Journal of World Business 48 (2013) 110–121

Contents lists available at SciVerse ScienceDirect

Journal of World Business

journal homepage: www.elsevier.com/locate/jwb

Antecedents and temporal dynamics of strategic divergence in multinational corporations: Evidence from Europe

Matthias Brauer [a,*], Mark Heitmann [b,1]

[a] Institute of Management, University of St. Gallen, Dufourstrasse 40a, 9000 St. Gallen, Switzerland
[b] University of Hamburg, Welckerstraße 8, 20354 Hamburg, Germany

ARTICLE INFO

Keywords:
Strategic divergence
Intraorganizational evolutionary process of strategy formation
Strategic intent in multi-national corporations

ABSTRACT

Coordinating consistent strategy implementation has been identified a key challenge for multi-national corporations. Based on intraorganizational evolutionary models of strategy formation, this paper thus empirically investigates the antecedents and temporal dynamics of strategic divergence. Strategic divergence is the deviation of a firm's resource allocation decisions with its articulated concept of corporate strategy. Large-scale empirical analysis of 11,406 resource allocation decisions of twenty-five publicly listed, multi-national and multi-business European firms indicates that decision type, operational and divisional manager involvement in decision making and structural context changes exert a significant influence on strategic divergence. Importantly, results further suggest that firms' levels of strategic divergence tend to increase over time and that the antecedents of strategic divergence have a differential impact as time passes.

1. Introduction

Organizational and strategic management scholars highlight the difficulties corporate managers encounter in aligning dispersed organizational activities with a given strategic intent (e.g., Chandler, 1962; Mintzberg, 1978). Particularly in multinational corporations (MNCs), the challenge of balancing planned and divergent strategic behavior is a major organizational challenge as multi-national corporations face the tension between local responsiveness and global integration (Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987). Porter noted earlier that "implementing a global approach to strategy requires a difficult organizational reorientation for many firms" (1986: 7). Similarly, subsequent contributions in international business research highlight that managing the internal consistency of processes within multi-national corporations persists to be a key challenge (e.g., Kim & Mauborgne, 1993; Martinez & Jarillo, 1991; Roth & Morrison, 1992; Segal-Horn & Dean, 2009; Yaprak, Xu, & Cavusgil, 2011). Rapid international expansion paired with increasing environmental uncertainty have thus encouraged a large number of prominent, multi-national corporations (e.g., Allianz, GE, IBM, Siemens, West Cargo) to undertake conscious efforts to make their strategy implementation processes more adaptive by complementing their traditionally top down driven strategic planning approach with a more bottom-up oriented strategic initiative approach (Bryan, 2002; Floyd & Woolridge, 1996; Lechner & Floyd, 2007). An intraorganizational evolutionary logic, comprising the three stages of variation, selection, and retention (Campbell, 1969), underlies the strategic initiative approach. Corporate management first of all attempts to encourage the emergence of strategic initiatives (variation) and in subsequent stages manages the de-selection and retention process within the ecology of strategic initiatives.

Despite the increased importance of strategic divergence in the face of increased international diversification and the prominence of intraorganizational evolutionary logics within modern multi-national corporations, only limited research is available on the intraorganizational evolutionary process of strategy formation. As a consequence, current insights on the antecedents of divergences between firms' resource allocation and their official corporate strategy concept still rely on two single, descriptive case studies – namely, Burgelman's (1983a) study of Intel's strategic evolution in the 1980s, and Lovas' and Ghoshal's (2000) study of Oticon, a Danish hearing aid company. Even though these studies build the foundation for the academic discussion on intraorganizational evolutionary processes of strategy formation, a systematic validation of their conclusions on the antecedents of strategic divergence by larger scaled studies is still missing. Due to its increasing complexity, strategic management of today's multi-national corporations varies fundamentally, making large scale studies particularly important for understanding world business.

* Corresponding author. Tel.: +41 71 224 2756; fax: +41 71 224 2355.
E-mail addresses: matthias.brauer@unisg.ch (M. Brauer), mark.heitmann@wiso.uni-hamburg.de (M. Heitmann).
[1] Tel.: +49 40 42 838x8700; fax: +49 40 42 838.

1090-9516/$ – see front matter
http://dx.doi.org/10.1016/j.jwb.2012.06.012

Moreover, though dealing with an inherently dynamic phenomenon, the temporal dynamics of the intraorganizational evolutionary processes of strategy formation remain unexplored. Consequently, scholars call repetitively for focused research on the internal factors that influence the balance between divergent and conformant strategic behavior at any given moment in time, and the evolution of this balance over time (e.g., Shimizu & Hitt, 2004).

Building on Burgelman's (1983a) and Lovas' and Ghoshal's (2000) intraorganizational evolutionary models of strategy formation, this paper addresses the following. First, the paper tests how the factors central to their models impact strategic divergence in multi-national corporations. Second, the study adds a dynamic dimension to existing research models by investigating how strategic divergence evolves over time. Third, the study advances extant insights by analyzing whether the driving factors of strategic divergence exert a stable effect across time. Specifically, this report investigates if these factors get more or less important for strategic divergence as time passes.

Previous research addresses the impact of strategic divergence on firm performance (e.g., Brauer & Schmidt, 2006; Covin & Slevin, 1998; Shimizu & Hitt, 2004). The results are that the degree of environmental turbulence (or hostility) in international markets moderates the impact of divergence on performance. In particular, researchers support the intuitive assumption that strategic divergence increases performance in highly turbulent environments while its impact is negative in stable environments. Therefore, firms' ability to adjust their levels of strategic divergence in response to varying degrees of environmental turbulence at different points in time seems critical. However, research provides little empirical insights on how multinational firms can correctly anticipate and manage divergence. Consequently, this paper concentrates on the antecedents and temporal dynamics of strategic divergence rather than on its consequences (see Fig. 1).

The remainder of the paper has the following structure: First, this report provides an overview of the contributions on the intraorganizational evolutionary process of strategy formation in multi-business firms. Based on the models by Burgelman (1983a) and Lovas and Ghoshal (2000), the article derives a set of hypotheses on the factors driving and hindering firms' strategic divergence. Second, the methods section presents the research design and data analyses techniques. The third part discusses the major findings as well as their theoretical and practical implications. The conclusion comprises an outline of the study's limitations and suggestions for future research on strategic divergence.

2. Theoretical background and hypotheses

The evolutionary perspective serves as a robust and useful view on firms' strategy processes. Seminal studies such as Mintzberg's (1978) work on emergent strategy, Quinn's (1980) description of strategy as logical incrementalism, and Bower's (1970) model of the resource allocation process are evolutionary in their underlying logic. Building on these earlier contributions, the intraorganizational evolutionary perspective on strategy formation has subsequently been strongly influenced by Burgelman (1983a), Burgelman (1991) and Lovas and Ghoshal (2000). In their contributions, they derive two similar models on the intraorganizational evolutionary process of strategy formation which depict the major intraorganizational factors that impact a firm's strategic evolution (see Table 1 for an overview).

2.1. Unit of selection

Both models build on the established notion in strategy process research that strategies form as a pattern in a stream of resource allocation decisions (Mintzberg, 1978). Resources (or strategic initiatives) thus constitute the unit of analysis – respectively the unit of selection – in both models.

2.2. Objective function

The concept of corporate strategy (or strategic intent) serves as the primary guide for a firm's strategic evolution (e.g., Burgelman, 1983a; Burgelman & Grove, 1996; Love, Priem, & Tom, 2002). Burgelman (1983a: 1350) defines a firm's concept of corporate strategy as "a more or less shared frame of reference for the strategic actors in the organization, which provides the basis for corporate objective setting in terms of its business portfolio and resource allocation". In addition, Schmidt and Brauer (2006) found that corporate concepts not only serve as guidelines for managers but also impact assessments and forecasts of external stakeholders, such as alliance partners, trade unions, investors, and analysts. Consequently, the strategic divergences of multi-national corporations can be conceptualized as the match between resource allocation and the concept of corporate strategy. In essence, the

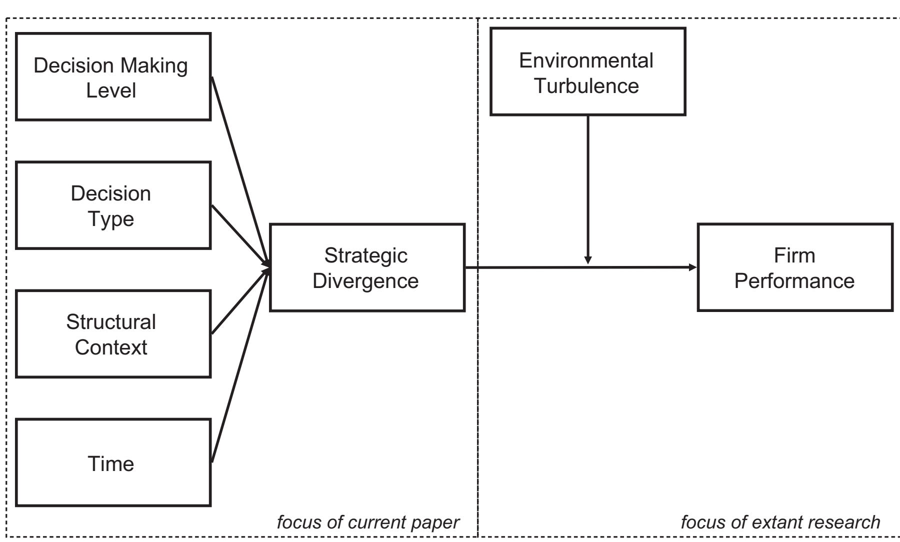

Fig. 1. Scope of the current study.