaptation.

### Identifying the Critical Elements in the Strategy Process

As we noted earlier, the strategy process consists of four management systems (Figure I-1). The strategic planning system is commonly referred to as the firm's strategy-making subprocess, and the other three systems are collectively called its strategy implementation subprocess. Although we will use this distinction to introduce our framework, we see the distinction as an arbitrary one. Strategy making and implementation are not sequential but highly interactive.

The strategic planning system attempts to articulate and communicate the corporate objectives to the firm's managers, to negotiate a common understanding among them of the intended strategy for each of the firm's businesses, and to help delineate the managers' responsibilities in developing and implementing the intended strategies. The monitoring, control, and learning system assists in monitoring the actual implementation of the chosen strategies and in sensitizing the firm to

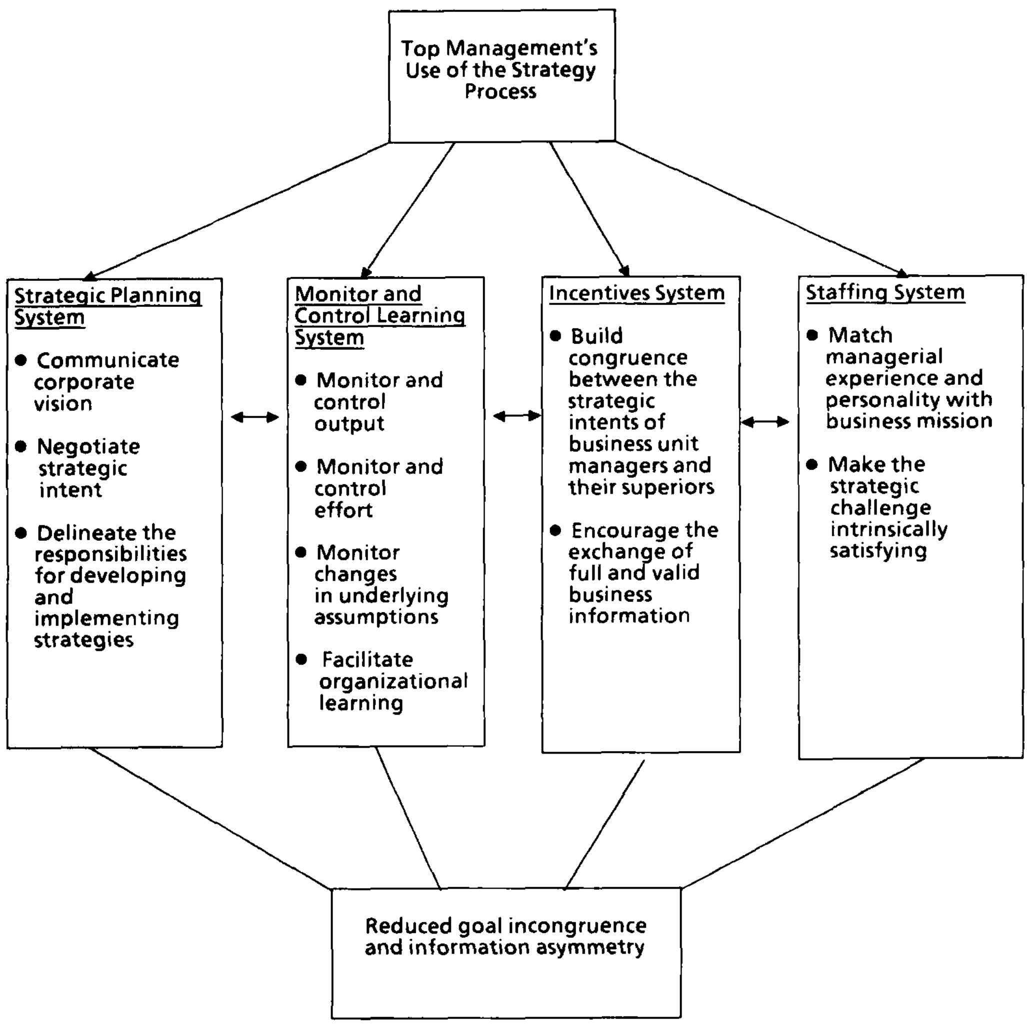


***Figure I-1*** **The Strategy Process**

changes in the underlying assumptions behind these strategies. Thus the monitoring, control, and learning system helps both validate and implement the chosen strategies. The incentives system attempts to encourage the exchange of full and valid information within the firm. The staffing system seeks to reduce goal incongruence by staffing the firm with managers whose experience and personality are consistent with the intended strategies for the firm's businesses.

The four management systems described above span the four organizational levels at which strategy is shaped in a typical multibusiness firm (Figure I-2). The strategy process must ensure that the plans pursued by the functional departments of a multibusiness firm—such as operations, marketing, and engineering—are consistent with the strategies of the firm's business units. Business strategies should in turn be consistent with the strategies pursued at the divisional level. Finally, the divisional strategies of a firm must support its corporate strategy. These *interactions* are shown by the thick solid lines in Figure I-2.

The thin, solid lines show another set of communication channels that connect the four management systems. These represent the frequent *iterations* that are needed between the systems. Based on actual developments (shown by circles in Figure I-2) against plans (shown by crosses), the firm's plans as well as the underly-

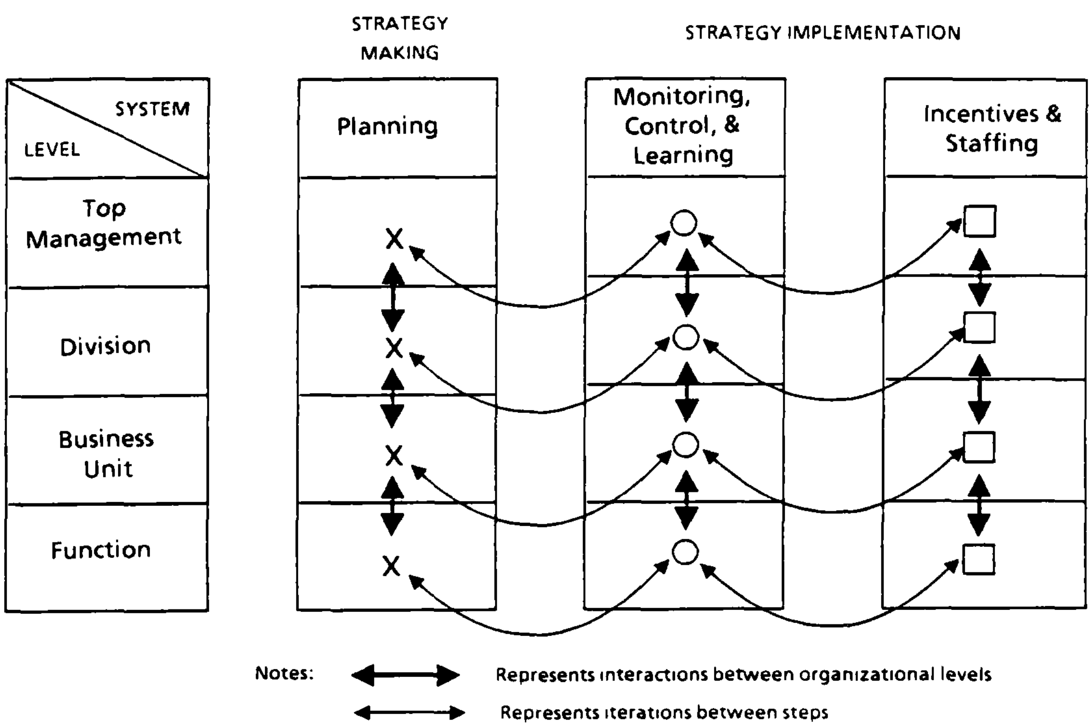


***Figure I-2*** **A Skeletal Framework for the Strategy Process**

ing objectives may have to be modified or even abandoned. As we discuss at length in Part II, a strategy cannot always be fully planned; it has to evolve in many contexts through several incremental steps of trial-and-error learning.[11] Based on the performance of a function, business unit, or division (shown by squares in Figure I-2), the incentives that have to be awarded to the managers can be determined. It may be necessary under some circumstances, depending on the observed performance variances, even to change the staffing of these organizational units.

We describe how the four organizational levels are linked by the strategy process in greater detail in Part I. The roles of top management are to tailor this process to suit the context of the firm and to ensure that the four systems that constitute the process are well aligned with each other.

## Emphasizing Tailormaking and Alignment

Tailormaking and alignment are two important themes of this book. A tailormade management system is one that is specifically designed to meet the contextual pressures that confront an organizational unit. Many of the ills of management systems in the past may be attributed to their failure to adapt to the changing needs of the corporation and its subunits.

Strategic planning, in particular, has been criticized in both the business and the academic press for being bureaucratic, for stifling creativity, and for causing analytic detachment among senior managers.[12] Although there is some truth to this criticism, what is offered as an alternative is also clearly unworkable in a multibusiness firm. Managing by "wandering about" or aping Japanese management practices is not a valid prescription. The former ignores, for example, the diversity that has to be coped with by top management, and the latter assumes that the informal aspects of the administrative context on which the Japanese seem to rely so heavily can easily be replicated in Western firms. Also, although strategy must indeed emerge through trial and error in some business contexts, it can be planned in others. What is therefore required is a strategy process that varies in its formality depending on the business context.

A related issue is the compartmentalized view of planning that still seems to exist in many firms,[13] whose strategy processes are consequently misaligned. It is not uncommon to have a firm's strategic planning system designed and managed by the strategic planner; its monitoring, control, and learning system by the controller; and its incentives and staffing systems by the human resource manager—in isolation from each other.

We argue that unless the close interdependence between a firm's management systems is recognized by its top management and other senior line and staff managers, the firm's performance will suffer. After all, strategy is shaped not only by the strategic planning system but also by the other three systems. The personal profiles of a firm's strategists, how their performance is measured and evaluated, and how they are rewarded are important determinants of the strategic alternatives that they will consider. Alignment describes how well the four systems reinforce each other (see Figure I-1).

We discuss in Part II how the strategy process can be tailored and aligned to suit the context of a business unit. In Part III, we focus on the distinct problems of tailormaking and alignment in multinational businesses and strategic alliances. In Part IV, we discuss how the strategy process can be tailored to suit different corporate contexts.

### Managing Change and Adaptation

Tailormaking and alignment are important concepts, but they can breed inertia. As the environment of a firm changes, its strategies should change. Strategies also can change because of alterations in a firm's resources or simply because of a new top management vision. At some point in this change trajectory, the strategy process in use by the firm stops being useful and can become a hinderance. Changing the strategy process to facilitate the continuous strategic adaptation of a firm is another important theme that is addressed in this book. We examine in Part IV how the process can get entrenched and explore some useful features that can help the process become self-adapting.

## ORGANIZATION OF THE BOOK

In Part I, we introduce the strategy process perspective. We provide in Chapter 1 a conceptual framework for understanding the strategy process, and discuss in Chapter 2 the critical areas in which top management intervention can be helpful to the process.

In Part II, we focus entirely on how the strategy process can be designed to suit the context of a business unit. In Chapter 3, we provide a classification scheme to distinguish between various business contexts and specify a strategic planning system that is appropriate to each. Then in Chapter 4, we elaborate the design of a monitoring, control, and learning system to suit each of these contexts. Finally in Chapter 5, we discuss how the incentives and staffing systems can be aligned with the other two systems.

In Part III, we focus on special business contexts. Chapter 6 deals with some of the distinct challenges in designing a strategy process for a multinational business. In Chapter 7, we describe a process for instituting and maintaining strategic alliances with other organizations.

In Part IV, we shift the discussion to the corporate level. In Chapter 8, we discuss various approaches to sharing responsibilities for business strategies with divisional general managers. Then in Chapter 9, we deal with the fundamental challenge of ensuring the relevance of the strategy process over time, even as the context of a firm changes.

The Appendix provides a brief overview of some of the common analytical approaches that are available for evaluating both business and corporate strategies.

## A NOTE TO OUR READERS

This book is intended primarily for graduate students in strategic management who wish to understand how the strategy process is managed in successful multibusiness firms. In addition, the book should be of interest to senior line and staff managers within multibusiness firms who seek a framework for evaluating the strategy process used by their firms.

The book offers a set of complex case studies, several of them developed especially for it. Although the cases are segregated in certain parts of the book to highlight concepts that are advanced in those parts, they are far richer than what any single conceptual scheme can capture. It is our hope that the reader will move back and forth between the text and the case materials in various parts of the book and thus acquire a richer appreciation of how the strategy process can be managed in a multibusiness firm. The cases cover a wide range of firms that vary in size and nationality of ownership.

In Part I we present three cases. The first, Scandinavian Airlines System, describes how a clear corporate vision and a matching organizational context helped the airline come up with innovative strategies to improve its performance dramatically. The next case, on the U.S. Nuclear Regulatory Commission, illustrates the importance of managing the key stakeholders of an organization in order to bring about strategic change. The third case in Part I describes the challenges faced by a growing high-technology firm, Infotron Systems Corporation, in establishing an organizational context in which strategic decisions can be delegated by the Chief Executive Officer to other managers within the firm.

Part II of the book contains four cases. The case on the Vick International Division provides a rich description of the strategic planning and control system used by the Latin America/Far East (LA/FE) division of Richardson-Merrell and how its design was influenced by the business context of the firm. The next case, on Texas Instruments' computer-assisted planning system (MODPLAN), provides yet another detailed description of a planning system and how it can be linked to a firm's information system. The other two cases in this part provide an excellent description of the challenges faced by Becton Dickinson in designing a monitoring, control, and learning system; an incentives system; and a staffing system to support the business strategies that top management had chosen for the various business units of the firm.

Part III contains three cases. The case on Elkem describes the challenges faced by this Norwegian multinational firm in integrating its worldwide operations that, for reasons of resource and energy availability, had to be dispersed. The next case, on Procter & Gamble, discusses that company's struggle in moving its strategy in Europe from a national to a transnational focus. Finally, the case on the

FiatGeotech-Hitachi strategic alliance provides the backdrop to discuss how alliances of this type can be managed.

The six cases in Part IV illustrate the four options that are available to a multibusiness firm for managing its corporate strategy: the central planning process at the ITT Corporation under Harold Geneen, the corporate portfolio management process at the Norton Company under Robert Cushman, the divisional portfolio management process at the Dexter Corporation under Worth Loomis, and the transition from a self-renewal process at Texas Instruments after Pat Haggerty's retirement. These cases also provide a good description of how various analytical aids like the PIMS model and value-based planning and control are used in multibusiness firms. The challenges in adapting the strategy process used by a firm to its changing context are described in the cases on the ITT Corporation, Texas Instruments, and Alfa-Laval.

The book is partial to large, for-profit, manufacturing organizations. It offers only one case on a not-for-profit organization (Case 2 on the U.S. Nuclear Regulatory Commission) and one case on a service sector firm (Case 1 on the Scandinavian Airlines System). Nevertheless, the text portion of the book can be usefully extended to these other organizational settings as well.

## NOTES

1. For an excellent discussion of these techniques, see A. C. Hax and N. S. Majluf, *Strategic Management: An Integrative Perspective* (Englewood Cliffs, NJ: Prentice Hall, 1984), 108–240.
2. For a discussion on how the administrative context of a multibusiness firm can force business managers to hold back bad news, see R. G. Hamermesh, "Responding to Divisional Profit Crises," *Harvard Business Review* 55 (Mar.–Apr. 1977): 124–130. For a model that explains how such behavior can trigger a vicious cycle of events that further distorts the information that is made available to top management, see C. Argyris, "Double-Loop Learning in Organizations," *Harvard Business Review* 55 (Sept.–Oct. 1977): 115–125.
3. See C. K. Prahalad and Y. Doz, *The Multinational Mission: Balancing Local Demands and Global Vision* (New York: Free Press, 1987).
4. This responsibility of top management can be modeled as an agency problem. For example, see M. Jensen and W. Meckling, "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure," *Journal of Financial Economics* 3 (1976): 305–360. Top management, the principal, must structure a context within which the business manager, the agent, can be made to behave in a manner consistent with management's goals. The strategy process is an important mechanism for minimizing the problems of both moral hazard and adverse selection in such a principal/agent relationship.
5. See H. A. Simon, *Administrative Behavior* (New York: Macmillan, 1945). This author was one of the first to make this important distinction between making a decision and managing the premises for a decision.
6. For a rich description of the context-setting role of senior managers, see J. L. Bower, *Managing the Resource Allocation Process* (Boston: Harvard Business School, 1968). For a description of the evolution of such a context-setting role, see F. W. Gluck, S. P. Kaufman, and A. S. Walleck, "The Four Phases of Strategic Management," *The Journal of Business Strategy* 2 (Winter 1982): 9–21.

7. See H. Mintzberg, *The Structuring of Organizations* (Englewood Cliffs, NJ: Prentice-Hall, 1979). Of the six structural configurations described by Mintzberg, a multibusiness firm typically uses the divisionalized form, although its subunits may exhibit some of the other configurations.

8. This association has been empirically demonstrated by many studies. For theoretical justifications, see the following: A. Chandler, *Strategy and Structure* (Cambridge, MA: MIT Press, 1962); and O. E. Williamson, *Markets and Hierarchies* (New York: Free Press, 1975).

9. For example, see the following: M. Beer et al., *Managing Human Assets* (New York: Free Press, 1984); T. E. Deal and A. A. Kennedy, *Corporate Culture* (Reading, MA: Addison-Wesley, 1982); and E. H. Schein, *Organizational Culture and Leadership* (San Francisco: Jossey-Bass, 1985).

10. The list of companies that we studied includes Alfa-Laval, ARA Services, Becton Dickinson, Corning Glass, Cummings Engine, Dexter, Digital Equipment, Dupont, EG&G, Elkem, Fiat, General Motors, General Electric, Hewlett Packard, Honeywell, IBM, Infotron, ITT, IU International, Mead, Norton, P&G, Rohm & Haas, SAS, Siam Cement, Thomson, Thorn-EMI, and Unilever.

11. This alternate view of the strategy process has been articulated by the following: H. Mintzberg and J. A. Waters, "On Strategies, Deliberate and Emergent," *Strategic Management Journal* 6 (1985): 257–272; and J. B. Quinn, *Strategies for Change: Logical Incrementalism* (Homewood, IL: Richard D. Irwin, 1980).

12. For a sampling of this critique in the business press, see the following: "The New Breed of Strategic Planner," *Business Week* (Sept. 17, 1984): 62–67; and T. J. Peters and R. H. Waterman, *In Search of Excellence* (New York: Harper and Row, 1982). For examples of the criticism in academia, see the following: Mintzberg and Waters, "Of Strategies"; R. H. Hayes and W. J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review* 58 (July–Aug. 1980): 67–77; R. Hayes, "Strategic Planning: Forward in Reverse?" *Harvard Business Review* 85 (Nov.–Dec. 1985): 111–119; R. T. Lenz and M. Lyles, "Paralysis by Analysis: Is Your Planning System Becoming Too Rational?" *Long Range Planning* 18 (Aug. 1985): 64–72; H. Mintzberg, "What Is Planning Anyway?" *Strategic Management Journal* 2 (July–Sept. 1981): 319–324; and H. Mintzberg, J. P. Brunet, and J. Waters, "Does Planning Impede Strategic Thinking? The Strategy of Air Canada 1937–1976," in *Advances in Strategic Management* 4 (Greenwich, CT: JAI Press, 1986), 3–41.

13. See J. B. Quinn, H. Mintzberg, and R. M. James, *The Strategy Process* (Englewood Cliffs, NJ: Prentice Hall, 1988).

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# BRIEF CONTENTS