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Towards a Model of Strategic Agenda Building.

Thomas Hutzschenreuter

Ingo Kleindienst

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Ingo Kleindienst

Prof. Dr. Thomas Hutzschenreuter
Dietmar Hopp Chair of Corporate Strategy and
Electronic Media Management
Burgplatz 2, 56179 Vallendar, Germany

Tel. +49 261 6509-200, Fax +49 261 6509-209

th@whu.edu, www.whu.edu

Assistant Prof. Dr. Ingo Kleindienst
Dietmar Hopp Chair of Corporate Strategy and
Electronic Media Management
Burgplatz 2, 56179 Vallendar, Germany

Tel. +49 261 6509-204, Fax +49 261 6509-209

ingo.kleindienst@whu.edu, www.whu.edu

Towards a Model of Strategic Agenda Building

Summary:

Research on strategic agenda building has traditionally emphasized individual agency, thereby neglecting organizational context. Developing a contextual model of strategic agenda building, we address this limitation. Based on the evolutionary framework we show that an organization's core elements, that is, strategy, culture, structure and top management team, heavily influence what issues are considered in organizational agenda building processes. Moreover, the strategic agenda building process, apart from the role of capabilities and cognition, provides an alternative explanation for path dependency

Table of Contents

Figure Index	III
1. Introduction	4
2. The strategic agenda	5
3. The overall model of strategic agenda building	7
3.1 Variations in strategic issues	8
3.2 Mechanisms of selection	8
3.3 Retention mechanisms	9
4. Strategic agenda building contingency	10
4.1 Strategy	10
4.2 Culture	11
4.3 Structure	12
4.3.1 Centralization	12
4.3.2 Formalization	13
4.3.3 Complexity	14
4.3 Top management team	15
4.4.1 Structure	15
4.4.2 Composition	15
4.4.3 Process	16
4.4 Agenda structure	17
4.5.1 Size	18
4.4.2 Variety	18
4.4.3 Turnover rate	19
4.6 Performance	20
5 Implications of the strategic agenda building model	22
5.1 Path dependency and inertia	22
5.2 Overcoming path dependency and inertia	23
6 Conclusion	25
References	26

Figure Index

Figure 1: The model of strategic agenda building..... 21

1. Introduction

With regard to the omnipresence in media and politics, 'offshoring' can be considered one of the most important contemporary top management topics for almost every organization (Farrell, 2005; Levy, 2005). Considering an organization that did not offshore a single function, then, raises the following question: what kept the organization from initiating an offshoring strategy? Searching for answers, one may consider explanations like: the organization feared to lose control, did not expect any cost savings, did not find an appropriate service provider, and so forth. It is very likely that almost all answers that are considered have one thing in common: it is implicitly assumed that the organization did decide on the offshoring issue. However, the simplest answer to the question may be that the organization was just not engaged in the evaluation of the offshoring issue. In other words, the offshoring issue was actually not an issue for the respective organization.

The implicit assumption that the organization did decide on the offshoring issue represents a common bias in strategy process research. Most studies in the field of strategy process research are concerned with the actual phase of decision making, implicitly assuming a predefined decision object (Eisenhardt & Zbaracki, 1992). Before deciding upon a specific issue, however, the organization has to decide what it will decide about (Walker, 1977). Thus, the question is neither about "how issues get decided, nor about how decisions are implemented and what impacts they have, but rather how issues come to be issues in the first place" (Kingdon, 1993, 40). Consequently, questions of central importance are, why do organizations attend to some issues but not to others? Why do issues get attention in some organizations but not in others? How do organizations determine when, why, and how to respond to issues (Dutton, 1988, 1997; Kirsch, 1999; Ocasio, 1997)?

Past research has addressed these questions with an emphasis placed on the role of individual agency. Two streams of research have emerged: The first stream centered on the role of the top management team (TMT) (e.g. Finkelstein & Hambrick, 1996; Hambrick & Mason, 1984). Issues are attended to, if top managers interpret them as important, legitimate and feasible to resolve. Thus, this perspective considers the fact that decisions depend upon the prior processes of perception and evaluation, that is, the subjective interpretations of issues by top managers.

The second stream has centered on middle managers' issue selling (e.g. Dutton & Ashford, 1993; Dutton, Ashford, O'Neill, & Lawrence, 2001). This research stream claims that actions and involvement of persons and groups outside the TMT are critical to strategic change and performance (Floyd & Wooldridge, 1992, 1997). Middle managers use issue selling as a mechanism that prompts top management to attend to certain issues and not to others (Dutton & Ashford, 1993). Thus, this perspective emphasizes that organizations attend to issues that are successfully sold to top management by middle managers.

While both research streams have improved our understanding of organizational behavior and change, prior research is limited in two ways. First, both perspectives highlight the actors involved. It is still to be explored, however, what role organizational context plays, with regard to what issues organizations attend to. Second, both perspectives are of rather static nature. However, conceptualizing strategy process as a recurring phenomenon, a dynamic perspective is needed to adequately answer the aforementioned key questions.

To address these limitations we develop a contextual model of strategic agenda building (SAB). We make two contributions to theory building: First, we use the model to highlight the importance of organizational context as opposed to individual agency within the process of SAB. We argue that to understand organizational action and change, requires understanding the context in which these actions and changes take place. Second, we show that the past is pivotal for explaining content and process of current and future SAB. It is shown that the SAB-process provides an additional explanation for organizational inertia. Moreover, we outline crucial events that may enable an organization to overcome inertial forces.

2. The strategic agenda

Organizations act in a space of issues, where constantly new issues emerge and others vanish into thin air. These issues typically emerge in an unstructured, uncertain, and ambiguous form, rather than as prepackaged data set (Dutton, Fahey, & Narayanan, 1983). Hence, to impose order on the environment, an organization's top management has to sort and interpret the data that are available, assigning meaning to the issues (Daft & Weick, 1984). Some of the issues represent potential

strategic issues for the organization because they are perceived by the TMT as having the potential to significantly impact the organization (Ansoff, 1980; Dutton & Jackson, 1987). However, due to limited top management attention (Cho & Hambrick, 2006), any organization can attend to only a small subset of available strategic issues at one time. Consequently, a diverse set of strategic issues constantly competes for top management attention.

Being responsible for strategic decisions and, by that, fundamental organizational outcomes such as strategy, structure or performance (Finkelstein & Hambrick, 1996) the TMT has to decide which strategic issues to attend to. However, strategic issues are not attended to in isolation. Rather, top management's attentional resources are distributed across a set of strategic issues (Dutton & Duncan, 1987b; March, 1981).

The interpretation of strategic issues affects how each issue's importance is rated in relation to other strategic issues, the top manager may allocate attention to (Dutton & Jackson, 1987). As a consequence, the relative importance assigned to each strategic issue leads to a ranking. Those strategic issues that are seen as most important to the organization and therefore receive top management attention, constitute the organization's strategic agenda (Dutton & Duncan, 1987b). Thus, the strategic agenda can be defined as "the set of strategic issues receiving collective attention in the organization. Collective attention is defined as the allocation of information processing capacity and resources to the issues" (Dutton, 1988, 127).

Defining the set of strategic issues to attend to, the strategic agenda frames future organizational behavior. Consequently, the process of SAB can be understood as the very early stage of an organization's strategy process. Thus, placing a strategic issue on the strategic agenda is the trigger for initiating a decision making process with regard to the strategic issue (Kirsch, 1999; Lechner, 2005).

The strategic agenda mirrors the way organizations interpret and make sense out of their internal and external environments. Differences across organizations' strategic agendas, then, represent different views of threats and opportunities. These differences, however, may be the result of differing contextual elements and historical developments.

3. The overall model of strategic agenda building

An organization's strategic change represents an attempt to change current modes of action, to enable the organization to take advantage of issues representing important opportunities or to cope with issues that indicate consequential threats (Lant, Milliken, & Batra, 1992; Milliken & Lant, 1991). The already challenging task of strategic change is further complicated by organizational limitation. Organizations are characterized by limited managerial, financial, and non-financial resources (Penrose, 1959). Moreover, due to limited cognitive capacity of its members (Simon, 1945), organizations exhibit a limited information processing capacity. Together, these limitations force organizations to engage at any point in time in only a limited subset of strategic issues, despite being constantly bombarded with a myriad of strategic issues. Consequently, organizations have to positively select those strategic issues out of the constantly revolving variations of issues that are assumed to be most beneficial to the organization, while at the same time disapproving all others. Positively selected issues are subsequently placed on an organization's strategic agenda, ensuring the allocation of TMT attention and resources to these issues. Once placed on the strategic agenda, the organization will work on resolving these strategic issues in order to allow new issues to be placed on the strategic agenda.

Recurring processes involving some kind of variation and selection may best be explained by evolutionary theory (Garud & Van De Ven, 2002; Van de Ven & Poole, 1995). Thus, we ground our model of SAB on the evolutionary framework of variation, selection, and retention that has proven to be a logically consistent standard model that is well suited for studying social and cultural systems. Moreover it has proven to be a robust and general framework for research in the domain of organization science and strategic management (Burgelman, 1991; Campbell, 1969; Lovas & Ghoshal, 2000; March, 1994).

On a very general level, an evolutionary model inherently implies the concept of fit between a unit of selection and some mechanisms through which selection occurs. Thereby, the principal building blocks of an evolutionary model are: (i) variations in the fundamental unit of selection, (ii) mechanisms and criteria of selection, and finally (iii) retention mechanisms (Campbell, 1969; Dosi & Nelson, 1994).

3.1 Variations in strategic issues

In analogy to genes in evolutionary biology, the fundamental unit of selection importantly determines the behavior of the selecting agent (Dosi & Nelson, 1994). With regard to strategic change, this implies that organizational action and behavior is determined by the fundamental unit of selection: the strategic issue.

To identify such issues, organizations engage in strategic issue management (Ansoff, 1980), scanning (Fahey & King, 1977), focused search, or performance monitoring (Huber, 1991). These mechanisms represent intended search activities. However, strategic issues may also get noticed unintended, that is, without predefined information acquisition objective (Starbuck & Milliken, 1988). For example, autonomous initiatives, that emerge from lower levels of the organization and are purposeful from the perspective of the actors who engage in it, but fall outside the current strategic concept of the organization (Burgelman, 1983), may represent issues that gain top management's attention without an ex-ante information acquisition objective. Nevertheless, strategic issues that get noticed unintended may be a crucial source of variation in the available set of issues.

3.2 Mechanisms of selection

The criterion of selection is fitness, referring to the fit between the fundamental unit of analysis and the mechanisms of selection. Hence, it is the objective of the selection mechanisms to positively select those variations that are considered as being most beneficial, while disapproving all others. The interpretation as beneficial, however, does not imply that the positively chosen strategic issue will prove to be beneficial. Rather, an organization does not know in advance the outcome of a variation (Romanelli, 1999).

Apart from individual selection mechanisms, which have extensively been discussed in the literature (see for example Gioia & Chittipeddi, 1991; Gioia & Thomas, 1996), we subsequently argue that organizational context plays a pivotal role in the SAB-process. The organizational context represents the core elements that are important for organizational survival and central to an organization's activity. Following Tushman and Romanelli (1985), we conceptualize the organizational context as being composed of the following elements: strategy, culture, structure, and TMT.

In a first step, strategy, culture, and structure set the basic constraints to organizational actions and outcomes. Thus, together these core elements act as some sort of filter that determines whether or not an issue is considered legitimate and feasible and whether or not the respective issue is introduced into the SAB-process. Hence, these selection mechanisms ensure the fit between organization and strategic issues, thereby defining the potential set of strategic issues the TMT may attend to. In a second step, the crucial decision, whether or not an issue that was positively selected in the first stage is placed on the strategic agenda, is made by an organization's TMT.

3.3 Retention mechanisms

A basic assumption of evolutionary theory is that socio-cultural systems, such as organizations, aim at reproducing themselves over time (Campbell, 1969). Hence, once strategic issues are placed on the strategic agenda, retention mechanisms engage in the preservation, duplication and propagation of the positively selected strategic issues. Moreover, the retention mechanisms also engage in the preservation of the strategic agenda structure. These retention mechanisms may involve forces such as inertia and persistence, which perpetuate and maintain a status that was selected in the past (Miner, 1994).

By their nature, resolving strategic issues typically requires substantial resource investments. However, the impact of strategic issues does not end with their resolution. Rather, resolving strategic issues and by that the prior commitment to the respective strategic issue, somewhat institutionalizes the concerns attached to the strategic issue within the organization. This effect, in turn, is stronger, the higher the resource investment for issue resolution. It is this institutionalization of former agenda items, then, that acts as a retention mechanism. Preserving past organizational concerns over time, it contributes to the stability of the organization. Hence, although issue resolution does not have a direct effect on the process of SAB, it does exert influence indirectly, as it provides a source for additional variation in future periods (Ocasio, 1997).

4. Strategic agenda building contingency

In the previous section the SAB model was developed, based on the evolutionary framework of variation, selection, and retention. Subsequently, critical contingency variables are incorporated into the model. These critical contingency variables are represented by an organization's core elements. Apart from strategy, culture, structure and the TMT, the structure of the strategic agenda itself is considered as critical contingency. In contrast to the aforementioned core elements, the strategic agenda structure acts as a retention mechanism, rather than as a selection mechanism. Finally, reflecting the impact of past issue resolution, an organization's past performance acts as some kind of regulative mechanism.

4.1 Strategy

Every organization possesses a strategy, that is, a fundamental way of competing and prospering within its environment (Hambrick, 1981). In a descriptive sense, the term strategy refers to a pattern in a stream of decisions. According to Mintzberg and Waters (1985) real-world strategies are composed of deliberate strategies, meaning realized as intended, and emergent strategies, meaning realized despite, or in the absence of, intentions.

The explicitly articulated, intended strategy determines how an organization defines its relationship to its environment in the pursuit of its objectives (Bourgeois, 1980). Thus, strategy has two primary purposes: defining the segments of the environment, in which the organization will operate and providing guidance for subsequent goal-directed activities. In doing so, strategy reduces uncertainty by framing an uncertain situation into more comprehensible sub-problems or tasks, which fall within the competence of the organization (Rumelt, 1979). As a result, an organization possesses a strategic frame (Huff, 1982) that defines some issues more important than others. Hence, the intended strategy makes some issues easier to concentrate on and others easier to ignore as it influences the salience of available strategic issues (Dutton, 1988; Richter & Schmidt, 2005).

Nevertheless, research has shown that organizations may pursue strategic issues independent of the intended strategies, with the result that new strategies emerge (Burgelman, 1983). For such strategic issues, however, there is no common

understanding throughout the organization about the importance and eligibility. As a result it is very likely, that these strategic issues will receive less organizational support to be placed on the strategic agenda.

4.2 Culture

Culture can be seen as the social and normative glue that holds an organization together (Smircich, 1983). It is composed of a complex set of values, beliefs, and assumptions that define where, how, and why an organization conducts its business (Barney, 1986; Tushman & Romanelli, 1985). As such, organizational culture has pervasive effects as it establishes points of reference and acts as a cognitive filter. Thus, an organization's culture determines, how issues are interpreted by organizational members, and whether these issues are seen as important, legitimate, and feasible, justifying subsequent actions (Weick & Sutcliffe, 2003). Moreover, culture determines the level of consensus and commitment to mobilizing about an issue. Consequently, similar to strategy, an organization's culture forms a cultural frame, defining some issues as major, while defining others as minor (Shrivastava, 1985; Shrivastava & Schneider, 1984).

The strength of an organization's culture, that is, the degree to which organizational members act in accordance with explicit and implicit rules and norms, can thus be interpreted as the scope of the cultural frame. Organizations with a strong culture have a clear understanding of the meaning and interpretation of organizational action. In other words, there is a strong consensus about the domain of organizational inquiry. Hence, organizations with a strong culture exhibit a cultural frame with only a limited scope. In contrast, organizations with a weak culture have no clear understanding concerning the domain of organizational inquiry. Consequently, organizations with a weak culture exhibit varied and diffuse beliefs and values, which may be interpreted as a broader scope of the cultural frame (Dutton, 1988).

Consensus may indicate organizational support for placing an issue on the strategic agenda. Strategic issues being consistent with the dominant concerns of the organization's culture are likely to receive more consensus, more support and, thus,

are more likely to be placed on the organization's strategic agenda, than strategic issues that are not.

4.3 Structure

An organization's structure describes the enduring allocation of work roles and administrative mechanisms that allow organizations to conduct, coordinate, and control their goal-oriented activities. Hence, it channels collaboration, specifies modes of coordination, allocates power and responsibility, and prescribes levels of formality and complexity (Miller, 1987).

Moreover, the structure of an organization provides the channels of communication, thereby influencing the flow of information (Bower, 1970) and, thus, the allocation of attention (Ocasio & Joseph, 2005). Adopting an information processing perspective, the following analysis is based on the widely accepted dimensions of organizational structure: centralization, formalization, and complexity (Fredrickson, 1986; Miller, 1987).

4.3.1 Centralization

Referring to the degree of concentration of authority, centralization regulates, who is involved in the SAB-process. Thereby, the higher the degree of centralization, the fewer organizational members are involved.

All members throughout the organization are constantly confronted with issues, some of these potentially having strategic implications for the organization. However, strong centralization restricts the information flow as well as the available information processing capacity (McPhee & Poole, 2001). A centralized structure is susceptible for limited information processing capacity and affects the comprehensiveness of issue consideration. Hence, in a highly centralized organization, important issues may go unrecognized until one of the few members involved in the SAB-process perceives and allocates attention to it (Fredrickson, 1986). Apart from the effect on information flow and information processing capacity, the degree of centralization affects the structural location of the members involved (Dutton & Ashford, 1993). In highly centralized organizations, only a small coalition of top-level executives is involved in the SAB-process. Thus, while fewer issues may be recognized, the ones

that are recognized represent issues that fall into the concerns of top managers. Due to their power, they may be able to generate consensus that the issue represents a legitimate concern.

4.3.2 Formalization

Structural formalization refers to the degree to which organizations use rules and procedures to prescribe behavior. Organizations use formal procedures and job descriptions, cost and quality controls, specialists, and professional technocrats to increase the level of rationality in their strategy process (Miller, 1987).

Specialists and technocrats disburden top managers by providing organizations with analytical capabilities and expertise needed, ensuring high levels of rationality. Thus, professional staff counteracts top management's limited information processing capacity. However, formalization is opposed to organicity (McPhee & Poole, 2001). As a result, institutionalizing professional staff may reduce the interorganizational network organicity (Shrader, Lincoln, & Hoffman, 1989). Organizational members that are not part of the professional staff may not engage in the noticing and communication of issues, as they assign this responsibility to the specialized professional staff. Moreover, members may assume that their impetus to consider an issue is unlikely to be followed by top managers, due to the existence of specialized staff. Overall, this may result in a restricted information flow through the organization (Duncan, 1979).

A high level of formalization may also increase the likelihood that the consideration of an issue will be motivated by reactive, as opposed to proactive behavior (Fredrickson, 1986). Following Cyert and March (1963), standard operating procedures may result in ignoring issues that fall outside the focus of formal monitoring systems. As in the case of strategic planning, it may be argued that formalization drives out creativity and proactive behavior. However, assuming scarce resources within organizations, the installation of formalized monitoring systems may suggest that issues being monitored by these systems are considered important and legitimate for the organization. Restricting the leeway of organizational members, formalization reduces the availability of information processing capacity, while at the

same time establishing specific systems and responsibilities dedicated to the process of SAB.

4.3.3 Complexity

An organization's complexity is reflected in the amount of interrelated subunits within the organization. The interrelationship, in turn, may come from horizontal and vertical differentiation, and regional dispersion. Hence, an organization that possesses numerous levels of hierarchy, covers a broad scope, and is active across multiple regions, can be considered as highly complex (Fredrickson, 1986). In this sense, complexity may contribute to organizational fragmentation (Miller, 1987), which in turn can be seen as an organization's attempt to deal with the limited information processing capacity of its members. Imposing boundaries of rationality on organizational members (Thompson, 1967), structure, and in particular complexity, specifies the scope of these boundaries. A highly complex structure has many, but narrowly bounded positions, enabling organizational members to cope with their limited information processing capacity. Although complexity may lead to more conflicts, noise, various information interpretations, and distortions, it is very likely, that, as more organizational members are included in the organization's activities, the overall available information processing capacity increases. This in turn may lead to an increase in awareness with regard to potential strategic issues.

In contrast, Lawrence and Lorsch (1967) have reported, that a high level of complexity may result in different goal orientations across departments. Different organizational members are motivated by different preferences, that is, the salience of individual goals increases. As a result, increasing complexity may cause an alienation of organizational and departmental/individual goals. The pursuit of personal objectives, however, may lead organizational members not to attend to issues that are important for the overall organization. Hence, issue recognition and communication may be biased as members' selective information processing causes them to focus on information that are of primary interest to them and/or their department (Cyert & March, 1963).

4.3 Top management team

Irrespective of how an issue is brought up, the final responsibility to place an issue on the strategic agenda remains with the TMT. Except in the most extreme cases, management of an organization is a shared effort, in which a dominant coalition collectively shapes organizational actions and outcomes. Being a social unit, an organization's TMT has multiple facets that collectively define its nature and actions. Hence, the final decision, whether or not an issue is placed on the strategic agenda is likely to be affected by the structural context of the TMT, that is, its size, composition, and process (Finkelstein & Hambrick, 1996).

4.4.1 Structure

The structure of the TMT refers to the size of the team, the roles of the members, and the interdependence of these roles. The resources available on a team result from how many people are on it (Hambrick & D'Aveni, 1992). Thus, TMT size, that is, the number of top executives with active responsibility for setting the overall direction of the organization, reflects the total amount of attentional resources that can be allocated to strategic issues (Haleblian & Finkelstein, 1993). Consequently, largeness increases the level of attentional resources and enables top management to handle more issues simultaneously.

The roles occupied by members of the TMT exhibit varying degrees of interdependence. Roles are interdependent if an organization's performance depends upon resource sharing and coordination within the team, for example, sharing markets, technology, or capacities. When role interdependences are high, members of the TMT are likely to share, at least to some degree, managerial perspectives and concerns (Michel & Hambrick, 1992). Sharing perspectives and concerns, however, results in allocating attention to the same strategic issues, which in turn may reduce the variety of strategic issues under consideration.

4.4.2 Composition

The structure of the TMT, particularly its size, impacts its composition. Composition is a measure of the collective characteristics of the team, expressed by demographic variety. TMT demography thereby refers to the aggregated, observable external

characteristics of the team, such as heterogeneity, tenure, and size (Smith, Smith, Olian, Sims Jr., O'Bannon, & Scully, 1994). One of the fundamental principles of upper-echelons theory is that observable characteristics are systematically related to psychological and cognitive elements of executive orientation (Finkelstein & Hambrick, 1996), which in turn influences strategic choice and action (Hambrick & Mason, 1984). The size of the TMT, thus, influences functional and demographic variety, and therefore, cognitive heterogeneity, among team members. As the mental models employed by members of the TMT influence what issues get noticed, largeness of the team is associated with variety of strategic issues being noticed. However, the conclusion, that demographic variety leads to cognitive variety, which in turn leads to variety of strategic issues being noticed, may apply only in the short run.

Following Kiesler & Sproull (1982), top managers operate on mental models that are based on historical environments. Hence, current experience and interaction with other members of the TMT are likely to influence future mental models. Assuming furthermore that management is a shared effort of an organization's top management and that strategic decisions are the result of a negotiation process within the team, it is very likely, that mental models of TMT members will converge in the long-run. Increasingly overlapping mental models of TMT members (Knight et al., 1999) yield to a shared cognitive map, the dominant logic, among members of the team (Bettis & Prahalad, 1995; Prahalad & Bettis, 1986). In the following, top management attention is allocated only to strategic issues deemed relevant by the dominant logic, while ignoring all others (Bettis & Prahalad, 1995). In other words, over time, the effect of cognitive variety on strategic issue variety will diminish, as the dominant logic employed will reduce strategic issue variety.

4.4.3 Process

Process refers to the sociopolitical dynamics and behavior, expressed by social integration and consensus, and communication flows within the team while engaging in strategic decision making (Hambrick, 1994). Research has shown that homogeneity among an organization's TMT is positively associated with cohesiveness, conformity, and consensus (Dess & Priem, 1995; Priem, 1990).

Conversely, a TMT tends to include individuals that have demonstrated significant and sustained accomplishments in the past, that are relatively aggressive and achievement-oriented. Thus, TMT homogeneity is likely to enhance rivalries, thereby creating affective conflict arising from personalized incompatibilities or disputes. Rivalries, in turn, obstruct information exchange between members of the team and erode commitment for other team members and their decisions (Amason, 1996; Amason & Sapienza, 1997). Hence, an increase in size, which is likely to be associated with an increase in TMT heterogeneity, will negatively affect the process of interaction among members.

As Steiner (1972) has argued, the productivity of a group is composed of potential productivity minus losses resulting from faulty processes. Applied to the context of managerial attention and the process of SAB, potential productivity reflects the potential attentional resources that can be allocated to strategic issues. Faulty processes, in turn, reflect the aforementioned conflict among members. Thus, although top management's attentional resources increase with team size, faulty processes counteract this increase.

Over time, however, tenure in an organization and in particular in an organization's TMT confers socialization, shared experiences, and the like (Katz, 1982). Therefore, long tenure within the TMT indicates social integration, and reflects a selection process by which only those members, who are willing to embrace certain values and perspectives stay in the TMT (Michel & Hambrick, 1992; Pfeffer, 1983). The longer the TMT is unchanged, the higher the social integration and the less resulting faulty processes. Consequently, similar to the effect of the dominant logic, selection processes will enhance social integration among TMT members, thereby reducing faulty processes. As a result, more attentional resources can be allocated to strategic issues.

4.4 Agenda structure

Organizations differ with regard to their top management's conceptualization and sense-making of internal and external environments. These differences are captured in the form and the content of the organization's strategic agenda (Dutton & Duncan, 1987b). The characteristics of an organization's present strategic agenda, however,

influence what strategic issues are considered to be placed on the strategic agenda in subsequent periods.

4.5.1 Size

The size of a strategic agenda refers to the number of different strategic issues that are placed on it, at one time (Dutton & Duncan, 1987b). Their strategic nature requires that at least a minimum amount of managerial attention is allocated to the strategic issue on the agenda, that is, the agenda item. The total amount of managerial attention that can be allocated to agenda items is determined by the size of and the processes within the TMT (Steiner, 1972). Hence, the size of the strategic agenda determines the average, minimal attentional burden carried by members of the TMT.

A small strategic agenda implies that available managerial attention is allocated to only a few agenda items, leading to a relatively high level of managerial attention per agenda item. Placing new strategic issues on the strategic agenda may reduce the level of attention devoted to the already existing set of agenda items. It is unlikely, however, that the level of attention will fall below the threshold of minimum attention. Conversely, organizations with a large strategic agenda consider many strategic issues at one time. As managerial attention can not be extended at short notice, this results in a reduced average attentional level per agenda item. Placing new strategic issues on the strategic agenda is thus likely to result in falling below the minimum attentional level required for agenda items.

4.4.2 Variety

As in the case of the TMT, agenda size is likely to be associated with agenda variety. The variety of an organization's strategic agenda refers to the degree of relatedness of agenda items over time. However, the degree of relatedness of agenda items is also likely to have an indirect effect on agenda size through its effect on managerial attention. According to Langley, Mintzberg, Pitcher, Posada, and Saint-Macary (1995) related issues are linked as they share information and resources. Moreover, research has shown that two different models of attentional processing exist: controlled and automatic (Schneider & Shiffrin, 1977; Shiffrin & Schneider, 1977).

Controlled attentional processing is highly demanding of attentional capacity and is applied when confronted with novel issues or tasks. In contrast, automatic attentional processing is relatively well learned and comes into operation without the active control of individuals. Hence, issue relatedness helps to economize scarce managerial attention, as members of the TMT can resort to knowledge and experience already available. Unrelated issues require a disproportionate amount of managerial attention, as decision makers are exposed with a set of unknown, complex, ambiguous, and munificent information.

4.4.3 Turnover rate

The turnover rate describes, how fast an agenda item moves out of top management's attentional field and attentional resources are unleashed to be allocated to new strategic issues. Issue turnover does not imply that the agenda item is completely solved. Rather, eliminating an agenda item indicates that the strategic issue does not receive top management attention any longer, be it because the strategic issue was passed to lower levels of the organization or because the issue has lost its relevance for the organization.

A high turnover rate might indicate an efficient 'problem-setter' (Dutton & Duncan, 1987b), as more strategic issues are dealt with per time. Moreover, one can argue that a high turnover rate indicates that strategic issue variety is low. Considering two agenda items of equal magnitude and importance to the organization, top management is likely to resolve issues faster that are related to other agenda items. Thus, the higher the overall relatedness of agenda items, the higher the turnover rate. The vast amount of issues an organization's TMT is confronted with every day pressurizes the team to efficiently resolve agenda items. To show their competence and ability to deal with strategic issues, top management is therefore likely to focus on related issues in order to realize the aforementioned synergies.

4.6 Performance

Following Cyert and March (1963), future organizational actions and outcomes are heavily dependent upon the relative performance to its aspiration level. Actions and outcomes, in turn, are the result of the strategic issues an organization has placed on its strategic agenda in the past.

Hence, key element in the determination of persistence and change is the aspiration level, which serves as a target for organizational performance (Mezias, Chen, & Murphy, 2002). The aspiration level, then, is a function of the following three elements: the aspiration level of the previous period, the attainment discrepancy, and the previous performance of a reference group (Cyert & March, 1963).

Small discrepancies between actual performance and aspiration level signal the accuracy of the organization's current behavior, reflected by past agenda items. Hence, the organization and with it the TMT is likely to maintain current behavior, not modifying the strategic agenda with regard to its size and/or variety. Conversely, considerable discrepancies between actual performance and the aspiration level are likely to initiate change efforts with regard to organizational behavior and strategic agenda, respectively.

Organizations that outperform their aspiration level will interpret this as a proof of the effectiveness of their choices and resolution of agenda items. Consequently, these organizations will amplify and focus more narrowly on their core elements. Strategies will be pursued more aggressively, organizational structure and culture will be reinforced, and top management's mental models will become more homogeneous (Miller, 1993b). As a result, the underlying organizational assumption of continuity of performance and agenda items, will force the organization to search for similar strategic issues to be placed on the strategic agenda.

Crisis situations, in contrast, expressed by sustained low performance, may force a TMT to allocate attention to more distant variations of strategic issues. Sustained low performance, which falls below the aspiration level, will trigger a failure-induced search to close the gap between aspiration level and achievement (Cyert & March, 1963). Consequently, the TMT will search for and place strategic issues on the strategic agenda that are expected to solve the crisis. To allow these issues to be placed on the strategic agenda, however, requires the failure-induced search to

result in an adaptation of an organization's core elements (Miller & Friesen, 1982; Tushman & Romanelli, 1985). Thus, until the crisis is solved, related issues on the strategic agenda will be replaced by more distant ones.

Conversely, research has shown that some organizations and foremost TMTs are characterized by persistence even in crisis situations. Perceptual distortions of the TMT (Westphal & Bednar, 2005) lead to a restricted information accumulation and ignorance of information that reflects negatively on the current course of action. Thus, failure may not necessarily reduce managerial commitment, but may in fact increase commitment to a previously chosen course of action (Milliken & Lant, 1991; Staw, 1981).

The commitment to a previously chosen course of action is likely to be retained only until decreasing performance causes major stakeholders to intervene and force top management to abandon the chosen course of action. Hence, performance has a regulative effect on the organization's core elements, as well as powerful stakeholders. The previously explored elements can now be synthesized into an integrative process of strategic agenda building, depicted in Figure 1.

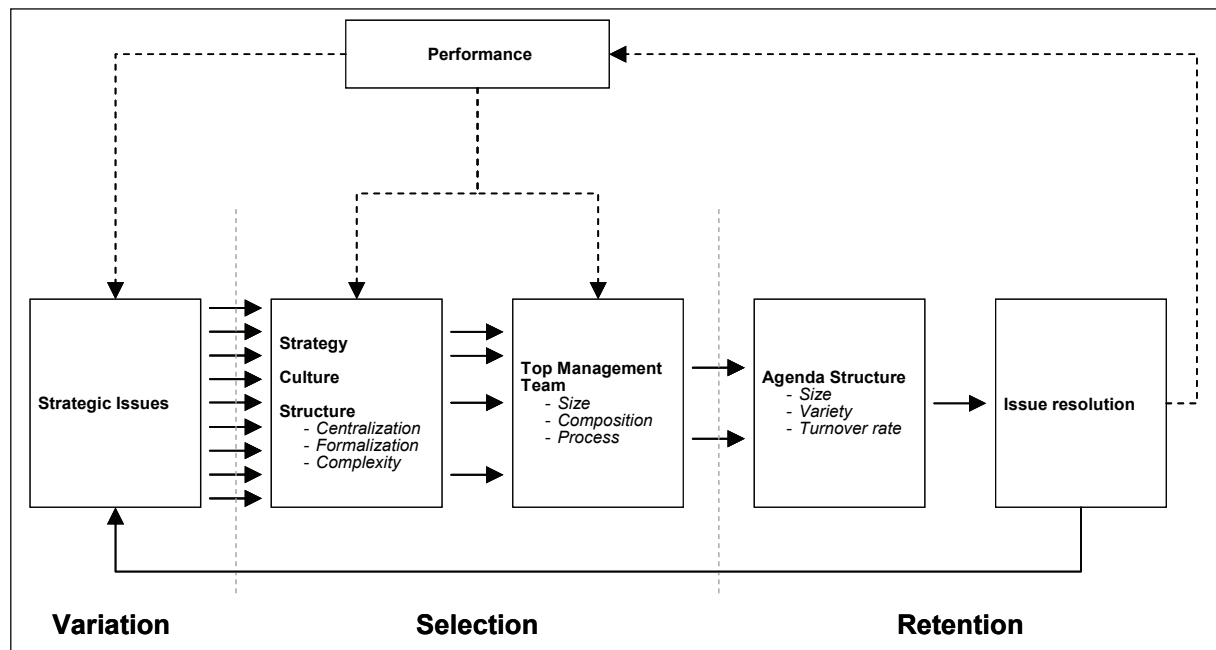


Figure 1: The model of strategic agenda building

5 Implications of the strategic agenda building model

5.1 Path dependency and inertia

Traditionally, research has emphasized the role of capabilities and cognition in explaining organizational path dependency (Prahalad & Bettis, 1986; Teece, Pisano, & Shuen, 1997; Tripsas & Gavetti, 2000). The present model of SAB, in contrast, emphasizes the role of organizational context. With the inception of an organization, basic decisions are made regarding the organization's core elements. Research has uncovered that these initial definitions are likely to play a significant role in future periods (Boeker, 1989; Stinchcombe, 1965), leaving a long-lasting imprint (Baron & Hannan, 2002; Baron, Hannan, & Burton, 1999).

The relative stability of an organization's core elements originates from the fact that their existence is somewhat independent of the members within the organization. Just like routines, core elements are capable of surviving even considerable turnover in organizational members (Levitt & March, 1988). Moreover, while adaptation of core elements is possible, it is a tedious process. For example, while organizational growth may inherently alter an organization's structure, the present organizational structure will be imposed upon the new units.

Organizational moves, that is, the resolution of strategic issues, are not the result of unrestrained choices. Rather, the question whether, when, why, and how an organization responds to issues is highly dependent upon the present organizational context. The historical development of this organizational context determines what issues are rejected and what subset of potential strategic issues is considered for agenda placement. Consequently, an organization's future behavior is considerably dependent upon the historically grown organizational context. In other words, an organization's SAB-process is path dependent.

The influence of history on the SAB-process is further intensified by organizational routines. Organizational routines represent repetitive, recognizable patterns of interdependent actions that were configured in the past. Major organizational routines such as budgeting and strategic planning require TMT attention per se, due to the enormous organizational resources involved. Hence, as organizational routines represent an implicit agreement, it is likely that issues that go along with these routines will directly be placed on an organization's strategic agenda. Consequently,

some issues that are associated with specific organizational routines reach agenda item status more or less automatically, that is, without being considered separately. As Walker (1977) has argued in his work on the agenda of the U.S. Senate, recurring issues consume a considerable amount of attentional resources. As a result, the already scarce and limited managerial attention for 'chosen' strategic issues is further restrained.

Recurring issues contribute to the relative stability of the agenda structure, thereby reducing issue variety. Low variety of agenda items, in turn, narrows the range of potential organizational moves. This simplicity (Miller, 1993b) that implies a low variety of agenda items at one time will also limit interperiod variety of organizational moves, leading to organizational inertia (Hannan & Freeman, 1984). Consequently, path dependency and resulting organizational inertia may inhibit organizations to consider pressing strategic issues and thus inhibit the organization to adequately align with its environment. Hence, if not overcome, path dependency and resulting organizational inertia in the SAB-process may have severe consequences for the organization leading to a decline in performance.

5.2 Overcoming path dependency and inertia

In our model of SAB the organizational context acts as the main source of path dependency and inertia. However, the process of SAB is not a deterministic process. Crucial to overcoming path dependency and inertia is to alter the contingencies in order to place strategic issues on the strategic agenda that are somewhat distant from existing agenda items. As outlined above strong retention mechanisms exist that work against this attempt. Thus, shifting attention to distant strategic issues requires a substantial impulse. Such impulses may include sustained low performance, redefining the reference group or, more dramatic, CEO succession.

We have argued above that sustained low performance will trigger a failure-induced search. While decisions not to change an organization's core elements in crisis situations may seem irrational some organizations are nevertheless characterized by persistence even in crisis situations. Perceptual distortions of the TMT (Westphal & Bednar, 2005) lead to a restricted information accumulation and ignorance of information that reflects negatively on the current strategy. Thus, failure may not

necessarily reduced managerial commitment but may in fact increase commitment to a previously chosen course of action (Milliken & Lant, 1991). Hence, the organization may persist to place blind variations on the strategic agenda. Redefining its reference group may help the organization to overcome this problem.

As proposed by Cyert and March (1963), an organization's adoption is heavily influenced by information about experience and/or performance of a reference group. Research on the level of aspiration and social comparison theory suggests that organizations tend to select a reference group that reflects the average performance of peers, rather than groups that define the performance frontier (Lewin & Massini, 2004). Objectives set in comparison with the reference group regulate the rate and magnitude of strategic change throughout an organization (Massini, Lewin, & Greve, 2005). Hence, selecting reference groups closer to or even below themselves may give organizations the impression that no adaptation of the core elements is necessary, which in turn will foster organizational inertia. In contrast, anchoring objectives to a reference group that defines the performance frontier, may force an organization to constantly remain flexible, thereby adapting its core elements at least to some degree. As a result, the conscious choice of organizations that define the performance frontier may help to overcome path dependency and organizational inertia. If this does not prove successful, a more dramatic measure may be required: CEO succession.

CEO succession affects the process of SAB through its effect on organizational context. While long-tenured CEOs often accumulate and centralize power, new CEOs spread authority, that is, involve more organizational members in order to obtain political support and information (Hambrick & Fukutomi, 1991; Miller, 1993a). Likewise, established CEOs are likely to feel self-confident and thus reduce information gathering. New CEOs, in contrast, will accumulate more information as they are unfamiliar with their new domain. Consequently, new CEOs will promote extensive and open channels of communication (Miller, 1993a). Moreover, established CEOs become increasingly committed to their paradigm, reflecting an interconnected worldview and a repertoire of skills for applying it. As a result, organizations become overly committed to their paradigm, with a decreasing alignment between organization and environment. New CEOs will arrive with paradigms that are well suited to current conditions, that is, to realign organization

and environment (Henderson, Miller, & Hambrick, 2006). Consequently, new CEOs are likely to alter an organization's strategy. Thus, through its effect on an organization's core elements CEO succession may represent the impulse needed to somewhat break out of path dependency in the process of SAB and overcome inertial forces.

6 Conclusion

Traditionally, research on the early stage of strategy processes, has treated this process on an issue-by-issue basis. The present model, however, takes a different view. Building on evolutionary theory, we adopt an expressly dynamic view to explain the SAB-process. We argue that whether or not an issue is placed on the strategic agenda is foremost dependent upon the organizational context. Moreover, the path dependency of the SAB-process helps to explain organizational inertia and thus an organization's bias towards incremental rather than revolutionary change.

The ideas presented in this paper suggest some new answers to one of the fundamental question in strategy research: how do organizations behave. To further advance this understanding future research should seize the ideas presented in this paper and empirically explore their validity. Despite Dutton and Duncan's (1987a) call for more empirical research on strategic issue management hardly any studies on this topic are available. Thus, in-depth case studies are required to open up the black box of a company's corporate level strategic issue management. In-depth case studies could reveal the numerous interconnections that exist between the presented contingencies and their effect on the SAB-process.

Although the contextual model of SAB is likely to explain a great deal of organizational behavior, important aspects such as the behavior and influence of individuals in the SAB-process are not considered. Consequently, to fully understand organizational behavior it should be aimed for an integration of research on the contextual influence with research in the upper-echelon (Hambrick & Mason, 1984) and issue-selling (Dutton & Ashford, 1993) tradition.

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