Setting strategic direction: a top down or bottom up process?

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Paper originally published in
The authors assert their moral rights to be indentified as Authors of this Article.

Abstract

Purpose of the paper

The paper examines the process by which the strategic direction of an organisation is set. The paper asks if strategic direction is defined and set at the top of the organisation and then trickled down or is it set by members making their own decisions based on well-known rules and the organisation’s strategic direction is the aggregation of these decisions.

Design/ methodology/ approach

Individual in-depth semi-structured interviews were carried out with members of a professional services organisation.

Findings

The research suggests that an agent-based approach may more closely represent the process of strategic direction setting for certain kinds of firm than does the traditional text-book trickle down approach.

Research limitations and implications

The research was carried out on a legal services firm. Future extensions of the research could be to other kinds of large professional services firms, for example accountancy practises.

Practical implications
While this research was carried out on a professional services firm the findings could be appropriate to other kinds of organisation in the knowledge economy where individual agents carried out non-routine tasks or tasks that require substantial individual judgement, for example: universities or research centres.

**Originality and value of the paper**

The usual text book model of strategy formulation and implementation suggests that strategy is defined by top management with objectives cascaded down through the organisation. This research suggests an alternative approach where individual agents in the organisation make decisions according to given rules and that the strategic direction of the organisation is determined by the aggregation of these decisions. This suggests a new role for top managers as rule-makers rather than objective-setters.

**KEYWORDS: strategy, agent, rule, professional services**
'Cheshire Puss,' she [Alice] began ... ‘Would you tell me, please, which way I ought to go from here?’ ‘That depends on where you want to get to,’ said the Cat.
Lewis Carroll.

‘Man never mounts higher than when he knows not where he is going’.
Oliver Cromwell (quoted in Hayek, 1960:39).

Introduction

Conventional textbook wisdom has it that the direction of the firm is set by top management and then cascaded down through the rest of the organization. Views of customers, employees and other stakeholders may be taken into account but it is in essence a top-down process. The origin of this approach goes back to Andrews who suggested that the role of the chief executive is to be the architect of organisational purpose and the custodian of corporate objectives (Bower et al, 1991). Textbook authors have developed this approach into formal methodologies that are taught to undergraduate students across the western world. Thompson et al (2007) suggest a five step approach beginning with developing a vision, moving on to setting objectives, crafting strategy, implementation and review. Hill and Jones (2008) also suggest a five step model: select mission and goals, identify opportunities and threats, identify strengths and weaknesses, select a strategy and implement it. Johnson and Scholes (2005) suggest the three step approach of analysis, choice and implementation. All of these methodologies assume a knowledgeable top management steering the organisation’s course into the future.

This view is perpetuated by the notion of the charismatic leader who through force of personality and leadership acumen can line up all the members of the organisation in the one direction - people like Jack Welch who led General Electric for twenty years and drove the organization relentlessly forward. In the information technology industry Steve Jobs, Michael Dell, Andy Grove and Bill Gates were hugely important figures in Apple, Dell, Intel and Microsoft respectively. These leaders were seen as
the major driving forces in their organisations during their tenures, so much so that succession was an issue in each organisation.

However, there are a number of well-known cases where new directions were initiated not by top but by relatively junior management. Burgelman (1996) documents the Intel case whereby junior management, sensing at first hand Intel’s strategic drift (Johnson et al, 2005:27), led the successful move out of memory chips, Intel’s core product at the time. Junior managers in IBM, against the prevailing wisdom in the organisation, galvanised IBM to enter the e-business arena, now a cornerstone of IBM’s strategy. Microsoft’s move into the internet was initiated by two junior employees but then taken on board by Gates himself (Hill and Jones, 2008:12). In all these cases the strategic move was initiated at lower levels of the organisation but was eventually supported by top management; success of the move lay in the interplay between these two groups of managers. Quinn (1989) has formalised this process as logical incrementalism. Mintzberg and Waters (1985) have termed such a strategy making process as emergent to distinguish it from the more traditional deliberate top-down process. Observations such as the above have also led to new views on strategic leadership: strategic leaders are now seen as coaches and mentors rather than all-knowing direction setters, leaders rely as much on their emotional intelligence (Goleman, 1998) as on their rationality.

A progression of the above argument is to suggest that organisational direction is not set in any formal way but is merely the aggregation of the activities of a host of individuals making independent decisions within boundaries. At this point strategies are entirely incremental, entirely emergent and path-dependent. This is the agent-based view of the world whereby individual agents are in control of their own destiny, within certain constraints, and the decision at aggregate level is the sum of the collection of decisions at agent level. This is also the realm of complexity theorists (Stacy, 1995) who suggest that systems comprise several layers and that new, and often unexpected, properties emerge at higher levels of a system. For example, cars have certain properties such as fuel consumption expressed as miles per gallon or acceleration expressed as seconds to 60 miles per hour. At the higher system level collections of cars (traffic) have properties such as average speed expressed in miles per hour, traffic density expressed as thousands of cars per hour. Over the past
century new and unexpected properties have emerged such as gridlock, bottlenecks and road-rage. In the case of strategy lower level properties are the individual decisions made, the higher level emergent property is firm strategy itself. At the limit the organisation becomes an entirely self-organising entity.

Self-organising is not a new phenomenon but has existed for millions of years in the animal kingdoms. Miller (2007) examines swarm behaviour and suggests that we have much to learn from insects that swarm, birds that flock and animals that move in herds. While an individual ant may not have much knowledge and intelligence the colony as a whole has a great ability to look after itself. The colony is better able to seek out a nesting site, forage for food and defend itself than is an individual ant alone. And yet the colony has no formal leader, no hierarchy: it succeeds only because of the collective behaviour resulting from each individual ant obeying certain rules. Miller gives an example whereby visual cues are used to control the behaviour of individual ants which in turn controls the behaviour of the colony. Before an ant goes out to forage it must touch antennae with a minimum number of ants returning from foraging. In areas or at times when foraging is good many ants will be returning to the nest and so an ant will touch the required number of antennae very quickly. At aggregate level this means that many ants will be sent out to forage when foraging is good and fewer will be sent out to forage when foraging is poor. Rule-following behaviour at individual level controls the macro behaviour of the colony. Control of individual behaviour using simple visual cues is at the core of the kanban system so effectively used by Toyota and other just-in-time organisations.

Modern computing power has revolutionised research carried out on complex social systems. One approach is agent-based modeling where the behaviour of individual agents is modeled and the resulting aggregate patterns of behaviour examined. Bonabeau (2002) discusses business aspects of agent-based modeling within four categories of human systems: flows, markets, organisations and diffusion. Helbing et al (2000) have applied agent-based techniques to the examination of the build-up of panic in crowd escape situations.

The concept of self-organisation is not new to the management literature. Follett (1942:59) suggested that employees should neither give nor receive orders but all
‘should agree to take their orders from the situation’. Her theory was that no formal authority or power exists in an organisation: these are merely convenient constructs invented to explain the functioning of an organisation but not really existing in practice. Instead her theory suggests that individuals discover and obey the ‘law of the situation’ (1942:59,112) taking their cues from the market and other stimuli. As the situation changes so too do the cues and the consequent ‘law’. Individuals then adapt their decision making to the appropriate law for that new situation. A modern day extrapolation of Follett’s theory is the customer-centric organisation with its inverted organisational pyramid where the customer is at the top and all other levels of the inverted hierarchy take their cue from customer requirements as they cascade up the organisational hierarchy. In this model of the firm the CEO is the servant of the other layers of the hierarchy, not their director.

Hayek see rules as important but also sees them as ‘subsidiary to commands, filling in the gaps left by the commands’ (Hayek, 1973:50; Sautet, 2002; Schlicht, 2003) – as opposed to an entirely spontaneous order like the order in the market. He suggests that while individuals in organisations adopt rule-following behaviour these rules must match the requirements of the organisation: it is not simply a matter of any rule will do. Hayek also suggests that as organisations become more complex they tend more towards rule-following behaviour and away from command. He accepts that organisations operate in a climate of change and that competition is a ‘discovery procedure’. This is similar to Follett’s view of the firm as an evolving process ‘finding ever larger purposes to fulfil’ (1942:288). Firms therefore aim not at concrete purposes but towards vague undiscovered purposes. Here command (which, by definition, is aimed at a particular result) is in difficulty as a method of coordination but instead individuals can guided be by their understanding of the rules.

All organisations can be viewed as agent based to some extent. Rarely is the behaviour of individuals fully prescribed: some individual discretion is usually allowed. The more that knowledge is dispersed (Hayek, 1948, 77) and tacit (Polanyi, 1966; Nonaka, 1991) the less easy it is to prescribe behaviour to act on, process or deal with that knowledge; instead it requires an individual, with knowledge that no-one else in the organisation may have, to use that knowledge and this can only be done ‘if the decisions depending on it are left to him or are made with his active co-
operation.’ (Hayek, 1948:80). Even strongly hierarchical and mechanistic organizations therefore require individuals to use their own discretion. In these discretionary areas the organisation will still require individuals to behave in accordance with the objectives of the organization. Here, the organisational objectives become less like targets to achieve and more like constraints on behaviour. To achieve this the organization must ensure that the organisational control systems – budgetary, cultural and reward - are aligned with the formal objectives of the organization.

In the next sections we discuss the case study itself as two elements: research approach and research findings. The organisation examined was a professional services firm. The object of the study was to determine if employees in such a firm followed orders given to them from their superiors at higher levels of the hierarchy or whether they had discretion in their decision making and if there were constraints on that discretion.

**The case study: Research Approach**

The organisation that we examined for this research project was a large professional services organisation of over 400 staff where the bulk of employees were legal professionals. In-depth interviews were held during the first quarter of 2007 with a small number of middle-ranking professionals in the organisation; the purpose of the interviews was to determine the nature of individual decision-making in the organisation: whether it was largely rule-based or command-based. Secondary data from the firm’s website and other materials was also used.

The argument that firms are rule-bound orders aiming at a vague, or fuzzy, ill-defined purpose were distilled down into three testable propositions. The interviews were used to gather data to test these three propositions. The propositions are:

1. That a firm can have an ill-defined purpose.
2. That rule-following behaviour would be a prominent coordination mechanism in such a firm.
3. Even if giving arbitrary commands were open to the hierarchy in the firm that there is a danger that this mechanism could be mistaken for a rule with unforeseeable consequences.

Four employees of the firm were selected for interview. Each employee was a qualified solicitor with less than five years post-qualification experience. All reported to an individual partner in the firm (note that partners, as well as being higher in the firm hierarchy, are also the owners of the firm). The interviews proceeded on the basis that the firm and the interviewees would not be identified, an agreement commonly made with interviewees and their employers. (Bell, 2005:51)

The interviews followed a semi-structured format ‘loosely structured, seeking to evoke stories’ (Yiannis and Griffiths, 2004:118). All interviews were held off-site to create mental and physical distance from the organisation; the firm setting itself was not considered relevant to the study. A mix of open-ended and closed-ended questions was used to provide a semi-structure to the interview. In each case a fluid dialogue ensued and other issues were discussed and additional impromptu questions asked; the interviewees are well-educated and articulate. Each interview was designed to take a half hour; in fact all lasted for between 40 minutes and one hour.

**The Case Study: Discussion of Findings**

All of the interviewees viewed the firm as having a strong culture; that there was a firm ‘way’ of doing things. For example, one rule was that all client correspondence had to be replied to within three days, even if it was merely a holding reply. Timely advice can be seen to be an important issue in the ‘Culture and Values’ section of its website. Saying ‘hello’ to each other in the corridor was expected and the non-Irish interviewee particularly noted this. There were clear codes of behaviour; one interviewee gave the example of a trainee lawyer who used to answer his mobile phone at internal meetings and how this behaviour was soon stamped out. All were certain that they would be guided by previous instructions by their partner – even in unprecedented situations. All worked with a fair degree of discretion: they were qualified, experienced lawyers. They dealt directly with clients and only spoke with partners on more difficult issues and where next steps were not clear.
The work of the interviewees would have a degree of routine to it. Litigation, in particular, is bound by the rules of the courts and follows a prescribed process. However, embedded in any piece of litigation is a series of problems and decisions – this is why highly paid lawyers are paid to run the process.

The interviewees were asked if the distinction between a command (do task X) and a rule (in situation Y do task X) had ever been made to them. All said this distinction had not been made to them in their activities within the firm. The distinction was not familiar to them. One of the lawyers noted that he was never told to do anything: ‘it is more like a request – “can you do this…”’.

The interviewees were then asked: ‘You have been told to do something once by a person higher than you in the hierarchy in your firm. If you were faced with similar situation would you do the same again?’ All said that they would; they were categorical about this. They were then pressed on this point; was this just a case of following a routine of the office or did it apply in situations similar to but not identical to previous situations? This issue was explored further in a follow up question, where they were asked if they were ever told to do something by their partner that they were not happy about or did not agree with. All said that they had been in situations where they thought one action was the best but the partner said another was appropriate. They all agreed that they would do what the partner said to do. However, they did not agree that this was a matter of merely following orders. They were all adamant that they were deferring to the experience of the partner in the case: ‘I respect her views’, ‘she has a wealth of experience and has seen things pan out before’, ‘very experienced’, ‘she knows more about it than me. You respect her view. It is likely to be the right course to take’, and ‘reluctant to question her but will query issues if I do not understand or do not agree.’

Finally, the interviewees were asked what the purpose of their firm was. They replied (and these are their full initial replies):

1. ‘Giving efficient, concise, advice and legal solutions to clients’ and ‘Commercial advice’;

(Continued on the next page...
2. ‘To make money!’ was the instant response; this was refined to ‘Provide commercial solutions and a one-stop-shop for clients.’


4. ‘To provide first-class legal services to corporates and private clients [individuals].’

All were agreed that ‘providing legal services’ was both too narrow and too wide a purpose. The firm provided what many might regard as non-legal services in tax advice (tax advice in Ireland is usually given by accountancy firms), company formation and company secretarial services, in pensions and so on. At the same time, it did not provide certain types of legal services like criminal defence or prosecution work although there may be a change there with the increasing criminal prosecutions for companies and company officers. Many of the services listed in the firm’s website such as public private partnerships, funds listing and other services did not exist in Ireland when the firm was founded or even as late as 1990. The firm has expanded into many new (legal and non-legal) areas and the interviewees expected this process to continue and many pointed out areas that they felt the firm would expand into in the short or medium term. All the interviewees agreed that making money was a constant theme and that the firm would enter new areas if it felt there was adequate remuneration in them for the partners. The interviewees seemed to have a somewhat inarticulate but relatively clear idea of what areas the firm might enter into. For example, ranging outside professional services activities did not seem likely and other areas like criminal law would only be performed in the corporate environment for their existing client profile.

Conclusion

The case study findings support the first two propositions. The organisational purpose was found to be somewhat fuzzy. The future activities of the firm were not limitless but the sphere of future activities did not seem to be concrete. Objectives could be followed as long as there was potential for profit and that they broadly fell within the ethos of the firm. No strict formally articulated purpose existed. The findings also suggest that rule-following behaviour is a prominent, indeed the primary, coordination mechanism, in the firm. All were committed lawyers seeking
to provide services to a high standard. All worked under their own initiative with partners merely reviewing more complex work. All were happy that in their day to day activities they were doing what their partners wanted even though the partners would not immediately see what they were doing. They may perform tasks that they do not understand or may not think is the correct course of action but, and they were clear on this, this is a matter of deferring to a person with greater experience and not the mere following of orders.

While the third proposition was largely supported findings were somewhat equivocal. Interviewees were somewhat vague on the distinction between a command and a rule. None had ever been told that an instruction they were being given was arbitrary and not a precedent for future decisions. If they were told to do something once they would perform the same task in similar circumstances in the future. While all interviewees say that they would follow a given order in a particular instance they saw themselves not so much as following orders but as deferring to the greater experience of their superior. However there was no suggestion that such an order would become a rule to be followed by rote in the future; interviewees were professionals who would continue to apply professional judgement. There was no evidence that any of the interviewees performed any task merely because they were told to. There was support for Follett’s view that individuals follow the ‘law of the situation’ rather than follow orders: ‘The leader gets an order followed first, because men do really want to do things in the right way and he can show them that way’ (Follett, 1942:276).

Overall, the case study results suggest that some organisations have only weak organisational objectives but have strong well-known rules governing individual behaviour. The collection of individual behaviours becomes the organisational strategy and this can be an effective mechanism for directing an organisation. Strategy in this type of organisation is not formally conceived: it is not a driver of individual behaviour but instead is an outcome of collective individual behaviour.

As organisations become larger and more complex it is less and less likely (if it were ever possible) that a single individual at the top of an organisation will be able to comprehend the myriad of situations facing the organisation, make decisions with respect to those situations and ensure that those decisions are implemented. The usual
alternative considered is delegation whereby decision-making powers are dropped down to the next level of the hierarchy, and so on, until the decision making ability of the organisation is sufficiently spread around. Learning from the animal kingdom, an alternative approach that may be more suitable to certain types of organisations – professional services firms, hospitals, universities, research centres – is to use the decision-making ability of each individual agent in the organisation.

Rule-following behaviour allows us to explain how strategic change can be a bottom-up process. But we also know that leaders can drive strategic change. We suggest in this paper that what leaders may actually be doing is articulating more clearly, changing, discovering new, or reordering the priority of the rules in the firm. However, leaders may not always articulate it in that way but may articulate it as a 'new mission', 'new objectives', 'a change in culture' etc but the end result is rule-change. The role of senior management has shifted from setting objectives to be met by others down the hierarchy to altering the rules that condition individual decision making at all levels of the organisation. The results also suggest that organisational control systems, particularly organisation culture and the reward system, play a crucial role in effectively determining the direction of such agent or rule-based organisations, not solely as incentives but as the feedback mechanism that all rule-bound orders require.

Adapting on a daily basis to the ‘law of the situation’ allows a firm evolve into new arenas. Firms become ‘nurseries for new projects’ (Schlicht, 1998:264). Universities are examples of organisations that adapt to the situation: no two university faculty structures are the same and they can often be radically different. These different structures are path dependent resulting from the series of decisions made by individual agents – professors, deans, lecturers – over time (see Polanyi, 1951: 39-114). Rule-constrained agent-based behaviour also suggests an explanatory mechanism as to how firms, for example Apple, 3M, GE, or Nokia, diversified into radically different industries outside of any extant vision or strategic objective.

Bibliography


