Title: **SOURCES OF SELECTION IN STRATEGY MAKING**

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Abstract

This paper elaborates theory inductively by following the evolution of fourteen strategic initiatives from an exploratory case study. The study examines the context and character of such initiatives over an 8-year period. Based on these initiatives, the paper proposes a two-stage selection mechanism for the intra-evolutionary strategy process that explains the long-term mutation of organizations. The mechanism operates by selecting according to both fit with the strategic intent and feasibility of the initiative. These two elements combine into an organizational principle that is perceived as permanent in character but mutates through constructive confrontation. This principle contributes to the organizational identity but, being a low-level element of such identity, it can be modified through learning while retaining an attribute of endurance as perceived by organizational members.

Keywords: evolutionary strategy process, intra-evolutionary theory, selection mechanism, strategy-making process.

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The conception of strategy making as an intra-organizational evolutionary phenomenon has shed light on the genesis of strategy (Bower, 1970; Burgelman, 1983a; 2002a; Lovas and Ghoshal, 2000; Noda and Bower, 1996). Key to this evolutionary process was the identification of autonomous and induced behaviours as the driver behind strategic initiatives that are selected as part of the organization's strategy (Bower, 1970; Burgelman, 1983b). Nevertheless, the source and genesis of the actual selection mechanism appear only partly specified within Burgelman's process model of variation, selection and retention of strategic initiatives. Although Burgelman (1991) noted that selection draws from culture, such a notion was not developed. This is surprising because the selection mechanism had a crucial role in driving Intel's mutation by determining which initiatives were selected. Describing the source and genesis of the selection mechanism would add to our understanding of intra-organizational evolution. Thus, the questions that motivated this research are how such a selection mechanism originates and how it operates.

This paper's key argument is that the selection mechanism is driven by constructive confrontation and negotiation based on power and influence, which are not considered, to the best of our knowledge, in the existing literature. The argument is developed in an inductive fashion from the case study of Road Runner, an organization that expanded from a localized operation to the rest of Spain, achieving exponential growth. The paper draws upon fourteen strategic initiatives developed to deliver such growth. These initiatives were embedded in the longitudinal single case of Road Runner (Yin, 1994). The remainder of this paper is organized as follows. The next section will briefly describe the theoretical background. Then, the paper presents the methodology used to develop the inductive theory, followed by the data analysis and theoretical elaboration. Finally, the discussion and conclusions describe an intra-evolutionary theory, highlighting the contribution of this study.

THEORETICAL BACKGROUND

One crucial role of strategic management is to permit adaptation, which manages the choice of purpose and effectively uses the firm's material and organizational strengths while adjusting the purpose, the resources or both to bring them into balance (Chakravarthy, 1982). The strategy process enacts these functions when it links the environment with the strategy of the organization. Specific outcomes of the strategy process will either be routines for the evolutionary approach to strategy in which inertial activities are seen to dominate organizational activity (Cohen et al., 1996) or capabilities that are more forward looking and can be acquired or adapted (Teece et al., 1997). Similar to Gavetti and Rivkin (2007), who use the positioning and environmental schools to address the middle ground of behavioural plausibility, we use capabilities to understand the interplay of inertia and change, which typify selection and determine subsequent strategic renewal. Though we recognize that routinized activities can form dynamic capabilities, as stated by Zollo and Winter (2002), we treat them as different elements. We use routines as semi-automatic chunks of habitual activities that help firms deliver goods reliably and efficiently (Nelson and Winter, 1982). As such, they tend to be codified and difficult to change. Routines provide stability and reassurance and can be replicated. Capabilities are viewed as the ability to respond to environmental changes (Teece et al., 1997), and as such they can be acquired with relatively less difficulty. Dynamic capabilities are change drivers that can operate to extend, modify or create ordinary capabilities (Winter, 2003). Organizational renewal results when the strategy of the organization aligns with the environmental demands through successive convergent iterations towards a complementarity of stability and change (Burgelman, 1996; Floyd and Wooldridge, 2000; Huff et al., 1992; Nelson and Winter, 1982; Noda and Bower, 1996).

For renewal to occur, the strategy-making process must be an organization-wide phenomenon (Hart, 1992) in which strategy formation is neither the exclusive responsibility of top management (Floyd and Wooldridge, 1997; Wooldridge et al., 2008) nor only a bottom-up emergent event (Hambrick, 1981; Peteraf, 2005). It is the interaction between these organizational levels that explains strategy making and, ultimately, renewal (Hart, 1992). In this paper, strategy making, both induced and autonomous, is regarded as intervening between the abstract notion of strategic intent and the specific managerial action that allows an organization to interact with its environment. Thus, strategy making is not restricted to planning and analysis but viewed as the wider organizational phenomena through which strategy is formed (Burgelman, 1983a).

In the case of Intel, though its official strategy discourse was to increase production of DRAM memory products, when facing production capacity restrictions it applied the "rule of maximizing margin per-wafer-start" as the selection mechanism (Burgelman, 2002a, p. 65) . This rule, only acknowledged after the fact as a selection mechanism, always favoured the production of microprocessors over memory products, which *de facto* changed Intel's strategy and eventually its core business. Though the selection mechanism had a crucial effect on the final strategy, its genesis has not been explained in relation to the induced or autonomous drivers in Burgelman's process model. The rule was a simple heuristic that, ex *post*, had a major strategic consequence, although this was not recognized as such *ex ante*. Burgelman (1991) describes the selection mechanism as related to culture, yet it appears to be exogenous to the model, and its origin is somewhat obscure. This paper attempts to re-examine the issue.

Understanding the origin of such a selection mechanism is important because it would help explain adaptation of the organization through the selected strategies. The theory of intra-organizational evolution is different from that of natural evolution. In contrast to the constituents of natural organisms, organizational members may accept or reject a new initiative; hence, what explains the selection of such strategy is at the core of intra-evolutionary approaches to strategy. Moreover, understanding the genesis of this selection mechanism can contribute to an understanding of how organizations learn. Understanding selection of strategic initiatives can shed light on how managers "choose to create domains of undiscussable issues, which inhibit learning, compared to domains where constructive confrontation is open, facilitating learning" (Argyris, 2006, p. 41) .

By using an inductive approach, this paper elaborates the theory of how and why, via constructive confrontation, strategic initiatives are selected into organizational strategy and selected against when learning is inhibited. In so doing, this paper explores the paradox of stability and change whereby stability is necessary for initiatives to be selected, but learning is needed for change to occur. It contributes to the body of knowledge on strategy making by investigating the dynamics of selection and the integration of learning as a feature of selection.

Effective use of power and influence is perhaps the most important driver of action (Pfeffer, 1994). In consequence, if the strategic intent is formulated to affect strategy formation, it will necessarily happen through an exercise of mobilizing political support (Mintzberg, 1983). "Interdependence exists whenever one actor does not necessarily control all of the conditions necessary for the achievement of an action or for obtaining the desired outcome from the action" (Pfeffer and Salanzik, 1978, p. 40). Where different management levels act as causal agents, power and influence will operate through interdependencies to produce outcomes (Pfeffer, 1994). This paper will clarify how the selection mechanism develops validity for organizational strategy in the eyes of organizational members while at the same time allowing for strategic change.

Within multilevel interactions, the strategy-making processes have been described as comprising induced and autonomous behaviour (Burgelman, 1983a, 1991, 1996). Induced behaviour represents the guiding aspect 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, p. 241). 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, p. 209). Although for Burgelman, top management behaviour is a major inertial force in the induced part of the strategy process, this study allows for induced behaviour to also be a source of renewal, as suggested by Floyd and Wooldridge (2000). Top management may set the path for change in advance by communicating the strategic intent (Hamel and Prahalad, 1989). The ability of top management to formulate a complete strategic plan has been proven to be limited (Bower, 1970; Burgelman, 1983b; Floyd and Wooldridge, 1992; Noda and Bower, 1996). The view of top management setting the strategic intent for the organization portrays a more realistic role of strategic direction (Lovas and Ghoshal, 2000). Nevertheless, the rule actually selected by Intel had no relation with the strategic intent; hence, the selection mechanism has to be broader than the strategic intent.

Burgelman (1991) reserves the role of autonomous behaviour for initiatives that "emerge outside of current strategy and provide the potential for new organizational learning" (1991, p. 241). Autonomous processes give grounds for organizational renewal because they stem from experimentation beyond existing strategy and they may originate from various organizational levels (Burgelman, 1991). For Burgelman, "from the evolutionary point of view, only after it has become reasonably certain that the autonomous initiative is viable can it legitimately become part of the organizational strategy" (1991, p. 247), which suggests selection but does not elaborate on how it actually takes place. However, according to Mintzberg and Waters (1985), emergent and deliberate strategies rarely appear separated but rather are combined as part of a continuum, which suggests that the autonomous and induced behaviours should behave similarly. Besides, by restricting self-renewal to what stems from autonomous behaviour outside the current strategy, Burgelman overlooks the power of conscious adaptation (Floyd and Wooldridge, 2000). This study allows for combinations of autonomous and induced behaviour to drive strategic initiatives. The role of middle managers is crucial in supporting autonomous initiatives arising from operational levels and channelling initiatives induced from the top (Canales, 2013). In line with this, the present paper considers renewal as a possible outcome of both conscious adaptation and autonomous behaviour (Floyd and Wooldridge, 2000). In sum, this paper recognizes that managers at all levels in the hierarchy may play a role in strategic renewal and that their behaviour may be both purposeful and inadvertent (Mintzberg, 1978; Mintzberg and Lampel, 1999).

Contesting the Bower–Burgelman process model, Lovas and Ghoshal (2000) offered a model of strategy as guided evolution. Their main argument is that autonomous behaviour is framed by the firm's strategic intent operating as an objective function. In consequence, under this model all members of the organization select initiatives for input into the firm's strategy, and selection is done by the strategic intent. Gavetti and Rivkin (2007) combine evolutionary and positioning theories to develop the notion of behavioural plausibility where the appropriateness of following a search strategy will depend on time. The present paper considers search for a strategy a given, viewed as the strategic intent, and investigates how the strategic intent selects and how such selection feeds back to the validity of the intent. Similar to Lovas and Ghoshal (2000), for this paper the strategic intent is exogenous to the intra-evolutionary processes, yet it takes form in a top-down fashion. The strategic intent "is defined and articulated by top management, and reflects their vision of what is in the best interest for the long-term performance of the firm" (Lovas and Ghoshal, 2000, p. 886) . In fact, the model of guided evolution centres on the need of Oticon to catch up with competition to survive. Although guided evolution shifts the focus away from Burgelman's autonomous behaviour, when it aims at describing the role of top management it does not specify in full what the selection mechanism is or the process responsible for its genesis.

## METHODS

To study the formation of the selection mechanism, the present study used a single case study with strategic initiatives as embedded units of analyses (Yin, 1994). Understanding how the selection mechanism originates and becomes valid for organizational members lends itself to the use of the case study approach as it explores previously ill-specified linkages (Lee, 1999). This study uses initiatives embedded in the strategy process of the organization, consistent with previous theoretical development in intra-organizational evolution (e.g., Lovas and Ghoshal, 2000; Burgelman, 1991) .

The focus of this paper is on the concepts of interaction between top management and lower managerial levels as well as induced and autonomous behaviours apparent in the case study. This preliminary notion, derived from the existing literature, allows for iterative contrasting of theory with evidence (Yin, 1994), leading towards analytic generalization (Corbin and Strauss, 2008) while providing direction in determining what data to collect when carrying out theoretical sampling and which analytical methodology to use to elaborate the theory (Seale, 1999).

The case studied, Road Runner, is critical as it allows the elaboration of intra-organizational evolutionary theory (Yin, 1994). Road Runner resembles previously documented cases in terms of complexities (Lee, 1999). First, it is a multibusiness organization, yet all business units share a household customer pool. Second, the company used well-defined strategic initiatives to promote change. Third, the CEO guided strategy formation by means of a new, clearly identified, strategic intent.

### Data Collection

Data were collected on Road Runner's strategy-making process and the strategic initiatives it produced from three sources: semi-structured interviews, archival documentation and a focus group (see Table I). Data collection took place from 2001 to 2008, with most interviews carried out from 2001 to 2003 (see Table II). The rationale for using these techniques was to gather archival data on the development of the strategic initiatives first, then pool these together with interviewees' accounts and finally contrast such accounts with views from other similar organizations via a focus group. Having different types of evidence allowed for triangulation while analysing data (Miles and Huberman, 1994).

[Insert Tables I and II about here]

A total of 22 semi-structured interviews were carried out from 2001 to 2008. One set of protocol themes was used to inquire about each unit of analysis to ensure reliability (Yin, 1994, p. 36) . Although ten interviews were carried out using a protocol that focused on development of strategic initiatives, twelve were carried out using a different set of questions that focused mainly on the strategy process as a whole (see Table I). An indicative list of the topics covered during interviews is presented in Table III.

[Insert Table III about here]

Data collection followed a two-stage approach. Interviews conducted at the beginning of the study aimed at clarifying the characteristics of the strategy-making process; as interviews progressed, the questions turned to the specific development of initiatives. The first stage aimed at gaining an understanding of the entire strategy-making process using company documents and in-depth interviews. In total, 38 internal company documents were collected, 17 referring to the development of the strategic initiatives and 21 on the strategy process in general (see Table I). These company documents were the internal forms used for the development of the strategic plan, the schedules and lists of participants in each stage of the strategic exercise and the actual plan, including strategic lines, objectives, measures, responsible executives and timing. The aim was to study the effect that strategic intent setting had on the development of strategic initiatives. More specifically, data collection enquired into top management's interaction with organizational members regarding the diffusion of strategic intent and participation in the strategy process. Comparing company documents and interview concepts was a way of checking for consistency and verifying the validity of the construct (Yin, 1994, p. 34).

The second stage focused on the evolution of strategic initiatives. Drawing on the accounts of interviewees and internal company documents, a narrative of the evolution of each strategic initiative was reconstructed. Two key elements, which became instrumental for subsequent analyses, were obtained from the evidence on the evolution of strategic initiatives: first, the role of participants, and second, the flows of proposed initiatives. A total of fourteen strategic initiatives with different characteristics were followed. The duration of strategic initiatives ranged from 2 to 7 years, with a median of 2.5 years. Interviews were conducted with the head of each working team for each strategic initiative and also with executives from the planning department to be able to contrast their views (Berg, 2004). The aim, as presented during the interviews, was to identify which factors had shaped the evolution of the strategic initiatives from inception to conclusion.

**Data Reduction and Analysis**

The analysis unfolded in two broad phases. First, each initiative was analysed individually using narrative accounts, and second, initiatives were compared and contrasted using analytical matrices. Transcripts were reviewed as data were collected, which led to writing theory memos and discussing emergent concepts with colleagues. To reduce data without losing sight of the chain of evidence, a narrative account was written for each strategic initiative based on 223 pages of transcribed interviews, archival data and evidence from the focus group. The purpose of the narrative account was to uncover the sequence of causal links between different stages and highlight the mechanisms employed by the organization for the selection of each strategic initiative (Langley, 1999). Though the narratives were rich in meaning, identification of causal links required further analysis and comparison between initiatives. Whereas the narratives had been built from interview data, the comparison was done using archival data. At least two sources of evidence were used to describe the evolution of each strategic initiative (Yin, 1994, p. 69).

Comparison among initiatives was carried out using a time line and causal matrices. The use of such matrices for qualitative data display and analysis followed the guidelines of Miles and Huberman (1994). The main sources of archival data were: templates to present projects, strategic planning work plan, summary of internal analyses, project descriptions, contrast of projects and objectives, description of objectives and a training record of sales personnel (archival documents 1, 2, 6, 10, 11, 13 and 14 in Table I). Based on these archival documents, in which the organization had recorded all decisions and outcomes across the life of the strategic initiatives, data were collated for each initiative in one time-sequential matrix. Common features were then identified and patterns for the strategic initiatives analysed, iteratively sorting them into homogeneous groups. Through this comparison between initiatives and their context within the organization's strategy-making process, the existence of potential constructs was examined.

Having identified and double-checked the causal links, the specific events that explained the progression of each initiative were established from initiation to resource allocation. These analyses led to the identification of three types of initiatives: c*ascade*, *spring* and *flow*. After we identified these three types, it was evident that measured initiatives against the strategic intent did not fully explain the selection mechanism. The next analysis isolated the effect of the strategic intent with the hope that the rest of the explanation could shed light on the selection mechanism.

## ROAD RUNNER AND ITS STRATEGIC INITIATIVES

Founded in 1906 as a sports association in Catalonia, Road Runner's core activities have remained unchanged. It offers its members a number of related services to facilitate the daily use of a private vehicle, such as route assistance, car insurance, car checking and driving instruction as well as an affinity credit card program. Road Runner's business is similar to other automobile clubs such as the American Automobile Association. Over time, the company has expanded the social dimension of its activities and become a key institution in Catalonia.

In 1997, the new CEO was facing a stagnant local market, an excessive number of products and services and an under qualified management team. He set out to recruit a new top team drawn from multinationals with strategic skills that would be able to relaunch Road Runner. While this transformation unfolded, he organized a series of brainstorming sessions with a broader group of fifty middle managers. The goal of these sessions was to come up with new ideas and assess which products or services would stay and which had to be eliminated. New projects emerged as part of these discussions, and the middle managers proposing them were put in charge of carrying them out. The CEO realized that engaging organizational members in ownership of the development stage of strategy facilitated projects and plans in the subsequent implementation phase.

The CEO conceptualized the challenge faced by Road Runner as a need for exponential growth. Most market research showed that the home market was mature, which only left growth space in other relatively wealthy regions of Spain. Potential growth was also constrained by limited investment funds because Road Runner was a sports association and not a publicly held company, and thus could only finance its growth via cash generation and a low level of debt. Because of this resource limitation, creativity and inventiveness were deemed the most valuable resources. The CEO called on the middle managers to come up with and carry out new projects that could drive the effort and deliver the desired growth.

Middle managers engaged with the strategic intent of growth. The operations director explained in an interview,

> We had reached a moment of apprehension, a bit lost of ideas…then what we did was to start up a change program… We put in place an ordered method to collect ideas from the organization so that any member could freely voice them and at the same time these ideas were shared and discussed.

By the year 2000, Road Runner had become a holding of twelve companies, each focused on a related business. Its management structure recognized three dimensions: business areas (member affiliation, assistance, insurance brokering, travelling, sports and other associate services), geographical operations (distribution units in four regions within Spain) and functional areas. Also, strong corporate service units were established (e.g., corporate development, organization and quality and auditing). Between 1998 and 2004, with 32 executives in key management positions and a total of 1,560 employees, the Road Runner group achieved annual growth rates of 56.64% in turnover and 31.2% in affiliated members. This met the CEO’s original strategic intent, and by 2004 Road Runner had become the largest insurance broker in Spain in terms of number of car policies issued. This situation formed the seed of a major mutation of Road Runner’s core insurance business that would later become a fully-fledged insurance company as a strategic alliance.

The original growth intent required the formation of new strategic initiatives. Such initiatives were formulated and developed by separate teams across the organization around the year 2000. Work was organized in temporary multidisciplinary project groups, each with its own staff and budget. Initiative development in this fashion subsequently became common practice within Road Runner. During the period studied, fourteen strategic initiatives were developed. Table IV synthesises the data on all initiatives, describing the content of each initiative, its originator, the approval process and the decisions regarding resource allocation.

An illustrative data example depicts the essence of the approval process and resource allocation for each initiative.

[Insert Table IV about here]

PATTERNS ACROSS STRATEGIC INITIATIVES

**Cascade, spring and flow**

The description of the evolution of the fourteen strategic initiatives at Road Runner is aimed at elaborating the theory underlying the selection of initiatives. All together, the fourteen initiatives composed Road Runner's strategic efforts over the period studied. Of importance was an aspiration long held by organizational members—expand to the rest of Spain—as a strategic intent, which compelled them to make the effort to develop it. Embedding this aspiration in the strategic intent effectively directed power and influence to operate through interdependencies to produce beneficial outcomes. Expanding to the rest of Spain gave organizational members the opportunity to showcase their relative pre-eminence in their region when compared to central Spain. In turn, this drove them to see the larger picture and take on the power to shape Road Runner's strategic direction. They had an emotional attachment to the organization's expansion, and furthermore, it was perceived as feasible. In addition, this intent to expand was instrumental in developing the capabilities needed, and the feasibility of the project was tested with a successful pilot project. In summary, Road Runner developed a slick operation in all automobile club–related businesses in its home region; in the rest of Spain, automobile club services were either substandard or non-existent. Expansion filled a gap.

Although all fourteen initiatives were encouraged by the growth effort, they developed in different sequences and achieved different results. The sequence followed from inception to completion showed different selection patterns across strategic initiatives. Selection operated throughout the life of the strategic initiative and presented three distinct groups of initiatives. Table V shows the analysis that formed these groups and summarizes the characteristics of each initiative.

[Insert Table V about here]

The first group, termed “cascade,” comprises initiatives for which the CEO provided an impetus, which was followed by middle managers’ design and proof of concept, dovetailed with acceptance of the initiative by middle management and the front line. The decision to allocate resources was made when the initiative was deemed feasible by both top and middle managers. Cascade initiatives were undertaken to help achieve the geographic expansion, which was in turn the first cascade initiative. As such, they were selected when they aligned with the geographic expansion in the first place; however, selection was also based on both feasibility of the initiative and its fit with existing capabilities.

The second group, termed “spring,” is made up of initiatives that were triggered at the front line of the business, detected by middle managers who provided their support and sought to persuade top management of their strategic importance. These initiatives tended to emerge as an unforeseen consequence, either of growth or market conditions, which required quick remedial action and often investment. Although selection was based on feasibility and the degree of fit with the organization’s capabilities, it was also based on alignment with the overall strategic intent.

The third group, “flow,” represents strategic initiatives that were originated by middle managers. These managers sought support from both top management and the operational level. In order to pre-empt rejection from the CEO, middle managers purposefully designed these initiatives within the scope of the strategic intent. They also stimulated feasibility by sourcing required resources and capabilities. When successful, these initiatives gained support through a proof of concept activity carried out by the middle managers who had promoted them.

**Selection processes**

*Cascade initiatives*

Cascade initiatives originated at the corporate level and trickled down to be developed further. These initiatives tended to align with the strategic intent when they were selected, but, perhaps more importantly, they were preceded by pilot projects that generated new capabilities and routines at an operational level. Top management seemed to pre-empt resistance by carrying out small-scale projects to allow the organization to test drive existing routines and capabilities and, if needed, develop new ones. By developing capabilities ex ante, top management also achieved buy in from operational levels and enabled the subsequent selection of the initiative under consideration. In the words of the CEO regarding the geographic expansion initiative (1),

> Since 1998 we've been proactively training and preparing sales staff. We did not just improvise; the first step was Valencia in 1998, where we learned by doing. Next we went to nearby Castellón and Alicante, and then to the Balearic Islands. Only after these were settled, we went to the bigger regions [such] as Madrid.

This was probably the most important strategic initiative, which involved the whole organization in a major growth process. Geographic expansion (Strategic Initiative 1) implied a major transformation for the organization and acted as the axis for the expansion expressed in the strategic intent. Although Road Runner treated this as an independent individual initiative, at the same time and from another viewpoint it was the core of the strategic intent. When asked to clarify the difference between geographic expansion as a strategic initiative and the core of Road Runner's strategic intent, the controller explained:

> It is both things, it is our main objective, but at the same type there is a team working on how to carry out the expansion. In a way it's like a supra initiative and some of the other initiatives are subordinated to this one.

This initiative encapsulated the essence of the strategic intent. Organizational members were compelled to make the effort to develop it for two reasons. First, they had an emotional commitment to the organization's expansion, and second, it was perceived as feasible. Such commitment was generated because the CEO was able to capture the hidden desire of organizational members to expand to the rest of Spain and exploit it by incorporating it into the strategic intent. This wish to expand was instrumental in developing the capabilities needed, and the feasibility of the initiative was tested with a successful pilot project. From then on, middle managers developed strategic initiatives to realize the organization's full potential. Any additional routines and capabilities were transferred or developed as the momentum created by the expansion justified extra work and effort. Open interaction between middle and top management exploring the feasibility of strategic initiatives was instrumental in helping initiatives to take root.

This process of exploration highlights how selection occurred and the role played by either acquired or pre-existing capability; however, it was not only the fit with strategic intent that mattered. This idea is reinforced by two strategic initiatives that were ultimately deselected: car rental (8) and life insurance (14). Even if these two initiatives were deemed to fit with the strategic intent, there was still a need to determine if the organization would be able to carry them out.

In Initiative 8 (a project for long-term car rental), political behaviour had a major effect. Middle managers perceived it to be forced from the top and at the same time distant from their routine at Road Runner. The political pressure exercised by the CEO was resented because it attempted to overrule inherent doubts about feasibility. Though Road Runner's core business was to assist members (customers) with their car needs, middle managers at Road Runner did not feel equipped to run a long-term car rental business. Moreover, the general view, as explained by the planning director, was that "conventional leasing firms would do much better than us." Negotiations between top and middle managers derailed on this issue, and although the initiative remained listed in the books as an on-going project, it was never developed. As explained by the planning director,

> …that initiative was doomed from the start because it had nothing to do with our business, and on top of that it had been forced by someone at the top. We had been so busy with the huge expansion and there was no time to waste.

Similarly, the life insurance initiative (14) was seen as not feasible by middle managers. At that point in time, Road Runner acted as an agent for car insurance. Even if at face value it may have sounded just like a line extension, it emerged that a board member—via a relative who was a middle manager—was secretly promoting it. For most of the middle and operational levels, it was alien, and they did not know how to develop it further. When added to the work pressures of the expansion, the life insurance initiative never evolved. Although incorporated into the official strategy by the formal process, middle managers left these two initiatives on standby, purposefully ignored, and after some time judged them to be ultimately unsuccessful.

In the cascade group, selection was mostly based on feasibility. Either the existence or possibility of acquiring capabilities was necessary. Although fit with the strategic intent was deemed important, it was assumed that the CEO would have checked for strategic fit if he had originated it. Less successful cascade initiatives lacked a match with needed capabilities; these were deselected rather than failed *per se*. This observation led to our first proposition.

**Proposition 1: Selection is based initially on strategic fit and then on feasibility in cascade initiatives.**

*Spring initiatives*

Spring initiatives normally started at an operational level as a reaction to market needs, after which support from middle and top managers would be sought to secure enough resources to develop the initiative further. For example, Initiative 9 (travel services for corporate customers), was born as an autonomous response by line managers to a market problem. Pre-existing capacity to sell travel services to household customers was utilized to serve corporate customers who had not been targeted previously. This autonomous initiative was allowed, but as it unfolded it was deemed not to conform to the strategic intent. Also, there was little or no interaction or negotiation occurring between top and middle management to build up the case for a fit with the strategic intent. Thus, top management did not endorse the initiative after the fact. Offering travel services to corporate customers was seen as a useful response to a temporary crisis and a way to achieve sales targets. Although it provided temporary growth and used existing capabilities, it operated in a market in which the company was not equipped to grow. Autonomous initiatives like this may have been allowed to occur at Road Runner; yet top management would not let them develop if they didn't fit with the strategic intent as an objective function.

> We simply lost the vacation market, and the branches looked elsewhere to sell their services. In the short term, great—they all achieved their targets; long term, we will, have to rethink it though. (Planning director, interview)

In terms of the selection mechanism, spring initiatives were naturally selected in the first place by evaluating them against the current stock routines and capabilities. The next step was to assess the cost of acquiring the needed capabilities. Immediately after noticing a need, middle managers embarked on designing a solution. In response, a team of four middle managers started developing a project that would strengthen the capability of centralised operations (11). The founding idea had been to keep the branches as points of sale and not burden them with other duties in order to encourage growth. The team perceived that the cornerstone of increasing the operational capability of centralised operations (11) was to change the human resources policies. In order to produce this change, the team developed a project that integrated the areas of salaries, shifts, working hours, location, career planning, projection, variable salary and training. These areas were then integrated into a coherent document following a discussion to identify the elements that would increase operational capabilities and instil in the front line workers a stronger sense of belonging to Road Runner.

> We found that years of neglect had transformed centralised operations services into a catch-all unit; whatever unwanted job there was ended up there, and there were no boundaries or filters. (Service Manager, interview)

If any unwanted task ended up in centralised operations because it was arguably labelled as back office, this team reacted by producing a set of rules or criteria to receive jobs and thus avoid being landed with any odd job. The team developed the proposal to set clear and consistent boundaries defining what the unit should be involved with. They established that the criteria for a task to be developed within centralised operations were homogeneity of tasks across the country and the possibility of increased productivity from centralisation. As a result of this boundary evaluation process, some of the tasks of the unit were outsourced and some transferred to other units.

In the case of active distribution channels (10), capability building was made easier by fortunate circumstances. Though it seemed obvious for the newly arrived sales manager that new distribution channels could be introduced and existing ones enhanced, there was an unexpected external event that helped. One member of the newly formed team alerted him to the fact that a competing insurance company was dismantling its commercial platform. It was fairly straightforward to acquire the machines, recruit the operators and have them operating for Road Runner in a short time.

Once the design was laid out, middle managers turned to persuading the CEO. The two main elements of the strategic intent, as stated by the CEO, were growth in sales and profits via expansion into new markets and an increase in customer loyalty. In order to convince the CEO, the middle manager responsible for this project used exactly these concepts to build the argument. If centralised operations was left to drift, it would not be able to face growing demand, and all the growth effort of the front line units would be hindered by not having a fully functional service.

In the spring group, selection operated based first on feasibility and second on fit with strategic intent. To satisfy market needs, either the existence or the possibility of acquiring capabilities fostered such feasibility. Subsequently, the initiative's champions sought approval by persuading middle and top managers of the fit with the strategic intent. Top management took a pragmatic approach, allowing persuasion efforts in an attempt to explore the value of the initiative. Eventually, negotiations brought these initiatives to light, but they also identified when they did not fit with the strategic intent.

**Proposition 2: Selection is based initially on feasibility and then on strategic fit in spring initiatives.**

*Flow initiatives*

Flow initiatives were originated and then designed by middle managers. Once designed and assessed for feasibility, the initiatives were presented to the CEO to seek approval and allocation of resources. It is important to note that this presentation was not strategy blind; in other words, the initiative had been designed to fit with the strategic intent. Because design incorporated feasibility as much as fitness assessment, approval by the CEO was considered virtually certain. For example, in Initiative 2 (affinity credit card), the strategic fit was encapsulated within the development of the initiative, and it originated seamlessly.

> Our MasterCard had a good fit with the strategic purpose of growth and customer loyalty. It was natural for the CEO to favour this product, so we just went for it." (Controller interview)

Initiative 7 (road assistance) "killed two bird with the same stone" (MM interview) and it originated in an interesting way. The marketing manager, disappointed at the lack of resources he had managed to obtain from the CEO, was voicing his disappointment over coffee. He had not been able to secure support from the CEO for Initiative 6 (brand expansion), an ambitious attempt to communicate the brand in new markets and another flow initiative. One of the managers present was in charge of the fleet of road assistance cars, which happened to be bright yellow with the Road Runner logo highly visible but restricted to Catalonia. In order to join forces, the manager in charge of assistance offered the marketing manager a way to increase the visibility of the brand across the new markets targeted. The marketing manager listened carefully and accepted the simple offer: instead of spending resources on publicity; they would launch the road assistance product region by region across the new target markets. The design of the initiative was straightforward as it scaled up the current operations.

Initiative 13 (Marco Polo) offered a differentiated travel service by establishing exclusivity contracts with tour operators. Although this incurred a risk because it meant buying larger quantities of travel packages in advance, it was viewed as worthwhile by the CEO and designed following fruitful negotiations over savings with tour operators. Initiatives 3 and 4 (driving academy and paperwork lobby) followed a similar pattern. The responsible middle manager formed a team to create a plan to spread the service to the new markets where growth was intended. Both initiatives matched the organization's capabilities and its strategic intent, hence it was not problematic to roll out these initiatives and expand them into the new target markets

In the insurance initiatives, the most important of the flow group, Phase I (12) enabled Phase II (12). Although it eventually worked out, Road Runner was not equipped to carry it out at the beginning. When this situation emerged, it was deemed essential to sustain the organization and so judged to fit the strategic intent by the CEO. It was necessary to stretch the organization beyond its comfort zone to avoid a potentially significant loss of customer base. A problem of scale had developed from significant growth over previous years, and insurance companies no longer wanted to bear the full risk of Road Runner's policies. The only option left was to become an insurance underwriter and bear at least part of the risk rather than operate as a mere broker. This incentive was sufficiently great for Road Runner to evolve and adopt the strategic initiative.

The entire organization devoted all its resources to developing the capabilities and adapting the routines to move away from a broker's role, initially becoming an underwriting agency (Phase I) and subsequently forming a fully-fledged insurance company (Phase II). Operating as a partner of insurance companies demanded a higher commitment and the acceptance of higher risks. In addition, the criteria to grant an insurance policy had to be more aligned with the expectations of the insurance company. The main capability required to develop the new business model was information systems. In close association with the insurance companies, the team of middle managers prepared a proposal for the required investment and training necessary to substantiate this project. According to Road Runner's managers, although the project went through some painful growing pains associated with training the sales force and developing the information systems that would serve as backup, the initiative was seen as a success story. Road Runner had been able to face an emergent market situation and develop relevant capabilities to react together with the support of the CEO, and all in a timely fashion. Phase II was developed as an extension in 2008. Operating with the underwriting agency model helped Road Runner further develop its operational capabilities, which strengthened its relationship with the insurance companies, positioning it for the strategic alliance that materialized in 2008. Throughout the insurance initiatives episode, new capabilities were developed based on the pre-existing ones while the CEO assessed the strategic fit. The two interrelated elements leveraged each other, allowing Road Runner to regenerate and evolve.

In the flow group, selection operated on the basis of feasibility and on its fit with strategic intent in a similar measure. First, the opportunity to develop an initiative was identified by one middle manager. Then the design of the initiative was integrated with the strategic intent, thus pre-empting rejection by the CEO. Subsequently, the completion of the design facilitated negotiation with the CEO.

**Proposition 3: Selection is based on feasibility and strategic fit by a similar measure in flow initiatives.**

## SELECTION MECHANISM

As the analysis of these strategic initiatives illustrates, selection is a function of strategic fit as well as feasibility, albeit in different ways according to the type of initiative. However, strategic fit, a match with strategic intent, and feasibility, the possession of capabilities, are interconnected. Together they combine into the organizational principle, as illustrated in Figure 1. Development of new capabilities expands the possibilities to which the organization can aspire, hence affecting the strategic intent and *vice versa*.

[Insert Figure 1 about here]

This is clear in the insurance initiative. First, Road Runner was forced to become an insurance broker and needed to nurture a new set of capabilities to do so. In consequence, the strategic intent had to grow in scope. Once the capabilities had been developed and because an expanded strategic intent allowed it, Road Runner embarked on a major transformation that diverged from its original organizational purpose and became a fully-fledged insurance company. In the words of the CEO, when asked if it was a major change,

> Absolutely, for everyone… now instead of looking just at the revenue line they had to look at profit and realize that there was something in between called costs. All of our business was changed and we had to develop capacity to manage our costs at the same time.

It was sequential and steady learning that enabled Road Runner to face such big challenges. The decodification and subsequent codification of capabilities in an incremental process of interplay with the environment allowed a controlled drift through which the evolution of one strategic initiative (insurance) led to the mutation of the entire organization. This process resonates with the notion of "natural drift" stated by Maturana and Mpdozis

(2000), whereby selection is a consequence of adaptation to the environment. In this case, selection of capabilities and routines drives the selection of an initiative, hence it is the underlying conscious process of codification carried out via constructive confrontation (Argyris, 2006) that allows an initiative to be selected. This intentional drift notion extends the idea of a codified reservoir without which “there exists the possibility of unintentional drift in firm capabilities” (Levinthal, 2006, p. 392).

This paper builds on the notion of labelling such a reservoir as the organizational principle, or “what we do” as stated by Road Runner’s organizational members. The selection mechanism operates by contrasting such a principle with the specific initiative, using more resources in those initiatives that reinforced such a principle. The organizational principle appeared as a somewhat ambiguous concept because it was used as if formative organizational leaders had authored it. After an initiative was proposed, questions by different middle managers revolved around issues like:

“Is this what we do?”
“Would this organization do well with such a project?
“I do not see us in that business.”
“I think our set of skills could be used more wisely elsewhere.”

In evolutionary terms, this questioning and confrontation probed whether the system would continue to work as a whole when parts were added to it. It went beyond the existence of capabilities and the fit of the initiative yet included them. It considered whether the organization as a whole could or should embark on a specific initiative. In 2001, when Road Runner embarked on the underwriting agency model, forming an insurance company fell outside the organizational principle. Yet by 2009, the insurance company was fully accepted within the principle. The organizational principle actually drifted as new capabilities were developed and in turn expanded the scope of the strategic intent. Although the principle was presented as a continuation of organizational traits with a halo of permanence, in actual fact it was more malleable and flexible despite seeming solid in the short run. The acquisition of new capabilities through the insurance initiative makes the paradoxical nature of this organizational principle more evident. Based on this observation, we state the following propositions.

**Proposition 3: Feasibility and strategic fit together combine into the organizational principle.**

**Proposition 4: Development of new capabilities enhances the scope of the strategic intent, which causes a mutation of the organizational principle.**

**Proposition 5: Enhancing the scope of strategic intent requires development of new capabilities, which causes a mutation of the organizational principle.**

Road Runner was formed to provide car assistance services to its members in 1906 when car travel demanded significant support for its operation. This was the original organizational principle to which additions had been made through the years every time a solution to a problem was discovered. Although today's principle differs from the initial one, it may be perceived as having always been there, and thus legitimizes the goal of long-lasting service to its members. Such mutation of the organizational principle occurred through purposeful drift from one point to another and was enabled by learning and time but mostly via "constructive confrontation" (Argyris, 2006). Describing the dynamic used to question the validity of an initiative, the service manager stated,

> …across our organization everyone has the right to discuss how to achieve the objectives. By arguing respectfully but clearly, we get to understand and internalize the projects and objectives the company wishes to pursue.

Throughout these discussions, necessary capabilities were developed, and current routines were tested to allow learning to occur. This learning process in successful initiatives was driven by constructive confrontation, which allowed experimentation and ultimately facilitated the implementation of the initiative. In evolutionary terms, the ability to reproduce routines and develop new capabilities was the object of selection or the vehicle that, in turn, allowed for the selection of the initiative (Dawkins, 1982). It was through constructive confrontation that the cultural transmission of routines and the creation of capabilities occurred. When such transmission and creation happened, the organization was able to take on the new initiative fully. Describing creative confrontation, the operations manager explained:

> It took a while to learn to really listen and value the viewpoint of another person. Everyone has a natural tendency to want to run the show because one knows better, but that is not correct. Here we have learned to compromise and accept what the others think… we've grown accustomed to negotiate and build agreements… Now this constant negotiation is tiring both physically and mentally, but one has to mull over things, allow them to mature, look at all projects from every possible viewpoint and develop the ability to influence, of course. If it was just my way, one would have to be perfect to get it right, and I have not met that person yet.

Middle managers played a pivotal role between operational levels and top management, as indicated by Floyd and Wooldridge (2000). Middle managers could negotiate with top management, receive proposals brought to them by lower levels and provide subsequent impetus to transform them into strategic initiatives. This generated significant power and influenced interactions within middle management, but, at the same time, the fact that designed initiatives had to be presented to top management for approval created a common purpose for middle management to act as a coalition. The behavioural nature of the strategic intent coupled with division of labour in designing the specific strategic initiative accounted for a circumscribed and channelled exercise of power and influence, allowing for coordinated action. In addition, the challenge to develop new capabilities presented middle management with a situation whereby they either engaged with innovation or risked losing their power base (Pfeffer, 1994). As pointed out by the strategic planning manager,

> What we've experienced looks like a two-way street. First, all along the development of the corporate strategy we go from top to bottom,

> communicating key messages. Then, from bottom to top we define the actions, specific goals and means to address the bigger issues from the business unit level.

Top to bottom conveyed strategic fit, and bottom to top conveyed feasibility. Together, these two elements determined the degree of fit between the proposed initiative and the organizational principle. The organizational principle is the parameter against which strategic initiatives were either legitimized or discarded. The process was based on negotiations and adjustments between proponents (all organizational members) and the senior group as decision makers. The vehicle for these negotiations was constructive confrontation (Argyris, 2006), and it allowed persuasion and adjustment to occur. As different management levels acted as causal agents, persuasion operated as a vehicle for power and influence (Pfeffer, 1994). The selected strategy initiatives, via persuasion and confrontation, structured the organizational strategy. Organizational members used this principle as a cultural learned solution to a problem (Schein, 2004), whereby previous success reinforced the principle, and hence the principle was continuously constructed by the organizational culture. In turn, the new elements became part of "what we do" and as such were compared against subsequent initiatives. The additions were incorporated into the principle—the new and old together retaining the character of the original principle. The principle, as a low level, organization-specific attribute, contributes to organizational identity (Whetten, 2006), but it is not central, enduring and distinctive in itself. It changes with time, and it adapts to allow the organization to develop new capabilities and transfer routines that allow the pursuit of novel initiatives. Rather than waiting for natural selection, the organization could direct its evolution, making commitments endure and evolve incrementally by drifting.

Although interviewees refer to the organizational principle as "what we do," it embodies a set of complex interactions involving culture and organizational identity to construct the justification for an initiative to be selected. Although the principle was used as an enduring and distinguishing feature, it could mutate over time. The ambiguity of the organizational principle allowed flexibility so that persuasion and negotiation could occur. This paradoxical characteristic allowed the principle to be flexible in the longer term and a solid beacon for the short term.

## DISCUSSION AND CONCLUSIONS

The two-stage selection mechanism presented in this paper adds to the body of knowledge of intra-organizational evolution. This paper links elements of Burgelman's autonomous approach with Lovas and Ghoshal's (2000) guided evolution by theoretically elaborating a dual selection mechanism. Such a mechanism, as developed from the case data, brings together the strategic intent as part of the guided approach posited by Lovas and Ghoshal (2000) with the emergent and autonomous description developed by Burgelman. Strategic initiatives, as described here, are selected when they fall within the reach of the strategic intent and are feasible but only permanently selected by the organization when they show a logic of appropriateness with the organizational principle. When permanently selected, some initiatives account for mutation of the whole organization.

Of importance was the classification of the initiatives studied into three types, including the flow category, which is a hybrid of autonomous and induced behaviour. Identifying the flow type of initiative is a contribution to the intra-organizational evolution; it differs from casting of shadows (Adner and Levinthal, 2008) because it is an exploitation initiative rather than one in which its importance is noted after the passage of time. Cascade type initiatives are developed from the top down based on the legitimacy of the strategic intent rather than being driven by the CEO as in the entrepreneurial m-form (Eisenmann and Bower, 2000). Spring initiatives resonate with Burgelman's autonomous behaviour. Comparing the three categories permitted the description of the organizational principle. Categorization of the three types is in itself a contribution as it admits more depth and breadth into analysis than a dichotomy.

In the case of Road Runner presented here, a significant mutation was engendered by one flow type initiative related to the insurance broker business. Although it might look as if this initiative seamlessly assumed importance, it actually occurred through constructive conformation and negotiation of power and influence between top and middle managers as they contrasted the organizational principle with the needed routines and capabilities that drove Road Runner's mutation and ultimately the change to its core business. This case can be compared with Burgelman's description of the Intel case, in which the mutation was driven by the embedded notion of a "margin per wafer" rule.

The principle contributes to the organizational identity in as much as it portrays cultural understandings that have the potential to be mirrored by others outside the organization (Hatch and Schultz, 2002). Yet, even if it can remain taken for granted for periods of time, this state can be dismantled whenever learning updates the principle and then adopted when the update is over. A stable organizational principle provides a criterion for continuity and conformist cultural transmission that favours survival (Simon, 1990). Updates in the principle occur via learning effects and positive feedback (Hodgson and Knudsen, 2010). While normal operations benefit from stability and permanence they also allow for learning and updating of the principle. At Intel, production facilities had to be optimized to guarantee its technological edge; in the case of Road Runner, car-related services had to be provided to customers. By persevering in this "drift," both cases developed a new base of routines and capabilities that enhanced the organizational principle and modified the entire selection mechanism to allow the organization to compete in different markets.

The logic of appropriateness resonates with Burgelman's (1991) notion of required viability. This model, however, elaborates viability as the cultural understanding of the set of capabilities and routines required to carry out an initiative, which composes the organizational principle. The process triggered by the principle is embedded in the selection mechanism and is unavoidable. Each time an initiative is considered, inevitably those who will execute it will assess it, either as a proposal to be studied or as a *fait accompli*. In either case, only if it goes through the filter of the organizational principle will it be considered a viable or permanent part of the strategy. Cultural transmission effects can generate high degrees of conformism and cooperation (Henrich, 2004) as culture arises around the learned solutions to a problem (Schein, 2004). From that point onwards, the capacity of any initiative to produce actual organizational mutation will depend on the organizational members' ability to either leverage existing routines or generate new capabilities. Such ability will be determined by the opportunity and the capacity to learn.

Of importance in this study was the introduction of pilot projects that did not take excessive resources or distract from normal operations but allowed time for organizational members to learn, which prepared them for further evolution. Learning is at the core of the model presented here, answering the call of Argyris (2006). This paper considers the process in which top and middle managers create new capabilities as they interact, allowing them to carry out selected initiatives because these relate to the organizational principle. Such a process is at the core of the selection mechanism, where constructive confrontation is essential. The theoretical elaboration presented here recognizes the intrinsic evolutionary nature of the development of strategic initiatives. In sum, whether pushed by authority from the top or demanded by the environment, if the initiative is not perceived to match the organizational principle, it will not progress. If organizational members are actively encouraged and allowed to pursue every effort to develop capabilities and transfer routines to drive the initiative forward, learning will occur and contribute to the enhancement of the organizational principle. In this manner, the notion of an organizational principle as selection mechanism triggers organizational learning. From this perspective, Burgelman's understanding of Intel could be reinterpreted. It could well be that the rule to maximize margin was the organizational principle enacted, and as a consequence it provided the parameter for selecting initiatives.

Similarly, in Road Runner's case, the organizational principle rested on the car-related services it provided for its customers. The perception that giving up one of them (insurance) could seriously jeopardize the future survival of the whole business made Road Runner react promptly and devote every effort to create and leverage vital new capabilities related to insurance. External factors lifted aspiration levels relevant to insurance business competencies and capabilities, triggering the need for learning (Winter, 2000). These new and leveraged capabilities and competencies account for the mutation that occurred in Road Runner, and in turn they enhanced the selection scope for subsequent initiatives.

As in natural evolutionary theory, survival plays a major role in determining the learning required to achieve a desired mutation (Hodgson and Knudsen, 2010). In the case of Road Runner, when survival was at risk it embarked on redefining its insurance business. Similarly, in Lovas and Ghoshal's (2000) Oticon, after a period of relative stagnation and lack of focus, only growth could restore its competitive edge, so it embarked on an overarching attempt to recreate the company. As Lovas and Ghoshal explained, Oticon attempted to enhance "traditional strengths in engineering and technical solutions, but also reflected the need to make the firm more attuned to the specific preferences of the various segments of the market" (2000, p. 878). Developing new or leveraging existing capabilities was at the core of the change process and led to the intensive development of strategic initiatives across the organization.

The study reported here is not free from limitations. This paper has reported on strategic initiatives in one organization in which all initiatives were part of the same overarching effort to grow facilitated by a growing economy. Alignment between initiatives and growth helped to highlight the underpinning selection mechanism, but it obscured nuances of the evolution across different initiatives. Future research could add variety by selecting a broader scope of initiatives—which could perhaps be opposed to or comprise elements of different strategic efforts—to bring to light more nuances in the operation of the selection mechanism. It might also consider the effect of recessive or limited-growth economic contexts on selection of strategic initiatives. Finally, this paper has relied on qualitative data to elaborate testable propositions. A next logical step would be to develop constructs from these propositions in order to test them in larger samples.

The importance of the organizational principle as the selection mechanism presented here is that it accounts simultaneously for cultural stability and learning, which transfers into renewal at the organizational level. The selection mechanism operates as managers interact in creative confrontation, and in turn it encourages learning as new capabilities and competencies are developed. Such capability development is what links one stage of evolution with another, explaining the very essence of intra-organizational evolution.

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**TABLE I**

**Three Sources of Data (Interviews, Focus Group and Archival Data)**

**1) Interviews** [a]

| Units of Analysis | Total | CEO | Middle Management |
|---|---|---|---|
| *Strategic Initiatives* | 10 | 1 | 9 |
| *Road Runner's Strategy Process* | 12 | 1 | 11 |
| Total | 22 | 2 | 20 |

[a] In all interviews, both units of analysis were discussed because of their semi-structured nature; however, this table reports on the main purpose of each interview.

**2) Focus Group**

November 2003. Three participants from Road Runner and eight participants from five similar organizations participated in an afternoon retreat comparing their strategy processes. The resulting transcript was 40 pages, single spaced, in 12 point type.

**3) Archival Documents**

***3.1 17 Archival Documents About Strategic Initiatives***

| *N* | *Source* | *Type* | *Description* |
|---|---|---|---|
| 1 | Co. document | Presentation | Templates to present project proposal |
| 2 | Co. document | Presentation | Work Plan for 2001 strategy process |
| 3 | Co. document | Presentation | Presentation Strategy |
| 4 | Co. document | Presentation | Summary of External Analysis |
| 5 | Co. document | Presentation | Organizational charts |
| 6 | Co. document | Presentation | Summary of Internal Analysis |
| 7 | Co. document | Presentation | Strategic Overview |
| 8 | Co. document | Presentation | Innovation and Strategy Projects |
| 9 | Co. document | Presentation | Strategy meeting |
| 10 | Co. document | Paper | Project description |
| 11 | Co. document | Paper | Projects—objectives and lines |
| 12 | Co. document | Presentation | Projects—objectives and lines |
| 13 | Co. document | Presentation | Strategic Lines description |
| 14 | Public Document | PDF | Training strategy for salespersons |
| 15 | Public Document | Paper | Annual Reports 2000–2006 |
| 16 | Public Document | Paper | CEO's newspaper interview |
| 17 | Co. document | Presentation | Process followed in 2003 |

***3.2 21 Archival Documents about Road Runner's Strategy Process (Examples)***

Strategic plans, strategy process presentations (96 slides), objective setting systems, organizational charts, participants and responsibilities.

**TABLE II**
**List of Informants and Interviews**

| Job Title | Number of Interviews | Chronology |
|---|---|---|
| Chief Executive Officer | 2 | 2001, 03 |
| Chief Controller | 4 | 2002, 03, 04, 07 |
| Director of Operations and Post-Sales Area | 1 | 2003 |
| Marketing and Corporate Communications Director | 1 | 2003 |
| Director of the Commercial Area | 1 | 2002 |
| Director of the Products and Services Area | 1 | 2002 |
| Director of Strategic Planning & Development | 7 | 2001, 02, 03, 04, 05, 06, 08 |
| Planning manager | 3 | 2001, 03, 07 |
| Planning staff | 1 | 2006 |
| Former executive (middle manager) | 1 | 2006 |
| Total | 22 | |

**TABLE III**
**Protocol Themes**

**Interview themes for the general strategy making process**

- Initial focus of strategic plan
- How did the strategic exercise change for the current plan? Did it mean a change in decision-making routines?
- Time and effort dedicated to meetings and strategic reflection
- Degree of participation of different organizational levels
- Reaction of the organization and the participants
- Use of the strategic plan after the strategic exercise ended. Freedom to make changes or bring new initiatives.
- Interviewee opinion of the degree of acceptance and satisfaction from organizational members
- Interviewee's view of the importance of strategy in day-to-day activities (consensus, coordination, teamwork, goals, autonomy and effectiveness of direction)

**Interview themes for strategic initiative inquiry**

- Background of the interviewee
- Strategic initiative development viewed from the interviewee perspective
- Interviewee perspective of autonomous and induced behaviours
- Interviewee perspective on performance of the project
- To what extent the interviewee participates in strategy making
- Agreement on current strategy as interviewees understand it
- Content of current strategy in all dimensions the interviewee considers significant
- How official strategy affects or influences daily activities as conceived by interviewee
- Participation of the interviewee in the formal part of the strategy-making process and critical assessment as viewed from the interviewee perspective
- Creation of strategic initiatives viewed from the interviewee perspective

**TABLE IV**

**Index of Strategic Initiatives (I)**

| *Initiative's name* | **Content** | **Originator** | **Approval Process** | **Example of data (Sources of data)** | **Resource Allocation** | **Examples of Data (Sources of data)** |
|---|---|---|---|---|---|---|
| *Geographic Expansion* **1** | Overarching or "umbrella" project comprising a range of initiatives to implement expansion to all major Spanish cities targeted as new markets | **CEO (Top Manager)** | Top-down approach. After initial impulse from the CEO, middle managers generated specific objectives and constituent subprojects within the formal strategic planning process. Objectives and projects were both presented to the CEO for approval. | "The expansion is associated with various other initiatives that involve going out of Catalonia because we needed to grow and we needed the volume to remain competitive. It was not the natural thing to do. It was a challenge, but everyone was on the same page and involved. There was probably an emotional drive to it from a sense of national pride." (CEO, interview) | Resources were allocated by the CEO, initially for pilot projects and when successful the fully-fledged project. The initial pilot was carried out in the nearby region of Valencia. | "Everyone was involved because they had learned from the pilot we carried out before in Valencia. It was not just any experiment; there was a previous test of our processes from which we had learned. Besides, we had been preparing, and in the end were equipped with a professional management team able to carry it out." (CEO, interview) |
| *Affinity Credit Card* **2** | Use of Affinity Credit, which was Road Runner's star product, as flagship for the expansion to major Spanish cities | **Chief Operations Officer (Top Manager)** | A team of middle managers led by the COO designed the deployment of the affinity credit card in each of the new targeted markets. | "We had been very successful with our affinity credit card. It was only natural and easy to roll it to each new city." (MM, interview) | The CEO approved a marginal addition to existing resources. Current sales force was extended and deployed to the new target markets, mostly learning by doing in the field. | "Placing the cards was straightforward, but to encourage its usage we had to persuade local shops to offer discounts and promotions. We also had to learn how to assess the credit profile of new members." (COO interview) |
| *Driving Academy* **3** | Use of their successful franchise of driving academies as a means to expand presence in major Spanish cities | **Services Manager (Middle Manager)** | The project was presented to the CEO within the formal strategic planning process, where it was approved because of the reduced investment for a relatively high growth potential. | "This is the first contact a young driver has with us, and if we do it right, she or he will remain with us as a regular member after passing the driving test. We just had to do this in the new territories." (MM, interview) | The CEO approved franchise extension. Current sales force was used to aim it at the new target markets, mostly learning by doing in the field. | "This business is very fragmented, and it is different in every city; we had to learn in each one what worked and what didn't." (MM, interview) |

**Index of Strategic Initiatives (II)**

| *Initiative's name* | **Content** | **Originator** | **Approval Process** | **Examples (Sources of data)** | **Resource Allocation** | **Examples of Data (Sources of data)** |
|---|---|---|---|---|---|---|
| *Paperwork Lobby* **4** | Offers a third-party agent to carry out paperwork on behalf of the customer to cut through bureaucracy. | **After Sales Manager (Middle Manager)** | The project was presented to the CEO within formal strategic planning and approved as a logical extension into new markets. | "We started from the assumption that we wanted to offer the same portfolio of products in the rest of Spain. This helps our members to navigate local bureaucracy in car-related issues, dull if you wish, but necessary." (MM, interview) | Once the CEO gave the go-ahead, agreements were sought and consequently contracted with lobby companies in each new market. | "In each new territory we partnered with a local office and offered the service to our members with our brand. We replicated what we already knew in Catalonia." (MM, interview) |
| *Improve Travel Offer* **5** | Review and develop depth and scope of the traveling services offered to regain competiveness. | **CEO (Top Manager)** | After the new product offering had been designed, the team presented their proposal to the CEO, who sanctioned the set of ideas with enthusiasm. | "Here we aimed at new markets but also at developing new and better products so we could have a more coherent and rounded product offering." (TM, interview) | Endorsed by the CEO, this project developed relationships with key suppliers, trained employees, developed a discount policy and opened a 24-hour travel agency. | "We've always had the generalist approach to offer a wide range of holiday products, and we have been great innovators in this business. " (TM, interview) |
| *Brand Positioning Expansion* **6** | To make the brand known and position it to the new target markets | **Marketing Manager (Middle Manager)** | The project was presented to the CEO as an ambitious marketing plan centred on promotion and communication across new markets. | "Due to the fact that we were either unknown or known for the wrong reasons outside Catalonia, creating image was necessary if we were going to achieve a sustainable expansion." (MM, interview) | The project was never actually carried out as proposed. Though it had been approved, the resources were neither sourced nor deployed. This was very frustrating for the marketing manager. The lack of resources forced the marketing manager to develop innovative ideas that would use already available resources. | "We have not gone for the mass media as intended communication but much more targeted efforts that we can manage. There was just no money to waste on big campaigns." (TM, interview) |

**Index of Strategic Initiatives (III)**

| *Initiative's name* | **Content** | **Originator** | **Approval Process** | **Examples (Sources of data)** | **Resource Allocation** | **Examples of Data (Sources of data)** |
|---|---|---|---|---|---|---|
| *Road Assistance* **7** | Branded mechanic car shop: a sporty yellow car moves swiftly in Spain's congested cities driven by a certified mechanic to help customers get back on the road with superb service. | **Road Assistance Manager and Marketing Manager (Middle Managers)** | Comprehensive presentation to overcome CEO's resistance (risk of overemphasis on road assistance). Using it as beachhead product that would promote communication in new markets proved persuasive. | "Road Assistance is one of our most iconic services. Besides, having the yellow cars around a city announces that we have arrived. " (MM, interview) | Resources were deployed incrementally as needed to approach each new market. The scarcest resource was staff with mechanic qualifications but also able to provide excellent quality of service. | "Selecting and training staff who are not only mechanics but can also provide quality of service is the hardest, and we need that profile to offer a differentiated service, not just any old road assistance." (MM, interview) |
| *Car Rental* **8** | Members would pay a monthly fee for the service of having a car available year round, everywhere in Europe. | **CEO (Top Manager)** | After being introduced by the CEO, the idea struggled to find an owner/champion and it stalled. | "Well, the only goal was to draw a plan to sell vehicles because it is supposed to serve our members' needs. Three years down the line, there is nothing, not even a plan." (MM, interview) | No resources were allocated. The initiative is kept as an idea, but it never develops. It is considered a failure. | "The problem here is that it's peanuts compared to any other business we are in, even if we had invested the effort to learn how to make it work." (MM, interview) |
| *Corporate Travel* **9** | Faced with the downturn in sales from 9/11, Road Runner moves away from individual travellers to reach for SME customers (growing more than 20% in yearly sales in 2002). | **Front-line branch sales staff** | It was carried out without asking for permission, and it was allowed. | "Suddenly we have excess capacity and the overhead is still there, then why not sell air and hotel tickets to SME customers on the High Street while our main vacation business recovers?" (TM, interview) | No additional resources were needed, as there was excess capacity. | "We do not mean to carry on serving SME customers from our branches forever… because that isn't our strength, but it helped when needed." (TM, interview) |

**Index of Strategic Initiatives (IV)**

| *Initiative's name* | Content | Originator | Approval Process | Examples (Sources of data) | Resource Allocation | Examples of Data (Sources of data) |
|---|---|---|---|---|---|---|
| *Active Distribution Channels* 10 | Introduce proactive channels to reach new customers. | **Sales Manager supported by the Controller (Middle Managers)** | In order to capture new markets, the sales manager suggested pro-active distribution channels and sought support from the controller, his senior. | "We needed to boost these new channels then—such as call centres, you know—if we were to grow at the rate we wanted." (TM, interview) | The controller and sales manager persuaded the CEO. Resources were approved and provided to recruit staff and purchase needed materials. | "It developed as a consequence of adopting a more aggressive commercial style where we've been making a number of small changes that together are now framed by this project. " (MM, interview) |
| *Centralised Operations* 11 | Low morale and no loyalty from operators coupled with disregard from top management; needed restructuring of front line services | **Service manager (Middle Managers)** | Long, difficult process to persuade top management of the strategic importance of front line services derived from the geographic expansion. | "We had real difficulties in recruiting, maintaining and training staff, but we were desperate for better support as the geographic expansion gained momentum." (TM, interview) | After significant convincing, the CEO allocated the resources needed to fund a project integrating salaries, working hours, career planning. | "This unit is a coherent one now, fully integrated with the rest of the business with its own targets and resources to achieve them." (MM, interview) |
| *Insurance Phase I* 12 | As a consequence of growth in brokering car insurance by 2000, Road Runner is forced to take a bigger share of the risk and become an underwriting agency. | **Chief Operations Officer and CEO (Top Managers)** | Approved promptly by the CEO, it suffered growing pains in training the sales force and developing information systems for support. | "We reached a point where we had outgrown the agency model. We had to come up with the model of an underwriting agency to be able to stay in the insurance business." (TM, interview) | Resources were fully allocated. The project was deemed a success as a reaction to changing market circumstances. | "There was no choice here. We had to learn and learn quickly how to run a new business where risk and overall profitability were added to mere turnover." (TM, interview) |
| *Insurance Phase II* 12 | In 2005, to increase revenue levels and urged by downstream insurers, Road Runner become an insurance company. | **CEO (Top Manager)** | As a way to increase profitability, the CEO and board embark on creating an insurance company, which starts operating in 2009. | The CEO stated that the insurance company was born because the current broker has enough volume and "they wanted to take part all through the service." (Archival data, 2008) | The insurance company was created as a 51/49 60MM euro joint venture in which it contributes with the capabilities developed in the previous phase and its operating routines. | "The alliance will bring innovation, technology and experience in distribution from our partner, who is a leading insurer in France." (TM, archival data) |

**Index of Strategic Initiatives (V)**

| *Initiative's name* | **Content** | **Originator** | **Approval Process** | **Examples (Sources of data)** | **Resource Allocation** | **Examples of Data (Sources of data)** |
|---|---|---|---|---|---|---|
| *Marco Polo* **13** | Offer more competitive travel packages | **CEO (Top Manager)** | New product offering coupled with savings from bulk purchase from suppliers | "This is an exclusive vacation package with high margin but some risk as we buy way in advance. It sells well across our members." (MM, interview) | Important albeit risky for buying larger quantities in advance, it was viewed as worthwhile by the CEO. | "I wish we had more like this, with high margin and we know well how to deal with the product and the customer." (TM, interview) |
| *Life Insurance* **14** | Offer life insurance, tapping potential synergies from car insurance | **Service manager (Middle Managers)** | Looked into life insurance as suggested by a board member but thought it was too big a risk to pursue. | "Out of the blue, the service manager said why don't we do life insurance also, but it turned out to be a red herring; someone on the board was pushing it." (MM, interview) | It is perceived as an imposed and unfeasible idea, so no owner takes responsibility for the project, and no progress is made. The initiative is deemed a failure. | "Look, if we do not produce car insurance, much less are we going to produce life insurance; that one would just never work." (MM, interview) |

**TABLE V**
**Patterns Across Strategic Initiatives**

| Strategic Initiative | N | Plot | Result | Selection Process |
|---|---|---|---|---|
| **Type: Cascade** | | | | |
| Geographic Expansion | 1 | CEO sets growth as strategic intent. MM generate ideas and projects to complete such intent. A pilot used as proof of concept. | Successful pilot run in nearby region of Valencia. New capabilities and routines developed and feasibility tested. | - **CEO impetus**<br>- **Pilot Project tests feasibility**<br>- **Acceptance by MM** |
| Improved Travel Offer | 5 | CEO sets growth as strategic intent. MM design mass-market products, which are supplied by tour operators. | The new product is distributed via normal channels to members and other customers. | - **CEO impetus**<br>- **Designed by MM**<br>- **Accepted by MM and channels** |
| Marco Polo | 13 | CEO generates idea, then checks for feasibility with the MM and front line. | Front line managers develop products, which are approved by CEO, who allocates resources. | - **CEO impetus**<br>- **Design by front line and MM**<br>- **CEO accepts, allocates resources MM and front line** |
| Car Rental | 8 | CEO sets growth as strategic intent and proposes a new related business. MM design the project. | The project stalled. | - **CEO impetus**<br>- **Design by MM**<br>- **Disregarded by MM and front line** |
| Life Insurance | 14 | CEO sets growth as strategic intent. New life insurance product, seen as attractive, is designed by MM. | TM considers new approach too risky. MM do not develop it further. | - **CEO impetus**<br>- **Designed by MM Disregarded by CEO and MM** |

| Strategic Initiative | N | Plot | Result | Selection Process |
|---|---|---|---|---|
| **Type: Spring** | | | | |
| Corporate Travel | 9 | Front line tap into a new customer base because normal customers dried out. MM allow it, enabling front line to achieve selling objectives. | Front line aggressively approaches unusual customers with MM support. | - **New customers targeted by front line**<br>- **MM accepted**<br>- **CEO allowed it** |
| Active Distribution Channels | 10 | Sales manager proposes proactive distribution channels. Seeks support from the controller, who has the ear of the CEO. | New idea is taken on board by MM and approved by the CEO, who allocates resources to develop it. | - **Front line raises project of proactive channels.**<br>- **MM supports**<br>- **CEO accepts** |
| Centralised Operations | 11 | MM is alerted by front line of low morale, lack of loyalty and employee attrition in front line services like calling centres. MM persuade the CEO of their strategic importance. | MM redesign and rebuild centralised services including career plans, salary structure, and workload management and training programs. CEO allocates resources. | - **Front line raises issues in centralised services**<br>- **MM supports and persuades CEO**<br>- **CEO accepts** |

**Table V (continued)**

**Patterns Across Strategic Initiatives**

| Strategic Initiative | N | Plot | Result | Selection Process |
|---|---|---|---|---|
| **Type: Flow** | | | | |
| Affinity Credit Card | 2 | MM generated idea, then persuaded the CEO of the match it had with the strategic intent. | CEO agrees, resources are allocated and the product rolled out in new markets. | - **MM generate idea**<br>- **CEO persuaded**<br>- **Product rolled out in new markets** |
| Driving Academy | 3 | MM generated idea as an important service for new markets. Gains support from other MM. Together they persuaded the CEO. | CEO agrees, resources are allocated and the product rolled out in new markets. | - **MM generate idea**<br>- **Coalition of MM to persuade CEO**<br>- **Product rolled out via franchise** |
| Paperwork Lobby | 4 | MM proposed the idea as basic service for new markets. CEO then persuaded. | CEO agrees, resources are allocated and MM produce the project. | - **MM generate idea**<br>- **MM persuaded CEO**<br>- **Product rolled out via partners** |
| Brand Positioning Expansion | 6 | MM perceive need for brand image to penetrate new markets. CEO is <u>not</u> persuaded of the need to invest major resources in brand image. | CEO allocates fewer resources than requested. MM have to make do and produce low budget brand image activities. | - **MM generate idea**<br>- **MM <u>cannot</u> persuaded CEO**<br>- **Low budget version used in new markets** |
| Insurance Phase I | 12 | Perceived change in the market by MM. CEO persuaded of need to change from broker to underwriting agency. | Underwriting agency model adopted and relevant capabilities developed. | - **MM perceive market change**<br>- **CEO persuaded**<br>- **New insurance model adopted** |
| Insurance Phase II | 12 | Perceived major demand from the market by MM. CEO persuaded by the potential increase in revenue to becoming a fully-fledged insurance company. | Insurance company developed through a strategic alliance; underwriting agency model abandoned. | - **MM perceive major market change**<br>- **CEO persuaded**<br>- **Insurance company started** |
| Road Assistance | 7 | MM generated idea to expand via an already successful product and at the same time use it as a communication vehicle. CEO persuaded by “killing two birds” logic. | Resources allocated, staff trained and rolled out to all new markets as the beachhead Yellow Cars. | - **MM develop idea**<br>- **CEO persuaded**<br>- **Road Assistance deployed in new territories** |

**FIGURE 1**
**Two-Factor Selection Mechanism**

| ***Three Types of Strategic Initiatives*** | ***Organizational Principle*** |
|---|---|
| ***Spring***<br><br>– Initiated by front line<br>– Front line seeks support of MM and CEO. Existing capabilities are used. | Feasibility<br>Strategic Fit |
| ***Cascade***<br><br>– CEO initiation<br>– MM design and proof of concept | Strategic Fit<br>Feasibility |
| ***Flow***<br><br>– MM initiation<br>– MM design: proof of concept and strategic fit | Strategic Fit<br>Feasibility |