Inducing Strategic Initiatives at a Startup Firm: Understanding the Role of the Co-founding Team

Abstract

I propose here, a study to understand the process of inducing strategic initiatives at a startup firm. Building on the model of strategy as a process of guided evolution (Lovas & Ghoshal, 2000), I seek to detail how co-founders at a startup firm induce strategic initiatives by orchestrating influence on variation, retention and selection of ideas, people and projects over time. Using a comparative case study of Paypal and Billpoint at around the turn of the 20th century, I hope to enrich the Lovas & Ghoshal (2000) model in the empirical context of the digital economy.

Keywords:
co-founders, process model, strategic initiatives, variation selection retention

Inducing Strategic Initiatives at a Startup Firm: Understanding the Role of the Co-founding Team

> *I disagree and commit all the time. We recently greenlit a particular Amazon Studios original. I told the team my view: debatable whether it would be interesting enough, complicated to produce, the business terms aren't that good, and we have lots of other opportunities. They had a completely different opinion and wanted to go ahead. I wrote back right away with* ***"I disagree and commit and hope it becomes the most watched thing we've ever made."*** *Consider how much slower this decision cycle would have been if the team had actually had to convince me rather than simply get my commitment.*
>
> ***Jeff Bezos***, reflecting on a recent *strategic initiative* at Amazon (Bezos, 2016).

One of the recent debates among scholars in the strategy process tradition is whether strategic initiatives in firms are induced or are autonomous. In incorporating a "variation selection retention" framework into the process research tradition, Burgelman (1991) presents the strategic process as being either induced by management or being autonomous from across the organization.

Lovas & Ghoshal (2000) define strategic initiatives as "a deliberate effort by a firm at creating or appropriating economic value from the environment, which is organized as an independent project with its own profit and loss responsibility". The focus on economic value leads to the additional recognition that not all strategic initiatives survive the initial stages to become a part of the firm's product line as the strategic initiative could be hampered by any number of internal, technical or market related issues. This very definition lends itself into an evolutionary process model consisting of variation (the introduction of a new product or service), selection (appropriating resources from the environment), and retention (continued capacity to appropriate resources over time). Saliently, this maybe applied to internal as well as external market conditions of a firm. By treating the organization itself as the platform for ecological selection, Lovas & Ghoshal (2000) suggest that all strategic processes may be considered autonomous.

The management of strategic initiatives involves selecting and motivating talent, communicating the strategic intent, guiding resource allocation and providing sense and direction when things do not work out. The Lovas & Ghoshal (2000) model is particularly appropriate in the context of a startup firm, where traditional management is either absent or is manifested in a decentralized way. If we assume that all strategic initiatives are autonomous, it becomes interesting to understand how startup firms guide the strategic initiatives in the direction of the co-founders'strategic intent. As the quote from Jeff Bezos at the beginning of this section suggests, strategic initiatives at firms make take complex paths. This provides the motivation for the study proposed in this paper, to simplify and explain that process better.

In the following sections, I review process theories of the past and present and suggest why the Lovas & Ghoshal (2000) framework may be the appropriate one to study strategic initiatives in a startup firm.

REVIEW OF THE EVOLUTION OF THE STRATEGY PROCESS LITERATURE

The tradition of process research applied to strategic initiatives goes at least as far back as Bower (1970). I briefly trace the evolution of this tradition in the following sections. A snapshot of the original models have been provided in Appendix A.

Classical theories

Noda & Bower (1996) An explicit recognition of inherent organizational complexities, often described as 'possible goal incongruence,' 'information asymmetry,' and 'organizational politics' (e.g., Barnard, 1938; Simon, 1945; Cyert and March, 1963; Crozier, 1964), as well as 'unpredictable' and 'uncontrol- lable' environments (e.g., Schumpeter, 1934; Nelson and Winter, 1982; Thompson, 1967; Pfeffer and Salancik, 1978; Miles, 1982), has led some strategic management scholars to describe how strategy is actually formed instead of prescribing what it should be. Findings from their empirical studies suggest that strategy is, more or less, emergent from lower levels of organizations (e.g., Mintzberg, 1978; Pascale, 1984; Mintzberg and Waters, 1985), whether through trial-and-error learning (Mintzberg and McHugh, 1985), incrementally with logical guidance from the top (Quinn, 1980), or such that small changes are often punctuated by a sudden big change in a relatively short period (Miller and Friesen, 1984; Tushman and Romanelli, 1985; Gersick, 1991). From this strategy process perspective, strategy is 'a pattern in a stream of decisions and actions' (Mintzberg and McHugh, 1985: 161) that are distributed across multiple levels of an organization. Noda & Bower (1996) Whereas some of the scholars associated with this line of research see the process as unguided or 'muddling through' (e.g., Lindbloom, 1959; Wrapp, 1967), others see part of top manage- ment's task as intervening in the emergent strat- egy process and attempting to maneuver the enterprise to a preferable course of direction. These scholars explore multilevel managerial activities that shape the strategy process, inter- acting with external and internal forces. Bower (1970) initiated this line of inquiry by conducting an intensive field-based study on strategic planning and capital investment in a large, diversified firm and presenting a parsimonious framework, grounded in the field data, for understanding the interplay of those managerial activities. His pro- cess model was validated by subsequent field studies in different organizational settings and on various strategic processes (see Bower and Doz, 1979, for the details of these studies). It was then further extended by Burgelman (1983a) in his clinical study on internal corporate venturing (ICV) in a large corporation. Noda & Bower (1996) suggests that the Bower-Burgelman (B-B) process model of strategy making in a large, complex firm depicts multiple, simultaneous, interlocking, and sequential managerial activities over three levels of organizational hierarchy (i.e., front-line or bot- tom, middle, and top managers) and conceptualizes intraorganizational strategy-making processes as consisting of four subprocesses: two interlocking bottom-up core processes of 'defi- nition' and 'impetus' and two overlaying corporate processes of 'structural context determination' and 'strategic context determination.' Definition is a cognitive process in which technological and market forces, initially ill defined, are communi- cated to the organization, and strategic initiatives are developed primarily by front-line managers who usually have specific knowledge on tech- nology and are closer to the market (Chakravarthy and Lorange, 1991; Jensen and Meckling, 1992). Impetus is a largely sociopolitical process by which these strategic initiatives are continually championed by front-line managers, and are adopted and brokered by middle managers who, in doing so, put their reputations for good judg- ment and

organizational career at stake. The role of top managers is limited in that they do not necessarily have the appropriate knowledge or information to evaluate technical and economic aspects of the strategic initiatives, and tend to rely on the track records or credibility of propos- ing middle managers in making resource allo- cation decisions (Bower, 1970). Figure 5 in the appendix displays the original resource allocation process suggested by Bower (1970)

Figure 6 in the appendix displays the original resource allocation process suggested by Mintzberg (1978)

Figure 7 and Figure 8 in the appendix displays the original resource allocation process suggested by Quinn (1980)

Figure 9 in the appendix displays the Bower-Burgelman (B-B) model proposed by Burgelman (1983)

Lead into the evolutionary framing of process models in the variation selection retention framework. Mention Burgelman (1991, 1994); Lovas & Ghoshal (2000); Noda & Bower (1996)

Including the Variation Selection Retention framework in the Burgelman (1991, 1994) Model

Figure 1

Insert FIGURE 1 about here.

PROPOSITION 1. Firms that are relatively successful over long periods of time, say ten years or more, will be characterized by top managements that are concerned with building the quality of the organization's induced and autonomous strategic processes as well as with the content of the strategy itself.

PROPOSITION 2. Firms that are relatively successful over long periods of time, say ten years or more, will be characterized by maintaining top driven strategic intent while simultaneously maintaining bottoms-up driven internal experimentation and selection processes.

PROPOSITION 3. The population of firms with successful strategic reorientations will contain a significantly higher proportion of firms whose strategic reorientations were preceded by internal experimentation and selection processes than the population of firms with failing strategic reorientations.

The intraorganizational perspective by Burgelman (1991) extends frameworks presented by Mintzberg (1978) and Quinn (1980) by highlighting processes through which emergent strategies become part of realized strategies and by providing some evidence that logical incrementalism is likely to be variation reducing.

Figure 2

Insert FIGURE 2 about here.

Treating all strategic processes as autonomous in the Lovas & Ghoshal (2000) Model

In contrast to this view in which autonomous strategic initiatives serve to challenge the formal strategy of the firm, guided evolution is based on the experiences of a firm that has attempted to replicate a natural selection environment within itself. As a consequence, the distinction between induced and autonomous strategic initiatives is not as salient or as useful here as in Burgelman's model. For example, in a process of guided evolution, all strategic initiatives are autonomous in the sense that someone in the organization initiates them. Yet, they are all induced, in the sense that the process of variation selection retention is guided by a strategic intent that is defined by top management. As a result of this difference, guided evolution posits a role of top management that is very different from the role one can infer from Burgelman's model. In Burgelman's model, the key task of top management is to resolve the tension between the autonomous and induced strategy processes by acting as the selection filter-i.e., through resource allocation. Yet, as the work of March and Simon (1958), Quinn (1980), Lindbloom (1959), and others have shown, in practice this role of top management is severely constrained. These constraints are clearly acknowledged by researchers within the Bower-Burgelman tradition: as has been noted by Noda and Bower (1996: 186), top management's role in shaping the strategic context tends to be retroactive rationalization and their influence on structural context is believed to be severely constrained because of inertial forces. Paradoxically the reasons for most of these constraints are to be found in the institutionalized administrative systems and processes. In other words, the control systems developed to ensure efficient implementation of past strategies end up constraining top management's discretion in later time periods. In the model of guided evolution, in contrast, the role of top management is primarily twofold: (i) to create a set of administrative systems that would replicate the processes of natural selection within the organization; and (ii) to guide those processes by defining the strategic intent and the units of selection in the evolutionary process. In other words, top management has traded off direct control through the structural context (i.e., the implementation of predefined product-market strategies) against greater control of the strategic intent. The model consists five main elements, viz., (1) strategic initiatives and human and social capital, which are the units of selection; (2) strategic intent, which defines the objective function; (3) administrative systems, which facilitate the evolutionary process; sources of variation; and (5) agents of selection and retention in the evolutionary process, both which potentially include every employee of company.

Insert FIGURE 3 about here.

Insert FIGURE 4 about here.

Applying on the Lovas & Ghoshal (2000) model in a startup firm

Define strategic initiatives and strategic intent in the variation selection retention framework. Suggest why Lovas & Ghoshal (2000) model is an appropriate one to study the process of inducing strategic initiatives at firms. Suggest without reference that co-founding team at a startup firm execute the role of middle and higher levels of management in larger firms. Refer to characteristics

of startup firms without citation. Strategic initiatives may be induced in a firm through a series of actions. Recruitment. Financing. Spinning of as an independent project. Argue why strategic initiatives are well suited to an evolutionary model - because there is an adequate role for both managerial intervention as well as environmental selection. Seondly, there will be enough variance for the internal selective system to operate on.

RESEARCH PROPOSAL

A central problem of evolution in cultural and social systems is the tension between the creation of new variants (strategic initiatives) versus the retention of previously selected variants (strategic initiatives).

Research Question

Theory

Strategic initiatives therefore 'emerge' pri- marily from managerial activities of front-line and middle managers, as implied by the Carnegie school bottom-up problem-solving perspective (Simon, 1945; Cyert and March, 1963; March and Simon, 1965) and suggested in many other descriptive strategy process studies. Nevertheless, top managers can exercise critical influences on these activities by setting up the structural context (i.e., various organizational and administrative mechanisms such as organizational architecture, information and measurement systems, and reward and punishing systems) to reflect the cor- porate objectives, and thereby manipulating the context in which the decisions and actions of lower-level managers are made (Bower, 1970), as suggested by the Harvard top-down administrative perspective (Chandler, 1962; Learned et al., 1965; Andrews, 1971). The development of those stra- tegic initiatives would lead to the refinement or change of the concept of corporate strategy, thereby determining 'strategic context' over time. Strategic context determination is conceived pri- marily as a political process through which middle managers delineate in concrete terms the content of new fields of business development for the corporation and attempt to convince top managers that the current concept of corporate strategy needs to be changed so as to accommo- date successful new business development (Burgelman, 1983a, 1983b).

The central feature of the B-B model is a resource allocation process in which bottom-up strategic initiatives compete for scarce corporate resources and top managers' attention to survive within the corporate contexts-structural and strategic contexts. Burgelman (1991), in his in-depth field study on Intel's corporate renewal, further developed the idea of intraorganizational competition among bottom-up initiatives and proposed an intraorganizational ecological perspective, following the variation-selection-retention frame- work of cultural evolutionary theory (Campbell, 1969; Aldrich, 1979; Weick, 1979). Strategic initiatives are identified and examined in the definition process, within the corporate context (variation), are selected out in the impetus pro- cess by corporate context as 'internal selection environment' (selection), and lead to the reinforcement or modification of corporate context (retention). Burgelman (1994) argues that Intel's internal selection environment, particularly its 'maximizing margin-per-wafer-start' resource allocation rule, reflected selective pressures from the product market in ways that helped the firm exit from the increasingly competitive memory business and refocus on microprocessors.

Leading into H1a We do so since the scale is symmetric across the Center (C), any initial mapping As March (1994) has noted, problem in attempting to 'engineer' or guide evolutionary processes in social systems is to specify what part of the system one is to optimize. This is a problem because social systems are nested in space; i.e., they consist of many different parts, which are interrelated with one another. Because what might be best for one part of the system (e.g., the engineering department) may not be what is in the best interest of another part of the system (e.g., the marketing department), it is necessary to specify clearly what part of the system one wants to optimize on. In the guided evolution model, the purpose of administrative systems is role. Its purpose is not to control the retention of predefined strategies, but to help manage the coevolution of strategic initiatives and human and social capital on a distributed basis. More specifically, the intention is to ensure that the variation, selection, and retention of strategic initiatives and human and social capital are informed by the local knowledge of people within the firm (Lovas & Ghoshal, 2000). Positive side in the role of management There are two important implications of such coevolution. On the positive side, to the extent top management can influence where and how employees use their time and energy, they can also influence what human and social capital is created and maintained. In the proposed model, this is done in two ways: first, by relying on a strategic intent to guide the evolution of strategic initiatives, thereby influencing the production and replication of the human and social capital that coevolve with them; and, second and related, by relying on a strategic intent to signal what human and social capital top management expects to be valuable in the future, thereby influencing what skills, knowledge, and business relationships people are motivated to build and maintain (Lovas & Ghoshal, 2000). *Hypothesis 1a: When the institutional field is open to influence, slow learning adversarial agents will raise overall performance higher than slow learning agents with a neutral orientation*

Leading into H2a source: Lovas & Ghoshal (2000) The members of the top management group had five main responsibilities: (1) to develop and articulate strategic goals which defined the strategic intent of the organization; (2) to sponsor strategic initiatives; (3) to allocate financial capital to strategic initiatives; (4) to recruit people to the organization; and (5) to take responsibility for the development of one area of functional expertise and knowledge in the organization. All employees who were not members of the top management group had two main responsibilities: (1) to work on at least two strategic initiatives at any given point of time; and (2) to have experience in two or more functional areas, in at least one of which he or she had to be an expert. In addition, some employees served as project managers, but then only as a temporary role for the duration of the project. Negative side On the negative side, to the extent the strategic intent is not providing effective selection pressures in the internal ecological environment, the result may be random drift when undirected changes in the firm's stock of human and social capital accumulate from one time period to another (McKelvey, 1982; Hannan and Freeman, 1989). As a consequence, valuable human and social capital may be gradually lost. Likewise, if the strategic intent is changed, but does not guide the coevolution between strategic initiatives and human and social capital in an adaptive direction, existing valuable human and social capital may be lost. Finally, if the strategic intent is changed too often, a firm may lose existing human and social capital through too frequent

variation (e.g., mutation, recombination, hybridization), and not be able to focus long enough on a certain set of issues to develop and retain valuable human and social capital in any particular.

Hypothesis 2a: For the same initial outcome preferences, the overall performance score varies curvilinearly with difference in the rates of learning of the agent and the institutional field

Data and Method

What is the sample. Why is it chosen. How is it going to contribute. Sample Selection Burgelman (1991) suggests that future research could examine whether consistently successful firms are characterized by top managements' spending efforts on building each organization's strategy-making processes; whether such firms simultaneously exercise induced and autonomous strategic processes; and whether successful reorientations are more likely to be preceded by internal experimentation and selection processes effected through the autonomous strategic process than are the unsuccessful ones. Future research could also examine the possibilities that there may be an optimal level of ambiguity in the concept of strategy (March 1978) and an optimal degree of coupling in the structural context (Weick 1976). This would require studying the working of strategy-making processes in different types of organizations, such as generalists versus specialists (Freeman and Hannan 1983) or defenders, prospectors, analyzers and reactors (Miles and Snow 1978), and under different types of environmental conditions (e.g., Freeman and Hannan 1983, Eisenhardt 1989).

LIMITATIONS

Suggest how this study may help inform the literatures that it is drawing from, and the interesting research avenues it will open up. Discuss level of generalizability.

SUMMARY

Recap and motivate interest in framework, in theoretical value as well as in the particular empirical setting.

REFERENCES

Bezos, J. P. 2016. Letter to shareholders. ***Amazon.com, Inc.***.

Bower, J. L. 1970. ***Managing the resource allocation process***. Boston, Massachusetts: Harvard Business School Press.

Burgelman, R. A. 1983. A process model of internal corporate venturing in the diversified major firm. ***Administrative Science Quarterly***, 28(2): 223–244.

Burgelman, R. A. 1991. Intraorganizational ecology of strategy making and organizational adaptation: Theory and field research. ***Organization Science***, 2(3): 239–262.

Burgelman, R. A. 1994. Fading memories: A process theory of strategic business exit in dynamic environments. ***Administrative Science Quarterly***, 39(1): 24–56.

Lovas, B., & Ghoshal, S. 2000. Strategy as guided evolution. ***Strategic Management Journal***, 21(9): 875–896.

Mintzberg, H. 1978. Patterns in strategy formation. ***Management Science***, 24(9): 934.

Noda, T., & Bower, J. L. 1996. Strategy making as iterated processes of resource allocation. ***Strategic Management Journal***, 17: 159–192.

Quinn, J. B. 1980. ***Strategies for change: Logical incrementalism***. Homewood, Illinois: Richard D. Irwin, Inc.

APPENDIX A: CLASSICAL PROCESS MODELS

Insert FIGURE 5 about here.

Insert FIGURE 6 about here.

Insert FIGURE 7 about here.

Insert FIGURE 8 about here.

Insert FIGURE 9 about here.

FIGURE 1: Intraorganizational Ecology of Strategy Making and Organizational Adaptation, adopted from Burgelman (1991)

Intraorganizational Ecological Processes

Strategic Processes	Variation	Selection	Retention	Ties to Adaptation
Induced	Strategic initiatives seeking resources for projects that correspond to internal selection pressures of structural context, fit with the current organizational strategy, and offer access to regular opportunity structure for career advancement. Originate at operational-level but intended to be driven by top management's ex ante vision. Enhanced by availability of growth opportunities remaining in current action domain.	Initiatives selected through administrative mechanisms (e.g., strategic planning) and/or cultural influencing (e.g., reference to key values). Differential allocation of resources to different areas of strategic initiative. Key is that internal selection reflects current external selection pressures.	1. Organizational learning about bases for past/current survival (variously embodied). 2. Distinctive competences (variously embodied). 3. Organizational goals. 4. Organizational action domain. 5. Organizational character. All of these elements integrated in ex ante vision	1. *Relative inertia*. Organizational survival is due to a good fit of internal selection processes with the environment. Survival motivates conservatism on the part of top management and desire to leverage existing organizational learning through induced process. Reluctance to change organizational strategy. 2. *Adjustment*. Relatively minor changes in strategy to accommodate environmental change.
	Radically new induced initiatives initiated by top management.	Major changes in structural context.	Major changes in the dimensions of organizational strategy.	3. *Reorientation*. Major changes in strategy in response to major environmental change.
Autonomous	Strategic initiatives outside scope of current strategy. Driven by operational-level managers seeking to use their skills in new combinations with organization's distinctive competences and, in some cases, seeking career advancement through alternative opportunity structure. Enhanced by availability of unabsorbed slack	Defining strategic context for new initiatives through: · finding resources outside regular resource allocation process; · demonstrating viability in external environment through entrepreneurial activity; · mobilizing internal support on the part of upper level managers; · developing new competences/skills. · setting stage for an amendment in the organizational strategy.	Changes in organizational learning, distinctive competence, and relative importance of new activities in total domain activity, which, cumulatively, lead top management to recognize that a major change in strategy is necessary and feasible. Lead to new, ex post vision. Once formally ratified, new vision becomes part of the basis for the induced process.	4. *Strategic renewal*. Major change in organizational strategy preceded by internal experimentation and selection offers organization possibilities for anticipatory adaptation to new environmental demands and/or to enter new niches.

FIGURE 2: Forces driving the strategic business-exit process, adopted from Burgelman (1994)

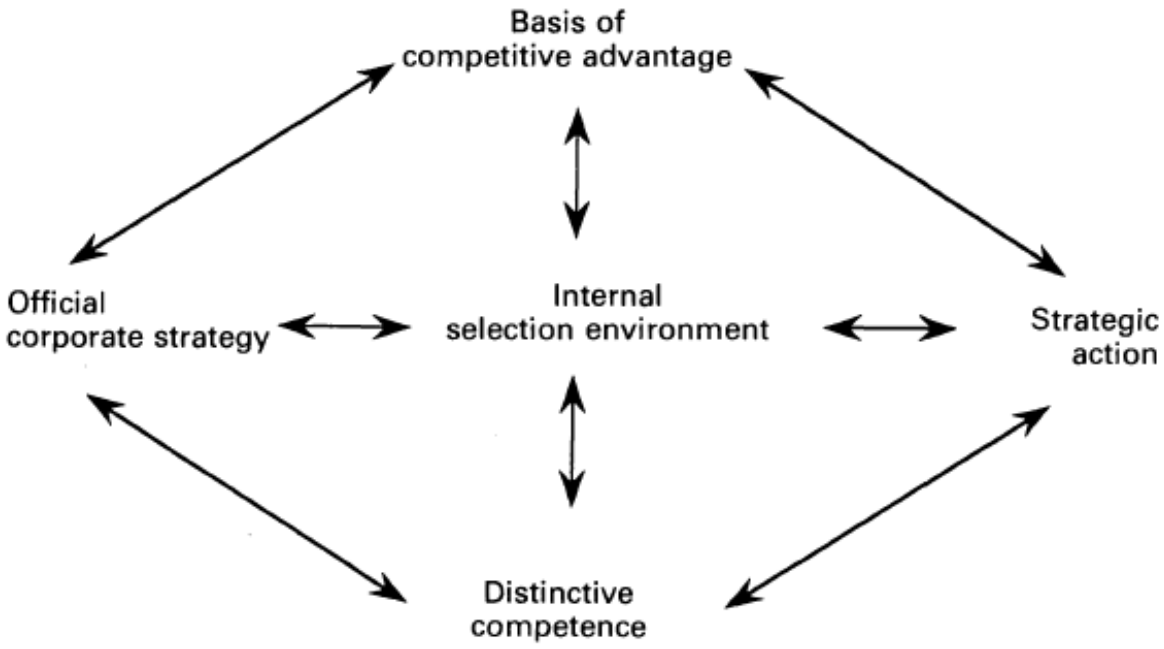

FIGURE 3: The five elements of guided evolution, adopted from Lovas & Ghoshal (2000)

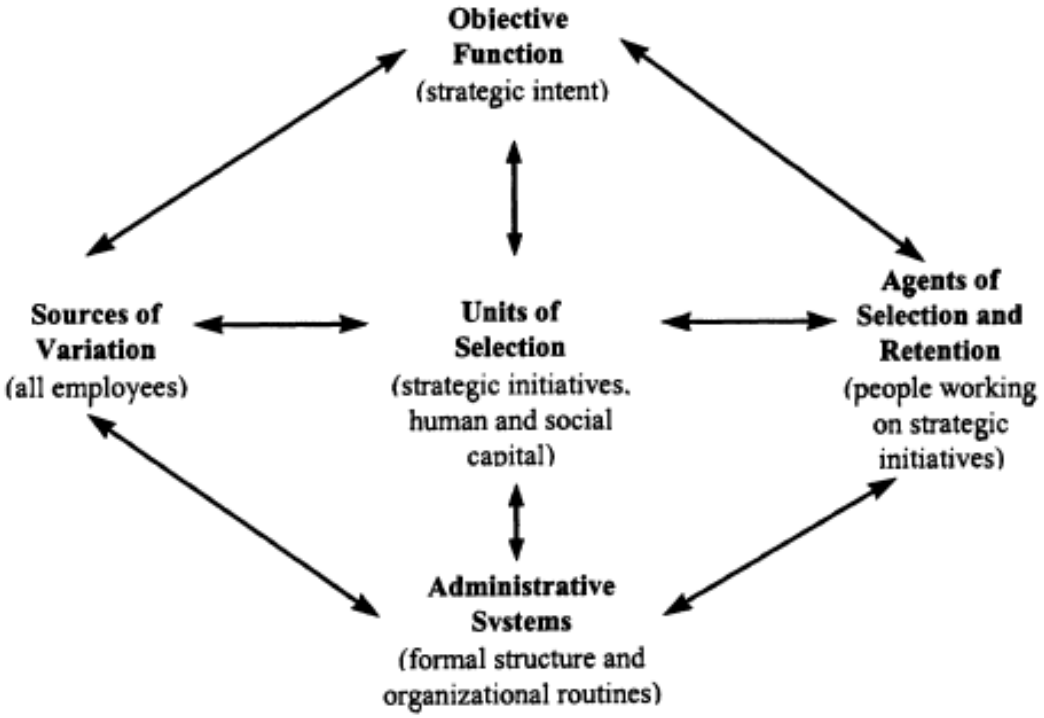

FIGURE 4: A model of strategic management as guided evolution, adopted from Lovas & Ghoshal (2000)

	Exogenous independent variables		Endogenous independent variables		Dependent variables
	Strategic intent	Administrative systems	Sources of variation	Agents of selection and retention	Units of selection
Definition of variable	Those long-term goals which reflect the preferred future direction of the firm, as envisioned by top management (Prahalad and Doz, 1987). In this model: Top management's decision and articulation of the one main ambition of the firm.	The basic way in which tasks are divided and work is organized in the firm (Chakravarty and Doz, 1992). In this model: The organization of all work in relatively independent projects, and the use of practice groups to retain and develop functional expertise.	Those who identify/suggest new variants of the units of selection In this model: Everyone working in the organization	Those who decide which suggestions will be acted on, and those who decide which of the existing ways will be continued. In this model: Everyone (veto principle) working on a strategic initiative	The units the selective system is operating on. In this model: 'Strategic initiatives' and 'human and social capital'.
Role of variable in the model	Defines the objective function—and thus the preferred outcome—of the strategy process.	Enable and facilitate resource allocation according to a logic of guided evolution.	Provide variance which the selective-retentive system may operate on.	Determine which new variants (of the units of selection) to select, and which previously selected variants to retain.	Focus the strategy process on those variables considered most important to the strategic adaptation of the firm.
Why important in the model	Necessary to define direction and legitimate claims on resources in the strategy process (Winter, 1994) Helps focus variation; reduces disturbances to the existing adaptive system.	The administrative system is necessary to make it in people's self-interest to contribute to the organization's adaptation, and to give them guidelines for how to do so.	Serves to elicit a broad/diverse set of suggestions.	Serves to enable selection and retention based on the knowledge of a large group of people.	The main way (strategic initiatives) and the main resources (human and social capital) the firm relies on to create and appropriate economic value.
Important issues related to the variable	Must remain stable over time periods (Campbell, 1969). Nestedness and maladaptation (March, 1994): 'copying errors' and unintended mutation, recombination, and hybridization of human and social capital (McKelvey, 1982; Nelson and Winter, 1982).	Most people adapt to organizational cues as opposed to the environment (Meyer, 1994). 'Whole–part' competition means that 'firm-level adaptations will be under continual undermining pressures' (Campbell, 1994: 38).	The diversity and general 'quality' of the variation. There must be enough variation for the selective systems to operate on (Campbell, 1969)	Variation-selection is at the expense of the already achieved adaptive system (Campbell, 1969)	For the evolutionary process to function satisfactorily in social systems, there are certain requirements to the frequency, independence, and importance of the units of selection (Campbell, 1969, 1994)

FIGURE 5: The Research Allocation Process, adopted from Bower (1970)

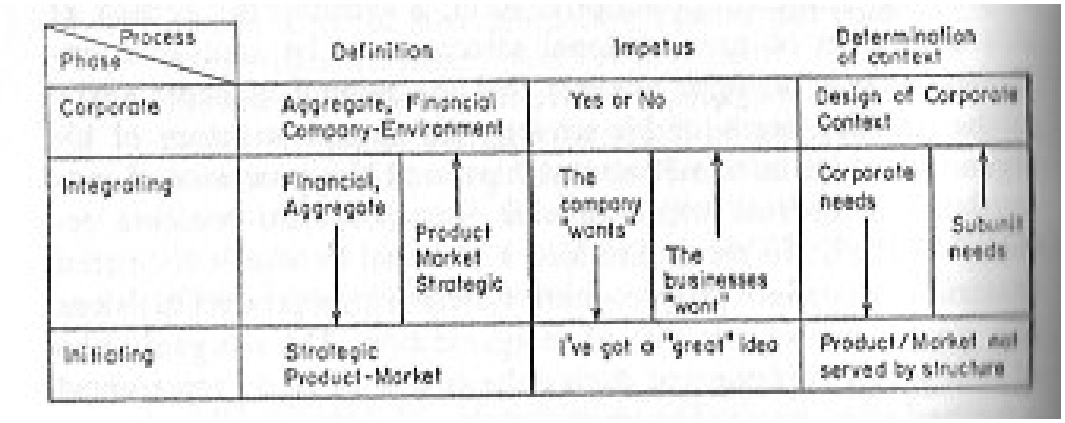

FIGURE 6: Types of Strategies, adopted from Mintzberg (1978)

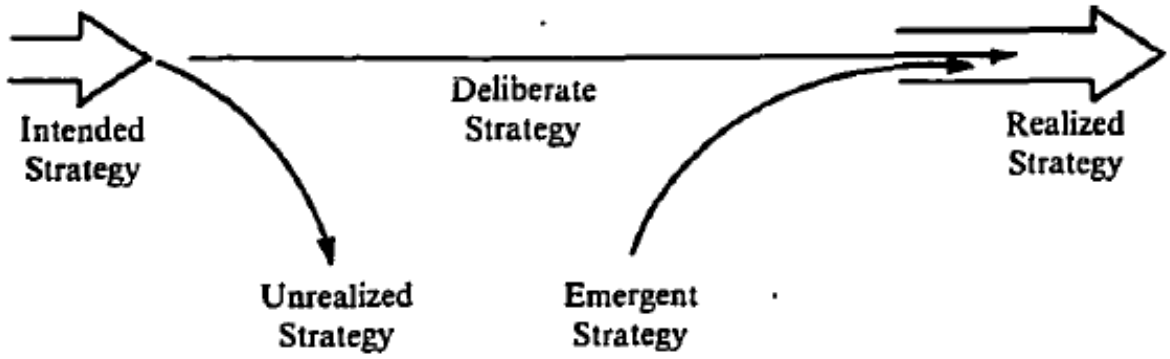

FIGURE 7: Strategies form in subsystems (involving different people, skills, goals, information, and timing imperatives), adopted from Quinn (1980)

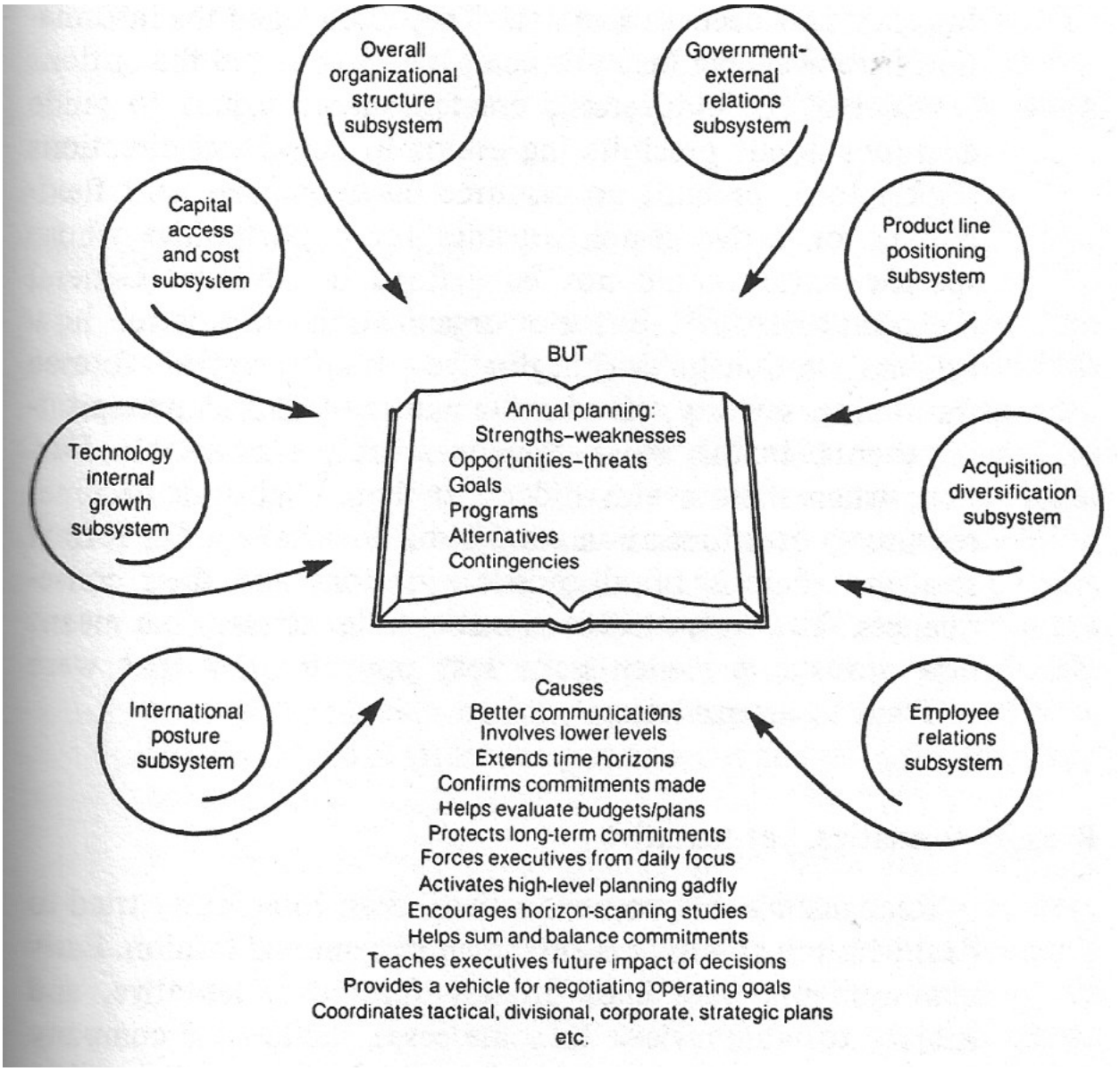

FIGURE 8: Some typical process steps in logical incrementalism (highly simplified to help visualize a few basic relationships), adopted from Quinn (1980)

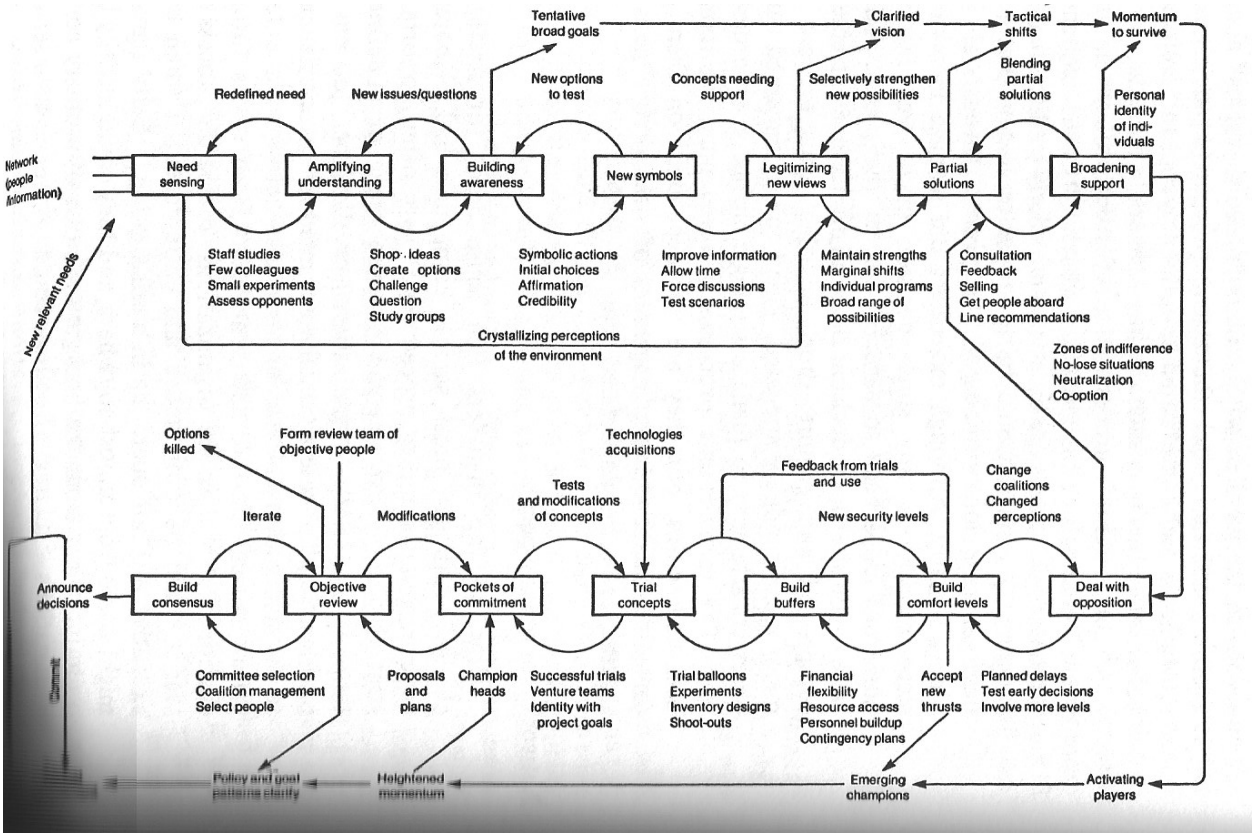

FIGURE 9: Key and peripheral activities in a process model of ICV, adopted from Burgelman (1983)