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# Encouraging emergence of cross-business strategic initiatives

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ABSTRACT

We explore how strategic initiatives emerge at the business unit level in the context of multi-business firms. Findings show that such initiatives create cross-business synergies in the absence of any direct intervention from the headquarters. Four factors appeared to foster the development of autonomous cross-business collaboration: a sense of urgency at the level of the firm, the existence of a few broad but strong corporate strategic guidelines, the existence of a set of cross-business integration mechanisms, and an organizational culture promoting collaboration. Our findings suggest that, in addition to developing and enforcing top-down cross-business initiatives, headquarters would benefit from acknowledging the importance of business units' local knowledge by creating an organizational environment characterized by the four conditions identified in this paper.



## 1. Introduction

The question of how individual business units may obtain additional sources of competitive advantage by reaping the benefits of being affiliated to a multibusiness corporation has been at the heart of the academic literature on corporate strategy since its early days (Ansoff, 1965; Collis & Montgomery, 1998). Well-known theoretical and empirical studies analyzed the economic factors and organizational arrangements that enable multibusiness firms to benefit from the cross-business synergies associated with the businesses under their control (Anand, 2005; Collins & Smith, 2006; Helfat & Eisenhardt, 2004; Hill, 1994; Kretschmer & Phanish, 2008; Martin & Eisenhardt, 2010; O'Reilly & Tushman, 2008; Palepu, 1985; Porter, 1987; Schmidt & Keil, 2010; Williamson, 1975). This literature usually refers to the creation of synergies across different businesses of a multibusiness firm as *parenting advantage* (Goold, Campbell, & Alexander, 1994) or *corporate advantage* (Collis & Montgomery, 1998), which presumes that headquarters (HQs) omnisciently overlooks business units.

In stark contrast, Burgelman (1983b) looked into the internal process of corporate venturing and coined the concepts of induced and autonomous behaviors. "The induced process concerns initiatives that are within the scope of the organization's current strategy and build on existing organizational learning; the autonomous process concerns initiatives that emerge outside of it and provide the potential for new organizational learning" (Burgelman, 1991, p. 241). For Burgelman (1983a), the strategic context can be redefined by middle managers championing of new initiatives, which ultimately can change the strategic thinking of top management. This is closely related to the notion of emergent strategy process developed by Mintzberg (1990) and Mintzberg and Lampel (1999), whereby strategy is the resulting pattern of a stream of decisions rather than a top-down plan. More recently, Mirabeau and Maguire (2014) elaborated a theory linking emergence and autonomous behavior and "show how emergent strategy originates as a project through autonomous behavior" (:1202).

Whereas notions as *parenting advantage* address strategic initiatives predominantly as a top-down process, notions as *autonomous behavior* and *emergence* address spontaneous bottom-up phenomena. A less developed stream of work, however, focuses on whether and how cross-business strategic initiatives might be the outcome of processes that, while induced by a sort of prevailing concept of strategy or strategy articulation (Noda and Bower, 1996), are formulated at the business unit level (Chakravarthy, Zaheer, & Zaheer, 2001; Martin & Eisenhardt, 2010), configuring a middle ground between the previously referred "top-down" initiatives and those that may develop at the business unit level through autonomous process, as described by Burgelman (1983a,b). Such "middle ground" initiatives, defined here as *Cross-Business Strategic*

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*Initiatives Formulated at the Business Unit Level*, constitute the focus of our research.

Being apparent that cross-business strategic initiatives are formulated at the business unit level in multibusiness firms, two issues yet not addressed by the literature become important. First, what organizational characteristics of multibusiness firms are conducive to the formulation of cross-business strategic initiatives at the business unit level? And second, in what way do such characteristics contribute toward the formulation of these initiatives? We draw from an exploratory study of strategic initiatives within three multibusiness firms, which actively engaged in cross-business strategic initiatives in an effort to develop theoretical categories to answer these research questions. Our main argument is that there is a set of conditions at the organizational level that encourage the formulation of cross-business strategic initiatives at the business level. Strategic initiative is defined as "discrete, proactive undertaking that advances a new way for the corporation to use or expand its resources" (Birkinshaw, 1997, p. 207; Kanter, 1982; Miller, 1983). In this research, these are group actions at the business level that identify opportunities, mobilize resources, and attempt to tap into such opportunities.

Several new theoretical insights emerged from our data. In all of the three firms, we identified four features that were conducive to the development of cross-business unit strategic initiatives formulated at the business unit level: first, a sense of urgency, due to competitive pressures faced by the firm, that resounded across business units endowed with scarce resources; second, the existence of a few broad but strong strategic corporate guidelines; third, the existence of horizontal formal and informal cross-business integration mechanisms; and fourth, a generic cultural proneness to collaborate within the firm. Generically, these characteristics favored the formulation of cross-business strategic initiatives at the business unit level by creating impetus for such collaboration to occur. In addition, three of the characteristics identified helped to support the process of exploration, negotiation, and implementation of initiatives in more specific ways. Corporate strategic guidelines provided the necessary vertical coordination to motivate businesses to explore initiatives within the strategic focus of the corporation. Integration mechanisms facilitated the horizontal coordination across business by easing the circulation of relevant, in-depth information on the current activities of peer business units, and also by providing forums in which collaboration initiatives could be explored formally and informally. Finally, the firms' cultural proneness toward collaboration led to proactive and persistent efforts at the business unit level when pursuing cross-business initiatives.

The remainder of this paper is organized in the following way. First, we review the literature on corporate strategy and strategic initiatives. Second, from the analyses of cross-business strategic initiatives within three multibusiness firms, we analyze those formulated at the business unit level and elaborate the characteristics that favor their occurrence. Finally, we discuss our findings and their relevance for the management of multibusiness firms as well as their implications for the field of corporate strategy.

## 2. Theoretical background

The corporate strategy literature has predominantly described strategic initiatives aimed at pursuing cross-business strategic advantage as the outcome of explicit, active, and purposeful "top-down" initiatives developed by the firm's HQs (Bailey & Friedlander, 1982; Eisenmann & Bower, 2000; Palepu, 1985; Panzar & Willig, 1981; Prahalad & Hamel, 1990). Research on corporate strategy of the firm has been one of the most prolific areas within the strategy literature for more than three decades (Chang & Singh, 2000). The pursuit of cross-business synergies is at the heart of the corporate strategy debate. In this paper, we define cross-business synergies as "the value that is created and captured, over time, by the sum of the businesses together relative to what it would be separately" (Martin & Eisenhardt, 2003, p. 3). The benefits associated with the existence of cross-business synergies, characterized in the literature as corporate or parenting advantage (Collis & Montgomery, 1998; Goold et al., 1994; Poppo, 2003) has been associated with the existence of economies of scope (Helfat & Eisenhardt, 2004; Palepu, 1985; Panzar & Willig, 1981; Porter, 1987), market power (Hill, 1994; Hughes & Oughton, 1993), demand complementarities (Harrison, Hitt, Hoskisson, & Ireland, 2001; Henten & Godoe, 2010; Lang & Stulz, 1994; Schmidt & Keil, 2010; Tanriverdi & Venkatraman, 2005), and governance advantages, associated with the hierarchical coordination of businesses under a corporation, as opposed to organization via market transactions (Alchian & Demsetz, 1972; Chatterjee & Lubatkin, 1990; Coase, 1937; Freeland, 2001; Hill, 1988; Williamson, 1975).

Theoretical and empirical research that focused on corporate value creation through the pursuit of economies of scope typically deems the HQs of the firm as the natural leader of any strategic initiative (Bailey & Friedlander, 1982; Palepu, 1985; Panzar & Willig, 1981; Wan, Hoskisson, Short, & Yiu, 2011). For instance, Prahalad and Hamel (1990) contend that the HQs are an integrator that hosts and "nurtures" the firm's portfolio of core competencies and deploys them across the firm. In general, synergies are more likely to occur in the presence of resource relatedness (Rumelt, 1974). On the one hand, the HQ appears to be the only area of the firm managing exhaustive information on the portfolio of business capabilities of the firm and having the necessary formal power to enforce cross-business initiatives. On the other hand, top-down strategic initiatives aimed at creating cross-business synergies frequently fall short of managements' expectations due to the lack of understanding of the context of different business units (Goold & Campbell, 1998). As the realization of synergies proved to be an elusive event in many organizations (Davis & Thomas, 1993; Kleinbaum & Tushman, 2007; Palich, Cardinal, & Miller, 2000; Stimpert & Duhaime, 1997), research on cross-business synergies evolved toward a process theory approach, aiming at understanding how cross-business synergies were actually created. However, this approach overlooks organic strategy generation approaches (Mintzberg, Ahlstrand, & Lampel, 1998). A more recent study explores whether strategic initiatives formulated by business units may constitute an alternative locus for the development of corporate-wide synergies (Martin & Eisenhardt, 2010). Martin and Eisenhardt (2010) claim that collaboration "centers on flexibly emergent, cooperative connections among modular, relatively autonomous and unique businesses" (2010: 294). This emergent stream of process research on cross-business collaboration has the potential move forward the rather stalled debate on intrafirm cross-business collaboration.

Strategic initiatives may present themselves in a range of forms: from improvement projects and new product developments to new ventures or acquisitions (Lechner & Kreutzer, 2010; Zollo & Winter 2002). Because of the fact that strategic initiatives are group activities, different forms of influence will affect them. Lechner and Floyd (2012) identified that formal authority and coalition building can moderate development of exploratory initiatives, but also could not find any support for that rational justification to be a useful form of influence. We argue that both formal authority and coalition building are essential to cross-business strategic initiatives but the latter lends itself more to the business-level development while the former will tend to establish the necessary conditions. At the time of working on cross-business initiatives, business-level managers are willing to cooperate and engage, and

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