

CRANFIELD UNIVERSITY

ANDREY LAPTEV

Who runs the place? The evolving role of corporate centre in the  
strategy-making process: an empirical investigation of a major  
Russian multi-business corporation

SCHOOL OF MANAGEMENT

DBA THESIS

Academic Year 2010-2011

Supervisor: Prof. Andrew Kakabadse

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for the degree of Doctor of Business Administration

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## **ABSTRACT**

This research was inspired by a particular business problem – the search for an optimal model of strategy-making process in Severstal, a major Russian metals and mining company going through a period of rapid growth and transformation. The research reports on the results of a longitudinal explorative case study based on two distinct empirical projects. The first project addressed strategy process nature, participants, roles of corporate centre, time perspective and impact of the external environment. Its results highlighted the importance of CEO leadership and personal traits, which became the principal focus of the second empirical project.

The key empirical contribution of the research was definition of "leader-focused decentralisation" as a particular approach to strategy-making in a multi-business group. This approach combines decentralized, bottom-up, business units-led generation of strategic proposals and initiatives with a crucial role of a company leader as a deeply involved decision-maker, presiding over a small and lean corporate centre with minimal corporate rules and bureaucracy. In Severstal's case, the "leader-focused decentralisation" approach to strategy was a good match to its volatile yet rewarding external environment.

The suggested model can be seen as an empirically-derived step towards a theoretical synthesis of "activist" vs. "detached" views of corporate centre roles in relation to strategy process in multi-business firms. It exhibited some distinctive features which were not yet described in other contexts, including co-existence of strong entrepreneurial leadership and organisational decentralisation. From a practical standpoint, the research highlighted weaknesses and limitations of existing strategy-making model and offered a background for the discussion of ways to develop it in the future.

Keywords: Strategy Process, Corporate Centre, Leadership, Configurations, Decentralisation, Multi-Business Group, Russia

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## **DISSEMINATIONS TO DATE**

### **Conference papers**

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“The experience of all my life tells me that there is no such thing as optimal centralisation or decentralisation. There is a particular strategy, and in line with demands of this strategy, we make practical decisions on particular issues”

Severstal CEO, December 2010

## **Chapter 1**

### **1. Linking document**

#### ***INTRODUCTION***

##### **Research objective**

This study was inspired by a particular business problem – the search for an optimal strategy-making process in Severstal, a major Russian metals and mining company going through a period of rapid growth and internationalisation. Severstal’s strategy developed in a particular context. Ownership structure and entrepreneurial legacy have traditionally had a very significant impact on the company’s decision-making process. The post-privatisation Russia exhibited a highly volatile political and economic environment in the 1990s; an economic boom in the 2000s and sharp economic contraction on the wake of the 2008 global crisis provided a distinct and challenging external context.

##### **Practical purpose**

This research has a very practical purpose – to explore how strategy process at the corporate level is organized now and how it evolved historically under the influence of the company’s context. As an end result, the research intends to offer practical suggestions on how strategy-making can be organized in the future. These suggestions will draw from the conceptual insights provided by academic literature on the subject and recognise the constraining (and enabling) impact of the particularities of specific company context identified over the empirical study.

As Severstal developed itself from a single-plant “provincial” manufacturer of an

“old-fashioned” commodity product into a multi-business group with an international portfolio, the company faced a growing number of unresolved dilemmas related to its strategy development. The role and composition of the corporate centre evolved with the company as its asset portfolio changed - first with diversification from steel-making into unrelated businesses, then rapid growth, spin-off of unrelated businesses and formal consolidation back into a steel and mining company with increasingly internationalised assets. The roles of the corporate centre were changing from financial management and controlling to managing business turnaround to a more integrated strategic management of an enlarged holding. As management principles and asset composition changed over time, the company faced periods of uncertainty and confusion about the content of strategy (“what is after all our strategy?”), optimal degree of centralisation of strategy process and “division of labour” between the corporate centre and business units in strategy development. This study will attempt to address some of these concerns.

### **Academic relevance**

From an academic perspective, the problem of “strategy confusion” is of course not unique to this company or this context; indeed, the issues of “search for focus” after a period of rapid development are typical for entrepreneurial companies (Mintzberg & Waters, 1982), while the questions of corporate centre role and relevance have been high on corporate agenda since 1970s (Ward et al, 2005). However, we can draw few practical conclusions on the organisation of strategy process in the distinct context described above. Despite a remarkable half-a-century development of the modern study of strategy, the field still presents a rather “eclectic” view of its subject with a wide array of approaches, theories and even differing scientific vocabularies (Mintzberg et al., 1998). There are clear strengths of this pluralism in terms of the freedom of scientific endeavour unconstrained by sacred truths, but complexity of the field (Hutzschenreuter & Kleindienst) and lack of universally recognized normative concepts (Mintzberg et al, 1998) present an admirable challenge for practice-conscious managers. This is becoming increasingly apparent since applied

interest in strategy-making has been growing in the last decade as manifested by the widespread use of popular strategy methods and growing demand for strategy-related jobs (Wittington & Cailluet, 2008).

Nevertheless, strategy research did elaborate a comprehensive set of powerful and insightful theories of strategy process and content and distinct research methodologies (De Witt & Meyer, 2004). These may be particularly relevant for the companies from emerging markets which have a much shorter history of operating in market economy and hence much shorter “institutional memory” about the techniques and methods of strategy development (Wright et al, 2005). This study intends to contribute to identification of optimal role and responsibility of the corporate centre for Severstal in the new, post-crisis environment. The particular question in focus of this research - the effectiveness and level of involvement of corporate centres managing diversified corporations – was widely addressed in both academic and business writing in the West (Ward et al, 2005). The view of a corporate centre as a diversifier of risks and “portfolio manager” was increasingly criticized in the 1980s and 1990s (De Witt & Meyer, 2004) since financial markets were presumed to be more efficient in doing this work. Alternative views of value-creating corporate centre were offered in the 1980s and 90s and reflected in academic models of “activist” corporate centre which adds value by managing group-wide competences and strategic initiatives (Prahalad and Hamel, 1990; Ward et al, 2005). Moreover, even the role of portfolio manager may still be important for the emerging markets, where financial markets are less developed and property rights are not well-guaranteed (Wright et al, 2005), calling for diversification of personal wealth through acquisitions of companies rather than shares and use of corporate centres as control vehicles to provide additional oversight over managers. Based on the previous literature findings, evolution of the role of corporate centre may be connected to the impact of its distinct and volatile external environment (Rajagopalan et al, 1993; Grant, 2003), while strategy process in general is deeply embedded on the organisational context particularities, such as concentrated ownership and entrepreneurial management (Mintzberg and Waters, 1982). In this sense, the research will aim to bridge the “relevance gap”

between theory and practice (Tranfield & Starkey, 1998) by looking at how the patterns identified by academics in Western business practices and in (mostly) public companies would work in the brave new world of the privatized ex-Soviet industrial giant, and what impact its internal and internal context might have on the corporate centre shape and role in the strategy process.

### **Public/political relevance**

The author also hopes that this paper will contribute to better understanding of the emerging Russian business by providing insights into its most intimate process – strategy-making. The way businesses are run in Russia remains uncharted waters, little explored in Western business literature, both popular and academic. For example, only two papers, both very recent (Carr, 2007 and Gurkov, 2009) addressed strategy-making in the Russian context. The picture that exists in mass media is all too often constrained by embedded myths and over-simplistic interpretations, thus limiting the world's understanding of the country and damaging the strategic dialogue between Russian and international business communities. Hopefully, this study and its future extensions will contribute to overcoming this unfortunate knowledge gap. In particular, the above discussion of the issue of corporate centre relevance has found an interesting new perspective in Russia. Much popular attention has focused on issues of the purposes of owners-managers of large corporations (“oligarchs”). The debate centred around whether their focus remains mostly on maximisation of short-term financial cash flows or on the long-term development with maximisation of the assets' long-term value. The events in the wake of the 2008 economic crisis further sparked this debate when the government decided to use public funds to provide financial relief to some of the major Russian corporations. This paper will add to our knowledge of the question by going inside a major company run by a majority shareholder whose interests are represented by the corporate centre. Therefore, one of the exploratory questions in the empirical project will be the nature of corporate centre involvement: does it act as a passive and detached “shareholder” interested in maximisation of short-term financial return only, or as a proactive and involved

leader, determined to position the company for a long-term future?

## ***THE RESEARCH STRUCTURE AND EVOLUTION OF RESEARCH QUESTIONS***

This section presents the evolution of research focus as the study progressed through the literature review and empirical investigation. The abovementioned practical issues and author's professional and personal interest in the roles of the corporate centre in strategy process underpinned the initial focus. The choice of questions was further shaped by the iterative processes of scoping study, literature review and empirical investigations. The Cranfield DBA programme is structured around three projects (see Table 1). The study started with a scoping study followed by a comprehensive literature review (Project I), which helped to identify the gap in the literature, determine relevant methodology and formulate research questions to the empirical investigation. The empirical part consisted of two separate projects which were conducted in one organisation but addressed two different aspects of strategy process. Project II addressed the comprehensive questions of strategy process nature, participants, roles of the corporate, time perspective (evolution of corporate roles and process characteristics) and the role of the external environment, in line with the traditional methodology of the configurational approach to strategy process research (Mintzberg et al, 1998). The results of Project II highlighted the importance of CEO leadership and personal traits as crucial determinants of the strategy process. Therefore, the impact of a CEO's leadership on the key elements of Severstal's approach to strategy process – "leader-focused decentralisation" – became the principal focus of Project III. The investigation of leadership traits allowed the author to formulate the comprehensive description of "leader-focused decentralisation", including its process, context and leadership characteristics. The purpose of the linking document was to provide an overview of the research structure and evolution, to summarise discussion of the outcomes of the three projects, relate them to academic literature, discuss main contributions of the study and outline potential areas for future research.

**Table 1. Overview of projects, research questions and key outcomes**

Project/Approximate Period of Enquiry	Questions to the Project	Key Project Outcomes	Implications for Further Study
Preliminary Scoping Study May 2006-July 2007	How can the DBA research problem be broadly positioned within the framework of existing academic literature on strategy?	Strategy literature was reviewed and three key dimensions of strategy were identified – strategy process, content and context. Strategy process was identified as the key research area. Time perspective of strategy and the role of the corporate centre were identified as supplementary research areas.	Key literature perspectives on the research problem were reviewed and potential contribution to knowledge was established. Research areas for the literature review were formulated.
DBA Project I (Literature Review) March 2007-July 2009 (incl. a “crisis” gap year)	<p><b>The basic research question:</b></p> How does the academic literature describe the role of a corporate centre in the strategy making process in a multi-business firm? <p><b>Additional questions to provide further focus to the research:</b></p> <ul style="list-style-type: none"> <li>- What are the key perspectives on the nature of the strategy making process and its evolution over time?</li> <li>- What does the literature tell us about the impact of national context on strategy making processes? In particular, is there published research on the strategy process in a Russian context?</li> <li>- What methodologies are employed for studying strategy process?</li> </ul>	<p>After a systematic review of the existing literature, a literature gap was identified. Key literature concepts informing the empirical study design and methodology were highlighted.</p> <p>Review of strategy process research helped to identify the most relevant methodology and formulate the empirical research questions.</p>	<p>Questions to the Empirical Project I were formulated.</p> <p>Empirical research methodology and scope were identified.</p>

<p>DBA Project II (Empirical Project I) September 2009-July 2010</p>	<p><b>The basic research question:</b></p> <p>How did the role of corporate centre in the strategy making process evolve in Severstal over the ten year period since its emergence as a multi-business corporation and until the aftermath of the global economic crisis of 2008?</p> <p><b>Supplementary research questions on the basis of strategy process concepts from the literature review:</b></p> <ul style="list-style-type: none"> <li>- What was the degree of centralisation of the strategy process, and to what extent was the corporate centre involved in shaping business strategies of business units? In particular, was the corporate centre role built primarily around: 1) setting and controlling financial performance targets only 2) setting corporate objectives while leaving business-level strategy to business units and 3) centralising strategy in the centre and closely managing the strategy process?</li> <li>- Can the strategy process in Severstal be described as primarily formal and deliberate vs. emerging and iterative?</li> <li>- Who are the key participants on the corporate and business unit level, what are the organisational structures around strategy development (departments, working groups, committees) and their place in general organisational structure?</li> <li>- Context impact: Can we identify what was the influence of the external environment of Russia on strategy process?</li> <li>- Can we untangle the impact of the CEO (majority shareholder) on strategy process?</li> </ul>	<p>Severstal approach to strategy process is thoroughly described. Its evolution is tracked over the study period and related to the changes in the company's external and internal context.</p> <p>Key "process" characteristics of Severstal's "leader-focused decentralisation" approach to strategy making are defined.</p>	<p>Results of Project II have demonstrated that the key elements of strategy-focused decentralisation are closely related to the leadership role and personal traits of company CEO and majority shareholder, as well as a number of gray zones and apparent paradoxes.</p> <p>The role and impact of the CEO's personal traits were placed in the centre of the empirical investigation in Project III.</p>
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<p>DBA Project III (Empirical Project II) August 2010- November 2010</p>	<p>The questions to the Empirical Project II were formulated to explore in more detail the impact of CEO personal traits on the key characteristics of “leader-focused decentralisation”:</p> <ul style="list-style-type: none"> <li>- Leadership role in encouraging initiative and aligning interests.</li> <li>- Impact of personal traits of the leader on the emergence of the “pilot” management model and its role in strategy process.</li> <li>- Strengths and weaknesses of “leader-focused decentralisation” as they are perceived by the process participants.</li> </ul> <p>In addition, Empirical Project II was supposed to serve as a second iteration of Project I in order to support the validity of its key conclusions, given the different composition of interviewees.</p>	<p>Conclusions of Project II regarding the characteristics of “leader-focused decentralisation” were further explored and elaborated with a different cohort of respondents.</p> <p>Areas of major impact of CEO leadership and personal traits were identified. Perceived strengths, weaknesses and risks were identified and discussed.</p> <p>Comprehensive definition of Severstal’s “leader-focused decentralisation”, including process, context and leadership characteristics, was developed.</p>	<p>Leader-focused decentralisation was comprehensively described. Enabling and constraining characteristics of the leader’s personal traits are suggested and discussed.</p>
<p>Linking Document November 2010- January 2010</p>	<p>How do the empirical projects’ results relate to the findings of the literature review?</p> <p>How do the results of Empirical Project II (importance of leadership and personal traits in shaping the strategy process) relate to the key leadership literature?</p>	<p>Results of the three research projects were brought together and summarised. The results were related to the relevant findings from literature review and to the leadership literature. Contributions and potential limitations of the study were discussed and analysed. Areas for further research were suggested.</p>	<p>Suggestions for further research are offered.</p>

## ***OVERVIEW OF THE LITERATURE***

The first step in the literature analysis involved the “scoping study” which positioned the DBA research problem within the frameworks of existing academic literature about strategy. The key research areas for the literature review (strategy process, role of corporate centre and time perspective of strategy) were identified. Chapter 2 presents and discusses the literature review methodology, conduct and findings. Figure 1 presents the key areas explored in literature review (nature of the strategy process; impact of internal and external context; methodology of strategy process research; time perspective of strategy process; and the corporate centre role in strategy process in multi-business groups).

**Figure 1. Illustrative summary of key literature topics covered in the Literature Review**

Because strategy process research is still in its early stages, the literature review assumed a dialectical perspective in order to capture a variety of views which include “white” and “gray” areas (Wittington and Cailluet, 2008), and an “eclectic” view of the subject and low acceptance of universal normative concepts (Mintzberg et al, 1998). The thesis highlights different and directly opposing strategy process phenomena views and contrasts them. Where relevant, the author identified and discussed a synthesising perspective.

The review identified two potential areas of contribution with existing knowledge gaps: 1) the corporate centre role in strategy process and 2) distinctiveness of strategy process in the emerging market context. On the role of the corporate centre, the literature review identified two major theoretical approaches and two theoretical models (by Goold and Campbell, 1987,1993 a,b, and Ward et al, 2005). Nevertheless, the existing models are rather conceptual and prescriptive in nature with relatively little supporting empirical evidence. The embeddedness of the strategy process in the inner and outer context (Pettigrew, 1992), recognized by the models’ authors, calls for the development of a richer empirical material to understand how corporate centres are engaged in strategy process in a different context, rather than in an ideal form. Many essential variables, such as organisational structures and work routines supporting strategy process in multi-business groups were not yet subject of any research. A variety of contexts such as a non-Western context, companies with concentrated ownership and evolving companies in different historical periods remain unexplored and many authors call for more studies about their impact on strategy process and its evolution (e.g. Paroutis & Pettigrew, 2007; Regner, 2003; Wittington & Cailluet, 2008). In addition, it is important to note that the lack of studies in the emerging market context is a characteristic of strategy process research as such, not only of its more narrow area of strategy process in multi-business groups. Hence, the literature review identified potential contribution to the debate in the form of an empirical investigation on the historical development of the corporate centre’s role in a particular context of a rapidly transforming company with concentrated ownership operating in an emerging-market (Russian) context. This will contribute to our understanding of

what are the actual vs. prescribed roles for the corporate centre and business units in strategy process, and hopefully, will move the debate further towards the conceptualisation of the corporate centre's role in different company contexts. Finally, the literature review helped to identify the research methodology which would be most relevant to the tasks and research questions.

The author conducted most of the literature work as part of a systematic literature review in DBA Project I, which Chapter 2 describes. However, the author also added new pieces of literature through the empirical projects as research findings inspired new endeavours in the emerging themes. As a result of the empirical investigation (Project II), the author identified an entirely new major area of research (leadership) as crucial in answering the research question. Project III was then devoted to the empirical investigation of this new theme. Introduction of leadership as an important new domain prompted the addition of a short review of leadership literature to the linking document. This iterative process of going back and forth from literature to data has helped to improve the research quality and build a better way to link the research findings to the existing knowledge base (Easterby-Smith et al, 2002).

## ***EMPIRICAL RESEARCH METHODOLOGY, PHILOSOPHY AND DESIGN***

The research employed an explorative, qualitative longitudinal case study methodology. The choice of the research methodology was determined by the nature of the business problem, identified knowledge gap and the previous literature on strategy process research. The nature of the identified "relevance gap", lack of universally recognised normative concepts and empirical data to inform the research called for an explorative, inductive research strategy (Saunders et al, 2007). The author adopted the longitudinal, historical perspective to reflect the dynamic nature of strategy (Porter, 1991) and the importance of the temporal aspect of strategy-making as a dynamic social process (Pettigrew, 1992), particularly relevant in the fast-changing context of

Russia in the early 2000s. Pettigrew (1992) suggest in-depth longitudinal multi-case studies for such types of research contexts and purposes. This methodology is particularly well-fit to explore new phenomena with a potential to make a contribution to theory (De Witt and Meyer, 2004). Other methodologies for strategy-process research, including cross-sectional studies relating strategy context, process and outcomes (e.g. Rajapopalan et al., 1993) or process-focused “single-level” case studies concerning the impact of “concrete” decisions/actions (Chakravarthy and White, 2002) do not fit the need for an open-minded enquiry into a complex and multi-level phenomenon (Tsoukas and Khudsen, 2010). According to Tsoukas and Khudsen (2010), a “stationary” view of social systems, which has traditionally been prevalent in strategy-content and industry-level strategy studies, cannot meet the demand of the process-focused enquiries since the very ontology of process-oriented scholars is “open-world”, dynamic and change-conscious. Therefore, strategy process research should adopt a more dynamic, historical and holistic methodology (Pettigrew, 1992; Porter, 1991). This holistic approach demands that we consider multiple factors, including the external strategy context (evolution of competitive environment), organisational context (organisational structures, influence of participants in strategy process) and, of course, strategy content. This determines the choice of an explorative, in-depth, longitudinal case study as a methodology of choice for this research.

The author preferred the single case study to a multi-case study method to secure the necessary “depth” of enquiry, address practical problems and take full advantage of unique “access” to the intimate and untransparent world of strategy-making in major Russian corporations. Because of the explorative nature of the research, the author used an inductive approach, without any preconceived theory to test, prove or reject (Saunders et al, 2007). However, the research is also not entirely “open-ended” (Glaser, 1992). Rich literature on strategy process and theoretical models of corporate centre allowed the author to define the research framework and formulate specific questions to capture the diverse characteristics of the strategy process. The inductive nature of the research called for an iterative research flow, i.e. going from literature to

empirical research and then back to literature between different projects (Strauss and Corbin, 1998). Therefore, elements of empirical exploration and pattern matching (theory testing) were combined in the research, particularly at the linking document stage.

The study employed multiple methods, as advocated by many authors for in-depth case studies (Yin, 2009). The main source of empirical data about strategy process, leadership and internal organisational dynamics came from the in-depth interviews with strategy process participants. Indeed, scholars consider interviews as the primary source of rich, contextually embedded data for qualitative research (Glaser and Strauss, 1967), as well as a preferred tool when discussing complex, ambivalent and sensitive issues (Easterby-Smith et al, 2002). The interviews were semi-structured around the key research questions. Semi-structured interviews facilitated effective comparison of interviews results and consistency in data gathering. At the same time, the interview structure was sufficiently dynamic and adaptable. The author encouraged participants to suggest additional themes and expand on any topic that they considered important. As a result, the author subsequently added popular emerging themes and illustrations to the interview questionnaire (Easterby-Smith et al, 2002).

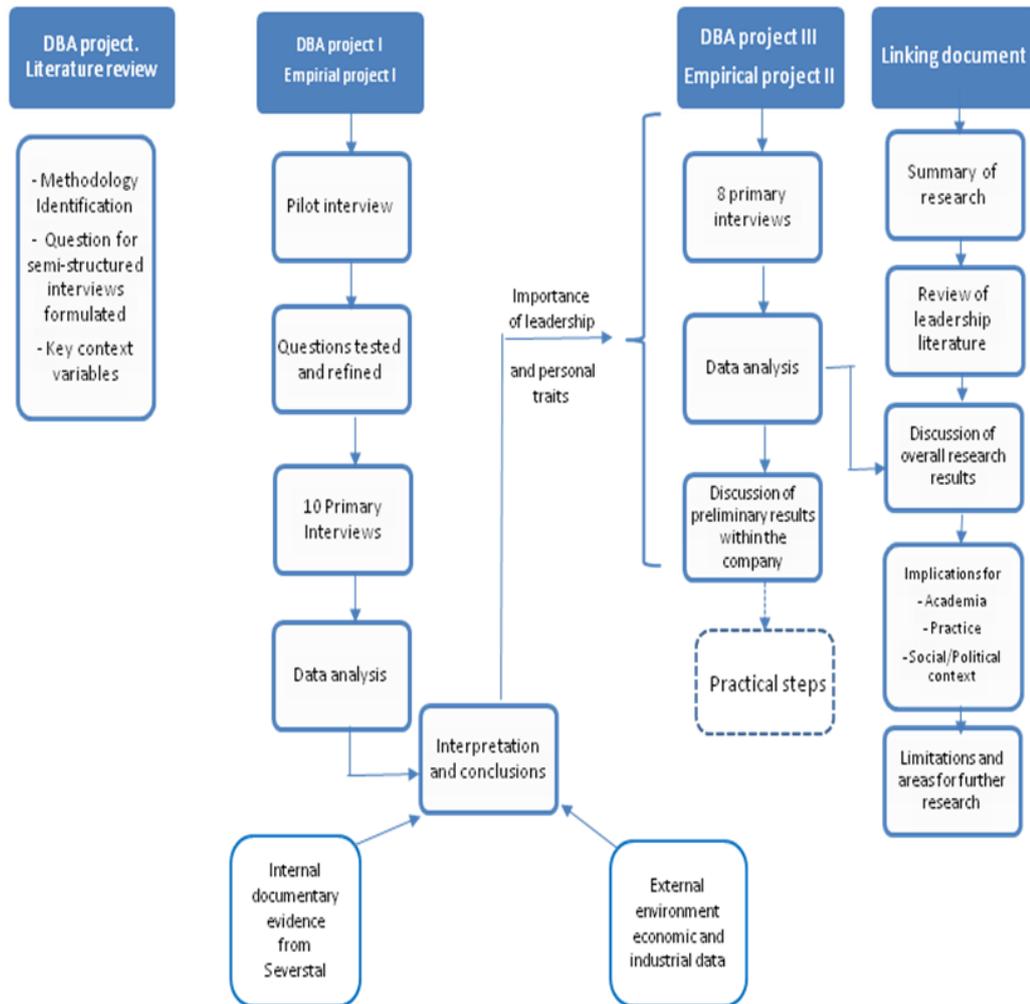
The case study also employed written materials (internal memos, strategy presentations, annual reports and, where relevant, external publications) as its instruments, particularly to investigate past periods. This supporting data helped to provide a comprehensive picture of organisational structure, strategy content and external environment (including both national economic and institutional environment and global industrial environment for the steel and mining industry). The employment of documentary and statistical data and in-depth interviews with process participants as the key instruments follows the example of other in-depth case studies (for example, Mintzberg and Waters, 1982).

The main purpose was not only to capture the specifics of strategy process, but also relate them to particularities of distinctive internal and external contexts. Therefore, the study aspired to explore the underlying patterns, “mechanisms”

that cause the events in the social world (Collier, 1994). At the same time, the study recognised limitations related to the subjective, contextually embedded nature of peoples' perception of the social world (Dobson, 2002). Therefore, the study assumed the "critical realism" epistemological position - although our knowledge of the reality is subject to social conditioning and we have to consider the social context very carefully, through systematic scientific enquiry a researcher should identify the underlying mechanisms and patterns that define social activities (Bhaskar, 1989). Researchers should study and interpret the underlying assumption of critical realism that social reality is dynamic and changing with a temporal perspective in mind (Saunders et al, 2007). This is consistent with the employed longitudinal approach.

Figure 2 presents a schematic overview of research design and key outcomes by projects.

Figure 2. A brief overview of research design



**Research scope summary:**

Company scope: Severstal and a related “Severstal Group”, a multi-business group, initially diversified from a single post-privatisation steel-making plant into a number of both related and unrelated business. It later transformed into an international metals and mining company more clearly separated from unrelated businesses belonging to a majority owner, but with a distinct division into geography and product-based business units.

Strategy scope: Formation of corporate strategy of a parent company and role and involvement of a corporate centre in the formation of business strategies of business units.

Time span: From the first acquisitions and formation of a “multi-business” group in 2001-2002, through IPO and formalisation of a metals and mining company in 2006, to the aftermath of the 2008 global economic crisis.

## ***KEY FINDINGS***

Key findings of the empirical projects are summarized in tables 2-4:

**Table 2. Summary of conclusions of Empirical Project I, including breakdown by stages**

<b>Topic</b> (Thematic Category)	<b>Conclusions informing the research questions</b>
<b>Strategy-making team</b>	<p><b>Stage I.</b></p> <ul style="list-style-type: none"> <li>- Entrepreneurial "partnership" – five top managers and partners making all important decisions                             <ul style="list-style-type: none"> <li>o Taking care of all assets, regardless of the industry</li> <li>o Three out of five partners perform roles of corporate managers and business unit leaders at the same time</li> <li>o Significant input, but not overall a decisive role of “Deputy CEO for Strategy”, ad-hoc and unstructured decision-making</li> <li>o Very small strategy staff at the corporate level, playing a minor support role</li> </ul> </li> <li>- Main shareholder ultimately making all final decisions                             <ul style="list-style-type: none"> <li>o However, genuine or at least formal consensus was sought and, in fact, required to make a final decision</li> </ul> </li> <li>- "Overstretch" and “loss of drive” by the small top management team as company became bigger and made the old team unable to cope with management challenges</li> </ul> <p><b>Stage II.</b></p> <ul style="list-style-type: none"> <li>- Dissipation of “partnership”, introduction of “professional” managers. Decision-making is led by the main shareholder.                             <ul style="list-style-type: none"> <li>o Management board consisting of approximately 10 members involved in decision-making at the corporate level</li> <li>o Separation of decision making structure, including decision making teams. Emergence of de-facto 2 corporate centres: the one caring about metals and mining – Severstal proper, and “non-core” - other businesses, with some people working in two corporate centres simultaneously</li> </ul> </li> </ul> <p><b>Strategy-making teams at business units:</b></p> <ul style="list-style-type: none"> <li>- Decision making has always concentrated in a very small circle of top managers                             <ul style="list-style-type: none"> <li>o Including BU CEO, Director for Strategy (where existed), CFO, and some other key officers (such as Sales Director</li> </ul> </li> </ul>

	<p>and Technical Director in one case)</p> <ul style="list-style-type: none"> <li>○ In Cherepovetz, overseas steel subsidiaries and in automotive business, in Stage I strategy process was led by a corresponding “partner”</li> <li>○ Included a minority shareholder in one subsidiary</li> </ul>
<p><b>Strategic decision-making process (nature of)</b></p>	<ul style="list-style-type: none"> <li>- Ad-hoc, opportunistic approach to strategic decisions, especially in Stage I <ul style="list-style-type: none"> <li>○ Concerning, first of all, M&amp;A decisions at both Stage I and II</li> <li>○ CAPEX decisions – ad hoc case-by-case resource allocation process in Stage I, more structured process of strategic discussions with BUs in Stage 2.</li> <li>○ For non-core assets, very opportunistic approach to acquisition with minimum formal analysis and very rapid decision-making</li> </ul> </li> <li>- Unstructured, informal strategic decision making process at Stage I: <ul style="list-style-type: none"> <li>○ <i>However, one BU officer commented that Cherepovetz BU has always had a rather well-structured and formalised strategy (business plan) review process</i></li> </ul> </li> <li>- More formal, relatively more structured process of “strategy/strategic business plan review” with business units in Stage II</li> <li>- Absence of formal or informal shared vision and well-defined corporate strategic objectives for the company until after the 2008 financial crisis</li> <li>- Expansion and diversification driven by: <ul style="list-style-type: none"> <li>○ Perceived management capabilities (turnaround of troubled assets), especially characteristic for Stage II</li> <li>○ Pressure from “cheap money” and desire to grow at Stage II</li> </ul> </li> <li>- Long time horizon, long-term orientation (10 years in investment planning and 5 years in M&amp;A analysis); varying (2-5 years) expected payback period</li> </ul>

<p><b>Role of corporate centre</b></p>	<p><b>Stage I</b></p> <ul style="list-style-type: none"> <li>- All important decisions were made by the “partnership” – de-facto “5-people-strong” corporate centre <ul style="list-style-type: none"> <li>o Very small corporate support team</li> <li>o Beyond the top circle, very little/no corporate influence, no “corporate machine”, established strategy-related routines or traditions</li> </ul> </li> <li>- High role of CEO, his involvement, personal traits and leadership is repeatedly emphasised as the ultimate factor behind strategic decision making <ul style="list-style-type: none"> <li>o Search for consensus among the decision making team by CEO as a prerequisite to decision making</li> </ul> </li> <li>- Very high discretion and role of business units in creating own development plans and strategic alternatives <ul style="list-style-type: none"> <li>o Main shareholder involved in review/approval process only</li> <li>o No ex-ante financial or strategic goals set by the corporate centre</li> <li>o Very informal review/approval process</li> </ul> </li> <li>- At the same time, typically the shareholder went into great details in his discussions with business units (concerning not only strategic, but also, and first of all, operational performance). The involvement was particularly intensive at the “turnaround” stage at Cherepovetz and with other Russian assets.</li> </ul> <p><b>Transition to Stage II</b></p> <ul style="list-style-type: none"> <li>- Formal separation of corporate management for “core” – Severstal proper - and “non-core” assets (all others)</li> <li>- Push for a more decisive role of a corporate centre; resistance of business units to centralisation</li> <li>- Corporate standards as means of ensuring best practice dissemination and conformity <ul style="list-style-type: none"> <li>o Corporate University was seen as a means to ensure common standards, but their adaptation was, at best, very slow</li> <li>o Role of Strategic Business Plan (including corporate-produced market assumptions) as a unification mechanism, at least from the reporting standard point of view</li> </ul> </li> </ul>
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- At the same time, Strategic Business Plan was perceived by business units as a “non-binding” financial planning instrument, not a genuine “strategy” document.

**Stage II: Core assets**

- More involvement of the corporate centre from early 2006
  - Still, the key role played by the main shareholder
  - Also certain formal and informal role for COO and some other corporate top managers
  - Formal and well-established review/approval process
  - Unsatisfied demand for across-business-units coordination from BUs themselves
- Corporate involvement, although perceived as “stronger” in Stage II, still did not imply setting any concrete targets and coming up with significant top-down initiatives. The overall process was now more structured and formalised, but still remained very much bottom-up, business unit-oriented.
- Overseas assets:
  - High self-sufficiency of overseas subsidiaries in the initial stages
  - More intervention from the corporate centre in operational management over time
  - Less motivation and leadership in business units as the authority of the corporate centre increased
  - However, comment from an overseas BU top manager: “We had regular discussions, a few times a year, with the CEO and some people from the centre... The Severstal CEO approved nearly all initiatives ... he asked for the opinion of the CEO of Severstal International and other top people and then approved the suggested plan.”

	<p><b>Stage II: Non-core assets</b></p> <ul style="list-style-type: none"> <li>- Very different degree of the main shareholder’s involvement, depending on the level of his interest, business size and level of ambition (i.e. is it a “\$1 billion potential value” business or not?) <ul style="list-style-type: none"> <li>o Level of involvement also dependent on the perceived level of expertise of corporate team members – e.g. a former banker was particularly interested in reshaping the strategy of the bank and worked with it, etc.</li> </ul> </li> </ul> <p><b>Transition to Stage III (?)</b></p> <ul style="list-style-type: none"> <li>- More involvement from the corporate centre as the global crisis struck in late 2008: <ul style="list-style-type: none"> <li>o Financial goals set</li> <li>o Strategic KPIs introduced in 2008/09</li> <li>o Corporate portfolio planning/strategy introduced</li> <li>o However, comment from one BU officer: “ These are tactical, not strategic changes, no big increase in the CC role.”</li> </ul> </li> </ul>
<p><b>Role of external environment</b></p>	<ul style="list-style-type: none"> <li>- Typically, the “Russian” external environment was not considered an important factor in shaping strategic decisions <ul style="list-style-type: none"> <li>o Some influence on intention to invest abroad</li> <li>o High volatility did not hinder long-term focus of planning</li> </ul> </li> <li>- Highly favourable external industrial and financial environment (i.e. high profits from steel and mining, cheap credit at the financial markets), pressure to “find deals for cash” was seen as a cause for opportunistic, intuitive M&amp;A decisions abroad conducted without detailed analysis and stress-testing as every steel-related investment seemed to be creating value</li> <li>- Certain (rather limited) government influence on strategic decisions in Russia, in the form of non-binding “suggestions” or as a “background” thought about company priorities</li> </ul>

**Table 3. Overall periodisation of strategy process development and the corporate centre role from the Empirical Project I (as inferred from the periods reflected for every major thematic construct)**

Periods in company development, 2000-2009	Summary of strategy process attributes and corporate centre role(s)
<b>Transition to Stage I: Diversification [2000-2002]</b>	<ul style="list-style-type: none"> <li>- Initially, all acquisitions, including diversification-related, were made on the balance of Cherepovetz steel plant – Cherepovetz and its top team were the “corporate centre” for all the assets</li> <li>- In 2002, Severstal-Group was formally established as a “corporate centre” and the top team of 5 partners transferred from Cherepovetz to the new company</li> <li>- Severstal Group remained very compact and lean</li> </ul>
<b>Stage I – Partnership [2002-mid-2006]</b>	<ul style="list-style-type: none"> <li>- All strategic decisions are made by the five “partners” with the main shareholder making the final decision</li> <li>- Very entrepreneurial, ad-hoc and quick decision-making</li> <li>- Development initiatives coming mostly bottom-up from business units in their respective fields (their industry, their region...); corporate centre focused mostly on external growth opportunities, especially on steel acquisitions abroad and broad diversification in Russia</li> <li>- Corporate centre only involved in review and approval of business units’ plans               <ul style="list-style-type: none"> <li>o CEO going into deep details during the review; Deputy Director General for Strategy and First Deputy Director are mentioned as those also involved in strategic discussions</li> <li>o Combination of corporate roles and roles as heads of business units for the members of “partnership”</li> </ul> </li> <li>- Relatively unstructured and ad-hoc process of strategic discussions with business units (exception: Cherepovetz); operational and strategic discussions become clearly separated only by the end of the period</li> </ul>
<b>Transition to Stage II: Professionalisation [mid 2006-mid 2006]</b>	<p>The previous management system started being perceived as ineffective because of two basic reasons:</p> <ul style="list-style-type: none"> <li>- Failure to succeed in the merger bid for a major European company, Arcelor demonstrated weakness of loose, unstructured, entrepreneurially-managed company               <ul style="list-style-type: none"> <li>o No consolidated financials</li> <li>o No common plans or visible strategy</li> <li>o Non-integrated assets</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>- Failure of the “partnership” system to work effectively with a much bigger and more complex company <ul style="list-style-type: none"> <li>o Too big for five people to comprehend all details and make all strategic decisions</li> <li>o Impossible to cope with management of business units and corporate responsibilities at the same time (for the three of five partners)</li> <li>o Desire of former partners to change their position/status (“loss of drive” about their former role)</li> </ul> </li> </ul> <p>To respond to these challenges, over the latter part of 2006-early 2007 main shareholder has completely reorganised management system and made the company public through an IPO in November 2006</p>
<p><b>Stage II: Corporation [late 2006-late 2008/2009]</b></p>	<ul style="list-style-type: none"> <li>- CEO still playing ultimate role in strategic decision-making <ul style="list-style-type: none"> <li>o Professional “salaried” managers – members of the formal Management Board - came up as a certain “substitution” for the former partnership system. However, it was perceived that they only played an advisory role, and CEO made all decisions by himself</li> </ul> </li> <li>- Decision-making process remains rather ad-hoc and opportunistic for M&amp;A deals, but becomes somewhat more formalised for CAPEX (internal growth) decisions</li> <li>- Perceived higher “intervention” from the corporate centre, but strategy process is still very much bottom-up <ul style="list-style-type: none"> <li>o Still no financial or strategic goals set from the centre</li> <li>o CEO is about the only “constant” participant in the strategy review process; little apparent role of other senior corporate managers (unlike from some of the partners in Stage I)</li> <li>o However, strategic business plan now functions throughout all business units and the review process becomes relatively more formal and structured</li> </ul> </li> </ul>
<p><b>Crisis-driven transition to Stage III – Centralisation (?) [late 2008-2009]</b></p>	<ul style="list-style-type: none"> <li>- Concrete financial goals and strategic KPIs set</li> <li>- Corporate portfolio planning/strategy introduced</li> <li>- More perceived involvement of corporate centre (though not universally recognised)</li> </ul>

**Table 4. Summary of conclusions of Empirical Project II**

Topic (Thematic Category)	Conclusions informing the research questions
<b>Part I. Setting the scene: Elaborating upon the conclusions of Project I, further exploring the characteristics of “leader-focused decentralisation”</b>	
<p><b>Strategy process centralisation</b></p> <ul style="list-style-type: none"> <li>- <b>Roles of corporate centre and business units</b></li>   <li>- <b>Role of corporate financial and strategic objectives</b></li> </ul>	<p>Strategy process is relatively centralised and level of centralisation has increased recently. Very high role of business units in generation of strategic ideas and options, development of regional/business strategies:</p> <ul style="list-style-type: none"> <li>- The system has become more centralised over the last 2-3 years</li> <li>- Despite growing centralisation, business units actively participate in generation of strategic options and ideas</li> <li>- Bottom-up initiatives form the backbone of company’s strategic development</li> <li>- Business units self-sufficiency is higher for organic growth decisions, whilst the corporate centre plays a higher role in M&amp;A</li> </ul> <p>Financial objectives are now clearly defined and provided from the corporate centre. Elements of strategic objectives are defined through corporate vision and investment allocation priorities (mining vs. steel, regional allocation of emerging markets vs. developed, etc)</p> <p>Both financial and strategic objectives were introduced over the last 2-3 years, but did not exist before:</p> <ul style="list-style-type: none"> <li>- No financial or strategic targets, opportunistic and unsystematic approach to strategy in the earlier period of corporate development</li> <li>- Movement towards a more structured approach over the last 2-3 years. Specific financial targets are clearly defined. There is a universal recognition that corporate strategic priorities now exist and this has made the company stronger.</li> <li>- There is a certain disagreement on whether financial and strategic objectives are provided top-down or bottom up. Most of the respondents think this is mostly top down, but business units are also involved in the process.</li> </ul>

<p><b>Responsibility for decision-making and the role of CEO and top team</b></p>	<p>Final strategic decisions are made by CEO. Direct communication between CEO and business units, unsystematic/modest involvement of corporate centre officers:</p> <ul style="list-style-type: none"> <li>- CEO is the main driver and key decision maker in the strategy process.</li> <li>- The strategy process itself is a reflection of CEO's personal attitude and approach to decision making. It evolves in line with the CEO's "personality".</li> <li>- The role of top team in the corporate centre is either unclear or seen as secondary/advisory compared to the decisive role of the CEO</li> <li>- Level of corporate team involvement depends on business unit: in Russian Steel, there is little involvement of the corporate centre apart from CEO.</li> </ul>
<p><b>Part II. A more detailed look at the role of CEO leadership and personal traits in shaping strategy process</b></p>	
<p><b>Characteristics of strategic discussions with CEO</b></p>	<p>CEO plays a leading, crucial role at the strategic interactions: interviewees emphasise that he is leading the meetings, asks the majority of questions and has a "controlling stake" in decisions.</p> <p>The style of the meetings and strategic discussions reflects the CEO's personal preferences, such as close personal attention to details: strategic discussions are usually relatively well-structured (although there is a division on that point), but they are universally considered as very long and focused on details.</p> <p>Significant issues are associated with the style of meeting and CEO's personal involvement:</p> <ul style="list-style-type: none"> <li>- Excessive focus on details may mean inefficient time allocation, as a factor constraining efficiency of decision-making</li> <li>- CEO's frequent overload may create serious issues and reflect on the quality of decisions</li> <li>- Very high role of the CEO means that it becomes an issue for the whole corporation if (when) he becomes overloaded</li> <li>- The specifics of the CEO's approach to discussions may be challenging/ demotivating for managers from overseas, for example in the US and Italy, but are better perceived by Russian managers</li> </ul>

<p><b>Encouraging initiative and aligning interests within the top team</b></p>	<p>Initiative from below is encouraged. However, to be successful, initiatives should correspond to the CEO's vision and priorities.</p> <ul style="list-style-type: none"> <li>- All interviewees emphasise that initiative is very much encouraged and welcomed</li> <li>- Discussions are conducted in an open and comfortable manner; everyone can express her opinion; CEO is interested in hearing diverse arguments</li> <li>- However, to go through an initiative should correspond to the CEO's general, high-level vision on current priorities</li> <li>- Presenters of initiatives may not always show a balanced picture and may "push" for pet projects too aggressively</li> </ul> <p>The CEO aims to achieve consensus and alignment in the team, promotes open discussion and allows people to express their opinion. He is keen to explain his own reasoning behind strategic decisions.</p> <ul style="list-style-type: none"> <li>- CEO's inclination to seek consensus and buy-in from all the team members is seen as a personal trait of the CEO (he even gets "surprised" when somebody is not "in line" with the prevailing view)</li> <li>- CEO doesn't like disagreement within the team and aims to get to apparent consensus, even if this consensus is not quite real</li> <li>- To push for consensus, the CEO carefully explains his own reasoning behind a decision and that brings people on his side</li> </ul> <p>The CEO's push for apparent alignment may present a problem since many observers have noted that top managers may be reluctant to raise an issue that contradicts the CEO's strong view at the moment. Interestingly, the CEO's interest in consensus seems to be focused on the very top team and does not extend to the middle management, which is seen as an issue.</p>
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<p><b>“Pilot” strategic management model in action - attention to details and high granularity of discussions</b></p>	<p>The CEO is normally very focused on details in strategic discussions. This is a reflection of his “personality” - deep personal curiosity. It also serves as an instrument to keep the management team alert and focused on details in the presentation of strategic options:</p> <ul style="list-style-type: none"> <li>- Generally, the CEO/shareholder is inclined to look at details, although it depends on whether he is personally interested in a topic.</li> <li>- High level of detail is the reflection of the CEO’s personal interest and curiosity, but it is also a vehicle to teach management that it is important to track the details. One interviewee suggested such focus on details may also reflect lack of trust between the CEO and management team: he tries to establish tighter control by keeping an option to question any figure or detail at any moment.</li> <li>- High personal involvement of CEO is part of the model of small and lean corporate centre with minimum internal bureaucracy and direct communication between business units and the decision-maker. There is a bigger potential role for corporate centre in this area – corporate officers with business units could prepare the discussions with CEO in advance which should that less time should be devoted to details at CEO’s personal meetings with business units.</li> </ul> <p>Practically, too much focus on small details also has some clearly negative implications:</p> <ul style="list-style-type: none"> <li>- There is a suboptimal allocation of managerial time - strategically important issues may not receive adequate attention</li> <li>- Sometimes too much time devoted to detailed research means that a strategic opportunity may be lost to competitors</li> <li>- Management team may become demotivated by the requirement to present too detailed a business case when it is not relevant due to high uncertainty and a long planning horizon</li> </ul>
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**Part III. Participants' perception of strengths and weaknesses of the "leader-focused decentralisation" strategy process**

**Strength-Weakness I. Adaptive and agile decision-making system with strong business units/weak corporate centre and overreliance on CEO**

Strengths:

Direct communication with CEO and majority shareholder, high role of business units create an **adaptive and agile decision making system**. This is an important strength for a diverse and growing corporation.

- High role of "close-to earth" business units, direct communication with CEO create adaptive, non-bureaucratic and agile decision making system. On balance, this is good for a diverse and growing company like Severstal since too centralised decision making would be too slow and costly
- Direct access to the owner of the business can solve issues of any level of complexity; there is a comfortable consistency of dealing with the same person

Weaknesses:

**Overreliance on CEO and weak corporate centre** create significant issues for decision making:

- Direct connection and overreliance on CEO decisions becomes an issue when he is overloaded
- Business units' strategies remain disjoint and unconnected to each other
- Expertise of the corporate centre is underutilised since decisions are discussed directly between the CEO and business units; unclear authority of corporate centre. There is a need for a stronger corporate expertise in addition to the CEO's personal involvement
- Mental constraints of the CEO and top team (implied supremacy of steel assets) may reduce efficiency of decision making

Many interviewees highlight weaknesses of the system, but for the majority agility and adaptiveness more than make up for possible weaknesses.

<p><b>Strength-weakness II. Raising sensitive issues: constructive atmosphere for strategic discussions, but reluctance to question the prevailing CEO's opinion</b></p>	<p>Possibility to raise sensitive issues and engage in an open dialogue with the CEO proved to be a very controversial issue.</p> <p>On the one hand, there is an <b>open and constructive atmosphere; expressing views and suggesting initiatives is encouraged</b>. Some respondents maintained that raising any issue is possible:</p> <ul style="list-style-type: none"> <li>- There is a universal recognition that the CEO encourages initiatives and an open atmosphere; ensures that there is a possibility to raise different views and express opinions</li> <li>- Some interviewees state directly that raising sensitive issues is easy and there is a straightforward, open atmosphere</li> </ul> <p>Besides, there is strong focus on the CEO on building alignment and shared understanding of decisions within the top team.</p> <p>The CEO has a strong authority and <b>top team members may be reluctant to contradict CEO/shareholder and highlight risks/issues associated with his decision</b>. Difficulty of raising sensitive questions and focus on one man's opinion is a significant problem and historically has led to suboptimal decisions and value-destruction:</p> <ul style="list-style-type: none"> <li>- Since the CEO has a high authority, team members may be concerned about appearing in contradiction with CEO's view</li> <li>- Team members may not be fully prepared to discuss difficult topics because they feel pressure from (and on) overstretched and exhausted CEO which makes fully open discussion more difficult</li> <li>- There is an insufficient level of trust between the top team and CEO</li> <li>- There is a lack of initiative from the top team members since they prefer waiting for the CEO's opinion before expressing their views. Interestingly, the same interviewee may speak about an open and trustful atmosphere, and at the same time, complain that the top team is complacent; their main idea is to "keep the CEO happy". Therefore, there is not enough challenge and scrutiny of strategic decisions. Interestingly, according to this view, middle managers do raise difficult issues and are better prepared to discuss them.</li> </ul> <p>Possibility to raise sensitive issues with the CEO proved to be a very controversial issue. There was an almost 50:50 distribution of opinions.</p>
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<p><b>Strength-Weakness</b> <b>Excessive focus on details.</b></p>	<p><b>III.</b> The CEO's focus on details is a reflection of his "personality". An excessive focus on details distracts CEO's and executives' attention from more important issues, makes meetings too long and tiresome, demotivates personnel and makes the overall system less efficient. Focus on detail also indicates a lack of trust and insufficient level of delegation.</p> <p>There were some comments that attention to details is a positive moment for the business, but the majority of comments maintained that excessive attention to details is a weakness. On the other hand, this is just a natural extension of the CEO's "personality" and hence should be tolerated.</p>
<p><b>Weakness I</b></p>	<p>High pressure on the CEO from his roles as executive, wealth manager and participant in political affairs. This puts high pressure on the CEO personally and on his team. This overload has a negative impact on the quality of decisions.</p>
<p><b>Weakness II</b></p>	<p>Decision-making is concentrated at the top; there is little communication with and involvement of middle management. Top team and CEO are rather closed; there is a need for more communication with the rest of the company.</p>

## **Characteristics of “leader-focused decentralisation” in Severstal: Summarising conclusions from the Empirical Projects**

“Leader-focused decentralisation” is a particular approach to strategy making in a multi-business group which combines decentralised, bottom-up, business units-led generation of strategic proposals and initiatives and a crucial role of the “final” decision-maker, the company leader and a small circle around him. The leader is personally involved in both strategic and operational details, controls the strategic agenda, makes all final strategic decisions and remains closely engaged in a direct, detailed dialogue with business units.

In its “pure” form, which we can track through the early 2000s-2006, we can describe leader-focused decentralisation by the following key characteristics:

- A highly decentralised and flexible strategy process, ad-hoc approach to strategic initiatives. Absence or vague formulation of explicit corporate financial/strategic goals ensures a very high discretion of business units, securing a high level of initiative and unconstrained creativity. Creativity of business units is unconstrained by “strategy as liability”, i.e. by any financial or strategic frameworks or requirements.
- Control over the “final stage” of decision-making in the hands of a highly authoritative CEO/company leader and a small circle of top managers.
- Small and lean corporate centre, minimum corporate rules or bureaucracy, very few/no “intermediate steps” or barriers between business units and the “final” decision-maker.
- “Pilot” management model - deep personal involvement of CEO, granular attention to details in the strategic discussions with business units. Attention to details is a crucially important instrument enabling the CEO to control the content and quality of decisions in the absence of a strong corporate bureaucracy. Control is facilitated by in-depth personal involvement in operational and strategic details during the review process. This approach is a unique capability since such practice is very difficult to imitate by competitors because of very tough requirements of time and emotional

resources from the CEO/shareholder and his small top team, given the size and complexity of businesses under management.

- Personal attention of CEO/company leader to create a favourable climate for bottom-up initiatives, promoting constructive and open environment for strategic discussions and ideas-sharing. Emphasis on building top team alignment and buy-in despite the high role of the leader ultimately making all final decisions.

This particular type of a corporate centre was developing in the distinct context. We can characterise the external environment in Russia at the time as highly volatile and uncertain, but also presenting unique business development and growth opportunities. The second part of 2000s brought a more stable country context, increasing importance of financial markets and transparency and an unprecedented economic boom in the steel and mining industry which was followed by an abrupt and severe crash in the wake of the 2008 financial crisis.

Crisis of “leader-focused decentralisation” and partnership system occurred by 2005-2006 as a result of personality issues in the top team, increased company size and complexity and a new demand for transparency after a failed merger with Arcelor and a rising role of capital markets in Russian business in general. In the wake of the leadership crisis, Severstal started moving towards higher centralisation and “professionalisation” of the management system. However, the system retained its defining features and associated strengths and weaknesses.

Tighter centralized control, including introduction of financial targets for business units and formulation of corporate strategy (for the first time in the company’s history) occurred after the 2008 financial crisis. One can interpret the introduction of financial targeting and emphasis on corporate strategic priorities as an attempt to focus business units’ attention on efficiency improvement and disciplining anti-crisis measures. The strategy process itself became somewhat more structured and systematic.

However, the pre-eminent role of the leader as the “final” decision-maker was preserved. Business units still have a very high discretion and senior management (?) very much encouraged a bottom-up initiative which they viewed as the main driver and the key source of strategic ideas, although the corporate centre started playing a more important role in the development of external (inorganic) growth options.

The evolved system retains the key perceived strengths of agility, flexibility and direct access to the final decision-maker. However, it also has serious perceived weaknesses and constraints which include the overreliance on the energy and involvement of one single person, suboptimal allocation of managerial resources, disjointed business strategies and lack of unity and inefficiencies related to occasional overstretch and loss of focus by the company leader.

The “leader-focused decentralisation” approach to strategy making was in line with the leader’s personal style and preferences. Such fundamental attributes of the system as high personal involvement of the leader, focus on details and push for team alignment are universally interpreted by interviewees as the CEO’s personal traits.

## ***DISCUSSION OF KEY FINDINGS AND RELATION TO LITERATURE***

The findings are related to two streams of literature: first, to the strategy process literature covered in the literature review and second, to the leadership literature.

### **Relating the research findings to strategy process concepts from the literature review**

#### **The Nature of Strategy Process**

One can clearly position the nature of the strategy process which is emerging from the empirical investigation within the dominant strategy process frameworks. Its characteristics indicate emergent, ad-hoc and opportunistic

decision making with a remarkable flexibility and adaptability to the external environment, much in line with the “emergent strategy” school of strategy process research (Mintzberg and Waters, 1985; Quinn, 1978). For most of the company’s history the CEO and top team purposefully avoided explicit formulation of strategy in order to preserve strategic flexibility and bottom-up initiative. Hence, the Severstal case provides some evidence in support of the somewhat provocative notion of “strategy as liability”.

At the same time, the study also lends support to the very recent synthesising argument which claims that in real life, organisations combine elements of both “emergent strategy” and “strategic planning” approaches to strategy process (Wittington & Cailluet, 2008). For example, Severstal introduced a formal process of “strategic business planning” in 2004 in the overall context of opportunistic strategic decision making. The purpose of this “business planning” exercise was to provide a “financial picture”, a forecast of key financial and operating indicators, which served as background information about the company’s organic development projects. The company viewed the “strategic business plan” as a background, not as a precise “plan” (strategic initiatives are firmly approved for in the next year budget only). It served as a supporting instrument for daily, emergent strategic decisions.

In addition, the study found that an opportunistic and emergent approach to strategy did not equate to short-term orientation: on the contrary, the investment horizon in the company remained rather long (5-10 years), even in the volatile and uncertain environment of the early 2000s. Even after the unprecedented economic contraction of 2008, the investment horizon still comprised three to five years. Therefore, management may think long-term without necessarily having a well-defined long-term strategy per se, as proponents of the traditional “strategic planning” school (e.g. Andrews, 1971) would insist. The “long-term focus without a long-term strategy” is one of the most interesting features of strategy process in the explored context.

We can also highlight a conceptual fit of the strategy process in Severstal and Burgelman and Bower’s “iterative resource allocation” models of strategy

process. The biggest similarity is the bottom-up nature of strategic initiatives. In the Severstal case, most of the strategic initiatives appear on the business unit level and get accepted (or rejected) by the small corporate centre team. The particularity is that Severstal does not formally define the “strategic context”, or prevailing strategy concepts that they use to filter the projects, rather the leader determines them in an emergent way and in line with his current, loosely defined vision. Also, organisational context in the form of a small, lean and flexible, but very powerful corporate centre with a top team, combining both business unit and corporate roles, provides a distinct “structural context”. We can view the shifts in the company decision making system in 2006 and 2009 as shifts in the “structural context” which altered the top management approaches to decision making and interpretation of the world and signaled change in the nature of expected strategic initiatives. We can view the “leader-focused decentralisation” in the Severstal case as an empirical illustration of the Burgelman-Bower model if we substitute “middle management” for “business units” and “mediating structures and strategic context” for “CEO’s (and top team) vision, leadership and strategic intuition”. It is important to note that the particularity of the Severstal system is such that the limitation of “structural/strategic” context are purposefully brought to a minimum, i.e. the corporate centre was trying to impose as little formal constraints on creativity as possible (“our strategy is to create more EBITDA”), whilst the decision making, particularly in early stages, was very direct, expedient and unbureaucratic.

In line with the recent wave in strategy process studies (Hutzschenreute and Kleindienst, 2006), the enquiry into the Severstal strategy process demonstrated the importance of the “human” factor, a high role of characteristics, personality and priorities of the process participants. At the same time, the involvement into strategy making in Severstal remained “elitist”. Only the top team members participate in strategy formulation, both at the corporate and business unit level. This brings us back to a more traditional view of strategy as a grand “design” of the close circle of top team members, although, of course, the system is very different from the 1960s-style strategy

making by CEO, since the team plays an essential role despite the CEO's ultimate leadership.

### **Entrepreneurial strategy**

Unsurprisingly, the Severstal's "leader-focused decentralisation" bears many similarities with the characteristics of "entrepreneurial" strategy process, i.e. strategy process found in companies with a strong entrepreneurial owner-leader at the helm. Like in typical entrepreneurial companies, the strategy making is built around the role and personal traits of a company owner-manager. Similarities include the fact that an entrepreneur acts as a decisive strategist, fully involved in the details of his business (Mintzberg, 1978), able to make quick decisions when needed, with close attention to the opportunities presented by the external environment (Stevenson and Gumpert, 1985), dislike of formal plans and leaning towards informal, non-binding vision (Mintzberg and Waters, 1982). At the same time, there is a crucial difference between the traditional view of entrepreneurial strategy and the characteristics of "leader-focused decentralisation". Principally, a traditional view of entrepreneurship connects it with a dominant personality (Miller, 1983), an owner-manager making bold decisions all by himself, led by a strong vision and conviction even in the most uncertain conditions (Busenitz and Barney, 1997). Although the role of the leader in Severstal's system is very high, the system is built around bottom-up initiatives. The leader does not impose a dominant vision and does not show "a one true way forward". Instead, he is encouraging his team to offer diverse options and then makes his choice among them, in line with own instincts. The "vision" part is more concerned with motivating and aligning the team, rather than with showing a precise way forward to the admiring followers. The difference may be partly related to the fact that a traditional entrepreneurial strategy making researched in the Western context (like a classical work by Mintzberg and Waters, 1982) assumes a relatively small and, therefore, relatively simple business that one's mind can comprehend and drive. Severstal's business group included multi-billion dollar businesses ranging from coal mining to steel production to car making to tourism, spanning, in different

periods and many countries. The complexity of the business lines was arguably too high for one entrepreneur, however bold and devoted, to have a strong “vision” for every business. Even in the case of a much smaller and homogeneous business which Mintzberg and Waters (1982) explore, as the company grew to a turnover of hundreds of millions of dollars, strategy making became somewhat more decentralised and analytical. In Severstal’s case, the leader still controls decision making and company operations, by going deep into details, but he does not impose a vision, or “strategy”, on the team.

### **Time Embeddedness**

Many influential strategy scholars (e.g. Pettigrew, 1992; Porter, 1991) emphasise the importance of temporal dimension in the study of a dynamic strategy process. The study has taken a longitudinal perspective and explored the evolution in the strategy process characteristics. This evolution was then, in line with the methodological demand of the configurational school of strategy process research (Mintzberg et al, 1998), related to the changes in the external and internal environment. Overall, the study identified two distinct “stages”, or “configurations”, the first lasting between 2002-06 and the second in 2006-08/09, up until the global economic crisis. In addition, the study earmarked three “transition stages”. Arguably, we can best describe the transition between stages in terms of “quantum”, or relatively quick and decisive change, in line with the view of organisational change advocated by the “configuration school” scholars (e.g. Miller and Friesen, 1982; Mintzberg, 1989). In line with the suggestions of the configurational school, the study related changing characteristics of strategy process to changes of strategy content, external context and internal events, including interpersonal dynamics. For example, the development of “Partnership” configuration of strategy process (Stage I, 2002-2006) was driven by change in strategy content – rapid build up of a diversified business portfolio from the traditional base of a “one plant” manufacturer, creation of a formal “corporate centre”. Virtual collapse of “Partnership” strategy process configuration could be related to two sets of factors. Externally, the growing importance of financial markets in funding company’s growth,

manifested by the failure to secure the game-changing merger with Arcelor, has stipulated the need to separate core and non-core assets, increase the level of transparency and internal coherence of steel-related businesses. This implied increasing the role of a corporate centre, introduction of common procedures, including IFRS financial reporting, and more attention to cross-business units' synergies. Internally, the growing size and complexity of the business overwhelmed the former "partners". In addition, they became much more interested in pursuing their personal agendas and, managing their own business units which, for one of them, translated into managing his own business after a management buy-out.

After the collapse of the "Partnership", the "Corporation" stage began, with more "professional" management and clearer internal structures. However, even in the "Corporation" stage, decision making remained overall ad-hoc and opportunistic, led by business units. No corporate strategy or guiding limitations emerged, although the strategy making process was becoming somewhat more formal and structured. The next big shift might have started in late 2008, driven by the unprecedented external shock of the 2008 financial crisis which followed ten years of almost uninterrupted growth in the national economy and the global steel market. The "wider" corporate centre arguably became much more powerful, and for the first time in company history, senior management implemented concrete top-down financial targets to the business units. Several introduced a corporate strategy in the form of formal targets and resource allocation priorities. It remains to be seen how the system would settle beyond the immediate reaction evidenced in 2008 and 2009, and whether the new steady state would mean more or less centralised strategy making.

Interestingly, the study respondents normally describe the company leader as the initiator and driver of strategic changes. In essence, the main explanation for strategic changes in the company was "because it makes the CEO/shareholder more comfortable, it allows him to have more control, to communicate better with his team, etc". The company attributed the strategic changes, although they might have been driven by changes in the external

environment, to the personal influence of the CEO. This result is similar to the findings of Mintzberg's empirical study of strategic change (Mintzberg, 1978) which concluded that leadership acts as a mediating factor between external environment pressures and internal bureaucratic resistance to change. In Severstal's case, the role of CEO as the majority shareholder and ultimate decision-maker naturally puts him in a position of the main driver of strategic change.

### **External Context**

External environment plays a major role in shaping the nature and outcome of strategy process (Rajagopalan et al, 1993). Moreover, effective leadership of strategy process is also highly contextually embedded (Chakravarthy and White, 2002). The literature review identified a number of external environmental characteristics which have a major impact on strategy process. These include particularities of a company's industry (life cycle and industry dynamics), general market environment ("volatile vs. stable" and "hostile vs. conducive") and national/regional context which may include variables ranging from "national traditions" and culture to institutional, political and economic environment. Wright et al (2005) postulate that when studying strategies in emerging economies, one must consider institutional factors and environmental impact on strategic choices of managers.

The literature review identified very few specific studies which addressed the particularities of strategy process in emerging markets, and particularly in the Russian context. Carr et al (2007) and Kets de Vries et al (2004) found that Russian companies have a very short-term orientation in their strategy making process. According to Carr et al's (2007) comparative study, Russian companies employ relatively little formal analysis and use very simple, short-term tactics. In a more elaborated recent study, Gurkov (2009) confirmed short-term orientation and highlighted a very dynamic, ad-hoc and opportunistic nature of decision making in Russian companies.

The enquiry into Severstal's strategy process confirmed most of the earlier conclusions about the nature of strategy making in Russia, with some notable exceptions. In line with the previous studies, one can characterise strategy making in Severstal as iterative and opportunistic. There is a general dislike of formal plans and formal analysis. Interestingly, according to Gurkov (2009), in Russian companies the presence of a dominant shareholder would further decrease probability of adoption of a formal strategic plan. This finding is in line with the findings of general literature on strategy in entrepreneurial companies with strong leaders who prefer to remain flexible and attune to environment.

The study also highlighted the importance of a highly favourable industrial environment, particularly in 2004-2008. According to many participants, a very conducive environment created an impression of low investment risks and further stimulated opportunistic decision making not backed by formal analysis and risk calculation. This is in line with Gurkov (2009) who notes that a low degree of competitive pressure decreases chances for adoption of a formal strategic plan by Russian companies.

Findings of this study, however, contradict another observation by Carr et al and Gurkov – that Russian companies tend to focus only on the short-term and don't plan far into the future. This study finds that the strategic horizon has always been very long – traditionally ten years for organic growth and five years for the analysis of M&A targets. This is strongly confirmed throughout the interviews and across all business units involved. At the same time, long-term strategy (in the form of a "plan") did not exist and decision making remained relatively ad-hoc. This phenomenon of "long-term focus without a long-term strategy" deserves special attention. Most probably, the ad hoc decision making process was a response to a volatile environment and corresponding demand for strategic flexibility, as suggested by Uhlenbruck et al (2003). A long-term strategy would inevitably inhibit "leader-focused decentralisation" since the latter requires absence of pre-determined strategic frameworks imposed from the corporate level. We might explain the existing long-term orientation by the capital-intensive nature of the steel and mining industry (as emphasised in a

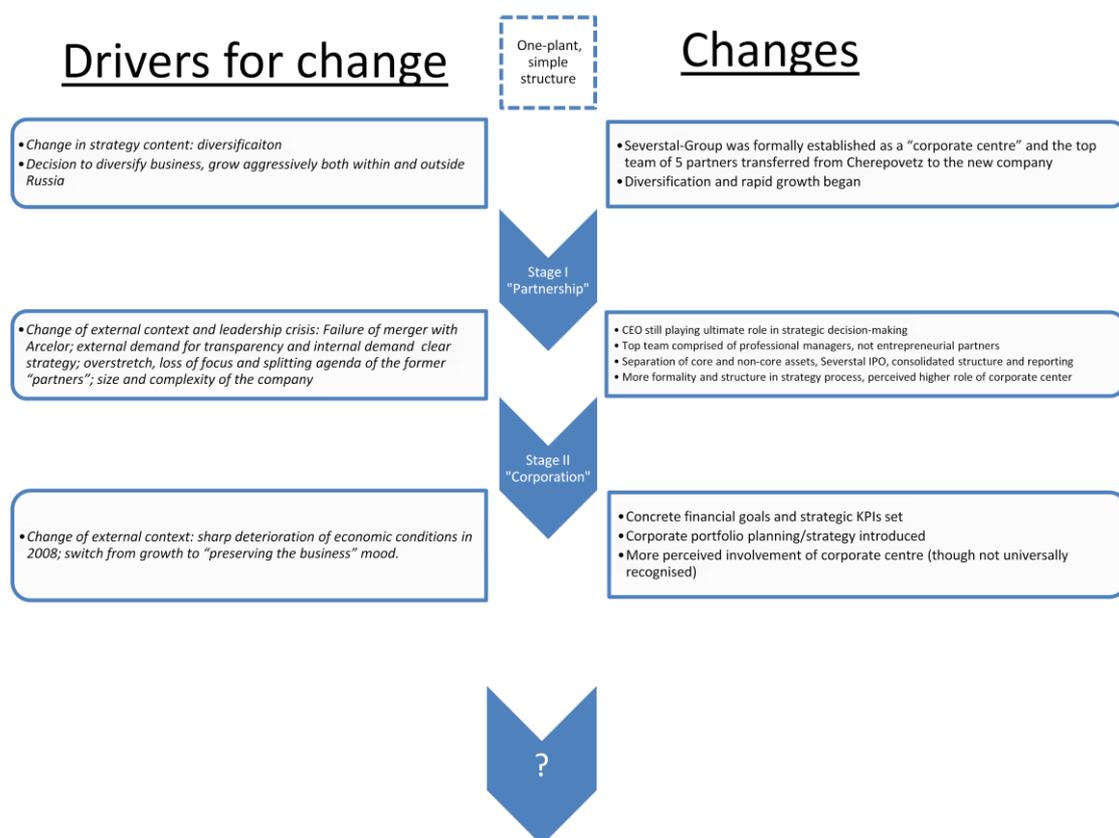
number of interviews) and, arguably, idiosyncrasies of the main shareholder's "involved" leadership style, his deep interest in the long-term success of the business. Importantly, the study participants did not view Severstal's long-term orientation as "typical" for the management of other big companies in Russia.

One of the integrative conclusions of this study is that the Severstal's "leader-focused decentralisation" configuration of strategy process might be interpreted as a good match to peculiar economic and institutional conditions in Russia in the first decade of 21st century. Decentralized and flexible decision-making addressed the need to grow business quickly in the environment of high risks, but also ample economic opportunities. Demand for higher flexibility and decentralisation was highlighted in the previous studies of strategy process in volatile environments (Grant, 2003). Rapidly growing Russian economy and global steel industry, availability of cheap credit at the international markets created a pressure to "find deals for cash". The informal and agile decision-making, unconstrained by formal "strategy" or strategic "objectives", allowed to capture emerging opportunities and address numerous risks in the environment of weak institutions and underdeveloped judicial and legal systems (Kets de Vries et al, 2004; Pappe and Galukhina, 2009). Severstal's strategy reflected the abundance of opportunities and need for flexibility. The period between 2000 and 2006 was an era of opportunistic and aggressive growth strategy, a very rapid growth in the size and profitability of the organisation, numerous acquisitions and, to a lesser extent, disposals of a variety of both related and unrelated businesses.

Lack of human resources and little pressure for financial and strategic transparency in early 2000s meant that formal structures and rules were in small demand. Severstal could better utilise precious human resources in business development, rather than in staffing corporate bureaucracy, whilst the financial markets and stakeholders, including the government, did not apply corresponding pressure on transparency and more formal processes (Pappe and Galukhina, 2009).

It is remarkable how Severstal's management system reacted to the unprecedented pressures of the 2008 financial crisis. In the environment of sharply intensified competitive pressure, the company was quick to introduce formal financial and strategic objectives, corporate portfolio planning and overall higher centralisation. Need for financial and strategic discipline in the sharply deteriorated economic environment fostered higher centralisation, further demonstrating the system's flexibility (see illustration of the historical change drivers and outcomes in Figure 3).

**Figure 3. Temporal development of Severstal's strategy process: Context-embedded drivers of changes and observed changes**



## Relating the research findings to the leadership literature

### Brief overview of key leadership concepts

Given the ultimate role of leadership in shaping Severstal's strategy process, as identified in the empirical part, this section will offer a brief discussion of leadership literature and attempt to relate the empirical findings with the

literature takeaways. The literature highlights the importance of top team characteristics and CEO leadership traits in a number of context-focused enquiries into the determinants of the strategy process (Bantel & Wiersema, 1992; Papadaikis & Barwise, 2002). Based on an earlier study, Mintzberg (1978) argued that the role of leadership in strategy process is to overcome bureaucratic resistance to change and ensure a successful adaptation to environmental change. Hart and Quinn (1993) argue that, despite much progress in the academic study of leadership, there is no universal normative consensus regarding the attributes of effective leadership. This partly results from the evolution of the view on what are the tasks of organisation itself, the paradoxical and often contradicting demands from modern leadership (Bourgeois and Eisenhardt 1988), as well as the embeddedness of organisational strategy content and process and, therefore, “effective” strategic leadership in a particular context (Chakravarthy and White, 2002).

### ***Leadership types and roles***

According to a review of leadership literature in Kakabadse and Kakabadse (2007), one way to classify approaches to leadership is through the lenses of “transformational” vs. “transactional” leadership. Transformational leadership refers to a visionary, powerful, extraordinary personality that makes an extraordinary impact on the surrounding world, “transforming” it by leading the followers to a different (better or worse, but still different) future. According to Kakabadse and Kakabadse (2007), these leaders create the vision of the desired future and then invest heavily their effort, time and emotions into sharing this vision and aligning their troops behind it. Ever since ancient times thousands of years ago, philosophers and historians, from Confucius to Socrates and Plato, have widely discussed the phenomenon of break-through, visionary leadership. The main purpose of the “early” transformational leadership literature was to capture and describe the inherent attributes of leadership, which would eventually allow identification of future leaders and train them in leadership qualities to a desired level. In modern times, psychologists and social anthropologists, rather than philosophers and

management scholars, at some point, assumed the work of analysing leadership traits.

One of the key questions in the field of transformational leadership concerns the issues of the origin of leaders' attributes. Are people "born to lead" or can we purposefully train and develop leadership traits (the "do-it-yourself philosophy")? The search for unique characteristics of "born to be great" leader occupies an important place in the psychology and leadership literature. The central object in these investigations, as well as in this study, is personality, which we can define as "distinctive, fundamental characteristics of an individual" (Kakabadse and Kakabadse, 2007). The term "trait", which the study often uses, refers to a "fixed or reasonably constant element of personal character that remains reasonably constant across different contexts". Freud was a pioneer in the attempt to track the origins of certain personality traits, which he attributed to the early childhood experiences, in particular to the relationships with the child's caretakers. Later followers developed and refined Freud's ideas. For example, Lowen (1975) linked such leadership traits as the ability to make changes, lead people, exhibit personal charm and even good intuition to the experiences of early childhood. In this light, it is interesting to recall Kets de Vries et al's (2004) conclusions that many of the leading Russian entrepreneurs had a powerful, dedicated and deeply caring mother in their childhood. Interestingly, according to *Time* magazine, Bill Gates also had a socially accomplished and confident mother who had a profound impact on his personality (Kakabadse and Kakabadse, 2007). Other important traits of "natural" leaders include charisma (Kets de Vries, 1989), which is in particular need in times of crisis or radical change, and narcissism, which can take both constructive and destructive forms (Freud, 1974; Kakabadse and Kakabadse, 2007).

### ***The importance of context and leadership adaptation***

Industrialisation and creation of modern forms of organisations, such as factories and conveyor belts, and growing complexity in value chains in the late 19th and early 20th centuries has marked the emergence of modern, structured work organisations. According to Kakabadse and Kakabadse (2007), leadership

in modern organisations, in contrast to the more traditional, individualistic type of leadership, is heavily influenced by the surrounding context which includes the drivers of competition, characteristics of the workforce (“followship”). Leadership becomes contextually embedded. What was effective leadership in one organisation with particular circumstances becomes ineffective in another. Leadership effort can also only be effective if it considers the needs and requirements of the followship, the subordinated, teams, members of the organisation and also other stakeholders who may have an impact on the outcome of leadership efforts.

Moreover, in a complex context, a successful manager should be able to master multiple and often contrarian demands and hence play multiple “roles” in the complex organisational setting (Quinn and Rohrbaugh, 1981). Ability to play multiple roles implies a high level of behavioural complexity such as the “ability to play out a wide range of roles in the interpersonal and organisational arena” (Laljani, 2007). Integrating the organisational life-cycle analysis and leadership roles, Miller (1989) offers a life cycle model of strategic leadership behaviours. This model describes the dominant leadership roles (“styles”) at different stages of organisational maturity, from entrepreneurial “prophet” to a “barbarian” leader of growth to a “bureaucrat” who imposes tight checks and controls in a well-established organisation. This emphasises not only contextual, but also temporal embeddedness of leadership traits. In this light, it is interesting to analyse how the characteristics of leader-focused decentralisation, as inferred from the empirical projects, relate to these attributes of strong leadership.

The emergence of modern forms of organisational life has also brought into light the new, perhaps slightly less glamorous but indispensable side of leadership – the daily, “functional”, or “transactional” leadership. The term “transactional leadership” was coined by J.M. Burns (1978), who emphasised that in a modern organisation the leaders need to perform a great deal of “operational”, “routine” and day-to-day tasks, such as leading the meetings, reviewing budgets and results, prioritising workload, coordinating and apprising other people’s work. To ensure overall success, leaders must ensure that the organisation runs its

course and employees are aligned and effective in their performance. Thus, leadership has important work to do even in the absence of major challenges and transformational shifts and turnarounds.

Henry Fayol (1916) was among the first authors to conceptualise the roles of enterprise leaders in modern organisations. He delineated activity types that organisations perform and highlighted the tasks of the leaders, such as making forecasts and planning production, coordinating across units, and controlling and improving the performance. An organisation must divide all work into a distinct process and should elaborate on meticulously described procedures in order to align different parts of the industrial and commercial processes. In this world, the task of the leader is to develop a plan, articulate clear goals, translate them “down” to the workers and maintain a clearly structured “command and control” system to manage the implementation process. These views were conceptually influenced by Weber’s works (Weber, 1988) on the virtues of professional and orderly management in a well-organised bureaucracy. Later works have recognised a somewhat more fine-tuned concept of leadership work. Mary Follet (1924) highlighted the need for “contingency-based” leadership which included the requirement to follow the need of the more knowledgeable and competent team members in specific situations. Barnard (1938) was among the first to recognise the importance of interpersonal dynamics at the workplace and the need to pay attention to communication, psychological needs and motivation drivers of the workers.

It is easy to spot philosophical similarities with the “strategic planning” school of strategy process with its emphasis on the precision forecasting, inflexible goal-setting, task allocation and performance control. Just like strategic planning in the 1970s, businesses (?) challenged the “structured” approach to organisational leadership in a major way by the accelerating pace of competition, with the proliferation of information technologies and the demolition of traditional pyramidal, hierarchical organisational structures. The new organisations had to become more agile and responsive, their top management had to move closer to customers and operations, whilst companies trimmed and

downsized middle management (Kakabadse and Kakabadse, 2007). Proliferation of information technology also meant that many members of organisations gain access to information, limiting leaders' exclusivity of information ownership (Korac-Boisvert and Kouzmin, 1994). In addition, organisational boundaries have become increasingly blurred because of the prolific nature of information flows and greater empowerment of people at lower levels of the organisation. Things such as restructuring, empowerment, outsourcing, internationalisation and introduction of matrix organisational structures, foster fragmentation and conflicting agendas (Boettinger, 1989). The tasks of organisational leaders became much more complex and less structured, as presented in studies like Mintberg's (1973), who found that managers faced various and often conflicting tasks and adopted varying types of behaviours in response to demands of these tasks. To succeed, managers need to develop and apply multiple skills and approaches and learn to manage inevitable paradoxes, such as the fundamental paradox of "freedom" (decentralisation) and "integration" (Lawrence and Lorsch (1986), Laljani, 2007). One of the negative consequences of dealing with multiple paradoxes is that managers and leaders also become increasingly pressurised and overstretched by the complexity and conflicting agendas. Kakabadse and Kakabadse (2007) refer to the results of the Cranfield surveys which demonstrated that leaders typically need to devote up to 80% of their time to transactional activities, such as reviewing financial and operational data, holding meetings, and providing feedback. The key task for them is to combine this "power of details" with a transformational outlook and ability to maintain organisational focus of their vision and "big picture" strategic agenda.

As far as transformational leadership is concerned, arguably the most important task of a leader is her ability to create a powerful and convincing vision for the future and align a team behind this vision (Bennis, 1993). However, empirical research (Korac-Kakabadse and Korac-Kakabadse, 1998; Kakabadse and Kakabadse, 2007) has demonstrated that cohesion and sharing of one image of the future can be difficult to achieve. Cranfield international surveys of private and public sector top teams demonstrated that 20 to 48% of top team members

admit that there are “fundamentally differing views concerning the direction of organisation” in the top teams. Of those, Swedish and Japanese boards demonstrated the lowest, whilst countries as diverse as France, Ireland, Hong Kong and Spain show the highest levels of internal dissent. The negativities of not having a shared vision include, among other things (from Kakabadse et al, 1998):

- Organisational chaos (divergent directions from different managers, lack of unifying theme in organisational discourse, unfocused and sporadic nature of organisational efforts)
- Short-term orientation in the absence of shared long-term goals
- Paradoxical empowerment, when middle management becomes confused and/or cynical because of the contradicting messages from above and finally adopts its own agenda
- In-fighting, destructive internal conflict which absorbs positive energy and may lead to the departure of key team members and team’s self-destruction

Generating a shared vision is very important for the success of the top team and the whole organisation. However, it is often very difficult to arrive at this shared vision, and building up organisational alignment behind this vision remains the foremost task of the senior leadership. Exhibiting conviction, involving the whole of the top team, nurturing an open and constructive feedback environment (in the form of constructive opinion sharing and building trusting and open relationships) and learning to engage in a constructive dialogue to share and align behind the vision are among the prerequisites for generating a shared vision. At the same time, as discussed above, “vision”, like overall modern leadership, should be dynamic and adaptable. Bourgeois and Eisenhardt (1988) emphasise the importance of flexibility and empowerment to achieve organisational success, particularly in a “high velocity” environment.

Other requirements of great leadership include (Kakabadse and Kakabadse, 2007):

- The strength to surface sentiments (i.e. to reveal and openly discuss even deeply held divergences on values, goals and philosophies in an open and honest way). One of the best ways to surface hidden agendas and grievances is a mutual feedback system.
- Ability and “wisdom” to cut through the management paradoxes, such as the “paradox of strategy”. The paradox of strategy refers to the apparent contradiction between the demand for command and control vs. decentralised and empowered management.
- Corporate leadership must work simultaneously to extract “vertical synergies” by achieving efficiencies and cutting costs through top-down coordination and promote “horizontal synergies” to ensure information sharing and mutual support on the issues of quality, responsiveness to customers’ needs and market flexibility. In modern organisations, leaders need to achieve both, which further complicates their leadership workload.
- Flair to engage through dialogue, which refers to the ability to configure a high-quality, open debate about important issues without forcing the team members out of their “comfort zones”. Interestingly, empirical studies demonstrate that, depending on a region, from one third to 80% of top executives report that there are important but sensitive issues which the top level does not discuss (Korac-Kakabadse and Korac-Kakabadse, 1997). Effective leadership depends on the quality of a dialogue and readiness to discuss all matters of real importance for a company, however sensitive they are to particular people. One also may improve the quality of a dialogue by involving a wider circle of managers, those who could play a vital role in the decision implementation. If a certain layer of management feels isolated from the strategy making process, they may feel alienated and hence unwilling to contribute to the

better design and implementation of the strategic decisions made by the “top gang”.

- Ability to communicate effectively by providing a direction (vision); showing example of “best practice” leadership and behaviour, engaging people in the discussion and promoting cabinet responsibility and sense of ownership for the decisions taken by the group
- Displaying passion for success, including showing a sincere enthusiasm for the case a leader stands for and paying attention to details, including operational details which are important to the team members and subordinates

An interesting study by Kets de Vries et al. (2004) highlighted the specifics of leadership in the Russian context. According to Kets de Vries et al. (2004), the Russian organisational environment is very dynamic with employees constantly engaged in coping with crises. This environment is particularly fertile for the emergence of a charismatic leader - a strong leader, capable of showing the way out of difficult situations. This desire to see a strong, “messiah-type” leader is also deeply embedded in national history. As a result of specific Russian character power and control in any Russian organisation naturally comes from the top (Gurkov and Kuzminov, 1995). Together with inherited centralism, strong bureaucratic and hierarchical organisational structure unsurprisingly lead to unequal distribution of power in institutions and organisations (Hofstede, 1984).

Another historical heritage is the “democratic centralism” approach to decision-making in Russian organisations (Kets de Vries et al., 2004). The term “democratic centralism” was one of the central elements to the Communist Party’s official decision making system, but in fact, had its roots in the pre-20th century traditional village communal democracy. Under democratic centralism, all party members were supposed to participate in the discussion of issues and policies and all members cast a vote for leadership. After the leader was put in place, however, very little opposition to his idea was permitted (Lawrence and

Viachoutsicos, 1990). This approach to decision making linked democracy and centralism in dynamic tension, although, naturally, was routinely abused by authoritarian rules and rarely worked in an intended way (Kets de Vries et al., 2004).

### ***Shared leadership***

An interesting perspective of leadership going beyond the traditional top-down, single-leader-oriented approach emerged in late 1990s. The concept of “shared leadership” was simultaneously and independently introduced by a number of scholars (Pearce and Conger, 2003). The “shared leadership” concept defined leadership as an “activity that can be shared, or distributed between the members of a group or organisation” (Pearce and Conger, 2003). According to this view, members of the team can exhibit “situational” or temporal leadership depending on circumstances and requirements of the moment, and then can change their roles again as context changes. According to Fletcher and Kaufer (2003), the interest in shared leadership and team contribution stems from the emergence of more flexible, interdependent, task-oriented and cross-functional forms of organisational life (e.g. cross-functional teams), with less focus on “heroic” figures of strong leaders. Such modern phenomena as a formal division of leadership roles (emergence of co-CEOs) and a more direct involvement of company’s top management into operations, as well as smaller and leaner organisational structures, have also sparked a more practical interest in the topic. The concept of empowerment and its virtues also played a role in theoretical underpinnings of “shared leadership” (Conger and Kanungo, 1988).

In the 1990s, the term “shared leadership” was formally coined and conceptual models of shared leadership were elaborated (Pearce and Sims, 2000). The concept of shared leadership was then further addressed in empirical studies in varying contexts. Interestingly, some of the empirical studies suggested that shared leadership may be more effective in terms of its practical outcomes compared to the traditional top-down approach (e.g. Pearce and Sims, 2002).

Locke (2003) highlights the limits of “shared leadership” in the top teams, emphasising the necessity for a company leader to maintain certain leadership tasks and attributes and impracticality of “totally” shared company leadership in the for-profit context. As a certain response to the claim of shared leadership effectiveness, Locke (2003) shows how teams can be more effective when lead and tightly managed by strong, confident and fully empowered leaders. In such environments, the CEO may still use his power to assign goals and delegate full responsibility for concrete tasks or projects to skilled and trusted subordinates (Locke, 2000).

***The role of personal relationships in the top team: implications for leader-focused decentralisation***

The issue which clearly emerges from the empirical part of study is the important role played by people – the personal traits and leadership style of the CEO/majority owner, and the personal traits of his surrounding executives. The issues of personal cohesion and “chemistry” stand out from the empirical material in a bold way. Leadership and governance literature (Burton, 2000) has acknowledged the importance of the quality of interpersonal relationships for the effectiveness of top team functioning. For example, the quality of personal relationships between the company’s most senior figures – Chairman of the Board and CEO - was determined as a very important factor of the Board effectiveness and organisational performance (Kakabadse et al, 2005). Forbes and Milliken (1999) have stipulated that personal affinity among the group members improves the intra-group unity and leads to higher levels of work satisfaction. These questions are also touched upon in strategy process studies. Indeed, many strategy processes and even strategy content papers have addressed the questions of the impact of top team characteristics and relationships on the strategy process and outcomes. As an example, lack of top team engagement and sense of “ownership” may be one of the key reasons for the failure to create effective strategies (Bowman and Kakabadse, 1997).

Kakabadse et al (2010) further define the notion of “quality of relationships” through the dual lenses of compatible sense-making capabilities, or analytical

interpretive capacity, and mutual emotional attachment, or *philos*. Sense-making compatibility (“collective mind” for “collective action”) emerges as a result of a process of collective data collection, interpretation and subsequent action (learning) where group members pay careful attention to the each other’s views in order to maintain and improve the quality of relationships in the group (Daft and Weick, 1984). Shared cognitive patterns that emerge as a result of this collective work create emotional comfort and facilitate consensus-building (Weick and Roberts, 1993). These patterns will affect the amount of attention and priority managers would give to different projects, facilitating communication in the environment of conflicting and incomplete information (Daft and Weick, 1984). In order to achieve shared understanding and capability for collective decision making, members of the group must pay attention to the ex-post critical reflection of one’s own knowledge structures and mental maps and engage in a continuous dialogue to develop shared meanings and perspectives (Kakabadse et al, 2005). Therefore, the process of building a shared interpretation of the world, or shared sense-making capabilities (Weick, 1995), remains dynamic and sensitive to the decision context since it is reproduced and enhanced on an ongoing basis within the decision making group (Kakabadse et al, 2010).

We can find the origin of the conceptual thinking about *philos*, like for so many other leadership-related concepts, in the ancient world philosophy. *Philos*, a term first coined by Aristotle, refers to a friendship which involves not only emotional closeness and affinity, but also a mutual trust and periodic self-disclosure (Kakabadse et al, 2010). Mutual affinity and trust are greatly facilitated if relatively frequent encounters take place and if the participants of those encounters have similar perspectives of the world (Haines and Bedard, 2001). Overall, we are more likely to develop good mutual emotions if people are put in a position where it pays, i.e. when they have to spend considerable time together. A high level of mutual trust and personal familiarity also facilitates information exchange and therefore enhances the intellectual capital and learning capability of an organisation (Mooradian et al, 2006). In contrast, lack of mutual empathy and trust inhibits the achievement of shared meaning, which

may lead to delays in problems in recognition and damage performance (Westfal and Bender, 2005). Kakabadse et al (2010) conclude that both philos and analytical compatibility are important to achieve good working relationship in the context of CEO and Board Chairman relationships. If one element is lacking, relationships remain workable, although it takes more efforts from both sides to keep them this way. If, however, both elements are missing at the same time, collapse of the relationship becomes only a matter of time.

...

To summarise the above leadership literature review, clarity of goals, mastery of context, quality of strategic dialogue and good cooperation across the organisation are the “best practices” of the more traditional brand of transactional leadership. Modern developments have added to this list the importance of attention to people’s needs, strong team identity and emotional motivation, as well necessity to combine both transactional and transformational elements of leadership as de-layering and improved access to information made traditional command-and-control systems less relevant (Kakabadse and Kakabadse, 2007). Achieving a shared vision, involving the team, creating a constructive climate for discussion, nurturing the relationships and building internal alignment are all essential parts of effective leadership, be it transactional or transformational. Maintaining strong relationships in the top team is an extremely important ingredient for team cohesion and “workability”. Leaders may build good relationships and interpersonal “chemistry” either through shared cognitive and analytical frameworks (“analytical capability”), or through emotional philos. In any case, strong relationships and trust require significant investments of emotions and time for leaders to establish and maintain over time. Successful leadership is also heavily embedded in the organisational context, including the organisation’s maturity and position in a life cycle.

## **Linking the research findings to leadership literature concepts: Discussion and implications**

Research outcomes offer interesting material for the discussion of intersections of leadership and strategy process domains. The “leader-focused decentralisation” configuration of strategy process is heavily dependent on a particular type of leadership to work on a sustainable basis. Approval of all important decisions by one person, “pilot” management models, close personal involvement and attention to details, reliance on bottom-up initiatives, unstructured and opportunistic decision making all highlight an unusually high role of personal relationships and “chemistry” between decision makers. Moreover, the study participants often expressed their view that Severstal’s strategy-making system itself was developed on the basis of the particular personal traits of the leader, which means that leadership was shaping the strategy process, not simply facilitating it. In this light, it would be interesting to analyse how Severstal’s “leader-focused decentralisation” responds to the demands of modern leadership as per the literature review above.

In line with the demands to modern leadership (Quinn and Rohrbaugh, 1981), Severstal’s system implies multiple and often conflicting roles of the CEO/leader. The “system leader” needs to balance both transactional and transformational elements of leadership, including attention to details, operational management, organisation of strategic discussions and major organisational transformations. The ability to combine the “power of details” (“pilot” management model) with a transformational outlook and ability to maintain a “big picture” strategic agenda is an essential characteristic of leadership in “leader-focused decentralisation”. A down-to-earth, details-conscious approach of top management is also in line with the most recent demand for de-layering, simplification and direct involvement of top management in modern organisations (Boettinger, 1989). On the other hand, this also assumes an inherent risk: the required leadership qualities may become overstretched as the organisation grows in its scope and complexity.

Study participants viewed the leader as the main driving force behind strategic change. This is in line the more traditional “heroic” view of leadership (Kakabadse and Kakabadse, 2007). At the same time, as the study has demonstrated, we may also interpret strategic changes as a response to contextual pressures and personal issues within the top team. Hence, we can view the role of leadership as a mediator between changing context and intraorganisational inertia, as an effective force that can send the right signal and overcome possible internal inertia (Mintzberg, 1978).

One of the key tasks of effective leadership is to find a way to manage the inherent paradoxes of modern management (Kakabadse and Kakabadse, 2007). We can interpret “leader-focused decentralisation” as one of the possible mechanisms to manage the paradoxes through involved and committed leadership. It allows preservation of the demand for control (leader’s control on decision and involvement), creativity (decentralisation of initiatives generation) and flexibility (opportunistic and agile decision-making). The high involvement of the CEO creates an effect of substitution of bureaucracy for personal involvement. It reflects the philosophy of a small and lean corporate centre with direct and agile communication with business units. Flexibility and empowerment are particularly important in the volatile, uncertain environment (Bourgeois and Eisenhardt, 1988), particularly relevant to Severstal’s context. Interestingly, the involved, personalised, “hand management” approach is also one of the distinct features of Russian managerial and political tradition (Kets de Vries et al, 2004).

The leader also serves as an inspiring example to his team (Kakabadse and Kakabadse, 2007). For example, one interpretation of CEO’s attention to details is that it serves as an “educational” tool. It shows the top management how deeply they should be familiar with details in their areas of responsibility.

Leader-focused decentralisation also involves some elements of shared leadership: there is an involvement of team members and an extensive consultation process, with much emphasis put in internal alignment.

Empowerment is well-manifested in the exceptionally high role and initiative of business units in the strategy process. This was also particularly evident in the “partnership” stage of system development in the relationship between the corporate top team members. As one of them commented, *“all of the decisions were sort of distributed between five of us, so any five of us could take a decision, okay, which was then 100% recognised and approved by the five others, even though the person did not tell others”*. This leadership style could not be more different from the typified image of a “heroic CEO”, decisively driving the team into the world of his bold and well-articulated vision. On the contrary, the system is based on a bottom-up initiative and top team engagement, although middle management remains unengaged. At the same time, the leader tightly controls the decision making process through meticulous attention to details and control of the final stage decision making. This can be an example of a “constructive” shared leadership which steers participation and still meets the demand for control (Locke, 2003).

One of the areas where “leader focused decentralisation” may be weak is strategic visioning. Generating a shared vision and building up organisational alignment behind this vision is critically important and remains the foremost task of the senior leadership (Kakabadse and Kakabadse, 2007). However, the “leader focused decentralisation” emphasised creativity and flexibility and does not presume, at least in its classical form, a precise “vision” (CEO’s phrase “our strategy is to create more EBITDA” is a good illustration of the vagueness of the formulated priorities). This became a serious organisational problem when entering into a conflict with an organisational context and internal demand, and also became one of the management issues which inspired this research. Clarity of vision and “sense of belonging” to something great and united is also one of the fundamental success factors for the “creative” configuration which is so close to Severstal’s world. In a similar vein, demand for leadership role in ensuring coordination may not be fully met due to lack of top-down integration and cross-business unit coordination in the flexible, ad-hoc structure. Arguably, inability to formulate a shared, coherent strategic agenda for the whole company contributed to the breakaway of “pure form” leader-focused

decentralisation in 2006. At the same time, should the organisation set a task of creating a shared vision, this exercise would not be too difficult given the generally open and constructive atmosphere and willingness of the leader to engage in dialogue (Korac-Kakabadse and Korac-Kakabadse, 1997).

Interestingly, the “leader-focused decentralisation” is conceptually very close to an ideal type of “democratic centralism” as per Kets de Vries et al. (2004). In both cases, lower levels (subordinates/subjects/party members/business units) are free to discuss and offer suggestions to the leadership, and the leader is supposed to respect, if not accept these views. However, once the leader has made up his mind, the discussion stops and he or she implements the decision without a moment of hesitation. More generally, “leader-focused centralisation” fits well to the Russian cultural tradition of searching for a strong and respected leader (Gurkov and Kuzminov, 1995).

Finally, leadership effort can also only be effective if it takes into consideration the needs and requirements of the “followship”: the subordinated, teams, members of organisation (Barnard, 1938), as well as other stakeholders who may have an impact on the outcome of leadership efforts (Kakabadse and Kakabadse, 2007). Emotional motivation and involvement are critical for success in the modern context (Burton, 2000).

Most of the time in Severstal system’s “steady state”, management (?) maintains relationships at a strong level. Indeed, in a system so focused on personal involvement and so indifferent to formal rules, nurturing and developing interpersonal relationships becomes a major factor for success. For example, the company stipulated the crisis of “entrepreneurial partnership”, among other things, by personality issues and divergence of personal agendas of the top team members. The system, where the top team combined the roles of corporate executives and hands-on business unit managers in the ever-growing, complex corporation, led to overstretch, loss of drive and dilution of attention among the top team members. By late 2006, the “partnership” fell apart, and the system was overhauled, becoming more professional and structured. According to feedback from some participants, the risk of poor

decision quality becomes particularly acute if there is an insufficient level of trust between the CEO and the top team. The fact that *personalities, not formalities* are driving the business, makes developing interpersonal relationships one of the key functions of leadership in the “leader-focused decentralisation”.

According to the research findings, the company leader/CEO goes at length to maintain emotional comfort in the team. He creates an open and constructive atmosphere for strategic discussions, makes sure that individuals express diverse opinions. He also takes time to explain his decisions and aims to achieve alignment and buy-in, at times “pushing” for consensus. At the same time, the very structure of the system may inhibit these values. The CEO’s authority and position, when combined with push for consensus, creates a challenge with raising sensitive issues or highlighting risks.

To summarise, many of the characteristics of “leader-focused decentralisation” are in line with the modern demands for leadership: close involvement, mastery of details, direct communication and attention to peoples’ needs. It is well-fit to address the seemingly conflicting demands for flexibility and control, team empowerment and strong central leadership. Somewhat paradoxically, it is not strong in providing clear goals and coordinating across an organisation. Overall, the effectiveness of the system is heavily “personality-dependant”; the quality of relationships in the top team plays a crucial role. The leader ensures that the relationships in the team are strong by investing this time and effort into creating a constructive and open atmosphere for discussion. We can view this dependence on “personalities, not formalities”, and particularly the involvement and leadership competences of the leader, as both a strength and a limitation of the system.

### **Severstal’s “leader-focused decentralisation” as a distinct approach to strategy process in a multi-business firm**

To summarise the above discussion, Severstal’s strategy process and overall “configuration” of strategy content, process and structure was heavily influenced by the company’s external context (national institutional and economic environment, moment in the industry life cycle) and internal idiosyncrasies (role

of leadership, influence of personal traits and relationships in the top team). The distinctive role of corporate centre cannot be easily related to the existing concepts and models of the corporate centre role in multi-business groups. The observed reality defies the traditional views of corporate centre as either the “detached financial controller” (Henderson, 1979; Hedley, 1977) or “active mover and shaper of company-wide competences” (Prahalad and Hamel, 1990; Raynor and Bower, 2001). On the one hand, business units have an extremely high degree of self-sufficiency. For most of the observed period, corporate centre does not even set specific *financial*, let alone strategic, goals to the business units. Rather, financial performance targets appear as a result of iterative and, to a great extent, ad-hoc mutual process. The same applies to strategic priorities or, indeed, the very notion of “corporate strategy”: no intended, ex-ante strategy is declared to (impose upon) business units. Rather, investment allocation takes place on a relatively unstructured, opportunistic basis. New ideas and creativity are welcome regardless of how they relate to the current strategy or asset configuration (e.g. the decision of a *steel* company to invest over \$1 bln into a gold business, which accidentally proved extremely successful thanks to, among other things, an unprecedented rise in gold prices).

Of course, the mechanisms for control and corporate involvement are also very much present in the system. The Severstal corporate centre, and its leader, remains extremely involved and active. However, the control mechanisms remain somewhat different from the traditional corporate approaches. First, particularly in Stage I, company leadership controls the quality of decisions, and the quality of business unit management, through close personal engagement with details of both strategic and operational activities (“pilot” management model). Any investment proposal has a reasonable chance of leadership scrutinising the deepest level of details, ensuring that management remains very alert and attentive to the quality of proposals that they bring to the chief. This is facilitated by the fact that the members of the corporate top team often combined (in Stage I) their duties as corporate officers and heads of business units. Hence, they were able to devote themselves to deep understanding of

their respective businesses. Given the high level of trust in the corporate top team, for a time this mutual support and “substitutability” allowed the leadership to keep tight control over the diverse and rapidly growing businesses. Personal traits of the company leader, who was very much keen to go into details, have also facilitated this approach.

Besides, the fact that strategy was never explicitly formulated to the business units did not mean that it didn’t exist in the minds of the top team. We have some evidence that even in earlier stages, elements of vision, general as they are, did exist and were shared by the top team (i.e. quoted corporate objectives “to become a company with 50 to 100 million tonnes of steel production”, “to become an international steel producer”).

The general expectation of delivering “growth” was well-understood within the company, but at the same time business units’ creativity was not constrained by any specific limits of a financial or strategic nature. On the contrary, the company actively nurtured creativity and motivation through the carefully maintained open and conducive atmosphere for strategic discussions. The leader took deliberate efforts to explain the reasons behind his decisions. Essentially, we can view this discussion atmosphere as an important element of overall strategy process configuration, since it works as an element of both motivation (encouraged initiative) and involvement and coordination (staying attuned to the leader’s vision and expectations). The same applies to the leader’s ongoing efforts to maintain trust and emotional comfort within the team, which we may view as a crucial element of this one-person-focused decision-making structure. The higher the level of trust, the less scrutiny one requires for strategic decisions, which means that a leader can make strategic decisions quickly and efficiently even in complex and uncertain situations. Finally, the fact that all decisions of significance require CEO/corporate leader approval means that the system also includes a very direct control mechanism.

The system has preserved its key properties even as it evolved under the external and internal pressures. For example, in Stage II (“Corporation”), the role of corporate “bureaucracy” has increased and the strategy process became

more formal compared to the “Partnership”. Indeed, the structure of the company, most of the corporate leadership team and many of the corporate procedures have changed. However, despite these seemingly major shifts, such crucial elements as powerful and strategically self-sufficient business units, deep personal engagement of the leader with details and leader’s control over the final approvals have not changed materially. Interestingly, Ocasio and Joseph (2008) found in their enquiry into the evolution of strategy process in General Electric that the company preserved core elements of strategy making, such as structured approach, dominant corporate control, simultaneous involvement of staff planners and line managers throughout its history. These key, underlying mechanisms remained in place despite apparently tectonic changes in the corporate strategy process, including the famous abandonment of “strategic planning” by Jack Welch. Interestingly, changes in the format were to a great extent driven by different priorities of company leadership, but the company preserved the core traits of the system. It remains to be seen whether the seemingly revolutionary changes in Severstal’s strategy process in 2008-09 (introduction of explicit financial targets, explicit formulation of corporate strategic priorities) were part of a major shift to a more centralized “strategic control” system, or merely a tactical reaction to the acute pressures of a global financial crisis.

***In summary, the “leader-focused decentralisation” in its pure form implies:***

- 1) Overall a very important role of corporate centre; high level of involvement and time commitment of corporate officers, first of all the corporate leader; crucial role of leader’s personal traits and drive in shaping strategy process and initiating strategic changes
- 2) High level of business units’ initiative and self-sufficiency in creating strategic options and alternatives
- 3) Presence of both direct and indirect mechanisms of corporate control. Indirect mechanisms include efforts to maintain a conducive atmosphere for

bottom-up initiatives. Creativity and initiative are facilitated by intentional avoidance of “creativity inhibitors” in the form of concrete financial and strategic targets, at least in the absence of sharp external pressures. Elements of direct control through leader’s personal control of final strategic decisions and deep engagement with details in strategic options review.

The models of a corporate centre role usually define it through the level of involvement (financial targeting only; setting strategic priorities and frameworks; building an integrated strategy process and heavily participating in a business units’ strategy-making) and means of control (target setting; identifying and developing group-wide competences). The “leader-focused decentralisation”, which combines elements of strong decentralisation with an explicit direct and indirect control, can not easily fit into the existing models. As far as Goold and Campbell’s (1987, 1993 a,b) model is concerned, “leader-focused decentralisation” combines elements of “strategic control” and “strategic planning” “styles”. On the one hand, like in “strategic control”, the corporate centre delegates considerable flexibility to the business units, but participates in review and approval of strategic business plans and corrects them as necessary. However, the Severstal model does not imply tight control over financial targets; rather, the focus is on long-term success rather than on short-term financial results. However, Severstal’s case could not be any further from another key property of a “strategic planning” style – close interference and high centralisation of the strategic planning process. Severstal’s system does not exhibit any traits of “financial control” style since the corporate centre is involved in strategy, but does not impose financial targets. In summary, we cannot fully classify Severstal’s “leader-focused decentralisation” according to any of Goold and Campbell’s “strategic management styles”, suggesting that one might extend their taxonomy to take account of a wider variety of organisational contexts and resulting strategic management styles.

The corporate configurations model by Ward et al (2005) may present a potentially more promising framework for the analysis of “leader-focused decentralisation”. Ward et al offer generic corporate strategies for multi-

business groups that are based on the nature of the value-adding role of a corporate centre. Although this model is primarily preoccupied with the content of activities performed by the corporate centre and type of resources it leverages, its configurations specify the style of a corporate centre's involvement and some other process attributes.

The "control" configuration implies indirect corporate centre involvement, mostly by financial target-setting through a formal and well-defined planning and reporting cycle. Clearly, in Severstal's case the involvement of a corporate centre is much deeper, although financial targets are absent, and process is not as structured and well-defined, although it gradually evolves in this direction, especially after 2006.

"Scope" and "scale" configurations describe the cases of the corporate centre's direct involvement with business units' strategies. In "scale" configuration, a corporate centre provides shared services or leverages resources across business units to reduce costs. Clearly, cross-business units synergies management is not a focus of "leader-focused decentralisation". Corporate bureaucracy is relatively small and weak, it does not possess strong centralised mechanisms for cross-company interference which would be required in this case. Corporate "push" in strategic areas is purposefully avoided. The corporate centre certainly produces some shared services important in the emerging market context such as GR and access to financial markets, but these play a rather auxiliary role. "Scale" configuration, which implies a corporate role in transferring best practices and competences across the group, is less straightforward. One of the strongest motives for rapid expansion in the early 2000s was the intention to leverage the "turnaround capability" of troubled assets developed in the Cherepovetz steel mill and Severstal automotive plants. However, this line did not find much empirical support in the research. There was little mentioning of the relevance of competences/best practice transfer as an important structural corporate role. On the contrary, there were strong indications of business units' resistance to "standards" imposed from the corporate level. Business units also did not mention best practice transfer as

their important contribution to the corporate strategy process. Rather, the units view the importance of corporate leadership as providing a vision, encouraging dialogue and allocating scarce resources.

This brings the discussion to the last configuration, “creative”. In this configuration, the corporate centre influences business units’ strategy indirectly, through cross-company communication and alignment around a strong vision and corporate values. It provides a sense of unified direction and determines general corporate priorities, leaving determination of business strategies to business units. Ward et al (2005) note that the strategy process may, in fact, vary in this configuration depending on context. Company-wide planning can be more or less rigorous, or the focus may be on short- or long-term results. However, the main instrument for control is not well-specified procedures and financial targeting (which might still exist, but “provision of meaning”, a unifying vision and values which the corporate leader transmits by and through company-wide programme initiatives. Communication is intense and informal, and the corporate centre is heavily involved in shaping business units’ strategies, but the company executes this involvement through indirect influence rather than through a precise prescription.

“Leader-focused decentralisation” in its core would arguably be a good example of this configuration. Indeed, many of the key elements coincide. It combines a high level of the business units’ self-sufficiency with a strong, if indirect, involvement of the corporate centre. The crucial role of the company leader is manifested through setting the vision, providing “shared meaning”, setting the context for strategic discussion (“growth paradigm”) and facilitating business units’ creativity and engagement. Moreover, the leader is the initiator and main driver of strategic change (corporate-wide programmes), such as the “tectonic shifts” of 2006 and 2008/09. This is encouraging, given that Ward et al consider the “creative” configuration as the only one that is capable of delivering sustainable value over a long period. Of course, it is difficult to argue that Severstal’s “leader-focused decentralisation” is a perfect example of an ideal “creative” configuration, devoid of its weaknesses. At different stages, the study

participants all quoted lack of precise enough vision (“what is after all our strategy?”), excessive attention to details, lack of financial and strategic discipline, overreliance on one person and excessive concentration of decision making authority as the system’s weaknesses. It is unclear to what extent the “pilot” management style is an essential part of the system which keeps it both disciplined and agile, or merely a historically developed idiosyncrasy stemming from the personal traits of the CEO/owner.

Finally, Ward et al (2005) and Goold and Campbell (1987) argue that companies may evolve from one configuration to another, depending on the nature of businesses in their portfolio and the characteristics of the external environment. Ward et al (2005) add that this transition often takes place over the company’s life cycle. The task of the company leaders is to recognise the need for such a transition and prepare a company and its corporate centre for evolution. However, such transition usually meets strong resistance from within due to organisational inertia (Senge, 1990) or “bureaucratic momentum” (Mintzberg, 1978). The task of the leader in such cases is either to change the composition of the business portfolio (to make the current configuration work) or change the executive top team (to change configuration) (Ward et al, 2005). In confirmation of this observation, the major transition of 2006 was accompanied by a major reshuffle of the top team composition and management structure.

### **“Leader-focused decentralisation”: Integrating the roles of context and leadership**

#### ***Factors enabling the leader-focused decentralisation in its “classic form” in 2000-2006:***

- *Economic and institutional environment:* need for growth; conducive environment rewarding rapid expansion; little external pressure for transparency and formal rules
- *Leadership characteristics:* a deeply involved, interested and energetic CEO/majority owner, naturally keen to focus on details and drive business decisions, but also prepared to listen to suggestions from below

and delegate responsibilities to the business-unit level. Leadership ability to build strong and trusting personal relationships is highly important for maintaining bottom-up initiatives in the absence of formal rules and precise, articulated strategy. Continuing focus on creating a constructive and open atmosphere for strategic discussions and energetic promotion of team alignment are critical for this people-focused decision making system.

## **AREAS OF CONTRIBUTION**

### **Contribution to Practice**

The key empirical contribution of the research is identification and description of “leader-focused decentralisation”. The study has demonstrated that such a particular approach to strategy making *may* exist, that is a very small, lean, agile and low cost corporate centre, which makes final decisions, but encourages bottom-up initiatives, entrusts business units options-generation and does not limit its creativity by formal rules and “strategy”. The system presumes deep involvement of corporate leaders in the business, including close attention to both strategic and operational details.

Strengths of such an approach include flexibility, quick decisions, adaptability to changes in the environment, and quick reaction to emerging opportunities. A small, low-cost corporate centre requires few human resources since the “bureaucratic apparatus” is virtually absent.

Weaknesses of this model include heavy dependence on personal qualities and a very high level of engagement and time commitment of top team members. Effective functioning also depends on trust and smooth interpersonal relationships at the top team. Decision making is opportunistic and does not assume existence of a well-defined long-term strategy. The model is not well adapted to extract synergies between business units. The institutional environment must allow for the existence of such a “loose” corporate model

(limited public demand for strategy communication, consolidated vision, internal controls, etc).

Therefore, the model may not fit to particular environments including 1) a well-developed institutional environment with high importance to access to financial markets which demand transparency, well-articulated business plans and strategy and 2) established, mature industries in their consolidation phase where synergies extraction between business units is important (De Witt and Mayer, 2005).

The model is arguably best fit for 1) a rapidly changing, volatile environment which requires flexibility and quick decision-making; 2) a high growth-high uncertainty environment (much better fit to capture “high growth” investment opportunities rather than to secure cost reduction and efficiency improvement); and 3) an environment with difficult access to human capital and lower importance of access to global financial markets, particularly equity markets.

From a practical perspective, such a model may present an interest to the indigenous, entrepreneurial business groups seeking rapid expansion in the environment of “frontier” emerging markets, i.e. new markets in a high-growth stage with underdeveloped institutions, limited competition and lack of high-quality human capital. The model may respond well to the demand for strategic flexibility, highly valuable in such environments (Uhlenbruck et al, 2003). Alternatively, elements of such a model may arguably fit to highly uncertain environments, for example, early-stage technology markets with low entry barriers.

Regarding the practical relevance inside the company, the research has helped to highlight strengths and, more importantly, limitations of the existing decision making system. The mechanisms which have worked well in the past were contextually embedded, and hence their efficiency and effectiveness might change with evolution of context. The author discussed the weaknesses and limitations with the interested parties inside the company, including the leader. Interestingly, the leader fully recognised and supported the conclusions on

weaknesses. The participants also aired and discussed structural measures to address weaknesses and risks and planned concrete actions for the mid-term future.

Such an analytical description of the last decade in company's development could be helpful as a tool for constructive reflection for veteran members of the executive team. Making sense of experiences and reflecting on past actions and outcomes facilitates sense-making of the future data flow and future choices (Strabuck and Milliken, 1988). Collective reflection of the past helps to "merge individual terms of references" and move to a shared understanding of the world (Kakabadse et al, 2010), i.e. it may facilitate development of mutual cohesion and positive "chemistry" in the team. According to the feedback from some of the new members of Severstal top team, understanding the origins of the current decision making system also served them as a valuable insight into the "collective mindset" of the organisation and its leaders.

### **Contribution to Public/Political Domain**

Possible contribution to the public and political discussion comes from the uniqueness of the study's intimate look at the world of strategy in a major Russian corporation. The study finds little support to the popular public picture of an "oligarch" owner busy with skimming quick profits from privatised natural resource companies. The study highlights a long-term orientation of strategic thinking, assessment of acquisition targets and strategic plans stretched for five to ten years and remains long-term even in the darkest days of the 2008 financial crisis. Given that the company builds its strategy process around the preferences and leadership traits of the CEO, one may conclude that this long-term approach also reflects a long-term personal orientation of the CEO. Furthermore, the corporate centre, as well as its leader, does not act as a passive "shareholder-style" body who is interested in profit skimming and short-term value extraction. Instead, the corporate centre is fully involved with its businesses as a committed strategic owner. Moreover, the CEO/leader presides over a system which to a certain extent substitutes corporate bureaucracy for his personal control and involvement. Hence the CEO remains extremely

committed, as manifested by his relentless focus on details (to a point when team members consider such a focus on details and time spent at meeting excessive). This type of commitment presumes massive investments of time and energy, to a level when the whole system is perceived to be at risk because of its overreliance on one person and his continuing involved participation. The research thus lends support to a more positive image of an “oligarch” as a proactive and involved leader, determined to move the company ahead. His active role in strong leadership preserves strategic flexibility in critical points, such as the 2008 financial crisis. This strategic flexibility is highly valuable in light of the volatile external environment. The risks and weaknesses of the system are related more to overreliance on the owner’s continuing involvement rather than to his short-term commitment and lack of constructive engagement with the interests of the enterprise.

Another socially important conclusion concerns the role of the government in shaping Severstal’s strategic decisions. Again, contrary to popular beliefs about the high interference with major corporations, findings suggest that the government role was relatively limited. Interviewees recalled only one case when the government “suggested” to undertake certain acquisition (which it later executed). However, interviewees mentioned that government policies were a “background thought” in executives’ minds when thinking about company strategic priorities.

### **Contribution to Empirical Knowledge and Theory**

The study adds to the existing body of knowledge by looking at the corporate centre’s role in strategy process in the previously unexplored contexts: 1) the non-western context of a major Russian enterprise developing in the volatile and uncertain period of economic growth and eventual crisis between 2000 and 2008 and 2) a distinct context of a privatised company with a dominant shareholder-manager, developing in conditions of high uncertainty. A rare case of an in-depth empirical investigation in such a context demonstrated that, thanks to a high personal role and involvement of a company leader, it is possible to combine a strong and involved corporate centre with a high level of

self-sufficiency and initiative of business units. An in-depth enquiry allowed the author to develop a concept of “leader-focused decentralisation” as an empirically-derived theoretical step towards a dialectical synthesis of “activist” vs. “detached” views of the corporate centre’s roles in relation to the strategy process in multi-business firms.

### **Contribution to the Theory of the Corporate Centre’s Role in the Strategy Process in a Multi-business Firm**

The phenomenon of leader-focused decentralisation lies somewhat outside the existing frameworks of the corporate centre’s role in strategy process (e.g. Henderson, 1979; Prahalad and Hamel, 1990; Goold and Campbell, 1987, 1993 a; Ward et al, 2005). Most of the previous literature emphasised the dilemma of “activist” vs. “detached” corporate centre as a principal approach in the construction of conceptual models and typologies. The study began from this starting point and employed basic premises of such typologies as research questions to the empirical investigation. Although highly useful as a first-step conceptual distinction aiming to rationalise and comprehend complex organisational phenomena, such clear-cut division was irrelevant to the company practice given its external and internal contexts. In its comprehensive shape, we can view leader-focused decentralisation as a synthesizing mechanism for solving the theoretically introduced dilemma of “activist” vs. “detached” corporate centre. This synthesis was made possible by introducing a multi-disciplinary approach to the problem and including the leadership and context elements into the discussion of strategy process and the corporate centre role. Strong leadership involvement and distinct “pilot” management style acted as a substitution for formal corporate procedures and control mechanism in the overall environment of generating decentralised initiatives and highly self-sufficient business units. These leadership characteristics of leader-focused decentralisation were made possible because they corresponded to personal traits and the leadership style of the company’s CEO and majority owner. The leader-focused decentralisation was developed in a particular emerging market context which exhibited a high level of volatility and risks, an underdeveloped market and public institutions, but also presented lucrative and diverse

opportunities for business expansion. Demand for strategic flexibility, highly important in the emerging-market context (Uhlenbruck et al, 2003), needs to develop more emergent and iterative approaches (Carr, 2007). There is also a need to decentralise decision making in the face of volatility (Grant, 2003), combined with a need to maintain effective control in the face of underdeveloped financial markets and public institutions (Pappe and Galukhina, 2009). This facilitated the creation of a leader-focused decentralisation in its classical form from 2000-2006.

The synthesizing nature of leader-focused decentralisation challenges certain elements of the existing conceptual models of the corporate centre role. Severstal's strategy process cannot be adequately described by any of Goold and Campbell's (1987, 1993 a) "strategic management styles" which they base on the corporate centre's involvement dichotomy. This conclusion opens a way to a discussion about both practical and theoretical relevance of "either/or" models in varying contexts and suggests that we must extend Goold and Campbell's taxonomy to incorporate wider attributes, including the leadership component that can cut across the formal "process-based" procedures and control mechanism.

Leader-focused decentralisation can arguably be interpreted as one of a variety of possible mechanisms for implementation of "creative" configuration (Ward et al 2005), with one important distinction. Many of the key elements coincide: a high level of the business units' self-sufficiency, and the crucial role of company leadership in company-wide strategic change. However, Ward et al's "creative" configuration assumes that the corporate centre employs mostly "indirect" control mechanisms whilst in leader-focused decentralisation, leadership's role in the strategy process assumes high importance of both direct and indirect means of involvement. The direct influence focuses on a formal control over the "final stage" decision making. There is also close personal involvement with granular details in strategic discussions. The corporate centre plays an indirect role through the encouragement of a bottom-up initiative, avoidance of top-down constraints and ongoing efforts to maintain an open and constructive

atmosphere for strategic discussions. Therefore, Ward et al's model should extend to incorporate the possibility of both direct and indirect means of control in the context of strong leadership and external demand for strategic flexibility.

### **Contribution to the Discussion of Conflicting Demands to Modern Leadership**

Concerning a wider perspective of leadership role in strategy processes, the research may also provide empirical evidence to academic discussion about the need to secure team engagement and empowerment (Conger and Kanungo, 1988; Bowman and Kakabadse, 1997) and leadership control (Locke, 2003). Severstal's "leader-focused decentralisation" allows the leader to secure flexibility, self-sufficiency and bottom-up initiative *and* tight control of the decision-making. Hence, the Severstal case may provide an empirical illustration of how a major corporation responds to the apparently conflicting demands for empowerment and control. At the same time, such response is heavily dependent on a particular type of leadership to work on a sustainable basis. In line with the demands of contemporary leadership (Quinn and Rohrbaugh, 1981), Severstal's system implies multiple and often conflicting roles of the CEO/leader. It emphasises a high personal role of the leader in securing a highly flexible yet controllable strategy process in the conditions of high uncertainty and external volatility. The ability to combine the "power of details" ("pilot" management model) and close personal involvement with transformational outlook and ability to maintain a constructive and involved strategic dialogue with the top team despite the dominant authority of the leader is an essential characteristic of leadership in "leader-focused decentralisation". In the context of academic debate on the corporate centre's role, we can interpret leadership traits which facilitate "leader-focused decentralisation" as an enabling feature that allows us to solve the theoretical paradox of "flexibility vs. control".

## **Contribution to the Empirical Knowledge about Strategy Process Particularities in Russia. Suggestions for Methodology of Strategy Process Research in the Russian/Emerging Markets Context**

The study also adds to our limited knowledge of strategy process specifics in emerging markets, particularly in Russia. Contrary to the previous cross-sectional and quantitative studies of strategy process in the Russian context, this enquiry offers a more comprehensive view, including simultaneous consideration of strategy process, organisational structure, external environment and historical legacy, as suggested by strategy process research methodology (Pettigrew, 1992). The enquiry into Severstal's strategy process provides evidence in support of the earlier conclusions of Carr (2007) and Gurkov (2009) about opportunistic strategic decision making and general dislike of formal plans and analysis in Russian companies. However, the study findings contradict Carr (2007), Gurkov (2009) and Kets de Vries et al's (2004) prevailing conclusion that Russian companies tend to focus only on the short-term and don't plan far into the future. This study finds that the "strategic horizon" has always been very long – ten years for the analysis of organic growth and five years for the evaluation of M&A targets. At the same time, explicitly defined and articulated long-term strategies did not exist and decision making remained relatively ad-hoc. The phenomenon of "long-term focus without a long-term strategy" implies that the company owners/managers may have a long-term orientation in their strategic thinking and long personal business horizon and at the same time pursue highly opportunistic and emergent strategies, quickly shifting their focus across varying industries and geographies without a well-defined and communicated "vision", let alone a "plan". We may interpret the emergent and ad hoc nature of the strategy process and purposeful avoidance of explicit strategy formulation as a reaction to the volatile and uncertain environment of the early 2000s which rewarded Russia with "strategic flexibility" (Uhlenbruck et al, 2003). This is in contrast to the findings of Carr (2007) and Gurkov's (2009) studies revealing that Russian companies have a short-term orientation in their strategic decisions and "therefore" are reluctant to adopt formal "business plans" (Gurkov even found

that companies with *higher* ownership concentration have a *lower* probability of adoption of a long-term business plan). Ontologically, this kind of approach stays within a base picture of strategy as purposeful activity in which a company sets its goals, uses strategic management tools, achieves results, and the “business plan” is the main reflection of strategic activity and the main product of the strategy process. The in-depth nature of this study allowed the author to differentiate between “time orientation” as a mental pattern, a way of thinking of the top team and “presence of a formal business plan/strategy” as an instrument of strategising, which may or may not be practical in the face of external environment challenges. One should also differentiate between short-term orientation as a fundamental attitude of decision making and a short-term *planning horizon* as a “forced” response to a volatile environment demanding strategic flexibility. Even genuinely long-term-oriented top teams may exhibit opportunistic behaviour and avoid explicit formulation of plans and strategies as they see strategy as unnecessary and burdensome “liability” in a particular institutional and socio-economic context. The conclusion of the study is that we should not automatically assume, at least in the emerging market context, that an opportunistic and ad-hoc approach to strategic decisions and “absence of formal business plans” somehow automatically imply “short-term orientation” of business owners and managers. From a methodology point of view, differentiation between “time orientation” as an instrument of strategising and as a mental framework may be a useful step in the context of similar studies. It allows us to make a gnosiological shift from the discussion of formal strategic instruments as key elements of strategy process exploration methodology to the identification of underlying mental frameworks of the decision makers driving the process. Introduction of the language of leadership, personal traits and management style helped the author take a further step in this direction.

To summarise, the conclusions of the study about the existence of a “long-term focus without a long-term strategy” call for a more nuanced attention to methodology of strategy process research in the emerging market context. Companies may not necessarily uphold the frequently implied “automatic” opposition of such widely used process characteristics as “short-term

orientation” and “adoption of formal [long-term] planning” in particular contexts. We may require a more in-depth enquiry or incorporation of a different set of questions in cross-sectional studies to capture the particularities of these strategy process characteristics. While time orientation (short- vs. long-term) is a more fundamental, philosophical category essentially related to the views and attitudes of business owners (and/or top managers), a formal business plan is just one of the *possible* instruments facilitating strategy process. The content of this instrument (a binding “plan” or an indicative “forecast”) may differ depending on the impact of context.

### **Contribution to the Discussion of “Entrepreneurial” Strategy Making in Varying Contexts**

We may also interpret “leader-focused decentralisation” as one of the possible responses of the entrepreneurial decision making system to the double challenge of growing complexity and size of the business *and* volatile, yet opportunity-rich environment. The study identified a number of striking similarities of Severstal’s strategy process with characteristics of “entrepreneurial” strategies identified in earlier studies, such as the ultimate role of the leader and reluctance to adopt formal plans (e.g. Miller, 1983; Mintzberg & Waters, 1982). The key difference was, however, in the “decentralisation” component. Normally, in entrepreneurial, single-leader (or “family”) companies the decision making is firmly concentrated on top, and the company leader has a very strong and well-articulated vision for the whole company. In Severstal’s world, the decision making system is built around *bottom-up* initiatives which are unconstrained by a dominant vision or even a formal “strategy”. The role of the leader is to incentivise and energise his team to offer diverse options by facilitating a constructive and motivating strategic dialogue and aligning the team behind accepted decisions.

The difference may be partly related to the fact that traditionally entrepreneurial strategy-making was researched in the Western context where it normally concerned relatively small businesses and start-ups that can (and, perhaps, should) be analytically comprehended and driven by one leader or a small team

around him. The Severstal's business group was not only quite large (multi-billion-dollar), but also a highly diverse and rapidly growing business at the time of the study. In addition, it operated in a highly volatile environment which tends to reward more decentralised decision making processes (Grant, 2003). Leader-focused decentralisation combined decentralisation of strategic initiatives with the ultimate role of a strong leader who controls decision making and goes deep into details of strategic projects. This combination allowed Severstal to maintain the "entrepreneurial" qualities of the organisation and satisfy the leader's agenda for involvement and control, whilst also keeping the diverse system flexible and open to new ideas despite its size and complexity. Therefore, we can interpret the "leader-focused decentralisation" as an approach to strategy process in a multi-business group as a response of an entrepreneurial decision making system to the challenge of growing complexity and size of the business. Thus, we may use the results of the study, when combined with a more generalised cross-sectional type of research, to extend Mintzberg et al's (1998) conclusions that entrepreneurship and strong personal leadership may have a particularly important and constructive role in three stages of the organisation: 1) the startup phase 2) the turnaround and 3) the small organisation in need for "perpetual leadership". When combined with a properly managed decentralisation of strategic initiative, we can apply strong, entrepreneurial leadership even in large and diverse companies in the environment that facilitates opportunistic, non-bureaucratic approaches and rewards strategic flexibility.

...

Overall, the study concludes that Severstal's strategy process and overall "configuration" of strategy content, process and structure were heavily influenced by the company's external context and leadership style and personal traits of its CEO/main shareholder. Severstal's "leader-focused decentralisation" configuration of strategy was a good match to the volatile and risky economic and institutional conditions in Russia and exhibited some distinctive features which the company never described in other contexts (co-existence of strong

leadership and organisational decentralisation). This conclusion supports methodological Wright et al's (2005) organisational claim about the potential of studies in an emerging market context to enrich our knowledge by offering completely new concepts and models based on a different institutional, cultural and historical background.

## ***LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH***

### **Limitations of the Research**

The key limitations of the research are related to its methodology as an explorative, single case study. The advantage of such studies is their breadth and coverage of a varied context (Pettigrew, 1992), but they have limited conclusive power and their findings, although idiosyncratically applicable, we cannot normally generalize them to a wide population (Easterby-Smith et al, 2002). Essentially, the main task of the research was to identify areas with a potential to create a conceptually new perspective through further research and thus contribute to theory development. We can achieve this through a discovery of a previously undescribed phenomena (e.g. "leader-focused decentralisation") which would lie outside of prevailing theoretical frameworks and thus would allow us to modify and extend existing theories. Similarly, we may bring about potential contribution to empirical knowledge by highlighting points of divergence with previous literature (e.g. the short-term approach to strategy process in Russia). Such findings may serve as starting points for deeper, cross-sectional/quantitative investigations. The explorative study may, however formulate a working hypothesis for such studies on the basis of its own findings.

Other limitations of the study concern the status of the researcher as an active employee involved in the strategy-making (as head of the corporate strategy department). This raises obvious implications for the research reliability. The researcher's position in the corporate centre may have an obvious and clear impact on interviewees' sincerity, particularly for those at an equal or lower position in the organisational hierarchy. As company employees, interviewees

may not be fully open about their thinking on the company business processes and the role of the CEO because of concerns about their careers.

On the other hand, these biases are a flipside of the study's great advantage – full access to the key decision makers, independent of their position within organisation. Given the Russian business climate, prevailing culture of secrecy, intimate nature of strategy process and low proliferation of management research into the world of Russian business, we can consider this access a unique advantage which would not be easy to replicate in any foreseeable future, well worth the abovementioned limitations. Taping, transcription (where permitted) and subsequent systematic analysis of interviews also helped to mitigate the potential personal bias problem. One of the ways to increase internal validity even within the single case study framework was to separate the enquiry into two empirical projects, each with a different cohort of participants. The author used the second empirical project as a tool to verify the validity of Project I's conclusions with a different set of participants. The inclusion of a wide variety of viewpoints (Easterby-Smith et al, 1998) supports the external validity of the research from a relativist position. The inclusion of interviews from employees from different organisational levels (from CEO to line strategy managers) and different regions (Russia, US, Italy), as well as former employees and employees from companies other than Severstal, but still controlled by the same shareholder, supported and helped validate this research.

### **Opportunities for Further Research**

The phenomenon of a “leader-focused decentralisation” approach to strategy process deserves deeper empirical and theoretical exploration. It would be interesting to conduct similar studies with other major business groups in Russia and in other emerging markets with a similar context, and track their strategy making system over the same period of time. One of the interesting questions is: to what extent was the development of this particular system caused by the pressures and opportunities from the external environment vs. personal idiosyncrasies of company leader(s)? In other words, was it mostly

Russia or mostly CEO Mordashov who shaped the particularities of the system? Based on the case study materials, this paper argues that the system was developing in response to contextual demands, but also in line with the particular leadership capabilities and personal traits of the company leader. It would be interesting to find out more about this issue on the basis of richer empirical data. As discussed above, researchers should expand existing theoretical concepts and typologies of the corporate centre's role (Goold and Campbell, 1987, 1993 a; Ward et al, 2005) to accommodate the cases of the overall decentralised strategy process tightly controlled through personal involvement of a limited number of top leader(s) in the absence of both financial and strategic goals (Goold and Campbell, 1987, 1993 a), and possibility for combination of both direct and indirect means of involvement and control in certain "configurations" of the corporate centre's role (Ward et al, 2005).

The controversial question of "short-term" orientation of Russian strategy making also deserves further attention since the results of this research contradict previous studies (Carr, 2007; Gurkov, 2009).

Another potentially promising area for research is to examine the extent of Russian leadership practice that is embedded in the national cultural background. For example, to what extent do the traditions of "searching for a strong leader" or "democratic centralism" shape strategy process and decision making in modern Russian corporations and can they create any cultural barriers to a more distributed leadership?

The importance of leadership-related aspects to Severstal's "leader-focused decentralisation" suggests a potentially promising area of academic enquiry, related to the intersections of leadership and strategy process/corporate centre role research. This calls for deeper conceptual and empirical investigation of the characteristics of leadership that facilitate certain configurations of the corporate centre role in multi-business groups.

The study also highlights the role of personalities and importance of team cohesion and constructive engagement for the functioning of Severstal's

strategy process. According to the research findings, the issues of top team involvement and the quality of strategic dialogue both receive considerable attention from leadership and present many reasons for concerns by the team members, all at the same time. Although the notion of importance of interpersonal relationships for the process effectiveness is not unique (e.g. Burton, 2000; Kakabadse et al, 2005), this study places the “micro” issue of “relationship building” and “team engagement” in the centre of a “macro” topic of corporate strategy process and configuration sustainability, offering a new, potentially highly interesting avenue for a more detailed exploration. The depth of the enquiry and its initial focus on organisational-level issues did not allow the study to grant the topic of personal relationships and “chemistry” all the attention it deserves. Many interesting questions remain unresolved. In particular, one of the interesting questions is: what strategies do leaders use for engagement and alignment? To what extent is the system built for the convenience of the CEO (as some interviews have suggested), and how does it incorporate the needs of other participants?

## Chapter 2

### 2. Project I: Systematic Literature Review

#### ***INTRODUCTION***

##### **Research Problem**

This study intends to assist Severstal in the optimisation of its strategy development process and help in building internal alignment on the role of a corporate centre. Through this literature review, the study will capture key academic perspectives on the strategy development process, the corporate centre role in strategy development and how these may relate to the company context. The empirical part of the research will look at how the roles of the corporate centre and business units in strategy development evolved with the company and its context. This will help Severstal to address its present issues since strategy process and structure are embedded in the past (Pettigrew, 1992) and one may only apply normative solutions if there is a clear understanding of the organisation’s position in its lifecycle, considering the current state of its structures, processes and external context.

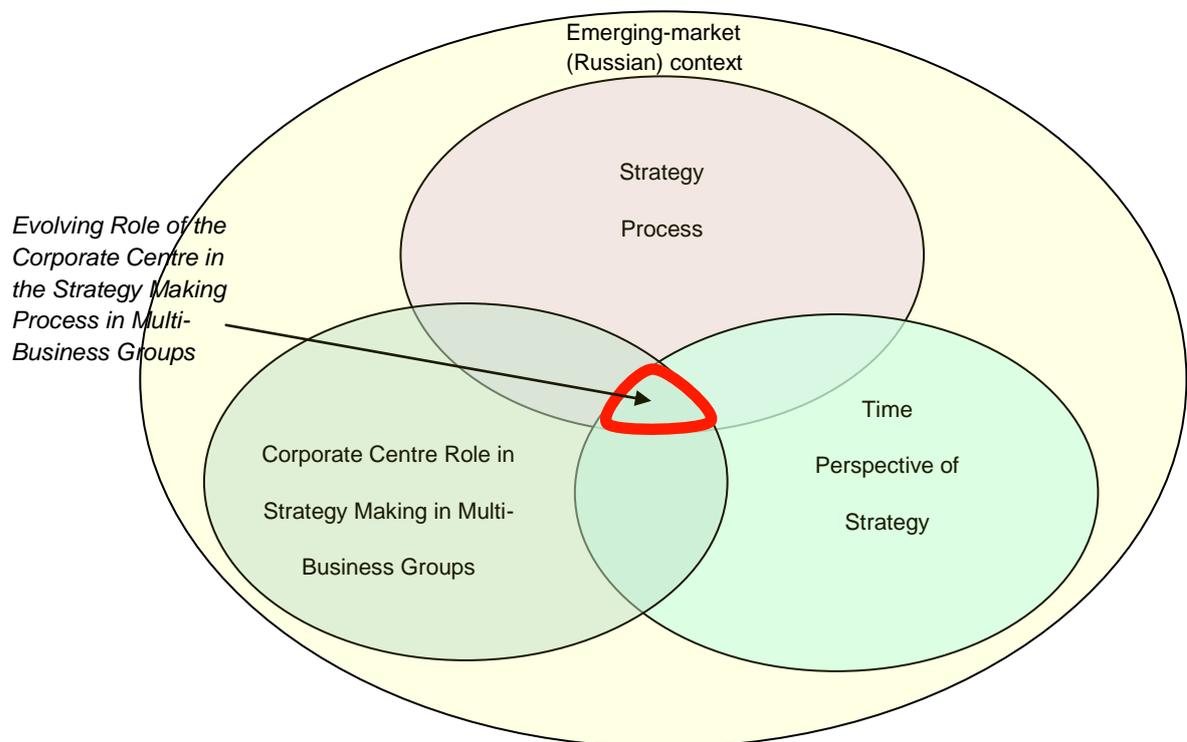
##### **Positioning the research**

To inform the research question, this paper will address three literature themes: strategy process, the corporate centre role in strategy making in multi-business groups and time perspective of strategy, with additional consideration of the emerging market (Russian) context impact on the strategy making process.

Strategy process is the main focus of the study. The review will aim to untangle key perspectives on the nature of strategy making in the private sector and its

connection to internal and external organisational contexts. The corporate centre role in strategy making in multi-business groups is of interest because it addresses the specific question of the optimal role for a corporate centre in strategy development. Finally, time perspective of strategy is important because of the fast pace of organisational growth and the dynamic external context of modern corporations. “Optimal” strategy process is not cast in stone - structure and strategy jointly evolve over time as companies are engaged in a perpetual quest for a “fit” with the changing context (Mintzberg et al, 1998). The paper aims to explore the logic and driving forces of the strategy process development over time in order to provide conceptual insights and practical recommendations. The empirical exploration of how the corporate centre’s role in the strategy process develops over time in a particular context of an emerging market multi-business group is a key contribution of the research.

**Figure 4. Literature Mapping**



## **Literature Perspectives on the Topic and Potential Contribution to Knowledge**

The previous research stage (scoping study) was devoted to comprehensive research of the “overall” strategy literature. The research identified three main dimensions of strategy – ***strategy content, strategy process and strategy context*** (De Witt & Meyer, 2004). The focus of this literature review is strategy process as “the process by which strategies come about”. However, as many strategy researchers have emphasised, both content, process and context actively interact and influence each other. For example, Mintzberg et al (1998) argues that in-depth longitudinal studies of strategy process should embrace internal and external contexts and strategy content characteristics. These “configurations” of strategy and contexts should be the main object of enquiry. Therefore, the review will also address the questions of strategy context and content when they come across the process stage.

### **Strategy-making Process**

Literature on strategy process is vast and diverse. It has developed a distinct methodology and elaborated a set of theories and concepts encompassing all aspects of the process, from cognitive and behavioural determinants of strategic thinking to political and organisational constraints of strategy formulation and implementation.

*Methodology.* Literature on strategy process has elaborated its own methodology (Chakravarthy & Doz, 1992) and assumptions, as well as a number of opposite perspectives that will be discussed below. However, Fredrickson (1983) contests that research progress in this field remains rather normative or conceptual and suffers from a lack of empirical resting. An illuminating article by Pettigrew (1992) summarised key “guiding assumptions” or methodologies for strategy process research, including its embeddedness in the inner (organisational structure, politics and culture) and outer (industrial, economic, political environment) context of the organisation. Pettigrew (1992) suggests the longitudinal comparative case study method of strategy process research because it allows for a holistic approach, careful examination of

concrete contexts and deep comparative analysis of cases rather than simple and abstract cross-sectional analysis of isolated variables.

*Theoretical perspectives.* From the historical perspective, strategy process attracted relatively little attention in the strategy literature of the 1950s and 60s. Instead, such influential authors as Andrews (1971) and Chandler (1962) focused on the content and context, in particular on analytical techniques for analysis of the internal and external environment. Scholars said little about the process itself. Essentially, they considered the process relatively simple.

This relatively straightforward view of strategy process was challenged by the rise of “**strategic planning**” in the 1970s. Igor Ansoff (1965), in his famous book on corporate strategy, outlined the basic premises of strategic planning, such as its deliberateness, logic and all-encompassing nature.

Strategic planning fell out of fashion in the 1980s. Critiques named difficulty of forecasting, over-formalisation, limited creative power and ignoring of organisational culture and context as its key deficiencies (Mintzberg, 1994a). Perhaps the most famous critique of strategic planning concerned the implied notion that strategy process should be a formal, logical and deliberate exercise. In reality, scholars argued that, “making strategies involves sense-making, reflecting, learning, envisioning, experimenting and changing the organisation, which cannot be neatly organised and programmed” (De Witt & Meyer, 2004). Mintzberg and Waters (1985) conceptualised the distinction between “**deliberate strategies**” (strategies that were first created and then actually implemented) and “**emergent strategies**” (“patterns of consistencies realised despite, or in absence of, intentions”). The **learning perspective** of strategy explicitly related strategic management to a (collective) learning process (Hamel & Prahalad, 1990). The view of strategy making as a **political process** refers to the fact that as a social activity, strategy making is contextually embedded in organisations and hence intra-organisational dynamics exert a considerable influence over strategy (Mintzberg et al, 1998).

The study of strategy process in *entrepreneurial* firms (or under entrepreneurial leadership) has its roots in the traditional economic view of firms as economic agents embodied by individual decision makers. Empirical findings (Mintzberg, 1978) revealed the picture of entrepreneur as a decisive strategist, fully enmeshed into details of his business (no separation between “formulation” and “implementation” whatsoever), motivated by growth, yet caring about sustainability of his enterprise.

### **Time Perspective of Strategy Process**

Literature on the time perspective of strategy is primarily focused on the descriptions of strategic change processes and evolution of organisational characteristics related to the strategic change. Empirical enquiries into the strategies’ development over time (Chandler, 1962; Pettigrew, 1999) provided a solid methodological foundation and formulated the necessary vocabulary, but were more focused on strategy content rather than process. The “configuration” view of strategy process sought to provide an integrative perspective of strategy process development over time in particular organisational and environmental contexts (Mintzberg et al, 1998). These studies are highly relevant to the topic of this research. They inform us about the key forces shaping the strategy process and provide some informative examples of modes of strategy process in particular contexts. The study of strategy in an entrepreneurial firm (Mintzberg & Waters, 1984) may be particularly relevant to the Severstal case because of the entrepreneurial nature of Severstal’s management. However, it is easy to notice that scholars conducted nearly all the configurational case studies in the Canadian context – hence, adding the Russian experience would provide a considerable contribution to our knowledge. Also, founding fathers of the configurational theory recognise the limitations of their research (particularly the difficulty to encompass all complexities of strategy process and its interplay with context) and call for deeper empirical enquiry into the details of strategy making (Mintzberg et al, 1998). This research aims to conduct such an empirical enquiry with an in-depth focus on strategy process change in a particular internal and external context. From the research standpoint, Severstal

provides an interesting opportunity to study a company that went through a series of rapid (and rather bold) changes, making its way from a loss-making privatised asset operating in a highly uncertain environment to a major international company in a highly profitable industry. Since this transformation occurred in a relatively short period of time, key actors in and around the organisation are relatively easily accessible.

### **The Corporate Centre Role in Strategy Making in Multi-Business Firms**

Corporate strategy in multi-business firms deals with two fundamental questions: 1) "In what businesses should the corporation be active?" and 2) "How should this group of businesses be managed?" (De Witt & Meyer, 2004). Most of the studies on multi-business firms' strategy focused on the content of strategy, particularly portfolio management (BCG Growth/Share Matrix) and product management techniques (Ansoff's Product Development Matrix – Ansoff, 1965). Resource-based theories highlighted the importance of the corporate centre's role in identification and development of corporate-wide competences and capabilities (Hamel & Prahalad, 1990). A great deal of studies concerned the impact of diversification moves on performance, with resulting consensus that unrelated diversification is generally adverse to financial results (Porter, 1987). As far as strategy process rather than content is concerned, a distinct model of the corporate centre's "strategic management styles" by Goold & Campbell (1987) explicitly defines the corporate centre's role models and discusses their process attributes in terms of the depth and purposes of the corporate centre's involvement in shaping business strategies.

Studies on the role of the corporate centre in strategy making are rather limited and lack empirical depth beyond the narrow limits of cross-sectional enquiries on the impact of certain corporate strategies on performance. This study will aim to contribute to knowledge through empirical exploration of the actual role a corporate centre plays in shaping company strategy. It will add to our understanding through a comprehensive longitudinal case study methodology capturing the complexity of the phenomenon. Moreover, it will contribute to the

wider strategy process theme by addressing the little-explored question of strategy making in a non-western context. This contribution builds on the convergence of the fields of strategy process, the corporate centre role and temporal development of corporate configurations.

### **Review Objectives**

The focus of this research is the evolving role of the corporate centre in strategy process as a company developed over time in a particular context of post-privatisation, emerging market economy. The research question and intended research methodology were mostly informed by the strategy process literature, particularly studies on the temporal development of strategy process as part of corporate configurations and perspectives on the role of the corporate centre in strategy process of multi-business groups.

The aim of this review is to identify and analyse in the existing literature relevant theories, perspectives, empirical findings, authors and research methodologies that can inform the overarching research question:

“What is the role of a corporate centre in the strategy making process in a multi-business firm”?

Additional specific questions could provide further focus to the research:

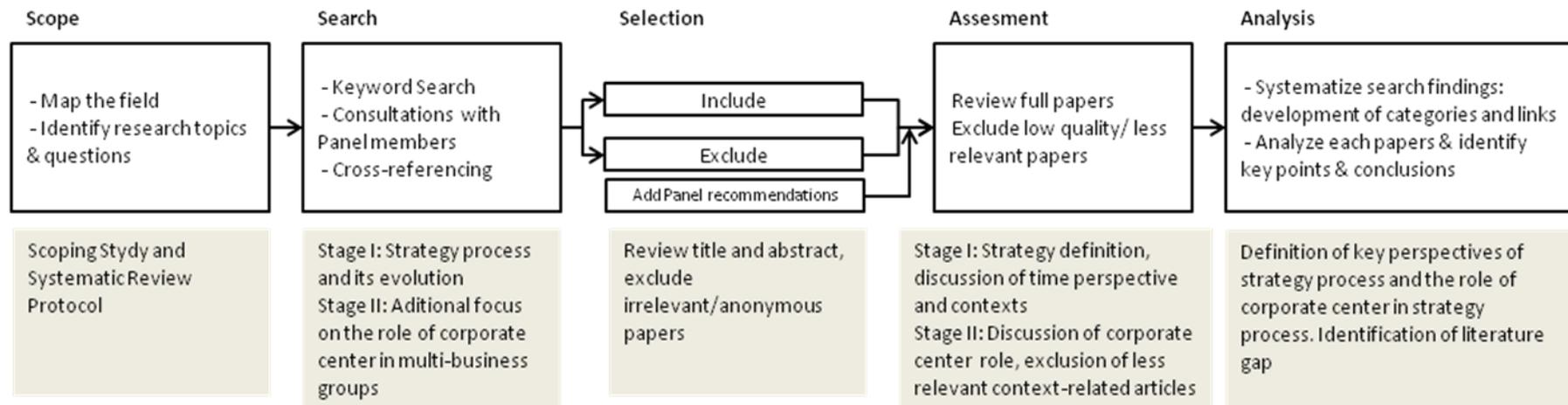
- What are the key perspectives on the nature of the strategy making process and its evolution over time?
- What does the literature tell us about the impact of national context on the strategy making process; in particular, is there published research on the strategy process in a Russian context?
- What methodologies are employed for studying strategy process?

## ***REVIEW METHODOLOGY***

### **Overview**

This section presents the methodology adopted in the systematic literature review. The process illustrated in the figure below was designed to ensure that the review was performed in a comprehensive and systematic way, starting from the design of search strategy, paper selection, assessment and categorisation, leading to systematisation of identified knowledge and refinement of the research question. The search and selection process comprised two parts. In the first part, the focus was on the general strategy process literature and methodology of strategy process research, whilst in the final stage, following discussions with the Panel, the focus was further narrowed to the role of a corporate centre in strategy process in multi-business groups.

**Figure 5. Systematic Review Process Model**



## Review Panel

The review Panel included the Supervisory Panel members, an academic expert on the subject and specialists in literature search and systematic review methodology. Members of the supervisory Panel, Dr Kakabadse and Dr Jenkins, advised on the structure and initial approaches to the systematic review, as well the initial set of key authors and theoretical approaches in the field.

**Table 5. Review Panel**

<i>Person</i>	<i>Title</i>	<i>Organisation</i>	<i>Involvement</i>
Andrew Kakabadse	Professor of International Management Development	Cranfield University	Lead Supervisor. Reviewed structuring, references on strategy and leadership, strategy and organisational structure, role of the corporate centre in multi-business groups
Mark Jenkins	Professor of Business Strategy	Cranfield University	Reviewed structuring, theme definition and refinement, references on business strategy theory
Kim James	Professor of Executive Learning	Cranfield University	Theme definition, management research methodology
Emma Parry	Research Fellow	Cranfield University	Systematic review methodology
Heather Woodfield	Social Sciences Information Specialist	Cranfield University	Literature search strategy & search engines
Ed Barrows	DBA student	Cranfield University	Systematic review structuring and pitfalls
Cliff Bowman	Professor of Strategic Management	Cranfield University	References on business strategy theory, literature search
David Danyer	Senior Lecturer	Cranfield University	Systematic review process

Heather Woodfield advised on the search strategy and search engines whilst David Denyer and Ed Barrows advised on the review structure and methodology. At the start of the process, Prof Cliff Bowman offered deeper insights into the theoretical background of strategy process and provided a number of useful references in the strategy field. At the final stage of the review, Dr Emma Parry was consulted on the robustness of the review methodology and results and Dr Bowman on the comprehensiveness of the literature selection.

## **Search Strategy**

### **Information Sources**

The primary sources of information were electronic databases, references from the Panel members and cross-referencing from the key papers and key authors in the field. Other sources of information included discussions with fellow DBA candidates with adjacent topics and relevant internet-based academic sites, most notably the strategy-as-practice.org. Heather Woodfield's personal search experience and helpful advice led to the identification of ABI Proquest, EBSCO Business Source Premier and Science Direct as the most efficient electronic databases. Although the keyword search through the databases proved to be a useful first step, the author sourced approximately half of the articles from the references in books and textbooks, bibliographies of the key authors in the field (Mintzberg, Miller, Wittington, Pettigrew) and recommendations from the Panel members.

The principal sources of information included:

*Databases.* Keyword search was based on three databases: ABI Proquest, EBSCO Business Source Premier and Science Direct.

*References from books and other articles.* Some books were sourced through electronic databases, but most of them came from recommendations of Panel members and cross-referencing. Strategy process-related textbooks (De Witt and Meyer, 2004 and Johnson et al, 2008) proved to be the most valuable reference sources. The "literature review" articles (such as Mintzberg and

Lampel, 1999 and Hutzschenreuter and Kleindienst, 2006) were very useful as reference sources as they were presented in a structured way around key theoretical concepts.

*Key authors' bibliography.* As noted above, once the author identified the most widely referenced (and referred to) authors in the preliminary stages of the research, the author carefully checked their bibliographies and identified a significant number of relevant books and articles.

*Academic Websites.* The strategy-as-practice academic community website was a valuable source of information on this emerging perspective; e-mail-based conversations with the members of the community helped in identifying a number of conceptual papers.

## Key Words

From the scoping study and initial review of the vocabulary used by seminal papers and key authors, the author identified a number of keywords for each literature domain:

**Table 6. Keywords**

<b>Literature Domain</b>	<b>Keywords</b>
Strategy Process	Strategy process and its parts/synonyms: strategic planning, strategy formulation, strategy formation, strategy making Key strategy process attributes: deliberate, emergent
Time perspective of strategy	Temporal, pattern, development (other potential search strings included "time" and "dynamics", but these proved to be too commonly used in varying contexts, so their inclusion produced an excessive number of irrelevant hits)
National (Russian) context of strategy process	Emerging markets, national context, Russia/Russian
Corporate Centre role in strategy making multi-business groups	Strategy process (and synonyms) and: Corporate centre, business units, diversified, multi-business

## Search Strings and Results

The author developed the keywords identified above in combinations that constituted search strings for the electronic database review. These combinations of words are the final product of a number of trials and errors which initially produced too many hits (numbering in thousands of returned results) or failed to provide sufficient relevance to the focus of the research.

The first string aimed to identify literature perspectives on strategy process and its key attributes, whilst the second one addressed the papers on strategy process evolution over time since per Mintzberg et al (1998), one can effectively research strategy process only from a temporal perspective. In summary, the first two strings aimed to identify key perspectives in the field before turning to the narrower context focus of the research.

The third and fourth strings were looking at the papers that associated strategy process with a national context. Emerging market and Russian contexts were of particular interest because of the intended empirical platform for this study. Finally, the last string was directed at the search for papers which examined the strategy process in multi-business/diversified firms and roles of corporate centres and business units in strategy making.

**Table 7. Search Results**

<b>Search Strings</b>	<b>ProQuest</b> <i>(Scholarly Journals only)</i>	<b>EBSCO</b>	<b>Science Direct</b> <i>(Business, management and accounting journals only)</i>
strateg* process AND (strategic planning OR strategic management OR strategy formulation OR strategy formation OR strategy making OR emergent OR deliberate)	124	103	140

(strateg* process OR strategy formulation OR strategy making) AND (temporal OR pattern OR development) AND NOT (marketing OR government OR forecasting OR scenario planning)	299	231	75
(strateg* process OR strategic planning OR strategy formulation OR strategy formation OR strategy making) AND (emerging markets OR national context OR international strategy OR multinational)	96	53	11
(strateg* process OR strategic planning OR strategy formulation OR strategy formation OR strategy making) AND (Russia OR Russian)	11	13	6
(strateg* process OR strategy formulation OR strategy formation OR strategy making) AND (corporate center OR corporate centre OR business units OR diversified OR multi-business)	48	12	10
Total Papers found through the search strings:	578	412	242

*Note: The author reviewed only abstracts in the cases of Proquest and EBSCO because for the purposes of this study, abstract only searches proved to be more robust compared to titles and abstracts. Inclusion of titles resulted in an excessive number of irrelevant hits with a word “strategy” or “strategic” in the headings. At the same time, virtually all relevant articles employed strategy process-related terms in their abstracts.*

## **Selection Criteria**

The relatively large number of “hits” resulted from the use of far-reaching keywords and multiple overlapping areas of interest. To manage the workload, the author developed the inclusion and exclusion criteria based on the prioritisation of the papers directly addressing the focus of the study.

## **Criteria for Paper Title and Abstracts Review**

The author used the following criteria in the reviews of titles and abstracts:

**Table 8. Selection Criteria**

<b><i>Inclusion Criteria</i></b>	<b><i>Rationale</i></b>
Papers explicitly focused on the nature, key attributes and research methodology of strategy process	The purpose of the study is to develop our knowledge of strategy process, hence it was imperative to get a full understanding of the theories and concepts behind strategy process and methodology for strategy process research.
Papers that discuss the time perspective of strategy process	From the early scanning of literature, it became apparent that the prevailing research methodology advised longitudinal, time-sensitive research of strategy process. The paper intends to take a historical perspective and analyse strategy process as it developed over time. Hence the longitudinal, time perspective of strategy process was added to the inclusion criteria (as opposed to cross-sectional studies, focused mostly on context variables and impact on performance).
Papers on the impact of emerging market/Russian context on strategy process were included	The study will be conducted in the context of a Russia-based enterprise, hence special interest to the Russian and, more generally, emerging market context.
Papers that discuss the role of corporate centre and business units in strategy process in multi-business firms	The study will focus on the role of a corporate centre in strategy process.
Only the key, representative papers on the relationships of general internal and external strategy context on strategy process (derived from cross-referencing) were included	To provide an overview of the key perspectives on the impact of strategy context (in line with “configurational” methodology) without going into excessive detail since strategy context, per se, is not the prime focus of the study.
<b><i>Exclusion Criteria</i></b>	<b><i>Rationale</i></b>
Papers focused on the areas outside of strategy and strategic management in business context were not included	Not relevant to the study topic.
Papers focused on strategy content rather than context	Not relevant since the study is focused on the process side

Papers focused on the relationships between strategy process and general strategy context	Less relevant to the study focus (with the exception of national context).
Papers on the impact of strategy process on firm performance	Less relevant to the study.
Papers in languages other than English and Russian	In the case an important non-English (Russian) paper emerges from cross-referencing, it will be translated into English.

The criteria helped to reduce the number of articles under review by approximately 85%. Of those, about 65 percentage points related to the topic outside of the strategy domain, and the remaining 20 percentage points included articles on strategy content and less relevant attributes of strategy process. Most of the excluded strategy-related articles were looking at the strategy content, correlations of strategy and performance and the detailed analysis of particular contexts of strategy, such as industry, firm size or process participants.

### **Criteria for Full Text Papers**

The author adopted the following approach from Dr. David Denyer's lecture and slides and modified it based on a review of samples of doctoral students' research protocols:

1. **Well Defined Theory:** The clarity of theory definition and its relation to other theories and concepts; sufficient explanation of the literature informing the study
2. **Appropriate Methodology:** Good explanation to the choice of the adopted methodology, including the selection of unit of analysis and data collection
3. **Data Analysis and Interpretation:** Analysis of the data is clearly explained and contributes to the theme of the paper; robust data interpretation

4. **Contribution to Knowledge:** Originality of the article as compared to other research
5. **Conclusion in Alignment:** Conclusions are aligned with the theme of the paper

The author appraised the papers on a 3 point scale, where 1 is a poor valuation on a dimension, 2 is moderate quality and 3 is the high quality. If a paper does not include a relevant dimension, it is rated non applicable.

**Table 9. Assessment Criteria**

<b>Criteria</b>	<b>1 = Low or absent</b>	<b>2 = Medium</b>	<b>3= High</b>	<b>Not applicable</b>
Well defined theory	Not enough information to assess or not well defined	Theory is fairly well defined	Theory is very well defined	Element not applicable to the paper
Appropriate methodology	Not enough information to assess or methodology is inappropriate	Methodology is fairly appropriate	Methodology is very appropriate	Element not applicable to the paper
Data analysis and interpretation	Not enough information to assess; data analysis is not robust or does not contribute to understanding the aim of the paper; patchy/unrelated interpretation	Data analysis is reasonably robust and contributes to understanding the aim of the paper; interpretation is reasonable	Data analysis contributes significantly to understanding the aim of the paper; clear and logical interpretation	Element not applicable to the paper
Contribution to knowledge	Not enough information to assess or no significant contribution to knowledge	Contribution to knowledge is limited in importance or significance	Contribution to knowledge is significant	Element not applicable to the paper

Conclusion in alignment	Not enough information to assess or conclusions are not aligned	The conclusions are fairly aligned with the theme of the paper	The conclusions are very aligned with the theme of the paper	Element not applicable to the paper
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The author adopted papers with scores 2 or higher on at least three of the five criteria for further analysis. The author assessed the paper quality based on his limited experience in the academic field and analysed sample paper tests performed in class with the help of David Denyer. The author based most of the exclusions on the low scoring on theory definition (incomprehensive coverage of preceding literature) and contribution to knowledge (novelty and originality of a paper). The author excluded a significant number of relevant papers, sometimes by the same author, that addressed very similar topics and drew similar conclusions. Only one, the most robust, was left as a representative for this line of thought.

### **Cross-Referencing**

The scoping study and initial discussions with the Panel members produced a limited number of key authors who made the most important contributions to the field in question. These included Henry Mintzber, Danny Miller, Andrew Pettigrew and Richard Wittington. The author analysed their works in detail and identified the more relevant papers. The review articles on strategy process, such as Droge, Miller and Toulouse (1988), Hutzschenreuter and Kleindienst's, (2006) and Mintzberg and Lampel (1999) and textbooks, such as De Witt and Meyer (2004) and Johnson et al (2008) were a valuable source of additional references and key perspectives on the topics of interest. Panel members also recommended a number of important references. The author analysed papers drawn from cross-referencing in the same way as those retrieved from databases.

### **Data Extraction**

The author imported selected papers into Procite, analysed them and collected the following information:

1. **Citation information:** author, title, journal, data of publication, volume, pages;
2. **Descriptive information:** focus and purpose of the study, units of analysis, location, industry;
3. **Methodological information:** type of a study - theoretical, empirical (qualitative/quantitative) or methodological, data structure and sample size, data collection and analysis;
4. **Thematic information:** key conclusions and contributions to knowledge, identified limitations, suggestions for development and further research
5. **Theoretical information:** key research areas/perspectives where the study comes from and contributes to.

## **Data Synthesis**

At the first stage, the author attributed selected papers to literature themes and analysed them from the perspective of their input into the key areas/perspectives identified in the study. The author identified contribution of each paper and contrasted opposing perspectives emerging from the analysis. This helped to answer the review questions and identify knowledge structure at the strategy process domain. The second stage focused on further refinement and justification for the focus of the study. On the basis of thematic structuring, the author identified the knowledge gap and further developed the study questions. Finally, the author developed the scope and methodology of Project II on the basis of refined research questions and relevant takeaways from methodology papers.

## ***DESCRIPTIVE ANALYSIS***

### **Overview**

The following section describes and systematises the results of the literature search. The search results and selection steps are presented first, followed by the descriptive literature statistics including literature themes, timing of studies,

type of studies, data structure, regional and industry breakdown for the empirical papers, journal and author frequency.

## Search Results

The initial search results based on the identified search strings produced 1232 items across three databases. However, this included a very significant number of duplications, so the total number of articles collected for the review was reduced to 783, less than two thirds of the initial. Review of titles and abstracts removed 469 non-strategy-related items. Most of the remaining 227 papers focused on strategy content and strategy process (particularly strategic planning) relationship with performance. Full paper review rejected further 45 papers which did not address relevant topics or were of marginal value to the field as the study narrowed its focus following the Panel’s advice. Following the quality appraisal, 38 papers were included into the study. The author provisionally added a paper by Gurkin (2009) since it was published in a journal not referenced by Cranfield and scored low on theoretical background. However, it was the only identified paper that directly addressed the issue of particularities of strategy process in Russia, so the author decided to include it in the list as the only source of the insight into the problem. Note that the author added a significant number of articles through cross-referencing (mostly from books and key authors), bringing total number of referenced articles to 68. Finally, the author included 17 books in the review, 5 of them recommended by the Panel and the rest identified through cross-referencing. This brings the total number of references to 85.

**Table 10. Search Results**

<i>Search Iterations</i>	<i>Number of items</i>
Initial database search results (Proquest – 578; EBSCO - 412, Science Direct - 242)	1232
Duplications	(438)

Eliminations (no author, non-English language, book reviews)	(11)
Subtotal	783
Non-strategy-related articles	(469)
Strategy-related but not meeting other inclusion/exclusion criteria	(227)
Subtotal for full paper review	87
Articles excluded during the full paper review	(14)
Articles removed in later analysis as repetitive/adding marginal value	(31)
Articles selected for quality appraisal	42
Articles removed during the quality appraisal	(4)
Articles included in the study from database search	38
Articles added by the Advisory Panel	3
Articles included from the scoping study and cross-referencing	27
Final count of articles	<b>68</b>
Books added by the Advisory Panel	5
Books added through cross-referencing	12
Final count of books	<b>17</b>
Final number of references included in the review	<b>85</b>

## Literature Characteristics

### Literature Themes

Prime attention of the review focused on untangling key perspectives of strategy process, research methodology and specifics of strategy process in multi-business firms and in the emerging market, particularly the Russian context. To provide comprehensive coverage of strategy process-related concepts, and in line with recommendations of the configurational school of strategy process research, the study also aimed to cover, at a relatively high level, key perspectives on organisational and external context of strategy-making. Composition of papers picked to represent these perspectives roughly reflects

relative attention given to these topics: more papers on organisational structure and strategy process participants (especially the role of top teams and entrepreneurial strategy), and relatively fewer studies on the impact of the external environment.

### Thematic review of journal papers

**Table 11. Distribution of Journal Papers by Literature Theme**

<i>Literature themes</i>	<i>Number of articles</i>
Strategy Process: definition, research methodology and key attributes	28
Temporal development of strategy process - theoretical concepts and empirical studies	4
National (of those Russian) context of strategy making	5(2)
Strategy process specifics in multi-business and multinational corporations	8
Organisational context of strategy process: role of organisational structure and strategy participants	11
External environment and strategy process	4
Other (auxiliary) topics required to illustrate key perspectives, including:	8
Organisational change	3
Entrepreneurial behaviour	3
Corporate governance	1
Organisations in emerging economies	1

Most of the identified papers focused on strategy process definition and methodology. National (especially Russian/emerging market) context received very little direct coverage. Strategy process in multi-business firms inspired a number of relatively comprehensive and well-grounded papers and books, but they were mostly theoretical or prescriptive with very few field studies. On the context side, the author gave significant attention to the interplay of organisational structure and strategy process, as well as composition of

strategy teams and the impact of strategy participants on the process. The author devoted relatively little attention to the external context, apart from the impact of turbulent/hostile environments on strategy process characteristics.

**Thematic review of books**

The author devoted most of the books included in the review to conceptualisation of strategy process and included them in cases when an adequate and comprehensive article describing a certain perspective was not available. Textbooks and the review book by Mintzberg et al (1998) were the most useful as sources of further references. The books also presented the seminal concepts on the roles of the corporate centre in multi-business groups.

**Table 12. Distribution of Books by Literature Theme**

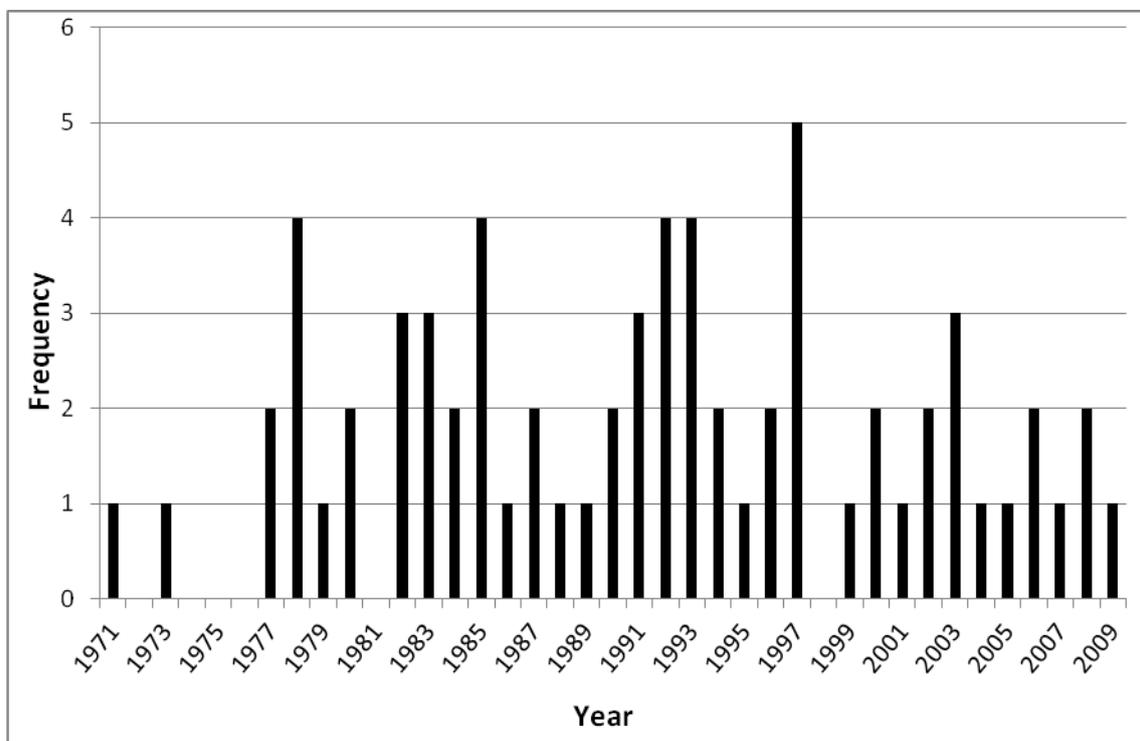
<i>Literature themes</i>	<i>Number of books</i>
Strategy process definition and key attributes (including one review of existing perspectives)	8
Textbooks on strategy process	2
Corporate centre's role in strategic management in multi-business corporations	3
Longitudinal case studies with focus on strategy and structure relationship	2
Organisational theory	1
Practitioner paper on designing optimal strategies	1
Total	<b>17</b>

**Timing of Studies**

The following graph presents the frequency distribution of the reviews articles. The author did not limit or restrict using older resources. The earliest journal paper dates to 1971 (the earliest quoted book was published in 1965). Interest in the modern study of business strategy took off in the late 1950s – early 1960s (Mintzberg et al, 1998), but initially it focused more on the content rather than the process. In addition, the most influential ideas at the time came from books

rather than from journals. Besides, restrictions on timing of articles stored in databases might have influenced the distribution. The articles exhibit a relatively even distribution, with spikes in the mid-1980s and early 1990s which witnessed a renewed interest in strategy process following popular and academic disappointment with “strategic planning”. Interest in strategy process research continues, with the latest reviewed article published in 2009. In recent papers, scholars directed more attention to the new contexts of strategy, particularly the emerging markets, which are rapidly gaining their weight in the global economy, and also multi-business groups.

**Figure 6. Timing of Studies**



### Key authors

Unsurprisingly, the key authors of the “configurational” school - Henry Mintzberg and Danny Miller – hit the top of the authors’ popularity league. Also well-represented are Fredrickson and Pettigrew, the leading methodology authors.

**Table 13. Key Authors**

<b>Author Name</b>	<b>Number (co)authored articles</b>	<b>% of Total</b>
Mintzberg, H.	8	7%
Miller D.	6	5%
Fredrickson, J. W.	4	3%
Bower, J. L.	3	3%
Pettigrew, A. M.	3	3%
Friesen, P. H.	3	3%
Waters, J. A.	2	2%
Porter, M. E.	2	2%
Iaquinto, A. L.	2	2%
Goold, M.	2	2%
Doz, I.	2	2%
Campbell, A.	2	2%
Total	118	100%

### **Type of Studies**

Distribution by study type is presented below. Since this review focused on untangling key perspectives of strategy process and research methodology, the review included a significant number of conceptual/theoretical papers. Papers at the narrow focus of the study – corporate centre and emerging market context – were mostly empirical. The author based a significant number of organisational context studies and all of those linking strategy and performance on the analysis of evidence from the field. The research area also benefitted from a few excellent literature reviews and methodology papers.

**Table 14. Study Type**

<b>Study Type</b>	<b>Amount</b>
Empirical	40
Theoretical/Conceptual	18
Methodological	4
Literature Review	6

## Industry Types

Empirical papers discussed a wide number of industries, without any clear favourite. Most of the cross-sectional studies focused on companies from a number of different industries. The studies on the corporate centre role pay significant attention to diversified groups spanning multiple industries.

**Table 15. Industry Type**

<i>Industry Type</i>	<i>Amount</i>
Diversified/Multiple	29
Manufacturing	3
Services	2
Auto	1
Chemical	1
Entertainment	1
Oil	1
Semi-Conductor	1
Utility	1

## Location of Studies

Location of most of the studies was in North America, which we can partly explain by the predominance of a Canadian-based configurational school of strategy process research and overall leadership of US academics in strategy research. Although strategy process in Russia and within the more generally emerging markets context was the focus of the search process, the author identified relatively few papers based in these locations.

**Table 16. Study Location**

<i>Study Location</i>	<i>Amount</i>
North America	30
Europe	9
Japan	3
Russia	4
Other Emerging markets	4

## Publications of Studies

Unsurprisingly, most of studies came from the flagship *Strategic Management Journal*. More practitioner-focused Long Range Planning featured a significant number of empirical papers attempting to connect theory with performance and draw practical recommendations.

**Table 17. Study Publication Distribution**

<b>Study Publication</b>	<b>Amount</b>
Strategic Management Journal	13
Long Range Planning	10
Academy of Management Journal	8
Harvard Business Review	4
Journal of Management	4
Journal of Management Studies	4
Management Science	3
Sloan Management Review	3
The Academy of Management Review	3
Academy of Management	2
California Management Review	2
International Studies of Management & Organisation	2
Journal of Business Venturing	2
European Management Journal	1
Strategic Management	1
Administrative Science Quarterly	1
British Journal of Management	1
Human Resources	1
Journal for East European Management Studies	1
Journal of Financial Economics	1
Public Relations Quarterly	1

## Data Structure

The key methodology for strategy process research has traditionally been longitudinal case study, with the growing fashion for multiple simultaneous case studies. This is clearly reflected in the table below. However, the absolute number of such studies remains rather limited. Cross-sectional studies mostly

addressed the organisational and environmental context and strategy-performance themes.

**Table 18. Study Data Structure**

<b><i>Data Structure</i></b>	<b><i>Amount</i></b>
Cross Sectional	20
Longitudinal case study	6
Multiple case study	14

## ***FINDINGS FROM THE LITERATURE***

### **Concepts of strategy process**

Two recent papers have neatly summarised theoretical perspectives on the nature of strategy process. The variety of possible interpretations of strategy-making was the subject of a seminal paper by Mintzberg & Lampel (1999) who argued that we can view strategy as a “plan” (strategic planning school), a “position” (in the industrial environment), a “design” (product of conception), a “ploy” (political activity around strategy making), a “vision” (by an entrepreneur), or a learning exercise (product of an ongoing learning). Some of these dimensions have clear process characteristics (“ploy”, or “learning exercise”), some are more concerned with content rather than with how the process is actually conducted (“position”). Authors offer an integrating framework of “strategy as configuration” which this paper discusses below.

In their recent review of strategy process literature, Hutzschenreute & Kleindienst (2006) identified six main perspectives of strategy process: 1) a rational-mechanistic perspective (“classical” rational analytical models, similar to Mintzberg’s and Lampel’s “design” and “strategic planning” schools), 2) a cognitive perspective (focus on the bounded rationality of strategists as individuals – similar to “cognitions”), 3) a related upper-echelon perspective (focus on the impact of attributes of top executives on strategy, corresponding to some elements of a “ploy” and “entrepreneurial” school), 4) a middle-management perspective (highlighting important, if more often indirect, role of middle management in shaping strategy process), 5) an organic perspective (strategy making as a “dialectic process involving rationalisation and structuring through upper-echelon and strategic initiatives of lower levels within the organisation”, with importance of path dependence), and 6) a micro perspective (“strategy-as-practice”, focus on strategy as a social, everyday activity).

These two reviews offer a good framework for the study of the existing literature, although they may be based on a slightly different categorisation

criteria: Mintzberg and Lampel have a somewhat broader focus and highlight both content and process characteristics, whilst Hutzschenreute & Kleindienst remain focused on the process side. The key conclusion we can draw is that this “eclectic” view of strategy reflects the fact that the field is in relatively early stages of development and still has to elaborate a more universal vocabulary and commonly accepted conceptual framework.

We can summarise a few defining features of strategy process research from these categorisations:

- Contrast between a more traditional view of strategy as a deliberate, analytical and formal process (Ansoff, 1991) and the “incremental” perspective that emphasises the role of organisational learning, adaptation and rationalisation (Mintzberg and Waters, 1985; Farjoin, 2002).
- Recognition of the “human” side of strategy process analysis which gains increasing attention from the scholars (Hutzschenreute & Kleindienst, 2006):
  - Considerable attention was focused on the cognitive aspects of strategic thinking; the field has evolved from “rational-mechanistic” assumptions to recognition of the complex nature of human thinking and the role of biases, mental maps and so on (Gioia & Chittipeddi, 1991). Interestingly, the same “behavioural” trend was developing in economics and finance research in 1990s and 2000s driven by illuminating works on behavioural biases by Kahneman and Tversky (1992).
  - An in-depth study of the role top management teams (TMT) play in strategy process and the impact of TMT demographics on the process and outcomes (e.g. Laquinti and Frederickson, 1997; Bowman and Kakabadse, 1997). Another interpretation of strategic activity has taught us about the less direct but crucial role middle management can play in strategy process through its influence on strategic initiatives and legitimisation of performed action (Floyd & Wooldridge, 1997).

- Role of political activity (Pettigrew, 1978) and particularities of entrepreneurial strategy making (Mintzberg & Waters, 1982).
  - Finally, a micro perspective of strategy-as-practice seeks to enrich the strategy debate by looking at strategy as an everyday, social activity of strategy practitioners (Jarzabkowsky, 2005).
- Complex nature of strategy and its connection to the external and internal context of organisation. Hutzschenreute and Kleindienst (2006) attest that contradicting conclusions of many cross-sectional empirical studies attempting to link organisational context to strategy process and performance reaffirm the view that modern organisations are too complex to explain their performance by a few specific variables. Instead, as per Miller (1987), we should use a comprehensive configurational framework incorporating organisational, strategic and environment characteristics. A “configuration” perspective that links strategy process to the broader theme of the dynamic interplay of strategy, structure and context provides a distinct and highly promising methodological framework to explain organisational reality (Miller, 1987).

The rather broad definition of strategy process as “the process by which strategies come about”, provided by De Witt & Meyer (2004) is useful because it leaves enough flexibility to include differing points of view on the nature of strategy process. For example, according to Chakravarthy & Doz (1992), strategy process deals with “how effective strategies are shaped within a firm and then validated and implemented efficiently”. This definition emphasises the deliberateness of strategy process and distinction between formation and implementation. However, as Frederickson (1983) points out, a wide array of studies emphasise the emergent and incremental nature of strategy process without a clear distinction of formation and implementation stages. This dichotomy is most vivid in the contradiction in the view of strategy process by the “*strategic planning*” and “*emergent strategy*” perspectives discussed below.

## Strategic Planning

Strategy process attracted modest attention in strategy literature of the 1950s and 60s. Instead, such influential pioneers of modern strategy as Andrews (1971) and Chandler (1962) focused on the content and context, in particular on analytical techniques for analysis of the internal and external environment. They said little about the process itself. Essentially, they considered the process relatively simple. For example, Andrews argued for the following process premises of strategy process (by Mintzberg et al, 1998):

- Strategy is a deliberate and analytical process.
- The CEO is the chief architect and, in fact, the only “owner” of strategy (the Board is also involved, but only in strategy review).
- The model of strategy process is kept simple and informal.
- Strategy formulation is detached from implementation.

This relatively straightforward view of strategy process was challenged by the rise of the “**strategic planning**” perspective that was at the height of its glory in the 1970s. Igor Ansoff (1965), in his famous book on corporate strategy, outlined basic premises of the strategic planning approach. According to Ansoff, strategy process is not only a deliberate and conscious process, it is also a process that can and should meticulously analyse, deconstruct, plan and control nearly every significant step of an organisation. A strategy (or, indeed, “plan”) of an organisation should be comprehensive and internally consistent, it should leave very little chance for improvisation over the course of implementation. Basic assumption is that strategy equals intention – if a company doesn’t follow a deliberate plan it “muddles through” (Ansoff, 1991).

The strategic planning approach presumed a higher degree of complexity, formalisation and professionalisation of strategy process compared to the relatively straightforward view that Andrews advocated. For example, Steiner (1969) delineates eight major “steps” of the strategic planning process, from formulation of organisational purpose and values of top managers to review and evaluation of implemented strategies. Formulated strategies should be further

broken into substrategies, substrategies into short-range planning, short-range planning into tactical plans, and tactical plans into budgeting – all in a nice and neat order, each stage following the other.

### **Strategy Emergence and Learning**

Perhaps the most famous critique of strategic planning concerned is its implied notion that strategy process should be a formal, logical and deliberate exercise. Not quite so. The surrounding environment is too complex, fast changing and full of “wicked” problems to be captured by formal analysis (Mintzberg, 1994a). “Making strategies involves sense-making, reflecting, learning, envisioning, experimenting and changing the organisation, which cannot be neatly organised and programmed” (De Witt & Meyer, 2004). Mintzberg and Waters (1985) conceptualised the distinction between “**deliberate**” and “**emergent**” strategies. Deliberate strategies are the intended strategies that one, in fact, implements and then realises. Emergent strategies are the “patterns of consistencies realised despite, or in absence of, intentions”. Deliberate strategies presume control over implementation. Emergent strategies emphasise learning whilst acting and gradual convergence of different processes into a distinct pattern (realised strategy). Emergent strategies resulting from an informal process of discussion, learning, experimentation, accumulation experience and trial-and-error are much better equipped to deal with uncertain and dynamic environments of the real world. We should base formal plans and analytical calculations on the preconceived strategies rather than precede them (Mintzberg, 1994b).

To deal with the surrounding complexities companies need to employ a careful step-by-step approach, gradually adapting the organisation and its constituents to the new situation. **Logical (or “strategic”) incrementalism** becomes the key word for strategy process description (Quinn, 1978). Logical incrementalism doesn’t equate to “muddling through”. Strategists do shape the state of affairs by directing the emergent strategies, but they do not “impose” some preconceived deliberated strategies on the organisation. The strategies employed at one moment evolve in conjunction with changes in the external

and internal context of the organisation. Formal planning techniques can not capture innovations and “wicked” problems. Real strategic changes require complex work on breaking cultural and behaviour barriers, overcoming political pressures and general organisational rigidity (De Witt and Meyer, 2004). Therefore, “incremental shaping” is the most suitable mechanism for moving organisations forward.

Ralph Stacey provides a related perspective of strategy as “order emerging from chaos”. Stacey (1993) argued that chaos theories of physics may well inform us about the nature of activities in complex organisations. Constant disturbances influencing an organisation create perpetual instability and dynamics. Self-organisation is capable of detecting and leveraging emergent opportunities arising from this dynamism. Hence the role of a leader is to encourage this self-organisation, provide challenge to realise existing potential and flexibility to make use of emergent opportunities.

A related **learning perspective** of strategy explicitly relates strategic management to a (collective) learning process (Hamel & Prahalad, 1990). Mintzberg et al (1998) stipulated that learning would involve both formulation and implementation (trial, strategic experimentation) developing together. The role of a leader is to facilitate the learning process, not to limit it by preconceived deliberate strategies (Senge, 1990).

Wittington & Cailluet (2008) argue that the **critique of formal strategic planning** has “overreached” in its zeal to criticize professional structures and formal approaches. Its unintended consequence was a sharp loss of interest from academics in the field whilst in the real world professional strategising was well alive and expanding, particularly in the public sector. Most recent empirical studies (Grant, 2003; Ocasio & Joseph, 2008) have challenged the “caricature” view of strategy as either fully intended and rational, or a purely emergent, non-structured process (Wittington & Cailluet, 2008). They demonstrated that despite academic criticism, formal strategic planning is still widely present in organisations, although its focus might have changed from formal forecasting, analysis and “precisions planning” to general coordination, alignment and

performance control. At the same time, real strategy making process is taking place in great part outside of the formal planning cycle, thus confirming the view of strategy as an emergent, incremental process (Mintzberg & Waters, 1985; Quinn, 1978), built on the basis of bottom-up initiatives as per resource allocation process models (Burgelman 1983).

Whilst we should recognise that strategy is by all means not limited to the deliberate strategic planning process, it still plays an important role. This role, however, has changed since the 1970s. The emergence of information technologies, proliferation of managers with management qualifications and rising complexity of organisational structures transformed the role of strategic planning. It became much less prescriptive and more facilitatory. Its focus is increasingly placed on the spread of knowledge and organisational alignment. Hence, we have seen a renewed interest in formal strategy processes in recent literature, including the emergence of a promising practice perspective.

Burgelman (1983) presented a model of strategy process that looked at **strategy as a multilayered process** with a big role of middle management. He identified a distinction between induced strategic behaviour (resulting from current strategy concepts) and autonomous strategic behaviour (corporate ventures resulting from the likes of private initiative and experimentation that are not related to current strategy concept). He then presented a model that shows how autonomous strategic behaviour can influence strategy concept by “legitimising” itself through the corporate “strategic context”. Top managers use organisational context (“structural context” by Burgelman) to put a generation of strategic proposals in line with the strategy concept, whilst “strategic context” represents alternative strategic visions and political activities to promote them. Therefore, the drivers of change are “autonomous”, entrepreneurial strategic actions by middle management that can over time change the prevailing thinking and ultimately the concept of strategy. In this view, structure works as a mediator, a calibrating mechanism that limits deviations from current strategy concepts, but can be overcome by powerful strategic initiatives – hence, structure both follows strategy and is, in turn, “created” by strategy. Similarly,

Noda & Bower (1996) suggest that the best way to describe the strategy making process in large, complex organisations is to look at it as at the **iterated process of resource allocation** by top management to the business unit/middle management level.

Interestingly, in these perspectives the main source of new endeavors is middle management, whilst top management plays a crucial role in acceptance/rejection of these initiatives. Farjoun (2002) presented a concept that is similar in spirit. **Organic perspective** sees strategy making as a “dialectic process involving rationalisation and structuring through upper-echelon and strategic initiatives of lower levels within the organisation”, with importance of history and path dependence.

### **Methodology of Strategy Process Research**

Growing interest in strategy process since the 1970s allowed for the development of conceptual and methodological frameworks for its research. Literature on strategy process has started to elaborate its own methodology (Chakravarthy & Doz, 1992) and guiding assumptions. However, the relative youthfulness of the subject and significant divergence in understanding the nature of strategy process so far have not allowed for the emergence of comprehensive and universally recognised methodology. For example, Fredrickson (1983) contests that research progress in this field remains rather normative or descriptive and suffers from lack of empirical resting.

An illuminating article by Pettigrew (1992) seeks to summarise the key “guiding assumptions” or methodologies for strategy process research:

- Embeddedness of strategy process in the inner (organisational structure, politics and culture) and outer (industrial, economic, political environment) context of the organisation
- Embeddedness of strategy process in the past
- Strategy process is constrained by external environment, but it also shapes the environment because of the role of human action

- Holistic approach - need for a comprehensive analysis involving many levels of contexts through the investigation of recurring patterns in strategy process

Pettigrew suggests longitudinal comparative case studies as the key method of strategy process research because it allows for a holistic approach, careful examination of concrete contexts and deep comparative analysis of cases rather than simple and abstract cross-sectional analysis of isolated variables.

This view is echoed in the works of arguably the most well-known and articulated school of thought in strategy process research – the “configurational” school that originates from the works of the faculty of McGill university in Canada, most notably Dennis Miller and Henry Mintzberg. We can summarise the key premises of the configurational school approach to strategy process research as simultaneous attention to strategy process, content and internal and external context, strong emphasis on the time perspective of strategy (“configurations” reflect the state of an organisation in a particular stage) and focus on the transitions from one stage to another (Mintzberg et al, 1998). The key research method advocated by this view are in-depth, detailed longitudinal case studies. The strategy process per se is not, therefore, the only or even the most important focus of attention; rather, it is one of the fundamental elements of the configuration.

Fredrickson (1983) offers some practical recommendations for the empirical research of strategy process. He contrasts two of the key theoretical perspectives emerging in the field. A “rational-comprehensive”, or “synoptic” perspective sees strategy process as purposeful, rational, goal-oriented and integrative (Ansoff, 1965). A contrarian perspective of “incremental” process emphasises the complexity of the decision-making process that is focused on the sequential approach to problem-solving in the fast-changing context of behavioural, political and organisational dynamics (Mintzberg, 1973). Fredrickson (1983) formulates six key criteria for evaluation of strategy process and identification of its synoptic or incremental nature:

- What initiates the process
- The role played by the goals
- The relationship between means and ends
- The concept of choice
- Analytic comprehensiveness of decision making
- Integrative comprehensiveness of decisions

Fredrickson advocates adaptation of decision making (rather than a “rational planning”) perspective because it allows to capture a wider spectrum of organisational activities and avoid unnecessary limitations of a rationalistic, planning perspective. He also speaks for the need to vary qualitative and quantitative methodologies according to the research questions.

Dess & Lyon & Lumpkin (2000) offer their methodology for operationalisation of entrepreneurial orientation in organisations, particularly relevant for the research of strategy making process in the entrepreneurial context.

As far as multi-business groups are concerned, Paroutis & Pettigrew (2007) have recently presented an elaborated approach to the issues of sample selection, conducting interviews and data interpretation in a well-illustrated case study of strategy teams’ interaction in a multi-business firm.

## **Strategy Process and Organisational Context**

### **Strategy and Structure**

The strategy process literature widely recognizes the importance of organisational structure (or “organisational design”). The design, in turn, is shaped by a number of external and internal factors, most importantly organisational size, geographical spread, corporate history (legacy), technology, intensity of competition, management information systems and even habits of organisational decision-makers (Kakabadse et al, 2004). According to Johnson et al (2008), the classical types of organisational structures include functional structure, multidivisional structure (most relevant to the concept of a “multi-business firm” where each division is responsible for managing a distinct

“business”, or product/market), matrix structure, transnational structure (similar to matrix but addressing internationalisation of company markets and the need for cross-national alignment) and project-based structure. Kakabadse et al (2004) add a basic product structure to the list. Each of the structural types has its strengths and weaknesses as they respond to the key challenges for modern organisations: 1) need for control 2) speed of change and levels of uncertainty 3) importance of knowledge creation and knowledge sharing and 4) internationalisation of modern business (Johnson et al, 2008). Similar to strategy process research, over time the enquiry into organisational structures has changed its focus from the search of an “optimal structure for all organisations and times” to a more contingency-rooted approach of “structure supports strategy” (Chandler, 1962). From the 1970s, a growing market volatility and increasing pressure on performance gave a boost to the “extra-organisational” developments of structures, including outsourcing of corporate functions or parts of value-chain, spin-offs, alliances, networks and virtual organisations (Kakabadse et al, 2004).

The relationship between organisational structure and strategy were the subject of many enquiries, starting from the famous Chandler’s “Strategy and Structure”. Chandler (1962) observed strategies and structures developed by the four leading American corporations and concluded that “structure follows strategy”, i.e. organisations purposefully deploy structures with optimal fit to the strategies chosen by company management. In turn, these strategies emerge as a response to the threats and opportunities arising from changes in the external environment.

Yet strategy and structure appear to have a more complicated and dialectical relationship than this view suggests. Scholars widely acknowledged that organisational context (primarily structure, processes, politics and organisational culture) may influence and, to a certain extent, determine company strategy (De Witt & Meyer, 2004). “Incrementalist” theories of strategy process emphasise the complex and dialectical nature of strategy making and the role of human cognition and multilayer relationships (Quinn, 1980).

Essentially, they contest that strategy is “embedded” in the organisational context, be it personal characteristics of management teams, nature of competitive pressures in the industry or organisational processes and even culture (Hutzschenreute and Kleindienst, 2006).

Hall & Saias (1980) argue that structure has a profound influence on strategy content. For example, diversified multi-business corporations may find it easy to adjust their portfolio through mergers and acquisitions, but would struggle to uncover opportunities for innovation and knowledge sharing between businesses.

Miller (1987) argued that organisational structure has a significant and direct impact on strategy process characteristics. According to his empirical findings, formal integration between organisational units is positively associated with decision rationality and degree of interaction between strategy-makers during the process. Miller found decentralisation to be positively associated with the level of interaction and assertiveness.

However, in a later and related study, Miller, Droge & Toulouse (1988) argued that strategy process may serve as a mediator between context and structure. In particular, a CEO’s need for achievement (context attribute) may lead to a higher degree of rationality in the strategy making process which in turn leads to higher formalisation and integration. Although the correlation suggested by Miller (1987) remains, its direction changes to the opposite. Key insight to the “strategy and structure” debate comes from the fact that organisational attributes may influence structure using strategy process as a mediator, an instrument to deliver the desired structural attributes.

Past strategies may become a source of organisational inertia and momentum (Miller & Friesen, 1980), thus limiting the strategic agenda and restricting strategy process. Stacey (1993) emphasised the dynamic and complex nature of organisations (he compared internal environment to “chaos”) that make deliberate stewardship complicated, if not impossible. Instead, he called for unleashing and fostering the creative power of the organisation (“strategy as

order emerging from chaos”). The view that an organisation should produce strategies through self-organisation and learning is perhaps the strongest manifestation of strategy’s embeddedness in the organisational context.

Bower’s (1970) study examined the process of strategic investment project initiation and approval in a major diversified firm. He found that strategic initiatives are born mostly “at the bottom” – the level of plants and divisions, but corporate top management uses a “structural context” to define the type of proposal that they will initiate and they will receive impetus from the divisions. Later, Bower and Doz (1979) conceptualised these findings stating that the “new process school of research” sees the role of “top management” as “managing strategy process”, rather than “performing strategy process” through direct formulation and objectives-setting. In other words, top management determines strategy by providing a structural framework that gives rise to one type of project and rejects other.

The built-in contradiction of such an approach is evident and recognised by Bower and Doz. If structure purposefully shapes strategy, then what determines this initial “purpose”, or “vision”? Following Bower’s findings, Burgelman (1983) tried to respond to this question with his model of strategy process where structure works as a calibrating mechanism that limits deviations from current strategy concepts, but can be overcome by powerful strategic initiatives that, in turn, impact the concept of strategy and trigger changes in the structural context. Hence, structure influences strategy, but it is also “created” by strategy as a mechanism for preserving strategy continuity.

Perhaps the best conclusion we can make is that strategy process/content and organisational structure mutually evolve in a reciprocal manner. Strategies do determine organisational structure and are, in turn, embedded in the particular organisational contexts. To succeed in the challenging environment, formal structures and processes in an organisation must align with informal processes and relationships. Formal structural design (formal roles, responsibilities and lines of reporting), company processes (including strategy process) and relationships of people within and outside an organisation comprise a distinct

and, hopefully, coherent *configuration* (Johnson et al, 2008). Section on time perspective of strategy discusses the nature and shape of the ongoing relationship between strategy and structure in different phases of corporate development.

### **The Human Side of Strategy - The Role of Participants in Strategy Process**

To most of the early writers on strategy (i.e. Ansoff, 1965; Andrews, 1971), it went without saying that a CEO creates strategy, or at most, a close circle at the top (Mintzberg et al, 1998) does. However, scholars argued that although some activities would be in the exclusive domain of the top management, others will be assigned to lower-level managers and even professionals. For example, assessment of internal and external environment and other analytical activities are usually performed by people at the lower levels of hierarchy, whilst top management is involved in selecting strategic options (De Witt & Meyer, 2004). According to the more recent studies, middle managers and managers in business units play an important role as sources of new ideas and strategies (Burgelman, 1983). Companies may also choose to “outsource” strategic activities to outsiders (Robinson, 1982). Strategy consultants and, most recently, investment banks, act as outside stakeholders of strategy. However, their contribution is usually confined to analysis, or at most, option generation. Actual strategic choice and implementation most often land on the shoulders of internal decision-makers.

A significant number of empirical studies sought to find a link between personal traits of top managers and strategies exhibited by their companies. For example, various demographic attributes of top management teams were shown to have a significant impact on strategic change process (Bantel & Wiersema, 1992) and firm’s performance (Hamel & Prahalad, 1990).

Papadaikis & Barwise (2002) studied the effect of top management teams (TMT) and CEO characteristics on the process of strategic decision-making. They found that TMT had a significant impact on the process, whilst the CEO’s influence was much weaker. The CEO and TMT also had differing impact on

different characteristics of the process. The CEO personality was a strong determinant of hierarchical decentralisation, whilst TMT influence was most significant in determining process rationality and lateral communications. Of the CEO characteristics, tenure was the most influential, whilst risk attitude does not prove to be significant. The level of competitive aggressiveness of TMT is the most influential factor of strategy process, with significant influence on rationality, lateral communications and decentralisation. The study also positively associated TMT educational level with rationality.

### **Entrepreneurial Strategy**

We can find a very distinctive way of strategy formation that deserves a separate account in entrepreneurial organisations. Mintzberg (1978) identifies *an entrepreneur* through the leadership, control and behavioural lenses: “a bold decision-maker, with tight control, who walks confidently into an uncertain future”. According to Miller (1983), a traditional view of entrepreneurship connects it with a dominant personality, most often an owner-manager who makes independent decisions. Empirical findings (Mintzberg, 1978) revealed the picture of entrepreneur as a decisive strategist, fully enmeshed into the details of his business (no separation between “formulation” and “implementation” whatsoever), motivated by growth, yet caring about sustainability of his business. Nevertheless, despite all the decisiveness, at more mature stages of company development, the entrepreneur in case preferred “foot-in-the-water” strategies and tried to test the environment whenever possible before making a bold move.

Other key attributes of entrepreneurs that the literature describes include:

- Pragmatism, independent thinking and focus. Entrepreneurs are usually more prepared to take risks or live in a situation of higher uncertainty. They also require a higher degree of centralisation and feel the need to accumulate decision-making authority in their own hands.
- Focus on quantitative growth and even “empire-building” (Mintzberg et al, 1998).

- Ability to make quick decisions when required. Entrepreneurs stay “constantly attuned to the changes in environment” in search for a sudden chance. Their decisions and strategies tend to be “revolutionary” and bold (Stevenson and Gumpert, 1985).
- “Overconfidence” and the ability to make decisions based of incomplete and controversial information. These attributes are particularly valuable in highly uncertain environments (Busenitz and Barney, 1997).
- Positive thinking and optimism (“seeing more of strengths and opportunities than threats and weaknesses”) ( Palich and Bagby, 1995).
- Dislike of formal plans and leaning towards informal, non-binding agreements and visions (Mintzberg and Waters, 1982). We may explain this interesting observation by entrepreneurs’ emphasis on the search for opportunities and quick reaction to changes in environment. Presumably, desire for strategic flexibility is not compatible with planning because planning means commitment to a particular course of action. Moreover, we could view planning as a limitation of the power of a leader because accepted plans taken out of one’s hands immediate authority to shape the course of action.

Mintzberg et al (1998) conclude by observation that entrepreneurship and strong personal leadership may have a particularly important and constructive role in three types of organisation: 1) startup phase, when organisations are in need for a strong vision and articulated strategy, 2) turnaround – an organisation in trouble needs dramatic and forceful change and 3) a small organisation in need for “perpetual leadership”.

### **Strategy Process as a Political Phenomenon**

Strategy process is contextually embedded in organisations and hence intra-organisational dynamics do exert a considerable influence on strategy. Political activity within organisations refers to a dynamic system of interpersonal bargaining and compromise in the conditions of uncertainty, competing goals, differing perspectives and limited resources (Mintzberg et al, 1998). Here the

emphasis is very much on the political and social factors of strategy making, emphasising its soft, humanitarian nature.

Graham Allison (1971) draws attention to the importance of political dynamics by introducing three models of decision making in large, complex organisations using the example of the Cuban missile crisis. He demonstrated that we may determine strategies not only by “rational” choices made by value-maximising agents, but also by bureaucratic and political organisational dynamics. Pettigrew (1977) notes that within an organisation, both individuals and subgroups can exhibit political behaviour.

Mintzberg et al (1998) argue that strategies resulting from a political process tend to be emergent rather than deliberate because the political process is essentially a continuing search for a compromise. Arrival to strategy thus becomes incremental and piecemeal. Bargaining is involved on the way and changes occur as a result of the compromise.

### **Strategy-As-Practice Perspective**

The emerging area of strategy as practice has further developed the question of strategy process participants and their roles and actions. The practice approach to strategy is focused on the details of strategising activities and addresses managerial agency, situated action and strategy stability types of issues, whilst “traditional” process studies are more focused on “change events from a firm level of analysis” (Jarzabkowsky, 2005). A number of strategy-as-practice studies focused on the micro-side of strategy making in multi-business firms which this paper discusses below.

### **Strategy Process and External Context**

External environmental factors play a significant role in determining the nature and outcome of strategy process (Rajagopalan et al, 1993). As an example, Fredrickson and Mitchell (1984) found negative relationship between process comprehensiveness and organisational performance in an unstable environment. Slevin and Covin (1997) demonstrated that a deliberate, “planned”

manner of strategy making is positively associated with performance in the context of “mechanistic” organisational structures operating in hostile environments. These scholars positively associated “emergent” strategies with results among firms with organic structures operating in benign environments.

The literature most often refers to such environmental premises as degrees of environment uncertainty, hostility and stability. Most of the studies in this area look at the relationships between strategy (decision) process, environmental characteristics and performance outcomes.

### **National Context**

National context is of particular interest for this study because it will look at strategy process development in a distinct context of an emerging market country. The literature search identified a limited number of studies addressing national context influence, with many of them focusing on the differences between Japanese and Western strategy practices in the 1970s-80s, the period of common interest in Japanese management style. As an example, an empirical investigation by Hayachi (1978) looked at how corporate planning practices in large Japanese corporations performed relative to a set of standard “corporate planning premises”, mostly associated with the “strategic planning” view of strategy process, including the deliberateness and rationality of decision making, clear statements of objectives and means and clear distinction between “formulation” and “implementation”. The findings of his empirical study demonstrated that in the Japanese context, there was a clear reluctance to “programme” in detail the way to stated objectives. The study treated objectives as loose policy guidelines or desired state of affairs rather than feasible and achievable goals. The very nature of planning and programming that existed was very much “bottom-up”. Overall, the strategy making process was very different from the then-dominant western “strategic planning” initiative. However, Kono (1984) found in his comparative study of the UK and Japanese firms that the Japanese strategy process was more centralised, whilst companies in both countries employed a combination of analytical and informal approaches.

Later, a relatively large body of strategy research focused on the emerging markets context. However, according to Wright et al (2005), researchers devoted a considerable amount of research to the investigation and analysis of the *content* of strategies in the emerging economies. These studies mostly employed resource-based, agency cost, institutional and transaction-cost economic theories. One of the prevailing features of external context for the firms operating in emerging economies that Wright et al (2005) identify is the “high velocity” environment of rapid political, economic and institutional changes that are accompanied by relatively underdeveloped factor and product markets”. This is in line with other studies that singled out the high level of turbulence and underdeveloped legal and institutional framework as the most significant characteristics of emerging economies (La Porta et al, 2000). Uhlenbruck et al (2003) suggest that one of the responses to such an environment may be the development of “strategic flexibility” of a firm – the ability of managers to reconfigure, redeploy and rethink corporate resources and capabilities in light of rapid change. This demands more emergent and iterative approaches, with less regard to formal planning or sharing of responsibility for strategy making, as evidenced in an empirical study by Carr (2007). A considerable number of studies was devoted to the issues of corporate governance and managerial (including owners-managers with control over an enterprise) opportunism in the context of weak corporate governance-enforcing laws and institutions (La Porta et al, 2000). Wright et al (2005) conclude that when studying strategies in emerging economies it is necessary to consider 1) institutional factors and how environment dynamics impact on strategic choices of managers, 2) the different effect these factors may have for different organisational forms (small businesses, business groups, state-owned companies), and 3) the need for an integrated perspective combining a numerous theories to explain what is happening in a high-velocity environment.

Very few studies attempted to address the specifics of strategy process in the Russian context. Carr (2007) investigated the influence of a national context in his research on the strategic investment decision drivers in US, UK, German,

Japanese and Russian companies. His focus was mostly on the “behaviour”, or “cultural” variables’ which impact on the choice of time orientation of strategic decisions (short vs. long-term) and on the level of sophistication in financial and strategic analysis. Carr concludes that the US firms were the most focused on short-term achievements, but used more elaborate financial and strategic analyses techniques. Germany, and particularly Japan, had longer-term goals and simpler, less formal financial evaluation techniques. The UK was not much different from the US. Of particular interest for this study, the Russian approach to strategic decisions featured the most pronounced short-termism and the simplest, tactical decision making drivers, with very little formal analysis. Interestingly, this represented a complete reversal from the state-led long-term planning practices registered by a similar study ten years before (in late 1988, during Soviet Union times). The short-term orientation was caused above all by an extremely volatile and hostile external environment and resulting focus on the immediate survival. Note, however that the author interviewed Russian companies in 1998, the year of the sharpest economic crisis since the collapse of Soviet Union and arguably the most challenging period in the modern economic history of the country.

Gurkov’s (2009) most recent article represents the first attempt to untangle the specifics of strategy making process in Russian corporations. Gurkov suggests examining the issue of strategy process through the lenses of “strategic goals” pursued by “strategy stakeholders”. Strategic goals are the goals pursued by a corporation which may vary according to the desires and relative influence of strategy stakeholders. Strategy stakeholders, in Gurkov’s view, are those who contribute resources to a company: shareholders themselves, employees, customers and a government (which contributes “administrative resources”). Gurkov assesses that corporate goals are set as a dynamic compromise, in most cases between the dominant financial stakeholders and company top management responsible for strategy formulation. Since this process is not constrained by an established system of historical traditions and court rulings, the process of this “fight for power” remains dynamic and neither side is capable of securing a long-standing victory – that is why Russian companies exhibit very

little desire for formal and long-term plans and prefer opportunistic, project-driven approaches to strategy making.

We can summarise the specifics of the strategy process in Russian corporations as follows:

- 1) Russian companies dislike the use of formal, detailed strategic plans, although with growth in size they tend to accept more planning; failure to plan for the long-term
- 2) Strong positive correlation between the degree of competitive pressure and probability of adoption of a detailed strategic plan
- 3) Strong negative correlation between the presence of a dominant decision-maker (CEO or a dominant shareholder) and probability of adoption of a formal planning process

In his view of the key strategy process drivers, Gurkov implicitly refers to the view of strategy process as a political activity, a shifting compromise between the interest groups in their struggle for power and resources. Although such perspective may offer valuable insights, it lends only a partial explanation for the nature of strategy making. Organisations should consider other important variables like the role of organisational structure, external environment and historical legacy. The author recognizes these limitations and calls for more qualitative studies on strategy process in a different context.

### **Time Perspective of Strategy Process**

Many influential writers on strategy recognise its dynamic nature and emphasise the importance of research on the time perspective of strategy. Porter (1991) calls for research on dynamic aspects of strategy to capture the evolving phenomenon of competitive tensions. Pettigrew (1992) argues that strategy research should adopt more of the methodology of historians. Mintzberg et al (1998) argue that adopting a time perspective would allow to reconcile seemingly contradicting views on many aspects of strategy process.

Different views of strategy process such as entrepreneurial creativity, formal planning, and emergent learning would more or less accurately explain what is going on in organisations, but only for particular periods of time and, in particular, external and internal contexts. Research of the time dimension of strategy process should aim to explain why strategy making changes over time and what is the underlying logic of this change.

## **Strategic Change**

Strategic change is arguably one of the most important concepts in the time perspective of strategy. If strategies are dynamic and changing, this dynamic should manifest in major shifts in organisations' courses of action, structures, processes and contexts. Organisations need strategic change to create a new "fit" – a new alignment between organisational characteristics and environmental pressures. Strategic change embraces changes in both business systems ("configuration of resources, value-adding activities and product/service offerings directed at creating value for customers") and organisational systems ("how individuals populating a firm have been configured, and relate to each other, with the intention of facilitating the business system") of an organisation (De Witt & Meyer, 2004).

Key properties of strategic change concern its time span and intensity level: change could be disruptive (abrupt shifts of a large magnitude in a relatively short period of time) or gradual (the slow and incremental pace of small changes over extended period of time). The organisational and strategic literature (Tushman & O'Reilly, 1986) widely recognises this distinction and arising theoretical and empirical controversies. For example, scholars strongly associate the notion of gradual (evolutionary) change with the "strategic incrementalism" view of strategy process advocated by Quinn (1978). Literature on visionary leaders and turnaround situations provides numerous examples of radical, revolutionary changes that occur in a relatively short period of time. Radical changes are indispensable in the organisational context when there is a need to overcome structural barriers to changes. These include psychological resistance of organisational members and political resistance to change

(Pettigrew, 1977), cultural inertia (Senge, 1990) and numerous implications of previous commitments such as sunk costs and investments in existing processes (Porter, 1991).

## **Configurations**

In the words of Mintzberg et al (1998), the study of time perspective of organisational and strategy transformation should aim to unveil particular “states” (“models”, “ideal types”) “where different dimensions of an organisation cluster together under particular conditions”. Configuration of these “states” over time produces “stages”, “periods” and “**organisational life cycles**”. This “**configuration**” view of organisational and strategy dynamics is arguably the most systematic approach to the research of the time perspective of strategy. It originated with a the team of researchers at McGill University in the 1970s and featured Henry Mintzberg and Danny Miller among its chief contributors. The configuration school asks the following key questions: “What is the pattern of organisational transformation and how do the processes of change and continuity relate to each other? How do organisations come about change and how do they manage to maintain status quo? How do organisations develop contexts and strategies jointly over time?” Key premises of the configuration school include (from Mintzberg et al, 1998):

- Most of the time organisations exhibit a relatively stable configuration of characteristics
- These periods of stability are occasionally interrupted by shorter periods of transformation (“quantum change” view of organisational transformation – Miller & Friesen, 1982)
- Configurations of changing states over time may produce a certain pattern that could be summarised in a certain way, for example as a “life cycle” of an organisation

Through empirical research, Mintzberg (1989) identified seven highly generic types of organisational configuration. He associated these types with particular patterns of change (for example, a highly elaborated, process-focused “machine

organisation” can sustain only a revolutionary type of change followed by long periods of a steady state). On a similar line, Miller and Friesen (1982) described change as “quantum” transition from one particular archetype of an organisation to another. On the strategy process side, Mintzberg (1978) argues that we can view the strategy process as an interplay between bureaucratic momentum and a dynamic environment with leadership mediating between them. The role of leadership then is to ensure a successful adaptation to environmental change within the constraints imposed by organisational and business systems. Numerous case studies explore this topic from an empirical perspective.

### **Strategy Process Case Studies**

Mintzberg attributes to leadership the pivotal role in strategy making due to its capacity to overcome organisational inertia. Using the examples of Volkswagen’s business strategy from the 1950s to 1970s and US military and political strategy in Vietnam in the 1960s and 1970s, Mintzberg demonstrates that in the absence of push from the leadership, bureaucratic rigidity will preserve continuity even in the face of a rapidly changing environment. Mintzberg offers evidence of “self-reinforcing” strategies. Once accepted, the strategy of military pressure on North Vietnam led to ever-escalating military offensives. The leadership of President Johnson was not strong enough to overcome bureaucratic momentum and environmental pressures. It took a radical shift in environment and political leadership to change the course of action. The new president, Richard Nixon, faced military stalemate and made a political decision to change the strategy to “vietnamisation” of the conflict.

Another Mintzberg and Waters (1982) study aimed to identify patterns of strategy process change in the context of a growing **entrepreneurial firm** in the retail industry. Mintzberg and Waters (1982) describe evolution of strategy process as it developed in conjunction with changing scope and structure. In its first stages, strategy making was entrepreneur-centred, informal and discretionary, grounded in the very deep knowledge by the entrepreneur of slightest details of his business and his industry. As business grew larger and more sophisticated, the strategy process became more decentralised and

ultimately involved many more owners. Pressure from emerging financial stakeholders contributed to the development of a formal “planning” strategy mode. To a certain extent, the strategy process had to follow structure and submit to the demands of the environment.

Similar studies by Mintzberg and his co-authors included investigations of a Canadian film-making board, a textile giant, a university and an airline. The conceptualization of strategy process is performed in the study of ideal “modes” of strategy-making (Mintzberg, 1973): entrepreneurial, adaptive and planning modes.

Configuration approach was criticized on a number of issues. Summarizing multifaceted, complex compositions of organisational structure, strategy and context into simple generic models of configuration means making rather crude generalisations of the real world situations (Donaldson, 1996). Moreover, as Donaldson (1996) observed in his criticism, the notion of “quantum” change is also misleading. Most organisations change incrementally through a series of smaller steps over long periods of time.

Mintzberg et al (1998) readily admitted that configurations do not fully capture complexities of the real world. However, the configuration approach creates the necessary vocabulary and methodological apparatus to look at the temporal development of organisations and their strategies. The configuration school has only started to take off. What follows may come up with more complex and enduring classifications. In any event, simplification is necessary for understanding and conceptualising the reality. The real issue is to limit distortion as much as possible without going too deeply into unnecessary details. Mintzberg et al (1998) conclude with the call for more nuanced enquiries into the corporate configurations.

The main conclusion of the configuration school as far as the strategy process is concerned is that strategy processes may vary according to particularities of a particular “stage” of organisational development. In each stage an organisation would work out an optimal strategy process that fits its outer and

inner context. This combination may survive for some time, but dynamics in the inner and outer environment will sooner or later call for a major revamp. After a period of change, things settle down again to a new kind of steady state. Therefore, studies of strategy process are best equipped when they take a temporal perspective and compare the strategy process in different points in time and in different contexts. This also corresponds to the call for strategy process research to be mindful of the surrounding organisational context advocated by the key methodology writers in the field. This research intends to take exactly this approach.

### **Models of Strategy Process**

This section discusses empirically derived models of strategy process. It skips numerous normative models, most of them in the strategic planning domain, as less relevant and failing to encompass recent evolution in our thinking on the complexity of strategy making. Instead, the focus is on the empirically derived models as those can lend themselves to testing during the project.

The literature review has so far identified five such distinct models:

1. Hart (1992) offered an integrative framework aimed at capturing the phenomenon in all its diversity. The framework is based on the “varying roles strategy makers and other organisational members play in the strategy making process”. However, this typology focuses on the strategy making participants and doesn’t directly encompass context characteristics in their full variety (although organisational attributes such as entrepreneurial style of bureaucratic processes do play a part in the model).
2. Shrivasta and Grant (1985) use a field study on the process of decision-making on a major IT investment to come up with a “grounded” model of strategy process. Attributes of different modes include nature of process, process participants and their role, implicit aims of the process, roles of learning systems, and the influence of environment. Authors admit that

this model may serve as a “first step” in the development of a truly comprehensive process model.

3. Miller and Friesen (1978) offer a typology based on the configuration approach that encompasses such attributes as the type of external environment (moderate or hostile), organisational structure (for example, “entrepreneurial conglomerate”), size and past records (for example, formerly successful big bureaucratic organisations coming under competitive attack by more agile newcomers), top team characteristics (“team spirit”) and decision process attributes (such as the amount of formal analysis or responsiveness of decisions to the external environment). Overall, the model tracks 31 variables. Despite the model’s comprehensiveness, a very divergent and complex nature of its process characteristics makes testing it a difficult task.
4. Mintzberg (1973) offers a shorter and somewhat more explicit model of “strategy making modes”, of which he identifies three “pure” cases: adaptive, planning and entrepreneurial, as well as a number of cross-breeds. He offers 15 characteristics of the process, including environment conditions, decisions makers, type of options evaluation, and dominant organisational goals. The strengths of the model are in its relative simplicity, focus on the process, but consideration of context characteristics and general applicability in the context of current research.
5. The already discussed model by Burgelman (1983) that examined the strategy process in a large diversified firm. Autonomous strategic behaviour induced by entrepreneurial activity of business units over time can challenge status quo and redefine corporate strategy. Top managers use the organisational context as a calibrating mechanism that limits deviations from current strategy concepts but which they can overcome by powerful strategic initiatives.

## **The Role of the Corporate Centre in Strategy Process in a Multi-business Corporation**

### **Corporate Centre Role: Empirical Studies and Concepts**

This paper will focus on the role of the corporate centre in strategy process in a multi-business group. Therefore, it will look at the strategy process that first of all focuses on the corporate level strategies and on the business-level strategies to the extent that the corporate centre is involved in their formulation. While business strategy deals with the company's position in a distinct business area (product/regional market), corporate strategy is concerned with how to manage a multi-business entity by deciding 1) "in what businesses the corporation should be active" and 2) "how should this group of businesses be managed" (De Witt & Meyer, 2004). There are different views on the role a corporate centre could play in strategy process. Earlier works on corporate-level strategy viewed a corporate centre as a relatively detached "shareholder-style" body, demanding financial results and caring about diversification of corporate risks through asset portfolio adjustments (Henderson, 1979; Hedley, 1977; "controls configuration with indirect involvement" in Ward et al (2005), for example the WPP Group in the 1980s). Organisations strongly emphasise business responsiveness over seeking synergies (De Witt & Meyer, 2004), to preserve the autonomy of the business units. In this world, the corporate centre has a small role to play in determining business strategies. They are left to business units who nevertheless must meet stringent financial performance measures and adhere to the company-wide principles of financial management and investments approval. In a similar fashion, but with a different background philosophy, the role of a corporate centre may be limited to provision of a strong unifying vision, sense of purpose and stretching financial and strategic targets, whilst business units have a wide discretion in how to achieve the stipulated targets (Collins (2001) 'hedgehog concept', "creative configuration with indirect involvement" in Ward et al (2005), for example the model of GE designed by Jack Welch in the 1980s). This approach does not mean that the corporate centre is not active or not demanding. On the contrary, it is very demanding and has little tolerance for not meeting its targets or, even worse, not adhering to

corporate values and standards. However, its involvement in the strategy process is normally limited to verification of the strategies' adherence to corporate principles and making sure that their results are satisfactory from the corporate standpoint.

The contrasting theoretical view stipulates that the corporate centre should assume an active, value-creating role of a hands-on mover and shaper of company strategy, fully involved in the organisation of the business, supplying strategic initiatives, staying in constant strategic dialogue with business units and focusing on the development of "company-wide competences" as the key outcome of its activity (Prahalad and Hamel, 1990). Here, of course, the corporate centre is actively involved in business strategy and the borders between corporate and business strategy become increasingly blurred. Corporate and business strategists develop a common competitive strategy, with the leadership of the corporate centre (CORRECT?) (Raynor and Bower, 2001). The corporate centre is more directly and intimately involved in current business processes. It is an undisputable leader in adapting the company to the future challenges by creating a company-wide strategic architecture that facilitates the development of critical competences for the future success (Prahalad and Hamel, 1990).

Ocasio and Joseph (2008) contributed to the discussion by challenging conventional wisdoms with their account of the evolution of formal strategic planning processes in the "classical case" of a diversified firm - General Electric. Contrary to popular perceptions, they found that formal strategy making mechanisms ("strategic planning") under the control of a corporate centre have been present throughout the company's history, albeit under different labels. Their study found the important role played by the "governance channels" which facilitate communication and information flow, and simultaneously involve both "professional planners" and line staff in the strategy process. The corporate centre leads major company-wide initiatives which is important in the strategy process. The role of a corporate centre evolved from emphasis on detailed centralised planning to performance targeting and control through company-

wide initiatives, but always remained very important. Corporate centre involvement may have evolved from direct to indirect, but all the time remained structured and exerted dominant influence. Interestingly, the study also highlighted the importance of the CEO's agenda and priorities for strategy process design.

An interesting empirical investigation by Andersen (2004) demonstrated that a combination of decentralised decision making authority and formal strategic planning process allows for better performance outcomes in turbulent environments, presumably because the strategic planning process serves to coordinate and effectively combine strategies and projects elaborated in creativity-friendly, decentralised decision making structures. Although Andersen doesn't explicitly discuss the problem in terms of corporate centre business units dynamics, his conclusions may clearly suggest that strategic planning as a coordinated activity performed by a corporate centre may be very effective even when business units have a high degree of discretion in their own strategy making. An excellent study by Grant (2003) reached similar conclusions by looking at the strategic planning in oil majors in the context of turbulent environment. His study found that the role of a corporate centre was built around performance control and formulation of strategic priorities, while business-level strategy was left at business units' discretion. At the business unit level, organisations formulated strategies in an emerging and informal way. Corporate centres played an important role in coordination and alignment of strategies. Grant concluded that this process of "coordinated emergence" was effective in securing adaptation and responsiveness necessary in the turbulent environment, but failed to provide comprehensiveness and analytical rigor. He also highlighted that the "division of responsibilities" is based on the pertinent knowledge (business strategy in the business units, corporate strategy in the centre). His findings are in line with another conceptual model proposed by Burgelman (1983) who argued that strategies emerge in a bottom-up way, as accumulation of "strategic projects" (initiatives by lower-level organisational units) making their way through "structural context" constructed by top management (the corporate centre). They also resemble Goold and Campbell's

(1987) “financial control” configuration, although the corporate centre here is more involved in strategy by shaping the overall corporate priorities.

Regner (2003) focused on the micro-level of strategy activities in multinational firms from the strategy-as-practice perspective. He studied the distinctions in the type of strategy activities in the centre and periphery and concluded that they were fundamentally different. Strategy making in the corporate centre was deductive in nature and focused on analytical understanding of industrial and environment issues. The process itself was well-structured and included formal analysis, planning and use of “formal routines”. On the contrary, in the business units, strategy making was more inductive, informal and emergent in nature, with extensive use of experimentation. However, Regner did not discuss the issue of the relationships between the corporate centre and business units’ strategy teams and corporate centre’s involvement in strategy process in business units. Paroutis & Pettigrew (2007) addressed this gap by investigating the activities and relationships between strategy making teams in the corporate centre and business units in the context of multi-business firms. Their study identified types of activities performed by strategy teams such as “initiating”, “executing”, “coordinating” and the importance of interaction between these teams, as well as important changes in dominant activities of strategy teams over time. Paroutis & Pettigrew (2007) highlight the distinctiveness of strategy process research in multi-business groups because of the dynamics of interrelations between central and peripheral teams, i.e. corporate centre and business units’ strategy teams.

### **Corporate Centre Role: Theoretical Models**

Theoretical models on the role of the corporate centre in strategy making attempted to address the dilemma of “activist” vs. “detached” corporate centre. They postulated, very much in line with Mintzberg’s configurational approach, that more than one type of value-creating role is possible for the corporate centre depending on the nature of the business model, industry specifics, types of synergies, and corporate life cycle. Porter (1987) elaborated a model for the interaction of corporate centre and business units that embraces both a

“detached” strategy (“Portfolio management”) and one assuming deeper involvement of a corporate centre (“restructuring” – the most interventionist approach; “skills transfer” and “activities sharing” target intra-firm cooperation). However, these models (like all works by Porter) are much more preoccupied with the content of strategy, rather than with its process, and therefore can only inform us on a more general level. For example, it is unclear whether “skill transfer” or “activity sharing” would necessarily involve a corporate centre’s involvement in strategy process determination, or if it will limit itself to the ancillary role of resource provider, leaving strategy making to business units.

Goold and Campbell (1987, 1993 a,b) and Goold et al (1995) provide distinct typologies of the corporate centre’s management styles and value-creation types, including the degree of a corporate centre’s involvement in strategy development in business units. They argue that each style has strengths and weaknesses and may be value-creating, but for this, a style must fit the conditions facing the business. In their earlier model, Goold and Campbell (1987) classify eight strategic management styles based on 1) the influence of the centre in the planning process and 2) the type of centre’s reaction to actual performance – tight financial control, tight strategic control and flexible strategic control. Three of those eight strategic management styles are relevant for multi-business groups (De Witt & Meyer, 2004) and employ distinct characteristics of the strategy process:

## Strategic Management Styles Model (Goold and Campbell, 1987):

Table 19. The Model by Goold and Campbell

<b>Strategic management styles:</b>	<b>Characteristics of strategy process:</b>
Financial control	<p><b>Key model attributes:</b> Low interference in planning process, tight financial control, focus on short-term performance</p> <p>Business units are highly autonomous, the corporate centre does not coordinate activities across BUs</p> <p>Control is based on financial objectives</p> <p>Strategic decisions are almost entirely left to business units, very little/no corporate centre involvement in formulating business strategies. The centre's role is to agree and monitor demanding financial targets for businesses.</p>
Strategic control	<p><b>Key model attributes:</b> High level of interference in planning process, tight financial control</p> <p>Overall emphasis is on decentralisation and delegation of responsibility to business units and control against demanding financial targets. However, the corporate centre participates in business strategies review through a formal planning process and tries to coordinate activities between BUs boundaries</p> <p>Control is based on financial objectives, but the centre is also trying to review and assess strategic performance</p> <p>Heavy involvement of the corporate centre in the extensive strategic planning process; the role of the centre is to add value by reviewing, challenging and – when necessary - adjusting business strategies</p>

Strategic Planning	<p><b>Key model attributes:</b> High level of interference in planning process; flexible strategic control, i.e. focus on long-term not short-term results</p> <p>Many activities are centralised; corporate centre is heavily involved in cross-business coordination</p> <p>Control is exercised through direct supervision</p> <p>The centre <i>actively participates in formulating business strategies</i> and often initiates “strategic thrusts” among interrelated businesses</p>
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In their later works, Goold and Campbell (1993 a,b) verified relevance of their strategic management styles by looking at the performance of companies adhering to each style. This confirmed their earlier stipulation that to succeed, a style should fit the composition of a business portfolio (diversity and relatedness of businesses) and nature of competition in the industry (high/low competition intensity, volatility, scale of investment projects, short vs. long-term orientation). In particular, diversification into more than two core business areas or into unrelated businesses proved to be extremely challenging for the strategic planning style which requires good understanding of businesses by the corporate centre. Similarly, work in cyclical or technology-dependant industries creates additional obstacles for the financial control style. The strategic control style proved to be most challenging in terms of performance. To succeed it requires a good understanding of the businesses by the controlling centre which is difficult in cases of diverse portfolios with differing strategic characteristics. Where businesses were too diversified, or distant from the centre, strategic control style did not perform well. However, the authors restate their believe that the strategic control style is still a viable option for a portfolio of businesses with related characteristics and when a corporate centre has a good feel of the businesses in the group.

Ward et al (2005) provide an interesting conceptual model of the corporate centre’s role in multi-business groups that stipulates the types of activities that

the corporate centre performs for business units and the types of corporate centre's involvement with business units. They identified four generic configurations: control, scale, scope and creative. Essentially, Ward et al offer generic corporate strategies for multi-business groups that are based on the nature of the value-adding role of a corporate centre. Ward et al (2005) agree that the configurational approach to the study of strategy remains the most promising. They argue that one should study strategy, structure and context together and that corporate configurations can evolve over time. Hence, the configuration that they identify assumes a combination of "fit together" corporate strategies, structures and processes. As far as strategy process is concerned, their configurations specify the style of the corporate centre's involvement and some other process attributes, but they are primarily preoccupied with the content of activities performed by the corporate centre and type of resources it leverages rather than by the process itself. However, they do provide a description of a "planning and control process" which incorporates the strategy process.

We can identify the following strategy process-related attributes identified per the **corporate configurations model by Ward et al (2005)**:

**Table 20. The Model by Ward et al**

<b>Corporate configurations:</b>	<b>Characteristics of strategy process:</b>
<b>Control</b>	<p><b>Indirect involvement – Strategy of business units is not directly affected by the corporate centre</b></p> <p><b>Core centre activity: Targets setting and control</b></p> <p>The planning process is formal and well-defined; focus is mostly on short-term financial targets; relationships between centre and BUs are centred around a formal planning and reporting cycle</p> <p>Process focus is on targets setting and monitoring; formulation of <i>business strategies</i> is left entirely to BUs, subject to fulfillment of a small number of strict and well-defined financial caveats (such as central approval of large capex (?) programmes).</p> <p><i>Corporate strategy</i> is in the exclusive domain of the corporate centre; the only coordinated activity is financial targets setting; strictly defined rules on the way BUs can produce their business plans and financial reports to avoid “game playing”; planning process can be very different for different parts of the group to reflect their diversity and competitive strategies</p>
<b>Scale</b>	<p><b>Direct involvement – Strategy of business units is directly affected by the corporate centre</b></p> <p><b>Core centre activity: Cost reduction by centralisation</b></p> <p>Planning and control process generally assumes higher level of coordination and centralisation of specific activities</p> <p>The control process focuses on the usage of centralised resources and relative cost performance</p> <p>The planning process is driven by the centre but assumes shared responsibilities and high level of coordination and resource planning; relatively intensive interaction between BUs and the corporate centre</p> <p>Essentially, it means (although the authors do not say it explicitly) that business units are invited to participate in <i>corporate strategy</i> formulation because without their participation it is impossible to agree to the appropriate level of the corporate centre’s involvement.</p> <p>However, depending on the nature and importance of centralised activities, business units may have a high or lower level of autonomy in their <i>business strategy</i> formation. For example, business units may “outsource” to the corporate centre non-</p>

	<p>core activities and focus on the development of the “core” of their corporate strategy without much intervention from the centre. On the other hand, if the centre starts performing “core” activities, business units may feel that they lose control over their own strategy and performance and become demotivated.</p> <p>Therefore, the role of the corporate centre in formulation of business strategies may vary from effective “ownership” of a major part of strategy (execution of “core activity”) to the focus on low-cost supply of periphery services and almost full delegation of strategy formulation to business units. However, one may argue that the position of a corporate centre that only centralises “non-core” activities is not sustainable in the long-run. Hence, the model will either transform itself or move to centralisation of more of the core activities. That will assume the higher role of the corporate centre in determining essential parts (but not all) of business units’ strategies.</p>
<p><b>Scope</b></p>	<p><b>Direct involvement – Strategy of business units is directly affected by the corporate centre</b></p> <p><b>Core centre activity: Exploiting existing core competences</b></p> <p>The planning process is focused on identification of group-wide competitive advantages. The centre then develops plans on how business units will use these advantages.</p> <p>The involvement of the corporate centre is therefore more intensive. There is considerable debate and interaction between the centre and the business units.</p> <p>Critical elements of the business unit’s <i>business strategies</i> (core value-adding competences) are affected by a centre by knowledge and best practices transfer through group-wide functions and processes. In turn (although the authors do not say it explicitly), business units also affect <i>corporate strategy</i> by contributing their knowledge to the corporate pool.</p> <p>The planning process is more strategic and forward-looking, whilst the control system is inevitably looser and focuses on both business units’ long-term performance and contribution to the group.</p>
<p><b>Creative</b></p>	<p><b>Indirect involvement – Strategy of business units is not directly affected by the corporate centre</b></p> <p><b>Core centre activity: Provide strong unifying vision and values, identify new group competences, promote sense of unity within the corporation</b></p> <p>Corporate centre influences business units’ strategy through its strong vision and values setting. It provides a sense of unified direction and determines general corporate priorities.</p>

The planning process is tailored to the concrete vision/values; it may be more or less formal with the focus on both long-term and short-term results. The organisation achieves financial focus through employment of tailored performance measures and development of results-conscious corporate culture.

The interactions between centre and business units are intensive and often informal; they achieve coherence through joint projects, information exchange and informal contacts, but they can supplement these with more formal events, training programmes and regular review processes. The corporate centre explicitly encourages intensive communication, cross-divisional initiatives and competence-sharing between Bus.

*Corporate strategy* is determined solely by the corporate centre. The corporate centre actively influences BUs *business strategy*, but this influence is indirect. It is translated through very demanding strategic goals, standards and initiatives. From the process perspective, BUs have a great discretion in the development of their business strategy. However, creative configuration assumes (although the authors do not state it explicitly) a higher involvement of the corporate centre in the business units' strategy process through the alignment of their strategies with corporate strategic priorities and its value system. This assumes a more in-depth strategic dialogue than in the control system where the centre usually only seeks achievement of pure financial goals.

Ward et al argue that there needs to be a complete agreement in the company on the configuration that exists and the configuration that is appropriate for the corporation. Also, as with Goold and Campbell's (1987) model, successful configurations depend on the external environment and types of businesses involved. Ward et al make a further step and conclude that, like with all configurations (Mintzberg et al, 1998), they may actually evolve with a company over its lifecycle. The challenge for the executives then is to recognise the need for such change and prepare a company and its corporate centre for evolution. However, due to the issues of organisational inertia and entrenched practices, such moves require either significant changes in the composition of the business portfolio (to make the current configuration work) or change in the executive top team (to change configuration). Interestingly, Goold and Campbell (1987) also emphasise difficulty of transition from one strategic management style to another and argue that it requires either abrupt changes in the external environment or change in the top management team. Ward et al also note the importance of leadership in a configuration and necessity to align corporate management leadership style with the requirements of a particular configuration.

A related line of strategy-structure literature sheds further light on the work of big divisionalised corporations. Earlier works by Bower (1970), Bower and Doz (1979) and Burgelman (1983) stipulated that corporate top management shapes strategy by manipulating a "structural context" that determines which types of strategic projects get to "go ahead". The underlying purpose is to fit these projects into a prevailing "strategic concept", i.e. company strategy. However, large diversified firms feature a fair amount of "entrepreneurial" activity at the lower level which from time to time makes it through "structural context" walls and leads to implementation of new strategies. Over time, this accumulated "strategic renewal material" starts influencing the prevailing concept of strategy and ultimately leads to changes in strategy. Here the corporate centre does influence the strategies of business units, but this influence comes from a rather loosely defined "structural context" of organisation, rather than from direct intervention and supervisions. Conceptual insight into the mechanism of a

corporate centre's influence on strategy, provided by Bower, Burgelman and others, is consistent with both models discussed above, but the models provide a more rigorous and well-defined framework for the assessment of the corporate centre's role.

## **DISCUSSION OF FINDINGS**

This study started from an interest in how companies can organise the strategy process effectively in the context of a multidivisional industrial group based in the emerging market country. The prime interest was in the role that a corporate centre could play. The preceding literature review aimed to identify key academic perspectives on strategy process and literature recommendations on methodologies for strategy process research. After establishing the key perspectives, the review focused on the theoretical and empirical background on corporate centre's role in strategy making and on the impact of the emerging market context on strategy process. ***This chapter presents the key papers, frameworks and concepts influencing the research agenda, design and methodology. It identified knowledge gaps and synthesized the research subject to arrive at the formulation of the final research questions and methodology informing the empirical enquiry in Project II.***

### **Identifying the Knowledge Gap in the Literature**

***The study identified two potential contribution areas with persisting knowledge gaps: 1) the corporate centre's role in strategy process and 2\_ the distinctiveness of strategy process in the emerging market context.***

The literature review identified two major theoretical approaches to the corporate centre's role: 1) a "shareholder-style" corporate centre with mostly indirect involvement in the strategy process in business units, focused on performance control and portfolio management and 2) an "activist" corporate centre, fully involved in strategy process and developing group-wide strategies and competences. The most important concepts informing this enquiry were the models offered by Goold and Campbell (1987) and Ward et al (2005) to present a more comprehensive framework describing different roles for a corporate centre. Goold and Campbell (1987) provide distinct typologies of the corporate centre's management styles and value-creation types, including the degree of the corporate centre's involvement in strategy development in business units. Ward et al (2005) offer a prescriptive model of the corporate centre's role in multi-business groups that stipulates strategic activities performed by the

corporate centre and types of corporate centre involvement with business units. The model by Ward et al was illustrated by a number of practitioner-oriented short business cases, whilst Goold and Campbell (1994 a,b) investigated the performance outcomes of different styles of corporate centre involvement with cases that showed the importance of “fitting” (?) between a style and context characteristics, as such, and the degree of relatedness of business units’ markets and complexity of their industries.

Nevertheless, the aforementioned models remained rather conceptual and prescriptive with relatively little empirical evidence to support and develop their conclusions. Goold and Campbell recognise embeddedness of the strategy process in the inner and outer context (Pettigrew, 1992). Ward et al particularly find that strategy content, organisational structure and process are “inextricably linked” to form distinct configurations. This recognition calls for the development of a richer empirical material to understand how corporate centres engage in strategy process in a different context, rather than in an ideal form. The review identified very few of such empirical studies. In their longitudinal case study of General Electric, Ocasio and Joseph (2008) found that the involvement of both business units and corporate centres in strategy process was secured through the development of an effective information exchange and communication system, participation of both “professional” strategists and line staff and connection of strategy with other critical corporate initiatives. They also highlighted the crucial importance of the attitude and strategic agenda of the CEO for organisation of the process. Grant (2003) examined the strategic planning in major oil companies (?) in the context of the turbulent environment and found that in these conditions the role of a corporate centre was confined to performance control, formulation of overarching strategic priorities and coordination and alignment, whilst business units developed practical strategies in an emerging and iterative process. He also concluded that the “divisions of labour” between a centre and the periphery was explained by differences in strategy making competences. Grant’s findings were confirmed by another study by Andersen (2004) which demonstrated positive performance outcomes

combining decentralised decision making authority and the formal strategic planning process led from the centre in the context of a turbulent environment.

The strategy-as-practice approach to strategy research also enriched the field with some recent enquiries. Regner (2003), in his micro-level study found that at the corporate centre, the strategy process was more formal and structured, whilst in business units it was more inductive, informal and emergent. Paroutis and Pettigrew (2007) addressed in-depth the activities and relationships between the corporate centre and business units' strategy-making teams. They defined the term "strategy teams" and its relevance as the unit of analysis and highlighted the importance of interactions between the teams at different levels. They also found that these interactions evolved over time depending on the changing requirements of the adopted strategy process. Crucially for practice, Paroutis and Pettigrew (2007) suggest that we can attribute success and failure of strategy process to the state of interactions between the corporate centre and business units' teams, not only to the quality or efficiency of actual strategy work within these teams. They highlight the importance of the local context for shaping these relationships and call for more research on the impact of the context on strategy process and its outcomes.

The literature review demonstrated that despite some progress in high-level conceptualisation (Goold and Campbell, 1987; Ward et al, 2005 and Burgelman, 1983), we still have limited empirical knowledge on the actual role of the corporate centre in strategy process. Among the few empirical investigations, a study by Grant looked at the specific context of the turbulent environment and Ocasio and Joseph (2008) addressed the importance of organisational governance channels and CEO personality in a distinct context of a major Western diversified group. However, many essential variables, such as organisational structures and work routines supporting strategy process in multi-business groups were not yet subject of any research. Also, a variety of contexts such as the non-Western context, companies with concentrated ownership and evolving companies in different historical periods remain unexplored and many authors call for more studies into their impact on strategy

process and its evolution (e.g. Paroutis and Pettigrew, 2007; Regner, 2003; Wittington and Cailluet, 2008).

Remarkably, it is important to note that lack of studies in the emerging market context is a characteristic of strategy process research as such, not only of its more narrow area of strategy process in multi-business groups. For example, only two papers, both very recent, addressed strategy making in the Russian context. The comparative study by Carr (2007) looked at the drivers of strategic decision making and attempted to connect “cultural traits” and attributes of the environment to the choice of a time orientation and level of sophistication in strategic and financial analysis. Another study by Gurkov (2009) examined the strategy process from a “political” perspective, as a dynamic interplay of competing motives of strategy stakeholders, primarily top managers and owners. Although this study offered some interesting insights into the impact of the national environment (extreme volatility, underdeveloped institutions) on the process characteristics, it was based on a cross-sectional analysis of a limited number of specific variables and lacked richness and rigour offered by in-depth case studies recommended as the most adequate methodology for the explorative strategy process studies (Chakravarthy & Doz, 1992; Pettigrew, 1992). Hutzschenreute and Kleindienst (2006) claim that contradicting conclusions of many cross-sectional empirical studies attempting to link organisational context to strategy process and performance reaffirm the view that modern organisations are too complex to explain their performance by a few specific variables. Instead, we need to employ methods like longitudinal case studies, action research, and ethnographic modeling.. To summarise, it one could argue that the Russian context for strategy remains underexplored, in contrast to the much better researched Western context. The growing role of emerging markets in the global economy and rising cross-border trade and investment makes understanding strategy making in the emerging markets an increasingly important and practical task. Besides, research in the emerging market context can enrich and expand an academic field by offering different cultural and institutional perspectives and challenging established consensus (Wright et al, 2005).

***This study will contribute to the debate by adding an empirical investigation on the historical development of the corporate centre's role in a particular context of a rapidly transforming company with concentrated ownership operating in the volatile emerging-market context. This study will be descriptive in nature and will aim to identify key attributes of strategy process, including its emergent vs. deliberate nature, composition of participants and distinction of roles between the corporate centre and business units. The study will connect strategy process to internal (concentrated ownership) and external (Russian) context and historical development of the company. This will contribute to our understanding of what are the actual vs. prescribed roles for the corporate centre and business units in strategy process, and hopefully, will move the debate further towards the conceptualisation of the corporate centre's role in different company contexts. The study will also add to the existing body of knowledge by looking at strategy process in the non-western context of a post-privatisation Russian enterprise developing in a highly volatile environment.***

### **The Choice of the Study Design and Methodology**

This section presents the key papers and concepts informing the choice of the study design and methodology. The choice of the research methodology is determined by the nature of the identified knowledge gap and analysis of the previous literature on the strategy process methodology research. The company-specific nature of the business question which motivated this research calls for an initial focus on the company and its strategy process as the study's "unit of analysis" (Yin, 2009). The study will aim to explore the development of the corporate centre role in strategy process in a particular context of an emerging-market company with concentrated ownership. Therefore, the main subject of the study will be the strategy process as the process by which strategies come about (De Witt & Mayer, 2004).

A chosen methodology should fit this "process-related" nature of the research. The process focus of the enquiry implies that attention should be given not

simply to the way the decisions are made, but rather to the “patterns” of decisions and actions which over time combine to form an intended (or realised) strategy (Tsoukas and Khudsen, 2010). The very definition of “process” as a “sequence of events that describe how things change over time” (Van de Ven, 1992) implies its embeddedness in time and necessity to give attention to dynamics. Therefore, a methodology of choice should encompass the temporal dimension to reflect the dynamic nature of strategy-making.

The literature review demonstrated that there is relatively little systematic empirical knowledge about the actual (vs. prescribed) role of the corporate centre in strategy process. Although we are armed with conceptual insights into the nature of strategy process and the corporate centre’s role, scarcity of empirical data justifies an open-minded, explorative approach (Yin, 2009). In addition, the literature review demonstrated that, despite some progress in normative and theoretical research, there is little empirical knowledge about the particularities of strategy-making in Russia. Since the impact of context is potentially a highly important consideration for this particular research, the research methodology should help to capture the rich contextual phenomena and their impact on process (Chakravarthy and White, 2002). Therefore, the study methodology should be based on an inductive, explorative research strategy and should facilitate capturing the dynamic nature of strategy process and the impact of the rich and peculiar strategy context.

Longitudinal comparative case studies are recommended as the key method of strategy process research because they allow for a holistic approach, careful examination of concrete contexts and deep comparative analysis of cases rather than simple and abstract cross-sectional analysis of isolated variables (Pettigrew, 1992). Other empirical methodologies employed in strategy-process research include cross-sectional studies relating varying characteristics of strategy context, process and outcomes (e.g. Hall & Saias, 1980; Rajapopalan et al., 1993). For example, a significant number of quantitative empirical studies sought to find a link between demographics of top management team, strategy process, context and outcomes (e.g. Papadaikis & Barwise, 2002; Bantel &

Wiersema, 1992). Focus on strategy as a state, rather than on its dynamics and evolution, is an important limitation of such cross-sectional, single-level methodologies. Such approaches cannot meet the modern demand for dynamic, comprehensive and context-conscious holistic enquiries (Chakravarthy and White, 2002). From a broader philosophical perspective, we can view such a holistic approach as a response to the most recent challenge to strategic management research to employ the research methodologies that combine elements of both strategic choice (as a rational and purposeful exercise underpinned by the role of a human actor) and strategic change, as more of an environmentally-determined, exogenous actor (Tsoukas and Khudsen, 2010).

As discussed in the literature review, the “configurational” school of strategy process research emphasises the importance of simultaneous attention to strategy process, content and context and identification of distinct “configurations” of strategy content, process and structure, as well as the importance of transitions from one configuration to another (Mintzberg et al, 1998). This research employs this methodology since it meets the demand for a temporal focus, breadth and comprehensiveness of the enquiry and attention to the rich surrounding context.

To summarise, we can define the study’s methodology as a **qualitative, explorative case study**, initially on the basis of one company (we can extend it to other companies at the subsequent stages). The author preferred the explorative, single case study to a comparative multi-case study method recommended by Pettigrew (1992) to secure the necessary “depth” of enquiry, address practical problems and take full advantage of his unique “access” to the intimate world of strategy-making in a major Russian corporation. The explorative nature of the study as one of the pioneering enquiries into strategy making in Russian corporations means that the breadth of enquiry will be important. At the same time, because of the DBA programme structure, the study will be based upon two distinct empirical projects. The second empirical project may address the call for “comparativism” by providing evidence from a

different setting or sample within the same organisation, thus helping to improve the study's internal validity.

Because of its explorative nature, the study will be based on a more **inductive** research strategy, without any preconceived theory to test, prove or reject. There are no any ex-ante assumptions about the outcomes of data analysis. However, rich literature on strategy process does allow us to formulate specific questions that will define and characterise strategy process under investigation. Theoretical models of corporate centre involvement by Goold and Campbell (1987) and Ward et al (2005) can help to formulate the ex-ante questions which will help to determine the role of the corporate centre (see the conceptual framework at Figure 7). Therefore, the adopted approach is not completely free from the influence of previous research, as suggested by some radical grounded theory proponents (Glaser, 1992). Rather, the study design, methodology and questions are informed by previous research, but the novelty of the context justifies the explorative approach without any pre-formulated hypotheses to test.

The study will explore the past and present of strategy process and will seek to identify the impact of particular contexts on the process. In other words, the study will aim to explore the underlying patterns, "mechanisms" that cause the events in the social world (Collier, 1994). Changes in the level of volatility in the "emerging market" context of a transitioning Russian economy and highly concentrated ownership structure arguably represent the most distinctive external environment variables to explore in terms of their influence on the strategy process. At the same time, as Dobson (2002) observed, it is difficult to learn the objective underlying mechanisms directly, since people as social actors are inherently prone to subjective perceptions and judgements and influenced by personal history, social position, beliefs, preconceptions and mental maps. Therefore, one should recognise the need to consider this subjective, contextually embedded nature of peoples' perception of social reality. In particular, people may place different meanings to the concepts fundamental to this research, such as "strategy" or "external environment",

which may not reflect exactly the underlying social reality. Whilst recognising these limitations, the research will attempt through the systematic enquiry to contribute to moving towards understanding of underlying, “objective” social mechanisms and forces. Therefore, the study will assume the **“critical realism” epistemological position** - although our knowledge of the reality is subject to social conditioning and we have to consider the social context very carefully. Through systematic scientific enquiry a researcher can and should identify the underlying mechanisms and patterns that define social activities (Bhaskar, 1989). The underlying assumption of critical realism is that social reality is dynamic and changing and should be studied and interpreted with temporal perspectives in mind (Saunders et al, 2007). This is consistent with the main premises of strategy process research methodology as advocated by Pettigrew and Mintzberg.

### **Empirical Research Design**

The explorative, inductive nature of study calls for qualitative research methods that can effectively describe complex phenomena and rich contexts (Strauss and Corbin, 1998). Therefore, ***this study will aim to explore the role of the corporate centre in the strategy process whilst considering (obviously, at a lower level of detail) the external environment, organisational structure and content of strategies and their respective influence on the corporate strategy process. The study will adopt a historical perspective that recognises the dynamic nature of strategy and the importance of temporal development*** (Pettigrew, 1992).

This methodology is manifested by the “configurational” approach to strategy process research that examines the evolution of a complex “configuration” of an organisation’s strategy process, content, organisational structure and context (Mintzberg et al, 1998). Since the basic premise of the “configurational” approach corresponds to the methodological choice of this study, they can be employed to inform the study design and methodology. In-depth personal ***interviews*** are the main instrument in such enquiries (e.g. Miller, 1983; Mintzberg and McHughes, 1985; Grant, 2003). Interviews allow us to explore

complex issues and are appropriate when one needs to 1) understand the reasoning behind an interviewee's opinion, 2) find ways and means to influence the situation, and 3) discuss politically and commercially sensitive situations (Easterby-Smith et al, 2002). The enquiry will be primarily based on ***in-depth interviews with the participants of strategy process***. Analysis of previous studies helped to define key areas for investigation and formulate detailed research questions. Therefore, the interviews will be semi-structured, i.e. the interviewer will ask the same questions to all participants to allow for comparison of interview results and consistency in data gathering. At the same time, participants will be free to express their views on the relevance of certain questions and suggest additional themes which they consider important. The author will adopt these themes for further interviews and will include them in the question list, so that the interview structure will be sufficiently dynamic as advised by Easterby-Smith et al (2002).

Given the inductive, explorative nature of the study, the choice of the interviews sample can be based on non-probability-related sampling techniques, with sample size and selection mostly based on the nature of questions and chosen epistemological position (Saunders et al., 2007). The sample scope should be sufficient to ensure that there is a broad representation of views, as required by "critical realist" epistemology (Easterby-Smith et al., 2002). Overall, the selection of interviewees will be based on the demand for relevance (ability of an interviewee to contribute to the discussion of the research questions), external validity (representation of a wide variety of views, as demanded by the adopted epistemological position) and ethical and access-related considerations. The sample size will be based on the "saturation criterion", i.e. the interviews will be added until it is clear that inclusion of additional interviews doesn't add incremental ideas and concepts about the topic in question. .

The case study will also employ ***written materials (internal memos, strategy presentations, annual reports and, where relevant, external publications)*** as its instruments, particularly to investigate past periods (following the example of other similar studies in configurational tradition, e.g. Mintzberg and Waters,

1982). The research will base the identification of the external environment impact on strategy process upon key economic and industrial statistics of the Russian economy and Russian/global steel industry.

**Research scope:** A longitudinal case study of strategy making in a multi-business industrial company:

- Company scope: Severstal and a related “Severstal Group”, a multi-business group, initially diversified from a single post-privatisation steel-making plant into a number of both related and unrelated business; it later transformed into an international metals and mining company more clearly separated from unrelated businesses belonging to a majority owner, but with a distinct division into geography- and product-based business units.
- Strategy scope: Formation of *corporate strategy* of a parent company and role and involvement of the corporate centre in the formation of *business strategies* of business units.
- Time span: From the first acquisitions and formation of a “multi-business” group in 2001-2002, through IPO and formalisation of a metals and mining company to creation of a formal divisional structure in 2008 to the aftermath of the 2008 global economic crisis.

### **Findings from the Literature Informing the Research Structure and Questions**

A number of previous studies helped to formulate research questions to structure the empirical enquiry. Wittington and Callouet (2008) call for “going inside the black box” of strategy making and pay attention not only to performance outcomes and contextual variables, but to the process itself: how it is organised, and who are the process participants. In this case, the study will identify the participants in strategy making both in the corporate centre and business units and organisational structures of strategy such as departments, working groups and committees. Another fundamental characteristic of strategy

making refers to it as a deliberate, formal and structured vs. emerging, iterative and unstructured process (Mintzberg and Waters, 1985). It is arguably the most important variable in strategy process research, including the studies of multi-business groups (Grant, 2003; Regner, 2003).

***The specific questions related to multi-business groups describe different roles for a corporate centre:***

- ***Establishing and controlling financial performance only, as opposed to setting corporate strategic priorities or, at the extreme, full involvement through centralised or centrally managed strategy creation*** (Goold and Campbell, 1987; Ward et al, 2005).
- ***According to the more recent enquiries, the role of the corporate centre can focus on the coordination of strategies and building alignment among business units*** (Grant, 2003), ***including through the informal mechanisms of unified corporate culture and values*** (Ward et al, 2005).
- ***The importance of strategic agenda and purposes of the CEO*** (Ocasio and Joseph, 2008).

Another focus area in the research agenda will be the impact of the internal and external context and the content of strategies on the strategy process and the corporate centre's role. Ocasio and Joseph (2008) showed how the role of the centre in GE changed from a more direct (centralised planning process) to a more indirect (financial performance targeting, strategic corporate initiatives on market share, quality, inter-divisional collaboration) because of a combination of a personal drive by the CEO and changing portfolio of businesses. Grant (2003), in his study of oil majors demonstrated that as the environment became more turbulent, the role of a corporate centre shifted from close management to formulation of strategic priorities, performance control and internal alignment-building, whilst business-level strategy was left at the business units' discretion. **Recognizing that the role of a corporate centre will change in response to external economic pressures, the study will demonstrate how changes in**

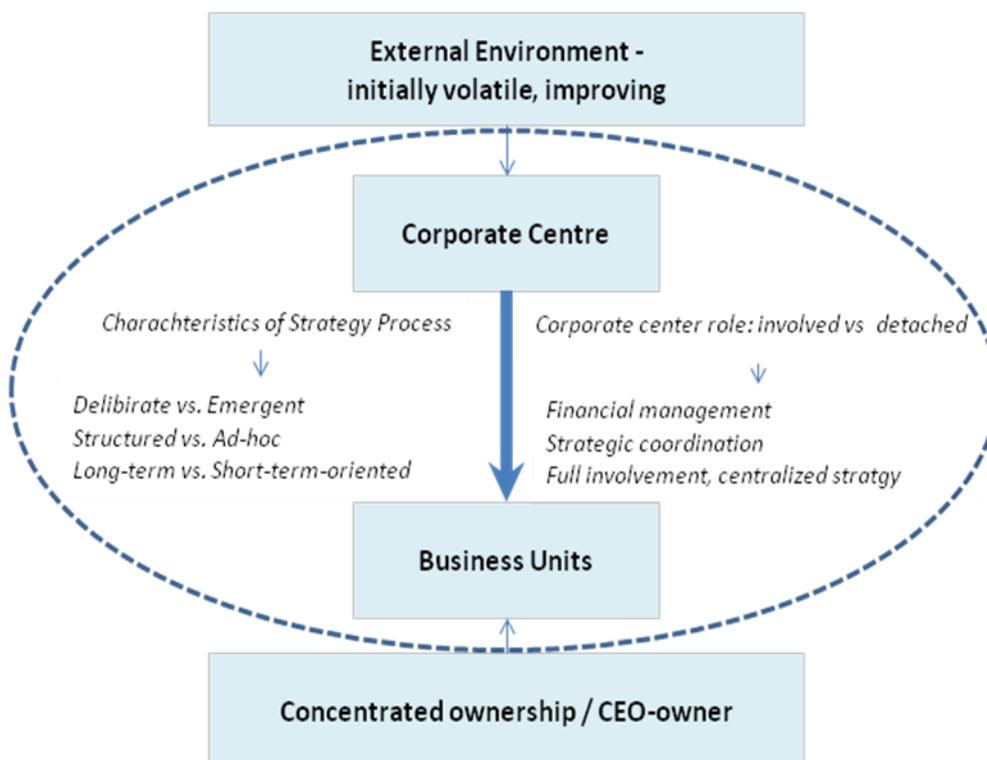
**the Russian business environment may have impacted the nature of a corporate centre's strategy making.** The environment evolved from the extreme volatility and uncertainty to a more constructive and stable environment in the second part of President Putin's term, 2004-08, as demonstrated by key macro indicators, but remained challenging in terms of key market institutions, inducing short-termism and facilitating entrepreneurial, intuitive behaviour.

An important practical question emerging from both the academic literature and business press concerns the effectiveness and optimal level of involvement of corporate centres managing diversified corporations. In the particularities of the Russian business environment, much popular and political attention was given to the issues of the purposes of owners-managers of large corporations ("oligarchs"). The debate centred around whether their focus was mostly on maximisation of short-term financial cash flows or on the long-term development with maximisation of the assets' long-term value. In academic literature, the call for a proactive role of a corporate centre is perhaps best manifested by the debate between the proponents of a more classical "shareholder-style" corporate centre and the one which is deeply involved in managing the corporation and its "company-wide" competences (Prahalad & Hamel, 1990). This debate is reflected in the section on the empirical studies and concepts of the corporate centre's role. Scholars increasingly criticised the view of a corporate centre as a diversifier of risks and portfolio manager increasingly in the 1980s and 1990s (De Witt & Meyer, 2004) since financial markets can do this work better. However, this role may still be important for the emerging markets, where financial markets are less developed and property rights are not as well-guaranteed (Wright et al, 2005), calling for diversification through acquisitions of companies rather than shares and the use of a corporate centre as a control vehicle over a business units' managers. At the same time, it is important to note that "proactivity" of a corporate centre does not necessarily imply close management and formalised processes and roles. A corporate centre may add value through indirect involvement, for example by providing a unifying mission and vision and challenging strategic targets, by creating a sense of belonging among the top managers. This kind of corporate centre

makes up the most sustainable “creative configuration”, which is the most difficult to imitate (Ward et al, 2005). Of course, this centre is also a true leader, moving the company ahead rather than passively observing and shifting the portfolio of assets. **In light of these academic, political and business considerations, one of the questions to test in the empirical project will be the nature of the corporate centre’s involvement. Does it act as a passive and detached “shareholder” or proactive and involved leader, which is determined to pull the company ahead?** This will be particularly interesting in light of the political debate in Russia about the role of “oligarchs”. Are they just beneficiaries who milk the assets obtained during the privatisation (“shareholder-style”), or active managers determined to develop their companies for the long-term (“proactive” style).

Figure 7 summarises the conceptual framework informing the enquiry, including the specific questions for investigation.

**Figure 7. Focus of the enquiry - Strategy Process in an emergent market multi-business firm with concentrated ownership structure**



To summarise, the literature review provided additional focus to the original research question on the basis of the literature gap analysis and the methodology.

**For the empirical enquiry, the basic research question...**

How did the role of the corporate centre in the strategy making process evolve in Severstal over the ten year period since its emergence as a multi-business corporation and until the aftermath of the 2008 global economic crisis?

**...was further developed by a number of supplementary research questions emerging on the basis of literature review.** These questions helped to locate the findings in the context of strategy process concepts. They form the foundation of semi-structured interviews in the empirical stage of which the following questions emerged:

1. What is the degree of centralisation of strategy process and to what extent was the corporate centre involved in shaping business strategies of business units? In particular, was the corporate centre role built primarily around: 1) setting and controlling financial performance targets only, 2) setting corporate objectives whilst leaving business-level strategy to business units and 3) centralising strategy in the centre and closely managing the strategy process?
2. Can we describe the strategy process in Severstal as primarily structured and deliberate vs. emerging and ad-hoc?
3. Who are the participants on the corporate and business unit level and what are the organisational structures involved in strategy development?
4. Context impact: Can we identify the influence of the external environment of Russia on the strategy process, considering underdeveloped market institutions throughout the study period, the challenging macroeconomic environment in the first half of the 2000s

and the economic boom in the second part of President Putin's term in 2004-08?

5. Can we untangle the impact of the highly concentrated ownership structure and heavy involvement of the CEO (majority shareholder) in business management? Was his leadership proactive or reactive, i.e. was the prime purpose to control the assets as a passive shareholder interested in short-term financial returns, or as an active owner-manager focused on the long-term standing of the company?
6. How does the observed involvement of the corporate centre in strategy process relate to the models of the corporate centre role by Goold and Campbell (1987, 1993 a,b) and Ward et al (2005)?

### **Reliability and Validity**

The key limitation concerns the status of the researcher as an active employee involved in the strategy making as head of the corporate strategy department. This raises obvious implications for the research reliability. The researcher's position in the corporate centre may have an obvious and clear impact on interviewees' sincerity, particularly for those on an equal or lower position in the organisational hierarchy. As company employees, interviewees may not be fully open about their thinking on the company business processes and the CEO's role because of concerns about their careers.

Unfortunately, some of these biases would be very difficult to mitigate. On the other hand, they are a flipside of the study's great advantage – full access to the key decision-makers, independent of their position within the organisation. Given the Russian business climate, prevailing culture of secrecy, intimate nature of strategy process and low proliferation of management research into the world of Russian business, we can consider this access a unique advantage which would not be easy to replicate in any foreseeable future, well worth the abovementioned limitations. To include former employees wherever possible was instrumental in mitigating any biases since they have less attachment/dependency on the company and interviewer. Taping, transcription

and subsequent systematic coding of interviews helped to mitigate the potential personal bias problem.

Validity of the research undertaken from a relativist position is supported by inclusion of a wide variety of viewpoints (Easterby-Smith et al, 1998). This research validity will be supported by the inclusion in the interview sample of employees from different organisational levels (from CEO to line strategy managers) and different regions (Russia, US, Italy), inclusion of former employees and, potentially, an extension of the study to other organisations.

## **IMPLICATIONS FOR PROJECT 2 (EMPIRICAL PROJECT I)**

**Methodology:** Explorative qualitative longitudinal case study

Methodology is informed by the “configurational” approach to strategy process research: looking at evolution over time at the organisation’s strategy process, content, organisational structure and context (Mintzberg et al, 1998). The author will base the methodology of the longitudinal case study approach on Pettigrew’s (1992) methodological framework with additions from Chakravarthy & Doz (1992) and Wittington and Callouet (2008). A case study by Grant (2003) provides useful examples of methodology on data collection, interview structuring and formulation of relevant questions to capture strategy formulation phenomenon. The author developed the preliminary framework for the interview questionnaires from the previous literature.

**Scope:** A longitudinal case study of strategy making in a multi-business industrial company:

- Company scope: Severstal and a related “Severstal Group”, a multi-business group, initially diversified from a single post-privatisation steel-making plant into a number of both related and unrelated business; it later transformed into an international metals and mining company more clearly separated from unrelated businesses belonging to a majority owner, but with a distinct division into geography- and product-based business units.
- Strategy scope: Formation of *corporate strategy* of a parent company and role and involvement of a corporate centre in the formation of *business strategies* of business units.
- Time span: From the first acquisitions and formation of multi-business structures in 1999-2000 through IPO and formalisation of a metals and mining company to creation of a formal divisional structure in 2008.

## Chapter 3

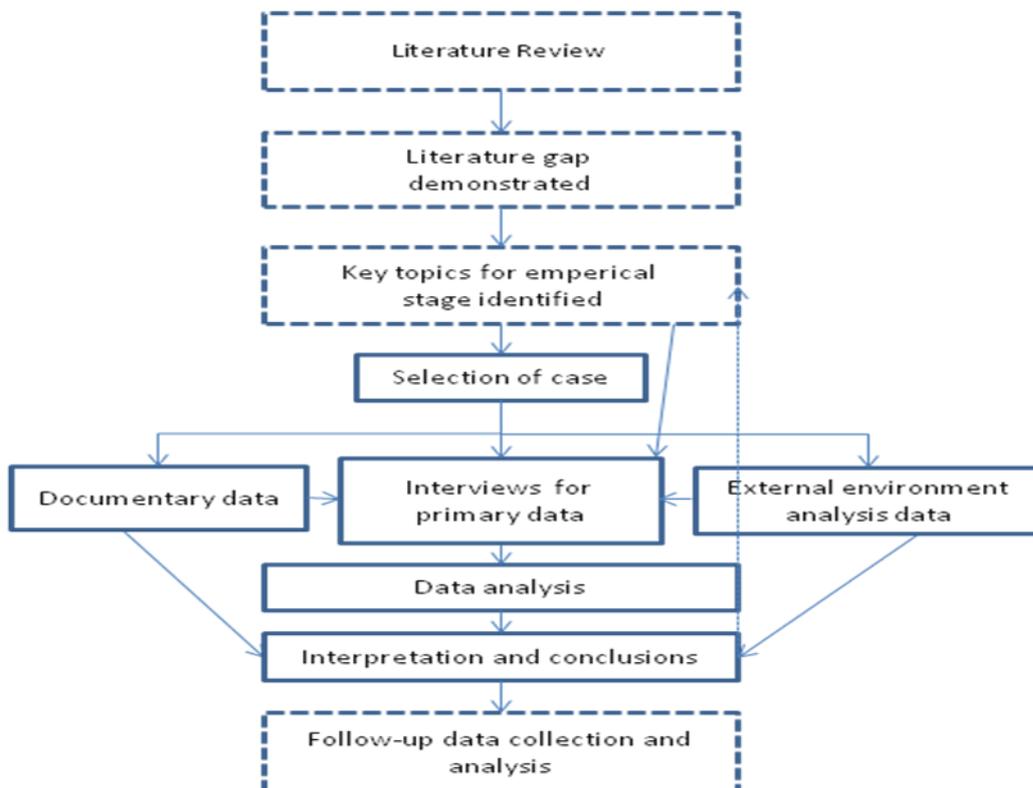
### 3. Project II. Role of the Corporate Centre in Strategy Process: An Empirical Investigation

#### **DATA COLLECTION AND ANALYSIS**

##### **Interview analysis**

This section introduces the empirical part of the research and describes the process of data collection and analysis. Figure 8 outlines the process that the author adopted in the empirical part of the research.

**Figure 8. Outline of Empirical Research Procedure**



The adopted methodology of an explorative longitudinal case study is underpinned by the importance of context (emerging markets, concentrated ownership), lack of empirical studies and articulated hypotheses concerning the particularities of corporate centre role in such context and necessity to employ dynamic, complex and multi-layered longitudinal methodology to explore process-based phenomena (Tsoukas and Khudsen, 2010). Explorative nature of the study also corresponds to the call for a more “open world”, inclusive methodology that should be adopted in process studies as opposed to the cross-sectional, “closed-world”, quantitative methodology mostly focused on linking static process and context characteristics to outcomes.

Interviews are considered to be the primary source of rich, contextually embedded data for the research (Glaser and Strauss, 1967). The interviews will be semi-structured around the key research questions identified in the literature review as the useful instruments to describe the basic properties of existing strategy-making process and describe the role of corporate centre in a systematic way. The interviewer will ask the same broad set of questions and topics to all participants to allow for comparison of interview results and consistency in data gathering. At the same time, participants will be free to express their views on the relevance of certain questions and suggest additional themes that they consider important. These themes will be adopted for further interviews and included in the question list, so that the interview structure is sufficiently dynamic as advised by Easterby-Smith et al (2002). Where relevant in the interview flow, respondents were encouraged to reflect on their experiences in a free, narrative form, not just answering questions, but telling stories, giving real-life examples and critically reflecting upon the organisational reality. Such a narrative approach provides rich sources of first-hand data in the social frameworks pertinent to the real people experiences (Baumeister and Newman, 1994). Narrative conversations include information about personal interpretations and meanings, essential for contextually-conscious, in-depth interpretative research (Pettigrew, 1992).

The author used documentary data and external environment data as a background and supporting information in order to 1) secure a well-informed interviewee as a knowledgeable partner in the interviews and 2) facilitate data analysis and interpretation.

Once the author had recorded and transcribed the interviews, systematic data structuring and analysis followed. As a first step, each interview was analyzed separately and key concepts (themes and interpretation) were captured and systematized (see Appendices 4 and 5 for detailed takeaways). As a second step, the author synthesized the conclusions from every interview to arrive at overarching case conclusions. The author paid careful attention to capturing differences in interpretation and contrarian perspectives where they were present. After the data synthesis and interpretation, the author related the final conclusions back to the research themes emerging from the literature. The author highlighted areas of consensus and divergence with previous findings and identified potential contributions to knowledge. The author further investigated the most interesting and promising conclusions (from a contribution standpoint) in greater detail in the follow-up stage.

### **Interview Sample Selection, Recording and Conduct**

For the purposes of Empirical Project I, the author contacted fourteen potential interviewees. Of those, twelve responded positively, but one interview did not materialise due to logistical and time constraints of the prospective interviewee. The author conducted all interviews in the period from January to April 2010. For Empirical Project II, the author contacted and interviewed eight people in the period from August to October 2010.

The author determined the approach to “group sample” selection by considerations of relevance to the issue at hand, methodological soundness (representing a diversity of views) and subjective estimation of the probability of quality access. Therefore, the overall approach was non-probability, purposive sampling, with the main aim to enable the author to answer the research questions (Saunders et al, 2007).

The first iteration of sampling regarded a potential interviewee's capacity to discuss the research problem. To qualify as an informed participant, he or she should have been involved in the strategy-related activity. A preliminary assumption, conformed by the pilot interview, was that in Severstal's reality, only the members of the top corporate team and first-tier members of the business units teams were involved in strategy-related discussions and activities. Therefore, a potential pool of interviewees was limited to the top team members in the corporate centre and business units. In addition, a lower-level "strategy professionals" (i.e. mid-level staff members working in "strategy-related" Strategy and M&A departments) were added to the list, in order to secure a broader representation of views not limited to the top team, as discussed in the methodology section.

To gain a better insight into the topic, the author included all corporate and business units' directors for strategy on the interview short list. All of them agreed to participate. For ethical and bias-related purposes, all current or former direct reports of the author were excluded from the pool of potential interviewees.

The "critical realist" epistemological position employed by the author also influenced the approach to the interviewee sample selection. This approach calls to include a sufficient number of different perspectives into the sample to secure external validity. To comply, the author ensured that there was an appropriate balance of corporate centre and business units' employees, as well as a broad representation of geographies, in terms of both location and areas of responsibility. In addition, the author ensured that the sample included former employees (to mitigate a "participant bias"), as well as the employees from outside of Severstal proper (i.e. the representatives of companies from the "Severstal Group" business group which belonged to the same majority shareholder and shared their management company with Severstal prior to official separation of "core" and "non-core" businesses in 2006).

The longitudinal nature of the study also meant that length of stay in the company was an important selection criterion. Ideally, an interview should have

covered the whole period of interest, from early 2000s until 2009. Therefore, the author preferred to interview those employees who started their career in senior or strategy-related positions earlier, although in reality there were very few such people. In addition, the author ensured that there was a balance between coverage of earlier and later periods. Involvement of former employees also greatly facilitated a proper coverage of earlier stages.

Finally, once these considerations were used to limit the potential choice, the author used a subjective judgement to evaluate ease of access and opportunity for a high-quality, open and detailed dialogue.

In order to facilitate potential demographic analysis and cross-interview comparison of diverse perspectives, the author referenced each interview by a number of characteristics, including interview date, duration, interviewee's position in the company (the last occupied in the case of former employees), interviewee's position in the corporate centre or business unit, interviewee's primary location and region of responsibility (where relevant, in case the responsibility is company-wide, it is considered to be "global"). The author assigned each interview a unique reference number reflecting the interviewee's position in either the corporate centre or business unit and his or her region(s) of primary responsibility.

**Table 21. Characteristics of Interviews**

<b>Interview Reference Number</b>	<b>Interview Date</b>	<b>Interview Duration</b>	<b>Interviewee Title</b>	<b>Corporate Centre/ Business Unit</b>	<b>Prime Location</b>	<b>Region(s) of Responsibility</b>
CGUE1	26.01.2010	1 h 05 min	Deputy CEO for Strategy and Business Development	C	Russia	Global, USA, Europe

Prior to the meeting, each interviewee received a written request, outlining the purpose of the research project, results achieved to date, interview structure, key questions and confidentiality terms. To ensure internal validity, the author conducted all interviews using the same tools and sets of questions, although

the author asked interviewees to feel free to expand on any topic they find relevant or skip those where they don't feel to be competent enough (see question list and interview debrief in the Appendix). The author requested each interviewee to allocate at least one hour for a meeting, but did not place restrictions on the interview duration. Interview length will depend entirely on interviewees' time limitations and the speed and relevance of discussion.

Interviewees received guarantees of confidentiality and were assured that the author would only reveal their responses to the relevant members of Cranfield University faculty and external examiners, who in turn are limited by confidentiality restrictions. Even then, interviewees' names would not be revealed.

To address the internal confidentiality implications and facilitate cooperation, the author suggested substituting in the transcribed tapes all real company names with symbols, only outlining their industry and relative size (particularly when M&A deals are mentioned). Similarly, the author substituted people's names for ethical purposes in the places describing instances such as conflict, mistakes, and controversial relationships. Whenever possible, the author conducted the interviews in English.

The author asked interviewees if they would consent to taping and further transcribing the interviews. Of the eleven cases, eight agreed to recorded interviews. The author captured responses of the other three through field notes during and immediately after an interview.

### **Pilot Interview**

Apart from the trial of the author's basic interviewing skills and approach, the author conducted the pilot interview to test the thematic structure identified in the literature review. The author modified (augmented) the structure if additional significant topics were to emerge from the pilot interview. The author selected a well-informed former employee for the pilot interview to minimise the bias related to the author's current employment status with the company.

Since the interviewee was a particularly well-informed and long-serving member of the top management team in the company of interest, the author also discussed with him the selection of other interviewees to address to the research objectives and methodology.

### **Author's Position at the Interview**

Prior to a pilot interview and three initial interviews, the author asked interviewees to disregard, to the extent possible, the author's position and experience within the company, and attempt to answer the questions as if they were asked by a stranger. However, this approach did not seem to work well in the pilot interview, as well as in many other cases. Interviewees referred to some common experiences, assumed the author's familiarity with the company's assets, strategic challenges, and sometimes explicitly referred to the author as part of the analysed structure ("participants in the strategy making process – CEO, heads of divisions, your\_department, CFO, Deputy CEO for strategy" – CG3 interview). Therefore, the author adopted a more natural approach and neither pretended to be a complete stranger to a company, nor attempted to bring into discussion his experience or point of view. The author took particular care on the latter point. He did not bring into discussion anything coming from his own work experience. Instead, the author adopted the position of a "well-informed outsider" who has completed significant research about the company from open sources and approached an interview with a good understanding of company asset structure, history and management – as much as one could derive from the open sources. The purpose of this examination was to prepare for the interview and subsequent analysis in order to have a productive discussion with interviewees and better understand any implicit references to the past and present corporate circumstances.

### **Documentary Evidence**

In order to preserve objectivity, the author looked upon himself as an outsider rather than as a company employee having privileged access to internal materials. Therefore, he limited the documentary search to public documents

only. This started with an investigation of available online sources on the company website. As a next step, the author contacted the company PR department and requested, and where available, received older documents (dating from approximately 1999 to 2006) that were no longer available at the current version of the website.

The author used the following sources of data about the company before the interviews began:

- Current company website – press releases, “company history” and “company structure and assets” sections
- An old version of the company website (as of 30.12.2006) – “company history” and “structure” sections
- Selected external presentations: Severstal Eurobond offering March-April 2004, Severstal-Arcelor Investor Day Presentation 22.06.2006, IPO Analyst Presentation 25.09.2006, Severstal Corporate Presentation, February 2007.
- Annual reports 2005-07 (2008 report was not published)

The identified characteristics included (where possible, for the period 2000-2009):

- Assets composition (key business units, geographies and products)
- Key historical corporate events (acquisitions, disposals, changes in management structure or shareholders composition)
- Communicated strategy content, including strengths and weaknesses assessment and reasoning behind major strategic steps
- Key financial and operational performance indicators

### **External Environment Data**

In addition, the author collected key quantitative data about the external environment, both national (Russia) and industrial (steel, iron ore and coking

coal industries) in order to facilitate better understanding of the company's external circumstances (2000-2009 and earlier periods for reference):

- Annual GDP growth, dollar-nominated GDP per head and annual inflation in Russia
- Global prices and production volumes for steel, iron ore and coking coal industries
- Consolidated profits of the global steel industry

During the interview, the author only brought into discussion those points which he could learn from these open sources (e.g. "What about this or that business unit"? "Why did you decide to acquire abroad in 2004"?). In line with the adaptive nature of an in-depth semi-structured interview method, the author also asked interviewees' opinions about the most important concepts/propositions derived from the previous interviews, in case an interviewee did not address them on his own initiative. At the same time, the author ensured that he broadly asked the same set of questions at each interview to ensure compatibility and structuring of the data set.

## **Data Analysis**

### **Interview Analysis**

As a first step, the author translated all recorded interviews that he conducted in Russian into English. He then carefully reviewed every interview and noted all references to the topic of research interest in the text at the end of a corresponding sentence. He could then make a brief comment on the topic and glean a potential "takeaway" from this quote which he then inserted in the note on the document's margins. The author identified all themes/ideas relevant to the research regardless of whether they were important. The author duly noted and captured every piece of text in the transcribed interviews and interview notes in the analysis stage to ensure accurate reflection of participants' views exactly as they expressed them in the interviews.

Once the author carefully read the interview and identified relevant references, the author captured, described and organised them around key themes in a spreadsheet. An Excel document was created with a separate sheet devoted to each interview (abbreviated after an interviewee's codename). First, a quote was inserted. Then, "comments and analysis" was added to each quote – comments made on the document's margin concerning potential relevance and underlying meaning of the expressed idea. Once a quote was identified and analyzed in this way, it became clear which idea, or "concept" could be inferred from it – essentially, a "concept" was a brief conclusion, essence of an idea expressed in the interview. The author later used "concepts" as a prime unit of analysis at the synthesis stage. These were instrumental in arriving at overall conclusions from the interviews (see illustrative interview analysis in Appendix 3).

All concepts were grouped into major "topics" - the high-level thematic blocks defining the nature of strategy process and corporate centre involvement. These topics emerged from the literature review and were used to construct interview questions and ensure comprehensive coverage of all major elements identified as important in the earlier academic studies (see "interview questions" in the Appendix). Using the "literature topics" as a unit of consolidation was useful since it allowed to structure the data analysis around key literature "themes" and therefore facilitated identification of potential new perspectives adding to the previous research. The allocation of interviewees' views and positions within a particular thematic structure allowed to make sense and effectively interpret the participants' stories (Czarniawska and Gagliardi, 2003).

### **Synthesis of Conclusions**

Once all interviews were analyzed, and data from each interview were duly systematised in the spreadsheet, the synthesis stage began. The purpose of this stage was to combine the individual interview insights into comprehensive conclusions for the case as a whole. As part of the synthesis process, the author identified areas of consensus and divergence which can arguably serve as a guide to the relative strength and validity of the case conclusions.

The author synthesised the material on the principle of bringing together contrasting and comparing “concepts” that addressed the same narrow question. The author created a “summary” sheet to reflect the overall conclusions and demonstrate which interviews mentioned and supported or rejected these conclusions. The author structured the concepts around the same topics as in the interview analysis. One of the purposes of constructing this database, and carefully describing each step in the analysis and synthesis stage was to ensure a high level of reliability of the study as one can easily replicate the same process in a different setting. Clearly explaining the step-by-step analysis to support the conclusions is also important for the study validity (Yin, 1994).

The process started with the first interview (the pilot CGUE1 was selected as a starting point due to its comprehensiveness), a certain concept was selected and then every one of the remaining interviews’ analysis was searched for a similar concept addressing similar research question. Once all interviews were looked through, a prevailing thought/conclusion was becoming apparent . The author then formulated and placed this in the “conclusions” column. This approach is in line with the categorisation algorithm suggested by Spiggle (1994). In case an interview supported the “overall” conclusion, the author assigned it a “+” sign. If an interviewee expressed a contrarian view, the author assigned it a “-”. In case there was no mentioning of a particular concept, the author left it blank. This data organisation technique is similar to the “charting” approach that Ritchie and Spencer (2002) describe. It allows the researcher to capture conflicting perspectives expressed about the themes in question and, therefore, helps to capture the complexity of a theme and organisational environment. This richness is important to the validity from the “critical realist” standpoint which asks the researcher to ensure that he adequately reflects all views and perspectives in the analysis.

This simple approach allowed the author to highlight and, to a certain extent, assess quantitatively two important considerations about the internal validity of a certain concept:

- 1) Is the concept universally recognised (observed) within the company? The higher the number of interviews that mentioned it, the stronger the concept's recognition, and, arguably, the more accurately it reflects organisational phenomenon.
- 2) The degree of consensus about a particular concept within the company. The higher the level of coherence between different interviews, i.e. the smaller the percentage of contrarian perspectives, the more accurately this concept reflects the organisational phenomenon in question.

Naturally, we should treat this “quantitative” assessment with a high degree of caution. The number of interviews is too small to make any meaningful quantitative conclusions, whilst objectivity of respondents' judgements can be influenced by personal and social constraints, so that the same phenomenon can be interpreted differently by people with different backgrounds, experiences or places in organisational structure and hierarchy. Nevertheless, one can interpret the strong “showing” of a particular concept in many interviews as a certain guide to a relative “strength” of this concept.

The author selected a number of the most characteristic and well-articulated quotes to illustrate the conclusions. He also added comments and analysis informing the concepts to illustrate the thinking process behind the final conclusions.

In cases when the author identified and substantiated clearly expressed contrarian perspectives, he mentioned them in the conclusions as exceptions/outliers, informing the discussion and highlighting underlying complexity.

The systematisation process required a “creative leap” as the author identified similar concepts from different interviews and “merged” them together to form an overarching conclusion. It was important to grasp commonalities among concepts, but also not to miss important particularities and details, combine analysis and conclusions from every interview to arrive at an overall conclusion.

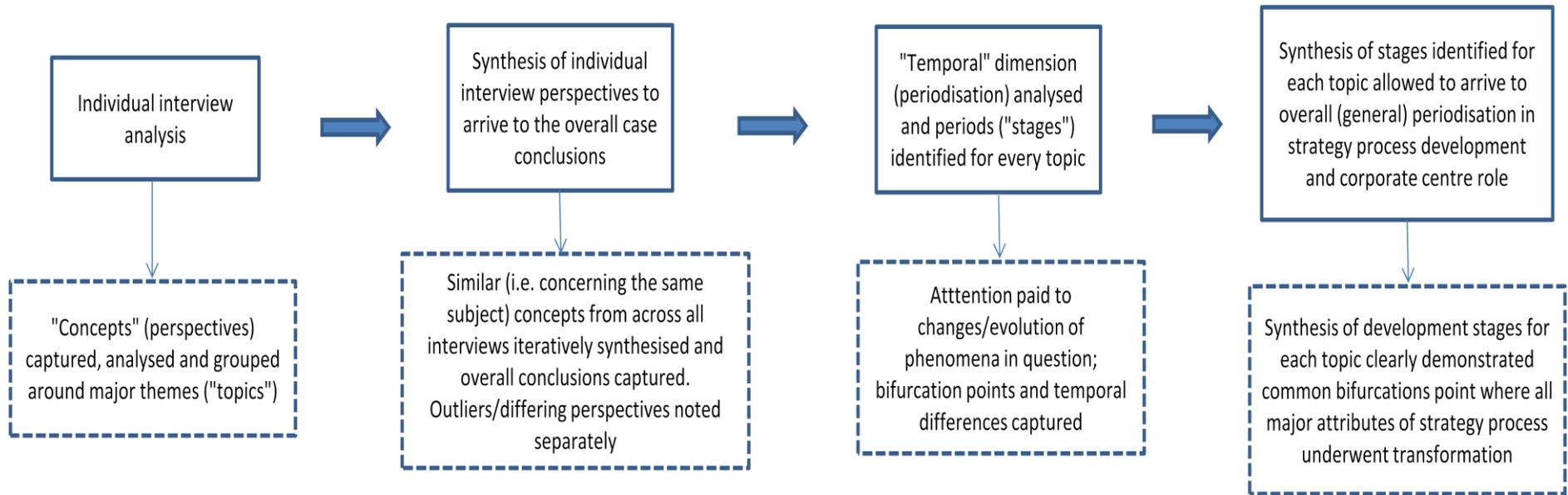
This process was not particularly difficult given the deep familiarity with the texts and fresh recollections about the interviews.

Once the author identified and described the overarching conclusions, they were further grouped into more general themes (topics), similarly to the groupings he made when analysing the individual interviews.

### **Capturing Temporal Dimensions**

We can broadly structure further analysis of available conclusions around two dimensions. The first is the “content” dimension which asks questions such as how has the company organised the strategy process, who participated in it, and what was the role of corporate centre. A careful look at the conclusions highlights the importance of another critical dimension – temporal development, i.e. change in content characteristics over time. This distinction is absolutely necessary to capture the complexity of the strategy process phenomena in line with the demand for time-embeddedness analysis and longitudinal nature of strategy process research (Pettigrew, 1992). The configurational approach to strategy process research (from Mintzberg et al, 1998) calls for identification of specific periods and capturing configurations of process characteristics for every period. Luckily, the richness of data and attention to the temporal aspects at the interview stage facilitated delineation of periods for every major thematic category (“topic”). Careful investigation of conclusions made within every topic allowed the author to 1) identify differences between observed phenomena in different periods, 2) where possible, identify bifurcation points separating these periods and 3) suggest underlying reasons behind this observed evolution. Table 2 summarises the “content” conclusions and initial periodisation per topic. Once the author identified periods within the major topic, the next and final synthesis stage included application of these periods to the company strategy process as a whole (Table 3). Figure 9 summarises the overall data analysis and synthesis process.

**Figure 9. Data analysis and synthesis process**



## **Interview Analysis: Summary of Conclusions**

During the first stage of the research (January-April 2010), 11 in-depth interviews were conducted, in line with the original interview plan. This volume of interviews is considered to be sufficient since it 1) helped to achieve a rather broad representation of different functions and regions – to be discussed in the section on reliability and 2) brought the author to the point when the interviewees, however different their background was, started to repeat themselves – virtually no new concepts were appearing in the new interviews in addition to what was already brought in by the previous ones. This state has highlighted the possibility of reaching a sufficient “saturation point” in the interview-based research which demonstrates that the author had covered a sufficient number of perspectives. This is in line with the demand of the critical realist’s epistemological position that there is a sufficiently broad representation of viewpoints (Easterby-Smith et al, 2002), but the addition of data does not seem to allow us to enrich our conclusions in any major way. Another demand of critical realism is that our knowledge of the reality is subject to social conditioning and we have to consider the social context very carefully (Bhaskar, 1989) – will be addressed in the discussion stage.

Elaborated conclusions from the data analysis are summarized in Tables 22 and 23.

**Table 22. Summary of conclusions, including breakdown by stages**

<b>Topic</b> (Thematic Category)	<b>Conclusions Informing the Research Questions</b>
<b>Strategy Making Team</b>	<p><b>Stage I.</b></p> <ul style="list-style-type: none"> <li>- Entrepreneurial "partnership" – five top managers and partners making all important decisions among themselves                             <ul style="list-style-type: none"> <li>o Taking care of all assets, regardless of the industry</li> <li>o Three out of five partners perform roles of corporate managers and business unit leaders at the same time</li> <li>o Significant input, but not overall a decisive role of “Deputy CEO for Strategy”, ad-hoc and unstructured decision making</li> <li>o Very small strategy staff at the corporate centre, playing a minor support role</li> </ul> </li> <li>- Main shareholder ultimately making all final decisions                             <ul style="list-style-type: none"> <li>o However, genuine or at least formal consensus was sought and, in fact, required to make a final decision</li> </ul> </li> <li>- "Overstretch" and “loss of drive” by the small top management team as the company became bigger and made the old team unable to cope with management challenges</li> </ul> <p><b>Stage II.</b></p> <ul style="list-style-type: none"> <li>- Decision making is led by the main shareholder                             <ul style="list-style-type: none"> <li>o Management board consisting of approximately 10 members involved in decision making at the corporate level</li> <li>o Separation of decision making structure, including decision making teams, for the “core” – Severstal proper - and other businesses: emergence of de-facto two corporate centres, with some people working in two simultaneously</li> </ul> </li> </ul>

	<p><b>Strategy-making teams at business units:</b></p> <ul style="list-style-type: none"><li>- Decision making was concentrated among a very small circle of top managers<ul style="list-style-type: none"><li>o Including BU CEO, Director for Strategy (where it existed), CFO, and some other key officers (such as Sales Director and Technical Director in one case)</li><li>o In Cherepovetz, overseas steel subsidiaries and in automotive business, in Stage I strategy process was led by a corresponding “partner”</li><li>o Included a minority shareholder in one subsidiary</li></ul></li></ul>
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<p><b>Strategic Decision Making Process (Nature of)</b></p>	<ul style="list-style-type: none"> <li>- Ad-hoc, opportunistic approach to strategic decisions, especially in Stage I. <ul style="list-style-type: none"> <li>o Concerning, first of all, M&amp;A decisions at both Stage I and II</li> <li>o CAPEX decisions - case-by-case resource allocation process in Stage I; more structured process of strategic discussions with BUs in Stage 2.</li> <li>o For non-core assets, very opportunistic approach to acquisition with minimum formal analysis and very rapid decision making</li> </ul> </li>   <li>- Unstructured, informal strategic decision making process at Stage I: <ul style="list-style-type: none"> <li>o <i>However, one BU officer commented that Cherepovetz BU has always had a rather well-structured and formalised strategy (business plan) review process</i></li> </ul> </li>   <li>- More formal, relatively more structured process of “strategy/strategic business plan review” with business units in Stage II</li>   <li>- Absence of formal or informal shared vision and well-defined corporate strategic objectives for the company</li>   <li>- Expansion and diversification driven by: <ul style="list-style-type: none"> <li>o Perceived management capabilities (turnaround of troubled assets), especially characteristic for Stage II</li> <li>o Pressure from “cheap money” and desire to grow at Stage II</li> </ul> </li>   <li>- Long time horizon, long-term orientation (10 years in investment planning and 5 years in M&amp;A analysis); varying (2-5 years) expected payback period</li> </ul>
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**Role of the Corporate Centre**

**Stage I.**

- All important decisions were made by the “partnership” – de-facto “5-people-strong” corporate centre
  - o Very small corporate support team
  - o Beyond the top circle, very little/no corporate influence, no “corporate machine”; established strategy-related routines or traditions
  
- High role of CEO, his involvement, personal traits and leadership is repeatedly emphasised as the ultimate factor behind strategic decision making
  - o Search for consensus among the decision making team by CEO as a prerequisite to decision making
  
- Very high discretion and role of Business Units in creating own development plans and strategic alternatives
  - o Main shareholder involved in review/approval process only
  - o No ex-ante financial or strategic goals set by the corporate centre
  - o Very informal review/approval process
  
- At the same time, typically the shareholder went into great details in his discussions with business units (concerning not only strategic, but also, and first of all, operational performance). The involvement was particularly intensive at the “turnaround” stage at Cherepovetz and other Russian assets.

Transition to Stage II:

- Formal separation of corporate management for “core” – Severstal proper - and “non-core” assets (all others)
  
- Push for a more decisive role of the corporate centre; resistance of business units to centralisation
  
- Corporate standards as a means of ensuring best practices dissemination and conformity
  - o Corporate University was seen as a means to ensure common standards, but their adaptation was, at best, very slow

<b>Role of the External Environment</b>	<ul style="list-style-type: none"> <li>- Typically “Russian” external environment was not considered an important factor in shaping strategic decisions <ul style="list-style-type: none"> <li>o Some influence on intention to invest abroad</li> <li>o High volatility did not hinder long-term focus of planning</li> </ul> </li>   <li>- Highly favourable external industrial and financial environment (i.e. high profits from steel and mining, cheap credit at the financial markets), pressure to “find deals for cash” was seen as a cause for opportunistic, intuitive M&amp;A decisions abroad conducted without detailed analysis and stress-testing as every steel-related investment seemed to be creating value</li>   <li>- Certain (rather limited) government influence on strategic decisions in Russia, in the form of non-binding “suggestions” or as a “background” thought about company priorities.</li> </ul>
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**Table 23. Overall periodisation of strategy process development and corporate centre role**  
*(Inferred from the periods reflected for every major thematic construct).*

<b>Periods in Company Development 2000-2009</b>	<b>Summary of Strategy Process Attributes and Corporate Centre Role(s)</b>
<b><i>Transition to Stage I: Diversification [2000-2002]</i></b>	<ul style="list-style-type: none"> <li>- Initially, all acquisitions, including diversification-related, were made on the balance of the Cherepovetz steel plant – Cherepovetz and its top team were the “corporate centre” for all the assets</li>   <li>- In 2002, Severstal-Group was formally established as a “corporate centre” and the top team of five partners transferred from Cherepovetz to the new company Severstal Group remained very compact and lean</li> </ul>
<b>Stage I – Partnership [2002-mid-2006]</b>	<ul style="list-style-type: none"> <li>- All strategic decisions are made by the five “partners” with the main shareholder making the final decision</li>   <li>- Very entrepreneurial, ad-hoc and quick decision-making</li> </ul>

	<ul style="list-style-type: none"> <li>- Development initiatives coming mostly bottom-up from business units in their respective fields (their industry, their region...), corporate centre focused mostly on external growth opportunities, especially on steel acquisitions abroad and broad diversification in Russia</li> <li>- Corporate centre only involved in review and approval of business units' plans <ul style="list-style-type: none"> <li>o CEO going into deep details during the review; Deputy Director General for Strategy and First Deputy Director are mentioned as those also involved in strategic discussions</li> <li>o Combination of corporate roles and roles as heads of business units for the members of "partnership"</li> </ul> </li> <li>- Relatively unstructured and ad-hoc process of strategic discussions with business units (exception: Cherepovetz), operational and strategic discussions become clearly separated only by the end of the period</li> </ul>
<p><b>Transition to Stage II: Professionalisation [Mid 2006-mid 2006]</b></p>	<p>Previous management system started being perceived as ineffective because of two basic reasons:</p> <ul style="list-style-type: none"> <li>- Failure to succeed in the merger bid for a European major company, Arcelor, demonstrated weakness of loose, unstructured, entrepreneurially-managed company <ul style="list-style-type: none"> <li>o No consolidated financials</li> <li>o No common plans or visible strategy</li> <li>o No integrated assets</li> </ul> </li> <li>- Failure of the "partnership" system to work effectively with a much bigger and more complex company <ul style="list-style-type: none"> <li>o Too big for five people to comprehend all details and make all strategic decisions</li> <li>o Impossible to cope with management of business units and corporate responsibilities at the same time (for the three of five partners)</li> <li>o Desire of former partners to change their position/status ("loss of drive" about their former role)</li> </ul> </li> </ul> <p>To respond to these challenges, over the latter part of 2006-early 2007, the main shareholder has completely reorganised the management system and made the company public</p>

	through an IPO in November 2006.
<b>Stage II: Corporation</b> [late 2006-late 2008/2009]	<ul style="list-style-type: none"> <li>- CEO still playing ultimate role in strategic decision making <ul style="list-style-type: none"> <li>o Professional “salaried” managers – members of the formal Management Board - came up as a certain “substitution” for the former partnership system. However, it was perceived that they only played an advisory role, and the CEO made all decisions by himself.</li> </ul> </li> <li>- Decision making process remains rather ad-hoc and opportunistic for M&amp;A deals, but becomes somewhat more formalised for CAPEX (internal growth) decisions.</li> <li>- Perceived higher “intervention” from the corporate centre, but strategy process is still very much bottom-up <ul style="list-style-type: none"> <li>o Still no financial or strategic goals set from the centre</li> <li>o CEO is about the only “constant” participant in the strategy review process; little apparent role of other senior corporate managers (unlike from some of the partners in Stage I)</li> <li>o However, strategic business plan now functions throughout all business units and review process becomes relatively more formal and structured.</li> </ul> </li> </ul>
<b>Crisis-driven Transition to Stage III Centralisation</b> [late 2008-2009]	<ul style="list-style-type: none"> <li>- Concrete financial goals and strategic KPIs set</li> <li>- Corporate portfolio planning/strategy introduced</li> <li>- More perceived involvement of corporate centre (though not universally recognised)</li> </ul>

## **DISCUSSION**

The first part of the empirical investigation identified the key characteristics of strategy process and explored the evolving role of the corporate centre in the

context of a big Russian diversified corporation. The author conducted structured and iterative analysis of the interviews and synthesised the exploration of the individual interviews to overall conclusions along four crucial dimensions determined at the literature review stage:

- Strategy making team
- Nature of strategy making process
- Centralisation and role of the corporate centre in strategy making
- Role of external environment in shaping the strategy process

The research also highlighted distinct periods in the evolution of strategy process characteristics and through further synthesis identified three distinct periods and three transition stages in the evolution of strategy process and the corporate centre's role.

This section will discuss the conclusions of interview analysis and attempt to summarise them into distinct concepts relating to the previous literature findings and characterise the distinctiveness of strategy process and the corporate centre role in the particular context (see Appendix 4 for a detailed description of key takeaways).

One of the most defining characteristics of strategy process, clearly reflected and emphasised in all interviews was the crucial **importance of the main shareholder/CEO leadership and personal traits** in strategy process:

- He is the one who finally makes all strategic decisions and has a critical personal influence on strategy process:

BUE1: "CEO personally was the key driver and an absolute decision-maker in strategy process". CG3: "CEO was constantly involved in decision-making and was the final decision-maker in all things, went into much details. Right now we have very similar system, as in early 2000's". BUG1: "I think in our organisation our CEO personality has very significant influence on process... on setting-up priorities for organisation... where we

should develop geographically, etc, that pretty much depends on the position of our leader and CEO."

- Personal involvement in all significant strategic decisions should be evaluated in the context of: 1) Large-scale (\$10-20 bln. in revenue, depending on a year) "core" business; 2) Multiple BUs across three macro regions (Russia/CIS, Europe, USA), complex value chain - from coal mines to end-product for individual customers - and relatively complex technology; 3) Stakes (mostly majority) in 30+ "non-core" companies, ranging from companies with over \$1 bln. in revenues to small venture firms and from biotechnology industry to tourism, all demanding shareholder's personal attention:

CG1: "The level of CEO's participation in decision-making was still different in other cases and dependent on the level of ambition (for example, a popular benchmark was whether a business can achieve \$1 bln. value creation)... As far as the key steel and mining business was concerned, the CEO's involvement was usually deeper and focused on details".

- In the "Partnership" stage, decisions were apparently made by the small team of five partners, but still with the clear leadership of the CEO/main shareholder (see Appendix 4):

CG1: "Before 2006, the 5 people were making all the important decisions - Mordashov, Shvetzov, Makhov, Noskov and Kruchinin, with the leadership of the key shareholder. However, the shareholder's leadership is emphasized also here, as well as his inclination to seek for demonstrated "consensus" in the team, essentially achieving the team's formal alignment behind his visions". CG6: "...he [CEO] always worked until they had a unite with his opinion. He was not at ease with taking even a majority decision and especially minority decisions were always on him. So he would always argue as long as there would be a bridge to the other side's opinion. And the others would sooner or later give up".

- CEO leadership in strategic changes (e.g. radical overwhelming the management team and management structure in 2006, seen as his personal initiative):

CGUE1: “[In 2006] Severstal became public company, one of the reasons is because CEO was looking for the way to replace the former partnership team...System changed drastically, because the CEO decided to change balance introducing a lot of functional people. It was his idea somehow that, expressed by himself, that we no longer need entrepreneurs or leaders, we now do need managers, because we don’t need so much of initiative, we must squeeze costs. .. I believe that the cause of it was that the CEO made a very serious attempt to change the balance of power, to change the sort of power of five of us and introduce the power of fifteen to twenty people in the company”.

Particularities of CEO leadership:

- Very broad focus and very broad personal involvement – multitude of businesses requiring his personal involvement
- Goes deep into details – very deep at times

CG1: “As far as the key steel and mining business was concerned, the CEO’s involvement was usually deeper and focused on details”. BUR2: “Full day a lot of people were present, a lot of issues discussed: varying issues, very strategic, very big by nature and very small ones. Why we should buy his type of equipment that could cost \$1 mln, for example, in 2014 rather or 2015 and that kind of question could be discussed for two hours or something like that... on the back of a \$1 bln discussion about [total] investments”. CG6: “The task was to make money but actually a lot of the decisions of what to do, especially investment actually were made by Aleksey, [for] every major investment. He got very deep into the manifold of everyday management”.

An interesting metaphor described the CEO as a “pilot” (hands-on manager, involved in current, situation-specific, short-term decisions), rather than an “astronaut” (strategist/vision provider with a long-term horizon). This attitude also caused contradictions with the “partnership”:

CG2: “Shareholder and “triumvirate”... And sometimes to me it looks like, if you ask somebody: who are you – pilot or astronaut? It’s a different role in the strategic process... The pilot should rule airplane, he doesn’t have any horizon, huge horizon and he can see just the stuff under his plane, like trees, you know? And shareholder, from my point of

view, should be like astronaut, looking at big events and big picture. And sometimes I notices that “triumvirate” would like to be astronaut and shareholder decides to be pilot”.

- Seeks consensus among the top team in strategic decision-making, insists on “buy-in” and apparent consensus even if people are unconvinced:

CG5: “The key shareholder made all final decisions, but he was looking for a common consensus, essentially, no decision was made if there was no real, or apparent consensus”.

CG6: “Well, actually I don’t remember any case in the early time when Aleksey would have exquisitely gone against the opinion of the group. It was never occurred, so if you said this, this, this, actually he always worked until they had a unite with his opinion... he always worked until they had a unite with his opinion. He was not at ease with taking even a majority decision and especially minority decisions were always on him. So he would always argue as long as there would be a bridge to the other side’s opinion. And the others would sooner or later give up”.

- Decision to acquire and depth of involvement is highly dependent on personal interest in a particular business/industry, as well as on (loosely defined) opportunity to create “huge” value:

CG1: “As far as the management of the acquired assets was concerned, that was very different. In some cases the key shareholder did not spend any time at all (in case the investment was too small and not interesting to him). Then the CFO and Deputy CEO for Legal looked after the financial and legal sides of the businesses, made corresponding decisions, including investment approval. The level of CEO’s participation in decision-making was still different in other cases and dependent on the level of ambition (for example, a popular benchmark was whether a business can achieve \$1 bln. value creation) and personal interest/perceived level of expertise of the “investment committee” members”.

## **Corporate Centre Involvement, Function and the Level of Centralisation**

An analysis of the top management team at the centre demonstrated the importance of personal traits and leadership of the CEO/shareholder and, at the same time, a high role of a very small, but powerful corporate centre team:

BUE1. "The top management of the Group of companies (without much differentiation between steel&mining and other businesses at the initial stages) was represented by the Management Board of 5 people".

It is particularly remarkable that the corporate centre as such in the first period until 2006 remained extremely small: essentially, the five top managers, including the CEO, making all decisions and a small support staff playing a minor role, as represented in the example of strategy and M&A function:

CG1: I quit to the group and then I created a team for mergers and acquisitions and a small team for strategy ... mainly playing a small role, frankly speaking, mainly playing a role in evaluating the M&As." CG3: "We, [M&A] project managers, have limited capability to influence those decisions. The M&A committee is headed by the CEO. So you have to persuade him to make any decision."

Note that this group made all strategic decisions, with the ultimate decisions made, as we have discussed, by the main shareholder. Despite that this small centre was ultimately involved in making final decisions, a more careful look at the process reveals that it remained very non-intrusive from the business units' perspective, particularly in Stage I. Essentially, for this period we can observe a rather consistent picture of decentralised organisation with much discretion of the business units' leaders in initiating strategic decisions like CAPEX, investments and external development (see Appendix 4). A lean corporate centre was involved in reviewing and occasionally challenging the business plans. Review of business plans was the main management instrument as far as the current assets were concerned:

BUE1: "In terms of the corporate centre influence, it was always very small. The main activity was around the review of business plans by the CEO. The participation of corporate centre in strategy process was very limited, not even financial targeting. Only in one case over the 2006-2010 we were asked to increase the EBITDA plan slightly, in other cases we were taking our internally calculated figures to the discussion and received approval." CG6: "My feeling is that it was more initiatives and thinking coming from below and the corporate centre decided

whether it had sense or not”.CG3: "I think that no one saw the need for a big corporate strategic machine”.

Note that managers of key business units were also the members of the corporate top team: Anatoly Kruchinin, CEO of the flagship “cash cow” Cherepovetz steel mill was one of the five partners. Vadim Shvetzov was “responsible” for the then-second largest business, Severstal Auto, and the Chief Strategist, Vadim Makhov, had responsibility for overseas steel assets once they were acquired. As discussed earlier, in reality, the level of the corporate centre’s involvement was different depending, among other things, on the size of the business and the CEO’s personal interests:

CG5: “The real situation varied – for example, Severstal-Trans was very self-sufficient and standalone, making tactical decisions on its own and disregarding any kind of strategy. Severstal-Auto, run by Shvetzov, also was very self-sufficient. There were also other businesses where the corporate centre, or, I better say, Mr Mordashov’s involvement was much deeper – for example, CherMK, but CherMK was a very closed, inward-looking, “Soviet” enterprise which was dealing very little with other members of the corporate team”.

## **The Case for Decentralisation**

In summary, in the first half of the 2000s, the “partnership” period, we observe a very bottom-up strategy process. Strategic initiative is fully in the hands of BU management. The centre is involved in plans and performance review only, with very few strategic initiatives coming from the it. This is in line with Grant’s (2005) study of strategy process of major oil companies’ decentralised strategy process which gave much more discretion to business units as their external environment became more volatile in the 1990s. The early 2000s was still a time of high uncertainty in Russia and the growth of the steel industry had only started gaining its pace (see section on external environment in Appendix 7).

On the surface, that would make a classic example of a “hands-off”, returns-focused corporate centre as in the “Financial Control” configuration by Goold and Campbell (1987) or a “Control” configuration by Ward et al (2005). The

crucial difference, however, is that in the Severstal case the centre is not setting any financial goals or return requirements. The centre discusses these issues with BUs on an ad-hoc basis and bases them on discussions of the BU's plans, not externally-imposed benchmarks.

BUR1: "After the crisis started we received a task - Russian steel release \$ 500 mln from a cashflow.... This was the first time, never took place before 2009". CG6: "Strategy formulation, strategy development was a very informal process... Nor even formalize how much money which part would return etc., but do we think that it was the kind business we could create value or not. I think that was the main kind of thinking". CG2: "There was frankly speaking – no corporate level.... Other people from divisions had their ideas, tried to implement their initiatives... Yes, and the key principle was to contact with business unit level and suggest them. No budget, no planning. Just visit them and see – ok, they are working great".

Apparently, we are observing the case of a rather "radical" decentralisation.

### **The Case for the Importance of Central Leadership**

Of course, the reality was much more complex since all decisions must finally receive approval by a small circle of top managers and ultimately the main shareholder. Perhaps even more importantly, freedom in ideas generation comes along with a highest level of granular scrutiny of these ideas and business plans by the CEO personally. The nature and style of shareholder's involvement clearly differentiates this approach from the abovementioned "financial control"-type configurations. A very high level of the CEO's personal involvement in details, including not only strategic, but also operational and tactical questions, defines the nature of decision-making and approval process:

BUR1: "Well, you know he [CEO] is a kind of a person that can talk both about very in depth issues and very vogue ones during the same presentation. And therefore ... the [presenting] director could easily bring some specialists responsible for the calculations because he never knew whether question will be asked or not... because of this we had a very good advantage because ... he could find out maybe some small opportunities. But at the same time the negative to that was that it was very unregulated". BUR2: "A.A.Mordashov went into much details during each meeting I participated, Russian Steel directors also discuss those details.

Managers from corporate centre also participate in those meetings from time to time, and ask some questions. It gives me impression, that they role is surveillance". CGUE1: "[In Cherepovetz] we had meetings once a month on] implementation of monthly budget, top program, budgeting program, introduction of purchasing initiatives, sales, blah-blah-blah. So all time was filled in with new initiatives projects. ... we asked CEO, functional director, deputy director, chief of department, deputy chief of department, head of bureau, foremen... so, it's a lot of levels. Now, we spoke directly to the foremen level. Drilling down."

## **Synthesis**

To summarise, the role of the corporate centre in its relationships with business units was almost dialectical. On the one hand, we observe a very decentralised strategy process with strategic initiatives coming bottom-up in a rather unstructured, ad-hoc manner. The corporate centre is not setting any ex-ante goals, targets or strategic priorities (that is, no "corporate strategy"), but rather relies on the business units' management for ideas and strategic projects generation. On the other hand, the centre and its leader control the decision making by approving all major strategic decisions. Moreover, evidence suggests that in strategic discussions, the CEO/main shareholder may go very deep into operational details demonstrating very fine granularity of the strategic discussion.

We can describe the resulting picture as "**leader-focused decentralisation**". By decentralisation we mean primarily decentralisation of ideas generation and the unconstrained nature of the business units' strategic thinking, not limited by any financial or strategic frameworks. Essentially, we are talking about the absence of a unifying "strategy" coming from the corporate centre. However, the crucial role of a leader is maintained in this strategy process configuration since he (and to an extent his "partners", who combined the roles on corporate leaders and business unit managers) were personally involved in the review and approval process for all major decisions and was able and willing to maintain strategic dialogue at a very fine level of granularity. Strategy was almost "substituted" by a person, by the strong personal involvement of the CEO/shareholder and his deep and all-encompassing engagement with his

business unit management teams in discussing details of their plans and operations. The “corporate centre” existing in this configuration is very powerful, but also extremely small, lean and non-intrusive. The centre expects and encourages “local” initiative.

This is a phenomenon which arguably lies somewhat outside of the existing frameworks of the corporate centre’s role in strategy process (Goold and Campbell, 1987; Ward et al, 2005) and therefore deserves a more careful exploration.

One possible rationalisation for this phenomenon might be that this kind of approach allowed the main shareholder 1) to maintain tight control over what’s going on in the company through personal involvement and the ability to ask questions even about the slightest details whilst 2) keeping the corporate centre as small and low-cost as possible and maintaining strategic flexibility through self-confident business units unconstrained by corporate bureaucracy (even in its lightest form of “target-setting” financial control). Business units thus have high discretion in how to deal with their internal and external development plans. This implies a basic choice of not having a corporate strategy or constraining frameworks, effectively absence of “corporate strategy”:

CG5: “I approached the main shareholder with a question – how can we position this group to the market, how can we explain the strategy behind it? But there was never an answer to it, in fact, he was not interested in explaining the strategic logic. “We live in a very fast-changing world, so why do we need a strategy if the market is changing so quickly?””.

This hypothesis would be in line with the premise of other studies in the emerging market context which highlighted the importance of *strategic flexibility* in the fast changing world awash with unexpected risks and opportunities (Uhlenbruck et al, 2003). Existing theoretical frameworks were based on Western business practices and external context, thus may not have captured the “emerging-markets” phenomenon fully.

Of course, the “leader-focused decentralisation” also requires an extremely high level of time and effort commitment on behalf of the CEO/main shareholder and

other members of the small corporate team. Borrowing the metaphor from one of the interviews, he was acting in a very time-consuming role of a *“pilot”* who had to steer the wheel every second of the flight. Alternative to this is arguably a more natural (for a business owner) role of an *“astronaut”* who has a very wide horizon, but doesn't have to be involved in “operational details” once dispatched for the long journey from the Earth to its orbit.

Another important part of “leader-focused decentralisation” is a very lean and non-intrusive “corporate centre” with corporate bureaucracy minimised to the lowest possible level. Effectively, we are talking about a “blurred” distinction between corporate and business strategies since both the CEO and most of the other de facto top team members combined business unit management with their corporate roles. Here, of course, lie the seeds of the system's eventual destruction. As the company rapidly grew in size and complexity, team members became naturally overstretched:

CGUE1: "Because the meetings with Moscow headquarters were such that I could fly to US only for three days than I must return back than I must fly to Italy, fly to Cherepovets, do something for Corporate University, meet with banks for M&A meeting... so I was a listener and not the active leader, not the champion in this case. And it seems this is what happened with many of us. So I think that was the problem of the size and the problem of the management model..."

Also, such a decentralized system could not respond to the increasing demand for transparency and openness to the outside world (see the section on the developments external environment), which became particularly evident after the Arcelor case:

CG5: “The reason for this change [management system and top team overhaul] – the Arcelor story, which demonstrated the deficiencies of the former system: The steel and mining businesses were not consolidated, not an integrated company from management standpoint, no unifying strategy, formal plans, etc”. CG1: “The transfer from “partnership” to the wider decision-making team was driven by 1) loss of “drive” by many members of the partnership, divergence of interests between them and the key shareholder 2) necessity to consolidate steel and mining business and separate it from management point of view after the Arcelor

case and IPO - it was not possible to manage all [i.e. both steel-related and other] assets from one centre any more”.

The CEO became less satisfied with the old, ad-hoc and decentralised management system and its transformation began:

CG5: "After Arcelor the management structure was completely overturned – the partnership of commonly-minded people was fully dissolved, and the new team of “salaried” managers has taken over." CGUE1: “To make it more clear, before January 2006 any decision of the group was ...by one of five of us. Now, system changed drastically, because the CEO decided to change balance introducing a lot of functional people. It was his idea somehow that, expressed by himself, that we no longer need entrepreneurs or leaders, we now do need managers, because we don’t need so much of initiative, we must squeeze costs. .. I believe that the cause of it was that the CEO made a very serious attempt to change the balance of power, to change the sort of power of five of us and introduce the power of fifteen to twenty people in the company”.

However, the system appears to be very effective in securing profitable and rapid growth, as demonstrated by the corporate history in 2000-2006. Given the size and diversity of the holding, the implied level of commitment required nontrivial efforts on behalf of the whole top team and CEO in particular. This lends support to an argument that the owners of privatised companies are committed to long-term growth and development rather than to short-term profit skimming and quick financial rewards.

### **Nature of the Strategy Making Process**

An observed **ad-hoc, quick and opportunistic decision-making process**, as was particularly clear in Stage I, and very wide business interests (from steel to tourism) also lend support to the “strategic flexibility” argument: unconstrained and agile decision making puts rapid response before thorough analysis and allows to catch opportunities very quickly (see Appendix 4). One of the interviewees said it directly:

CG6: “It was very much ad hoc process receiving opportunity and basically making decisions and whether to go for it or not... In the end it was very much like emergent markets, that you

rather take or don't take opportunities which you come across rather than your structure formalized process... Not even formalize how much money which part would return, etc."

There were however indications that the centre formulated some priorities, at least as far external expansion was concerned. However, the centre formulated these priorities in fairly general terms and they changed quickly, so the overall framework did not constrain opportunities:

CG4: "We had a clear understanding of why we want to be in North America, we were considering coming into China, but after time we finally decided to proceed with US. At the same time, our participation in some projects, it just was sometimes spontaneously, for example, projects with Evraz, projects in Ukraine, Turkey, and the one's related to Lucchini, Ascometal ... all our activities, were somehow vaguely spelled out, but still all were oriented to create a company that, firstly, will be a leader, stable and sustainable".

An ad-hoc, opportunistic approach to strategic decisions also served as a barrier for explicit strategy formulation (since strategy is, after all, a commitment – Mintzberg and Waters, 1985):

CG5: "The approach was very entrepreneurial and opportunistic; there was no clear strategy. From communication standpoint, there was no clear, coherent, assured strategy." CG1: "There was also relatively little analysis in the acquisition stage, little "deep research" into the businesses. Decisions were made on an intuitive, opportunistic basis. About thirty investments were made out of hundreds they looked through – and all that over a very limited period of time and with the force of three senior and a small number of more junior members of a committee. There was very little "physical" ability to comprehend such a number of diverse projects, let along the new technologies which were the basis of many projects".

This approach was reflected also in a relatively unstructured approach to strategic decision-making. However, the unstructured nature of process is not a universal phenomenon: there is evidence that, at least for a number of divisions, the strategy review process remained rather well-structured and had its established annual routines:

CG1: "The discussions of investment proposals and business plans were relatively ad-hoc and unstructured, for the non-core businesses they took place about once in a month. However,

the major Power machines (energy equipment manufacturer) company has a well-structured and approved set of business planning and strategy discussions with the key shareholder set in advance for the whole year – although, of course, there was significantly less time spent on this business compared to the steel and mining”. BUR1: “There is a number of days, especially in the first half of the year (March, and June) when we [Cherepovetz steel mill, later Russian Steel executive team] had to approve our strategic plan and strategic investment program. In June, we had to approve it at the highest level with a parent company. Then there was a kind of pause, and closer to the November-December, this process has been renewed for next year. At all meetings, one way or another, (with A. Mordashov once a month at least) we raised the question about the strategy. Formally, the first half of the year - 3-4 meeting, when we showed the presentation”.

One of possible explanations for such differences is the legacy of old, Soviet-style industrial bureaucracy in “old” enterprises like Cherepovetz Steel Mill or Power Machines. Since the company was so large and nontransparent, cultural and working routines inherited from the Soviet period remained intact for a long time.

Previous studies of conglomerates in emerging markets recognised their inclination for unconstrained, opportunistic expansion in many businesses and explained it by the intention to apply their unique capabilities (access to finance, human capital, technologies) to as wide a market as possible (Khanna & Palepu, 2000). Our findings are in line with the previous data from the Russian context: according to the studies by Carr (2007) and Gurkov (2009), dislike of formal plans and analysis and quick decision making were the dominant characteristics of strategy process in observed Russian companies. Interestingly, Gurkov (2009) also concludes that firms with the presence of a dominant decision maker (powerful CEO or dominant shareholder) tend to have less formalised processes.

In addition, a highly favourable industrial environment with ever-growing steel prices in 2004-H12008, combined with benign financial conditions (see Appendices 6 and 7 for the discussion of economic environment and steel industry context) created an impression of low investment risks and further

stimulated opportunistic decision making not backed by formal analysis and risk calculation:

CG6: "Money was so cheap that actually you needed to create opportunities for the cash rather than the cash for the opportunities there were different proposals etc. and there was a norm again, that's meant a good business, but, for example, there was quite opportunistic and then came the analyses: yes or no, they said yes. First there was the idea and then the strategy was created for the idea".

This is in line with Gurkov (2009) who notes that a low degree of competitive pressure decreases chances for adoption of a formal strategic plan by Russian companies.

Findings of this study, however, sharply contradict another observation by Carr and Gurkov – that Russian companies tend to focus only on the short-term and don't plan far into the future. This study finds that the planning horizon has always been very long-term – traditionally ten years for organic growth and five years for the analysis of M&A targets. This is strongly confirmed throughout the interviews and across all business units involved:

CGUE1: "First of all time horizon for myself was about 50 years plus in terms of taking decisions or whenever expected short term gains we expected long-term value creation. Saying 50 years meaning could be 20-30-10 whatever... the return in investment between 2000 and 2004-5 was 4 years, so if it was more than 4 years paper we did not invest, between 2000 and 2006 the return in investment gradually moved to 6-7 years".

Even in the most difficult and uncertain situation of late 2008 the planning horizon, although cut by half, still remained long-term:

CG3: "The strategic business plan, pre 2008 - it covered 10 years, post 2008 - 5 years, because [in times of financial crisis] why do we need a 10-year plan if we don't know if we will survive?"

In fact, the long-term orientation is strongly defended by interviewees as the only viable approach for the industry:

BUR1: "Classically business plan has always been for a period of 10 years, since Makhov became responsible, because classical theory suggests that the normal investment projects in

the metallurgical industry have payback period of 5-7 years. When we talk that in the steel industry a project will be recouped over a couple of years, we just lie to ourselves. In order to feel the effects of a new investment activities, the payback period of which is 5-7 years, we should plan for 10 years, because for 5 years, we will see only a negative NPV”.

We can attribute the long-term planning to the capital-intensive nature of the steel and mining industry with relatively long payback periods. It also lends support to the hypothesis about long-term orientation of the main shareholder – otherwise there would simply be no need for such long-term planning and for projects requiring a payback period from 4 to 6-7 years. Notice that the existence of the long-term planning horizon does not contradict ad-hoc decision making. Management may not have any pre-established financial and industrial goals or product-market strategies and may stay attuned to any opportunity, but once such an opportunity arrives (be it an M&A deal brought in by an investment bank or a CAPEX project suggested by a business unit), management will make sure that its financial calculations and analysis are performed on a 5- or 10-year basis. Therefore, management may think long-term without necessarily having a well-defined long-term strategy per se, as proponents of traditional “strategic planning” school (e.g. Andrews, 1971) would insist. We may describe such an approach to strategic decision making as a **“long-term focus without a long-term strategy”**. This is also one of the most interesting features of strategy process in the explored context.

### **Evolution of Strategy Process and Corporate Centre Role Over Time**

Limitations of the “Stage I” management model became evident in a few years, as the unstructured and disjointed business units failed to form a credible platform for a merger with Arcelor. This coincided with a breeding crisis in the “partnership” model. The company faced a double crisis of demotivated and exhausted top team and an inefficient organisational structure of a loose “confederation” of assets united by little more than common ownership. Severstal could partly explain the failure to secure the merger with Arcelor because of the low level of company transparency to the global market (Bouquet and Ousey, 2008). At the time, Severstal did not have an international

listing and consolidated reporting in line with international accounting standards. Moreover, it did not technically consolidate some of its steel businesses into a single entity at all. Lucchini Group, the European outlet, belonged directly to the company CEO/majority shareholder and was consolidated back to Severstal just before the London Stock Exchange IPO, in September 2006. Also, the management of all assets where the CEO/majority shareholder had a stake, was going through the privately held 'management company' Severstal Group. Severstal Group was supposed to act as a corporate centre for all businesses, from steel to automotive to plywood, each with different shareholding structures. This peculiar structure did not help to improve Severstal's steel and mining business transparency and attractiveness from the financial markets' point of view. The "price of transparency" was becoming too high, particularly in light of the fact that external financing (either debt or equity) was becoming an increasingly popular business instrument for the Russian corporates (Pappe and Galukhina, 2009; see also Appendix 7 for details on the growth of bank financing and the Russian stock market). Overseas companies, encouraged by rampant economic growth and apparent improvement in institutional characteristics, were coming into Russia via building greenfields and, increasingly, by acquiring local companies for handsome premiums (see Appendix 7). Russia, now part of the BRIC, was becoming a fashionable destination for investments, although players also recognised the risks. Now, unlike in the early 2000s, it paid to be transparent and open to investors.

What followed the Arcelor deal was the formal dissolution of partnership, the IPO of harshly consolidated steel and mining assets and attempt to establish more formal rules, in line with expectations of the market and listing requirements (see Appendix 4):

CG5: "After Arcelor the management structure was completely overturned – the partnership of commonly-minded people was fully dissolved, and the new team of "salaried" managers has taken over." CG2: "the process was to try to coordinate the strategic process and try to make a rule for strategic process, try to create the rules... after 6 months we prepared some instruction regarding strategy... Every strategic plan must be the same."

A highly decentralised management structure also meant that business units did not communicate much between themselves; hence there were few opportunities to identify synergies and common development targets:

BUE1: “There was very little communication between business units. Effectively, the only opportunity for communication were the semi-annual conferences – one in July after the “metallurgists’ day”, and one in December”.

Also importantly, corporate management of now-public “core” and “non-core” assets was formally separated.

CG1: “After the IPO of steel and mining assets and the “breakaway” of the former partnership, the management of “core” and “non-core” assets was more clearly separated. 2006 as a “milestone” year. End of partnership, separation of steel and mining assets from others”.

This process was not unequivocal and quick, and definitely not without controversy. At least, some members of the top team considered the increased influence of the corporate centre as a liability: inefficient at best, value-destroying in the worst case. Loss of entrepreneurship and self sufficiency at the business unit level was the price to pay for increased interference:

CGUE1: “For example, originally I could do all job myself, all sort of restructuring, blah-blah-blah. Then, when SNA started to generate more cash, then I should agree somehow with a person in Moscow, who has never been in the United States, whom I put in such and such position in that company. So, a person, having no ideas about American laws, applications, productivity, was a deciding person. Same thing, I should agree for investments with chief investment officer, spending money with Noskov, etc, etc. So, and gradually my function became...it moved from doing restructuring work to a function of an umbrella of protecting people in the United States and letting them go, using most of my time for negotiations with Corporate Centre people. So this is the moment strong bureaucracy appeared. So in very important things business units lose a lot of motivation, drive, entrepreneurship and leadership for change. It was replaced by authority of corporate centre”.

At the same time, another opinion was that although there was some centralisation and the corporate centre was becoming more powerful, its influence did not really increase much until the financial crisis:

BUE1: "In terms of the corporate centre influence, it was always very small. The main activity was around the review of business plans by the CEO. The participation of corporate centre in strategy process was very limited, not even financial targeting. Only in one case over the 2006-2010 we were asked to increase the EBITDA plan slightly, in other cases we were taking our internally calculated figures to the discussion and received approval".

Strategy process itself was also gaining more formality, although this is not obviously stated in all interviews. The legacy and idiosyncrasies of concrete business units played a big role:

CG6: "Division which put a really deep strategic process was Severstal Resource when they thought in which other minerals they could diversify. That was the process at the beginning and then they moved along this process, I think it was the first formalized strategy process, which we had inside the company... that was when Nicolay Zelensky came, that was in 2008, maybe it started 2007". CG1: "However, the major Power Machines (energy equipment manufacturer) company has a well-structured and approved set of business planning and strategy discussions with the key shareholder set in advance for the whole year".

The progress was arguably slower at the wider corporate level compared to the business units:

CG6: "I actually think that more or less ad hoc process for the group and also inside OAO Severstal after 2000 until last year, so until 2009 when we cannot finalize the process which has already started under Vadim in 2008, but it was actually finalized, discussed with everyone and finished in 2009. I think that is the first time that for Severstal, for the steel and mining business we could go through, we could perform a kind of strategy process, when we did say what we did want to achieve, which kind of returns we wanted to have and what do we need to do in all kind of staff."

It is interesting that rapid growth was indeed seen by some interviewees as the main reason for the absence of a clearly defined strategy process:

BUG1: "If you have a company that just bought 5 different assets within 2-3 years, you cannot expect that company to have formal processes which you want... I think that was a natural development for Severstal and at some stage management to be aligned we need more formal strategy and that organically starting development".

The movement towards a more formalised strategy process and, at the same time, a more involved and powerful corporate centre, is by no means a unique or unexpected phenomenon. As was noted above, the external environment and a new status of a public company called for a more transparent and unified structure, including common reporting, common planning and review process, a search for synergies and an introduction of elements of common strategy. All this is a function of the corporate centre and demands its involvement. Moreover, the move towards formalization and “professionalization” of organisational processes as corporation grows, matures and becomes more complex was observed and documented in other settings (Mintzberg and Waters, 1982). Nevertheless, the company still was very far away from definitive centralisation. Business units continued with a very high level of discretion in their strategy process - for example, the centre did not introduce financial targets until 2009.

### **Breakthrough in the Trend for Raising the Corporate Centre’s Role – 2008 Financial Crisis**

Movement towards centralisation became more pronounced as the financial crisis of 2008 suddenly put extreme pressure on company earnings and balance sheet security. The corporate centre introduced explicit financial targets for the first time in corporate history (see Appendix 4):

BUR1: “After the crisis started we received a task - Russian steel release \$ 500 mln from a cashflow... and now the situation repeats, they tell us: "Guys, on the basis of our forecast results for the Russian steel there is a target of \$ 600 million and try to keep within limits." This was the last time, never took place before 2009”.

The result is not only technical financial targeting, but also the higher degree of corporate centre control and involvement also in strategy:

CG3: “The corporate strategy department had started to participate in decision making along with CherMK strategists since 2009. Forecasting, before Malanichev, was done by Rumin and me in CherMK. Right now, the largest participation from the corporate centre comes as setting a vision where we shall invest our money - in Russian Steel, M&A, resources etc.”

It is possible that the “natural”, but slow movement toward higher centralisation was accelerated by the crisis and the associated need to introduce more financial discipline and focus as resources quickly became much more constrained than before:

CG6: “The bigger the company becomes, the more difficult it becomes to make ad hoc decisions. Probably the first time when you are confronted with the need to formalise it is when you are limited in resources and you have to make a decision whether you should go into this or this.”

Financial targeting, combined with deeper involvement of the corporate centre in the business units’ strategy formulation, introduction of corporate strategy and strategic targets completed the next stage of corporate development. Practically, introduction of corporate strategy (i.e. corporate priorities) implied the introduction of externally-imposed limits on the business units’ discretion in their development plans. We might interpret this as an attempt to focus the business units’ attention on efficiency improvement which became much more important than creativity in external expansion:

CG3: “For the first time in history of Severstal, the strategy was communicated to top management in December 2009 and I think everybody suddenly acknowledged, that we have a strategy, not just a vision, or vector of development... Strategic targets – are now under consideration...”

In this new shape, which the company is still engineering, the company is moving to a more “standard” configuration for a corporation of this size and scope. This new configuration is closest the Goold and Campbell’s (1987) “strategic control” configuration which implies a significantly higher role for the corporate centre compared to the “financial control” one.

## ***SUMMARY OF CONCLUSIONS***

- A significant role was discerned regarding the importance of the main shareholder/CEO’s leadership and personal traits play a very big and important role in strategy process – the most important characteristic of

strategy process in the given context. The phenomenon of the overarching, fully involved owner-manager is well-explored in the context of entrepreneurial companies. However, we normally associate this kind of management style with businesses which are much smaller in size. (e.g. Miller, 1983; Mintzberg, 1978; Mintzberg et al, 1998). Besides, researchers have not explored before in detail this phenomenon in the Russian/CIS context due to a short business history and legacy of privatising big businesses which are normally controlled and run by energetic and engaged “first generation” owners.

- **“Leader-focused decentralisation”** – the phenomenon observed in its classic shape in early 2000s. It encompasses two dialectically opposed phenomena which co-exist in a mutually reinforcing configuration.

#### **Elements of leader-focused decentralisation:**

- ***A highly decentralised strategy process, absence of corporate financial or strategic targets, very high discretion given to and initiative coming from business units.*** Creativity of business units is thus unconstrained by any financial or strategic frameworks or requirements. Here we return to the concept of ***“strategy as liability”*** - entrepreneurs do not want to limit opportunities by committing themselves to any particular course of action, i.e. strategy (Mintzberg & Waters, 1982). It is also in line with demand for strategic flexibility which is a capability particularly valuable in the emerging market context (Khanna & Palepu, 2000).
- ***Control over the “final” decision making in the hands of a small circle of corporate top managers. Deep (if unstructured) personal involvement of the CEO in detailed discussions with the team members.*** A very close circle of top managers must, in the end, approve all strategic decisions. Control and decisionmaking is facilitated by a very in-depth ***personal involvement of the main shareholder*** in operational and strategic details during the review

process. Effectively, we are observing ***substitution of unifying strategy and/or strong bureaucracy for a strong “personality”***.

We can consider this approach a unique capability since such practice is very difficult to imitate by competitors because of very tough requirements of time and emotional resources from the CEO/shareholder and his small top team, given the size and complexity of businesses under management.

- A very small and non-intrusive corporate centre. No rules or “corporate bureaucracy”, but also no consolidation, unifying visions and very little communication between business units. Besides, members of the top team combine their corporate responsibility with the roles as leaders (curators) of business units - a certain “merger” of corporate and business roles.
- A very small and lean entrepreneurial “partnership” was concentrating all strategic decisions at the Stage I. **Crisis of “leader-focused decentralisation”** and partnership system due to personality issues, increased company size and a new demand for transparency after a failed merger with Arcelor and the rising role of capital markets in Russian business in general.
- In the wake of the leadership crisis, slowly growing centralisation and “professionalisation” (as an alternative to entrepreneurship) of the management system, gradually increasing the role of the growing corporate centre. This evolution is logical as a response to the growing importance of public markets with a new demand for transparency and better control over the rapidly growing corporation. It is also in line with observations of similar corporate stories in other contexts (e.g. Mintzberg and Waters, 1982) for a growing and maturing entrepreneurial corporation.
- Accelerated involvement of the corporate centre, tighter control, including introduction of financial targets for business units and formulation of formal corporate strategy (for the first time in company history) after the 2008

financial crisis struck. Newly emerged extreme resource constraints challenged the previous management model. Introduction of financial targeting and emphasis on corporate strategic priorities, possibly, was an attempt to improve discipline and focus the business units' attention on efficiency in times when survival became a much bigger priority relative to growth.

- Ad-hoc, opportunistic strategic decision making process (in line with previous research), especially in the Stage I was combined with a consistent long-term orientation in company planning and strategic thinking (contrary to earlier research findings in the Russian context) - **“long-term focus without a long-term strategy”**. Most probably, the ad hoc decision making process was the result of the volatile environment and demand for strategic flexibility (as suggested by other studies). Besides, presence of a long-term strategy would inevitably inhibit “leader-focused decentralisation” since the latter requires absence of pre-determined strategic frameworks imposed from the corporate level. We might explain long-term orientation by the capital-intensive industry and, perhaps, idiosyncrasies of the main shareholder's personal traits - he might associate himself with the long-term prosperity of the business rather than with purely maximising financial gains. In this context it also interesting to note that long-term orientation was not considered by at least two interviewees as “typical” for the management of other big companies in Russia.

As a next step, the author should further explore these conclusions in the second empirical project, in an iterative process suggested by Langely (1999). Of particular interest are those conclusions which contradict or add new perspectives to the previous research. In this case, the phenomenon of leader-focused decentralisation certainly deserves a special look since it arguably lies outside of existing models of the corporate centre's role in strategy process and provides an example of a strong and involved owner-manager in a non-typical context of a big multi-business corporation.

## ***IMPLICATIONS FOR THE EMPIRICAL PROJECT II***

### **Exploring the Phenomenon of Leader-Focused Decentralisation**

The key elements of leader-focused decentralisation emerging from Empirical Project I:

- A highly decentralised strategy process, absence of corporate financial or strategic goals; very high discretion given to and initiative coming from business units.
- Control over the “final” decision making in the hands of a small circle of top managers. Deep personal involvement of the CEO; discussions with the business units’ teams involve very granular attention to details.
- Small and lean corporate centre; minimum corporate rules or bureaucracy; absence of unifying strategy for disjointed business units.

The first empirical project helped to formulate the key traits of leader-focused decentralisation as they were emerging from the interviews. These traits included a number of unresolved questions or paradoxes that require a deeper and more detailed look. The following questions to the Empirical Project II will help address the emerging paradoxes and untangle the nature of the phenomenon:

- *Leadership role in encouraging initiative and aligning interests.* The process implies that business units are responsible for generation of strategic ideas, investment projects and business development options. That requires from the business units’ leaders a very high level of initiative and mental self-sufficiency, which is not easy to achieve in any organisation. Arguably, given the deficit of high quality managerial resources in the Russian environment, this problem becomes even more pronounced. The question (or paradox) becomes how this need for initiative may exist in the environment of a strong leader making all final decisions. There might be something in the nature of this leadership which works to encourage this initiative and align it with the wider interests of the corporation. An interesting note from the first part is the

CEO's insistence on finding consensus, seeking full alignment with his "close circle" of partners in Stage I.

- *The role of personal traits of the leader in strategic decision making. In particular, what is the role of the "pilot" management model (highly granular and close engagement, attention to small details) in the CEO's communications with the business unit teams and how does it facilitate (or hinder) leader-focused decentralisation? Successes and limitations of a particular corporate centre configuration (i.e. "partnership", a very small and lean corporate centre) seem to be closely related to the leadership model and even personal traits and interests of the CEO and top team members. The ability and willingness on behalf of the CEO to involve himself personally and engage in granular discussions is one of the key elements of this configuration. Exploring the role of these idiosyncrasies seems to be an interesting theoretical and practical task. In the Russian context, it also has important political/social implications since such level of personal commitment in combination with long term focus creates an image of a caring and involved big business owner rather than a short-term profit skimmer.*
- *Overall strengths and weaknesses of "leader-focused decentralisation" as they are perceived by the process participants. Some advantages became quite apparent from the first part: a very small and low-cost corporate centre, strategic flexibility of a decentralised process and absence of constraining "strategy as liability". Some deficiencies were also apparent: overloaded top management at the corporate end, a nontransparent management structure, and lack of unifying logic and synergies between the business units. This question deserves a more careful exploration because it has a particularly high practical relevance.*

### **Focus of the Empirical Project II (DBA Project 3):**

*Actors:* Business units (their top teams) and CEO/decision makers in the corporate centre.

*Process:* Strategy process. In the Severstal world, strategy process involves structured “business plan reviews”, taking place from one to 3-5 times a year (depending on a business unit), including the discussion of markets, financial and operational forecasts, development options and investments. There are indications which one should explore and discuss in more detail - strategy issues in any setting such as operational meeting, results review and M&A discussions. That would mean that given the relatively unstructured and ad-hoc strategy process (although gradually evolving), strategy discussion is not limited to any particular part of the corporate calendar or organisational routine.

Since meetings are the main mode for interaction, our focus may be on what is going on at these meetings and how the CEO leadership is projected to solve the apparent paradox of decentralisation and strong leadership.

*Time period:*

The “leader-focused decentralisation” was arguably most pronounced in the early part of the research period, namely 2000-2005. Later, the growing size of the corporate centre and the increasing involvement of corporate “bureaucracy” was inevitably making the organisation less “leader-focused”, although we do not see any indications that his role became less important or that his leadership style has changed. Therefore, in the second empirical project interviews will explore the phenomenon of leader-focused centralisation throughout the whole research period (2000-2009), but, where possible, the study will give priority to evidence from the earlier part (2000-2005).

## **DISCUSSION OF RELIABILITY, VALIDITY AND GENERALISABILITY**

We can analyse the quality of the first stage of the research through the lenses suggested by Easterby-Smith et al (2002) for the assessment of relativist research:

*Validity:* Has a sufficient number of perspectives been included?

The author made every effort to include as broad a set of perspectives as possible. The interviewees included representatives of the corporate centre and business units, representatives of all geographic regions and major business units within the company, as well as major functional lines. In terms of positions within the company, initially the author planned to interview representatives of top teams in the corporate centre and business units, since this is in line with the more “traditional” view of the strategy decision-makers (Mintzberg et al, 1998). The interviews supported this assumption which highlighted quite unequivocally that only a close circle of Board-level managers participated in real decision-making, both at the business unit and corporate level. During the pilot interview the author discussed the list of prospective interviewees at the high levels of hierarchy and this was confirmed by the interviewee. However, he also suggested that a number of junior employees (“manager-level” in the Severstal white-collar hierarchy) who had been seasoned veterans of the M&A and strategy departments, with first-hand exposure to strategic decision-making, might be included. The author decided to add three such employees into the interviewees list to achieve better representation across the company hierarchy. Also, the author added one interviewee in the position of Department Head over the course of empirical work. He was included because of his deep involvement in the establishment of both business unit and corporate business planning techniques, which the author identified as an important part of the company strategy process.

*Reliability:* Will other observers reach similar observations?

Recognising social constraints related to the author’s current employment with the company, the author also ensured that former employees participated in the inquiry (three out of twelve participants). As discussed above, the author was careful not to bring into discussion anything coming from his own work experience, adopting a position of a “well-informed outsider” who has done significant research about the company from open sources and approached an interview with a good understanding of company asset structure, history and management – as much as one could derive from the open sources.

*Generalisability:* What is the probability that patterns observed in the sample will be repeated in the general population?

Clearly, one cannot generalize a one-company case study to the wider population. The purpose of this qualitative, explorative research is, first of all, to initiate a pioneering enquiry into the world of strategy-making in Russian corporations, explore key traits and suggest a research framework to lay ground for further investigations. However, even within the framework of this study, it is possible to extend the research scope to further companies and hence improve the reliability of the results of the study.

“Buffett has made a fine art of keeping this kind of distracting noise at bay: he says he even limits his contacts with managers of businesses in which he invests, preferring to assess their companies' financial records — a more neutral source of information”

Guy Spier, “Lunch with Warren Buffet”

## **Chapter 4**

### **4. Project III. A Deeper Look: The Role of CEO Leadership and Personal Traits in Shaping the Strategy Process**

#### ***DATA COLLECTION AND ANALYSIS***

##### **Introduction to the Empirical Project II (DBA Project III)**

The purpose of Project II is to further develop the initial insights into the specifics of strategy process in Severstal, a multi-business emerging market company. Empirical Project I explored the strategy process and helped to formulate the principal elements of “leader-focused decentralisation”, the approach to strategy making adopted Severstal.

The key elements of leader-focused decentralisation emerging from Empirical Project I include:

- A highly decentralised strategy process; absence of corporate financial or strategic goals; very high discretion given to and initiative coming from business units.
- Control over the “final stage” of decision making in the hands of the CEO/majority shareholder and a small circle of top managers; deep personal involvement of CEO; very granular attention to details in the discussions with business units' teams.
- Small and lean corporate centre; minimum corporate rules or bureaucracy, absence of unifying strategy for disjointed business units (particularly relevant for the first period).

- As the company developed, matured and grew in size and complexity, the roles of the actors evolved and the strategy process became more structured and systematic. The company introduced financial and strategic goals at the corporate level. The overall influence of the corporate centre increased. However, the preeminent role of the leader as the “final” decision-maker was preserved. Business units still have a very high discretion and bottom-up initiative is very much encouraged and seen as the main driver and the key source of strategic ideas.

Interview analysis highlighted that the key elements of strategy-focused decentralisation are closely related to the leadership role and personal traits of the company CEO and majority shareholder. Therefore, the role and impact of the CEO's personal traits will be the centre of the empirical investigation in Project II. The author will explore this impact primarily through a more detailed look at the nature of interactions between the company leader/CEO and the top team. These interactions, as seen from the point of view of the process participants, will be the subject of study in Project II. The author formulated the following questions for Empirical Project II to explore in more detail the impact of CEO personal traits, associated questions and emerging apparent paradoxes:

- Leadership role in encouraging initiative and aligning interests. The strategy process implies that business units are responsible for generation of strategic ideas, investment projects and business development options. That requires a very high level of initiative and mental self-sufficiency from the business units' teams. This is not easy to achieve in any organisation. Arguably, given the deficit of high quality managerial resources in the Russian environment, this problem becomes even more pronounced. The question (or paradox) becomes how this high level of initiative may exist in the environment of a strong leader making all final decisions. There might be something in the nature of this leadership which works to encourage this initiative and align it with the wider interests of the corporation. A related interesting note is the CEO's insistence on finding consensus, seeking full

alignment with his “close circle” of partners in Stage I. This push for alignment is also worth further investigation since it is one of the principal elements of the overall atmosphere for discussions.

- The role of personal traits of the leader in strategic decision making. In particular, what is the role of the “pilot” management model (highly granular and close engagement, attention even to small details) in the CEO’s communication with the business units’ teams? How does it facilitate (or hinder) leader-focused decentralisation? Successes and limitations of a particular corporate centre configuration (e.g. “partnership”, a very small and lean corporate centre) seem to be closely related to the leadership model and even personal traits and interests of the CEO and top team members. The ability and willingness on behalf of the CEO to involve himself personally and engage in granular discussions is one of the key elements of this configuration. Exploring the role of these idiosyncrasies seems to be an interesting theoretical and practical task. In the Russian context, it also has important political/social implications since such level of personal commitment in combination with long term focus creates an image of a caring and involved big business owner rather than a short-term “profit skimmer”.
- Overall strengths and weaknesses of “leader-focused decentralisation” as they are perceived by the process participants. Some advantages became quite apparent from the first part: a very small and low-cost corporate centre, strategic flexibility of a decentralised process and absence of constraining “strategy as liability”. Some deficiencies were also apparent: overloaded top management at the corporate headquarters, nontransparent management structure and roles and lack of unifying logic and synergies between the business units. This question deserves a more careful exploration because it has a particularly high practical relevance.

To answer these questions, Project II will explore the interactions between business units (their top teams) and CEO/top decision-makers in the corporate centre and look in a structured way at the strengths and weaknesses as people

in the company perceive them. The role of the CEO's leadership in steering the process, promoting initiative and aligning interests in the team is the main subject of the enquiry.

## **Interview Analysis**

### **Interviews Sampling, Recording and Conduct**

Overall research methodology and interview sampling, conduct and analysis methodology replicated the one described for Empirical Project I. The only exception was that there was no special focus on the temporal perspective since Empirical Project I analysed this in detail. As per the adopted methodology of an in-depth, contextually-embedded longitudinal case study, Empirical Project II focuses on the particular element of organisational context which was of special importance in the initial enquiry – the role of company leadership and influence of the figure of CEO and majority shareholder on the strategy process. This is part of an iterative and responsive approach to data collection pertinent to the inductive, explorative research, when new, important areas of inquiry may emerge over the course of the research (Strauss and Corbin, 1998).

Like in the Empirical Project I, the author based the interviewee selection on non-probability-related sampling techniques, justifiable for the explorative and inductive types of research (Saunders et al., 2007). Like in Empirical Project I, the author based the sampling on a number of objective and subjective criteria. First, an interviewee should have been involved in strategy-related activity as either a member of a top team in a corporate centre or business unit, or as a “strategy professional” from a Strategy and M&A department. The pilot interview and the Empirical Project I confirmed the assumption that, in Severstal's case, only the top team members are involved in strategy-related discussions. For ethical and bias-related purposes, all current or former direct reports of the author were excluded from the sample.

Another highly important methodological consideration was the imperative to include a sufficient number of different perspectives to improve external validity,

as required by the “critical realist” epistemological approach (Easterby-Smith et al., 2002). For example, in contrast to the previous project’s interviews, two of the eight interviewees in Empirical Project II came from outside of Severstal as such: they worked in a business in a different industry which belonged to Severstal’s CEO as his private holding. Since the CEO plays an active role as an executive chairman for that business, it was interesting to add this “Severstal’s outsider” point of view to the spectrum of views on the CEO’s/shareholder’s role. Finally, once the above considerations of relevance and diversity of views were fulfilled, the author used a subjective judgement to evaluate ease of access and opportunity for a high-quality, open and detailed dialogue.

Overall, eight interviews have delivered a rather broad representation of different views, functions and regions and brought the author to the saturation point when the arguments started to repeat themselves, demonstrating that he had collected a sufficient number of perspectives. Of the eight interviews, four were with the representatives of business units and four with the representatives of the corporate centre, including one corporate officer who recently moved from a business unit role and hence could comment from both perspectives. All interviewees were new to the study, i.e. they did not participate in Empirical Project I. Although it was becoming increasingly difficult to enlist a sufficient number of top-team members who regularly interact with the company leader, it was beneficial not to resort to follow-up interviews with previous interviewees to ensure that the results of the second empirical enquiry were truly independent of the first one. This independence makes the second enquiry more credible as an instrument in reinforcing/refuting the conclusions of the first empirical study and clarifying remaining uncertainties (Strauss and Corbin, 1998). Combined with the first project, the overall number of interviews totalled nineteen, which was considered by Sias et al (2004) as a sufficient number to reach a saturation point.

Unfortunately, due to idiosyncratic circumstances, it was not possible to conduct a full-fledged interview with the opposite side of interactions – the company

CEO. These circumstances included a very high level of the CEO's overload in the time of writing and his focus on learning some practical outcomes of the study, rather than contributing to its quality. However, the author did have a free discussion of the interview results with the CEO. That discussion took place in a business and practical, rather than academic context, but its brief summary is included in the discussion of results for information purposes.

Interestingly, the author captured six out of the eight interviews for Empirical Project II through interview notes, i.e. three quarters of interviewees declined the author's request to tape and transcribe an interview. Of the eleven interviews for Empirical Project I, the author taped and transcribed eight. This probably was the result of the nature of the interview questions and the difference in the interviewees' attitude to confidentiality. For the first project, questions concerned mostly organisational processes, whilst for the second project, the questions specifically addressed the role of CEO. Arguably, the interviewees perceived the discussion of the CEO/majority shareholder as more sensitive than the discussion of business processes. Therefore, the majority of interviewees viewed taping as more sensitive and risky.

## **Data Analysis**

Table 24 summarises the conclusions from the data analysis.



	<ul style="list-style-type: none"> <li>- Movement towards a more structured approach over the last 2-3 years. Specific financial targets are clearly defined. There is a universal recognition that corporate strategic priorities now exist and this has made the company stronger.</li> <li>- There is a certain disagreement on whether financial and strategic objectives are provided top-down or bottom up. Most of the respondents think this is mostly top down, but business units are also involved in the process.</li> </ul>
<p><b>Responsibility for decision making and the role of the CEO and top team</b></p>	<p>Final strategic decisions are made by the CEO. Direct communication between CEO and business units, unsystematic/modest involvement of corporate centre officers:</p> <ul style="list-style-type: none"> <li>- CEO is the main driver and key decision maker in the strategy process.</li> <li>- The strategy process itself is a reflection of the CEO's personal attitude and approach to decision making. It evolves in line with the CEO's "personality", as a set of characteristic long-term traits.</li> <li>- The role of top team in the corporate centre is either unclear or seen as secondary/advisory compared to the decisive role of the CEO.</li> <li>- Level of corporate team involvement depends on business unit: in Russian Steel, there is little involvement of the corporate centre apart from the CEO.</li> </ul>

**Step 2. A more detailed look at the role of CEO leadership and personal traits in shaping the strategy process**

**Characteristics of strategic discussions with CEO**

The CEO plays a leading, crucial role at the strategic interactions: Interviewees emphasise that he is leading the meetings, asks the majority of questions and has a "controlling stake" in decisions.

The style of the meetings and strategic discussions reflects the CEO's personal preferences, such as close personal attention to details: Strategic discussions are usually relatively well-structured (although there is a division on that point), but they are universally considered as very long and focused on details.

Significant issues are associated with the style of meeting and the CEO's personal involvement:

- Excessive focus on details may mean inefficient time allocation, as a factor constraining efficiency of decision making.
- The CEO's frequent overload may create serious issues and reflect on the quality of decisions.
- Very high role of the CEO means that it becomes an issue for the whole corporation if (when) he becomes overloaded.
- The specifics of the CEO's approach to discussions may be challenging/ demotivating for managers from overseas, for example in the US and Italy, but are better perceived by Russian managers.

**Encouraging initiative and aligning interests within the top team**

Initiative from below is encouraged. However, to be successful, initiatives should correspond to the CEO's vision and priorities.

- All interviewees emphasise that initiative is very much encouraged and welcomed.
- Discussions are conducted in an open and comfortable manner; everyone can express his or her opinion. The CEO is interested in hearing diverse arguments.
- However, to go through an initiative should correspond to the CEO's general, high-level vision on current priorities.
- Presenters of initiatives may not always show a balanced picture and may "push" for pet projects too aggressively.

The CEO aims to achieve consensus and alignment in the team, promotes open discussion and allows people to express their opinion. He is keen to explain his own reasoning behind strategic decisions.

- CEO's inclination to seek consensus and buy-in from all the team members is seen as a personal trait of the CEO (he even gets "surprised" when somebody is not "in line" with the prevailing view).
- CEO doesn't like disagreement within the team and aims to get to apparent consensus, even if this consensus is not quite real.
- To push for consensus, the CEO carefully explains his own reasoning behind a decision and that brings people on his side.

The CEO's push for apparent alignment may present a problem since many observers have

	<p>noted that top managers may be reluctant to raise an issue that contradicts the CEO's strong view at the moment. Interestingly, the CEO's interest in consensus seems to be focused on the very top team and does not extend to the middle management, which is seen as an issue.</p>
<p><b>“Pilot” strategic management model in action - attention to details and high granularity of discussions</b></p>	<p>The CEO is normally very focused on details in strategic discussions. This is a reflection of his “personality” - deep personal curiosity. It also serves as an instrument to keep the management team alert and focused on details in presentation of strategic options:</p> <ul style="list-style-type: none"> <li>- Generally, the CEO/shareholder is inclined to look at details, although it depends on whether he is personally interested in a topic.</li> <li>- High level of detail is the reflection of the CEO's personal interest and curiosity, but it is also a vehicle to teach management that it is important to track the details. One interviewee suggested such focus on details may also reflect lack of trust between the CEO and the management team. He tries to establish tighter control by keeping an option to question any figure or detail at any moment.</li> <li>- High personal involvement of the CEO is part of the model of a small and lean corporate centre with minimum internal bureaucracy and direct communication between business units and the decision maker. There is a bigger potential role for the corporate centre in this area – corporate officers with business units could prepare the discussions with the CEO in advance which should take less time than going into detail at the CEO's personal meetings with business units.</li> </ul> <p>Practically, too much focus on small details also has some clearly negative implications:</p>

	<ul style="list-style-type: none"> <li>- There is a suboptimal allocation of managerial time - strategically important issues may not receive adequate attention.</li> <li>- Sometimes too much time devoted to detailed research means that a strategic opportunity may be lost to competitors.</li> <li>- Management team may become demotivated by the requirement to present too detailed a business case when it is not relevant due to high uncertainty and a long planning horizon.</li> </ul>
<p><b>Step 3. Participants' Perception of Strengths and Weaknesses of the "Leader-focused decentralisation" strategy process</b></p>	
<p><b>Strength-Weakness I. Adaptive and agile decision-making system with strong business units/weak corporate centre and overreliance on CEO</b></p>	<p>Strength:</p> <p>Direct communication with the CEO and majority shareholder and high role of business units create an <b>adaptive and agile decision making system</b>. This is an important strength for a diverse and growing corporation.</p> <ul style="list-style-type: none"> <li>- High role of "close-to earth" business units, direct communication with the CEO create an adaptive, non-bureaucratic and agile decision making system. On balance, this is good for a diverse and growing company like Severstal since too centralised decision making would be too slow and costly.</li> <li>- Direct access to the owner of the business can solve issues of any level of complexity; there is a comfortable consistency of dealing with the same person.</li> </ul> <p>Weakness:</p>

	<p><b>Overreliance on the CEO and weak corporate centre</b> create significant issues for decision-making:</p> <ul style="list-style-type: none"> <li>- Direct connection and overreliance on CEO decisions becomes an issue when he is overloaded.</li> <li>- Business units' strategies remain disjointed and unconnected to each other.</li> <li>- Expertise of the corporate centre is underutilised since decisions are discussed directly between the CEO and business units; unclear authority of the corporate centre. There is a need for stronger corporate expertise in addition to CEO's personal involvement.</li> <li>- Mental constraints of the CEO and top team (implied supremacy of steel assets) may reduce efficiency of decision-making.</li> </ul> <p>Many interviewees highlight weaknesses of the system, but for the majority, agility and adaptiveness more than make up for possible weaknesses.</p>
<p><b>Strength-weakness II. Raising sensitive issues: Constructive atmosphere for strategic discussions, but reluctance to question the prevailing CEO's opinion</b></p>	<p>Possibility to raise sensitive issues and engage in an open dialogue with the CEO proved to be a very controversial issue.</p> <p>On the one hand, there is an <b>open and constructive atmosphere, expressing views and suggesting initiatives is encouraged</b>. Some respondents maintained that raising any issue is possible:</p> <ul style="list-style-type: none"> <li>- There is a universal recognition that the CEO encourages initiative and open atmosphere and makes sure that there is a possibility to raise different views and express opinions.</li> <li>- Some interviewees state directly that raising sensitive issues is easy and there is a straightforward, open atmosphere.</li> </ul>

	<p>Besides, there is strong focus of the CEO on building alignment and shared understanding of decisions within the top team.</p> <p>The CEO has a strong authority and <b>top team members may be reluctant to contradict the CEO/shareholder and highlight risks/issues associated with his decision</b>. Difficulty of raising sensitive questions and focus on one man's opinion is a significant problem and historically has led to suboptimal decisions and value-destruction:</p> <ul style="list-style-type: none"><li>- Since the CEO has a high authority, team members may be concerned about appearing in contradiction with the CEO's view.</li><li>- Team members may not be fully prepared to discuss difficult topics because they feel pressure from (and on) an overstretched and exhausted CEO which makes fully open discussion more difficult.</li><li>- There is an insufficient level of trust between the top team and CEO.</li><li>- There is lack of initiative from the top team members since they prefer waiting for the CEO's opinion before expressing their views. Interestingly, the same interviewee may speak about an open and trustful atmosphere and ,at the same time, complain that the top team is complacent; their main idea is to "keep the CEO happy". Therefore, there is not enough challenge and scrutiny of strategic decisions. Interestingly, according to this view, middle managers do raise difficult issues and are better prepared to discuss them.</li></ul> <p>The possibility to raise sensitive issues with the CEO proved to be a very controversial issue. There was an almost 50:50 distribution of opinions.</p>
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<p><b>Strength-Weakness III. Excessive focus on details</b></p>	<p>The CEO's focus on details is a reflection of his “personality”, an inherent long-term trait. Excessive focus on details distracts the CEO's and executives' attention from more important issues, makes meetings too long and tiresome, demotivates personnel and makes the overall system less efficient. This characteristic explains the CEO’s lack of trust and inability to delegate.</p> <p>There were some comments that attention to details is a positive moment for the business, but the majority of comments maintained that excessive attention to details is a weakness. On the other hand, this is just a natural extension of the CEO’s “personality” and hence should be tolerated.</p>
<p><b>Weakness I.</b></p>	<p>High pressure on the CEO from his roles as executive, wealth manager and participant in political affairs. This puts high pressure on the CEO personally and on his team. This overload negatively impacts the quality of decisions.</p>
<p><b>Weakness II.</b></p>	<p>Decision-making is concentrated at the top; there is little communication with and involvement of middle management. Top team and CEO are rather closed; there is a need for more communication with the rest of the company.</p>

## ***DISCUSSION***

This section will discuss the conclusions of interview analysis and relate them to the questions and paradoxes inferred from Empirical Project I (see Appendix 5 for a detailed description of key takeaways).

### **Step 1. Setting the Scene: Elaborating upon the Conclusions of Project I, Further Exploring the Characteristics of “Leader-focused Decentralisation”**

Overall, Project II interviews have further supported the key conclusions of Project I:

- High role of business units in strategy process, particularly in generation of strategic initiatives. However, “final stage” decision-making is firmly concentrated at the CEO level.
- Very unstructured and ad-hoc process in the beginning and emergence of elements of financial and strategic control over the last two to three years
- Control of the final decision-making in the hands of the CEO/majority shareholder. Attention to details and high personal involvement.

These conclusions are elaborated in more details below:

### **Strategy Process Centralisation: Roles of the Corporate Centre and Business Units, Corporate Financial and Strategic Objectives**

Among interviewees, there is strong agreement that: 1) the system has become more centralised over the last 2-3 years, but 2) nevertheless, business units actively participate in the generation of strategic options and ideas and they come up very actively (in some cases, even “aggressively”) with bottom-up initiatives. Interestingly, the business units’ self-sufficiency is more pronounced in organic growth decisions, whilst the corporate centre plays a higher role in M&A:

CG9: "Strategic options are mostly driven from below, from the business unit level. A good example [is the] mining business's initiative to invest into gold. It was a completely bottom-up initiative, created by the strategists from mining divisions. They thought it'd be an excellent idea and pushed it through very aggressively. So, if a project it pushed through well enough – it will likely go through." BUU1: "Well, the main idea generators are business units – those who run the business... Gradually since 2-3 years ago we were driving to more concrete planning, started direction-setting, driving the decisions... So, to summarise, before there was no centralised strategy because there was not any precise planning, neither from below, not from above."

Clearly defined financial objectives (margin, return on capital, profit targets) have emerged over the last 2-3 years. Strategic objectives exist in the form of "strategic visions" and relatively flexible investment allocation priorities (mining vs. steel, regional allocation of emerging markets vs. developed, etc). The company introduced both financial and strategic objectives over the last 2-3 years only. In the earlier periods, there were no explicit corporate financial or strategic targets. The company mostly made strategic decisions on an opportunistic and ad-hoc basis in the direct discussion between business units as generators of projects and the corporate centre as the final decision maker. Therefore, the constraining elements of "strategy as liability" were not part of the strategy process:

CG8: "The corporate centre provides some financial and strategic objectives [from the past] one or two years. With clear objectives on margins, ROCE, return payback period and other criteria. When I arrived in 2007-08, there was a lack of vision. To me that was an opportunistic approach. Now we have a sense of where we want to go; we may not get there at the end one hundred percent, but we go. There is good idea where we want to go. I understand it. It is very clear to me." BUG2: "Now we have a clear objective for the whole company, discussed and approved at the corporate level (and, hopefully, there is a system of long-term motivation for it). We have a unifying strategy for the corporation as a whole... Overall, the system has become more orderly and more structured, with clearer responsibilities. Centralisation has increased, but that was positive, smart centralisation in the right things." BUU1: "[At the earlier stages] the role [of the corporate centre] was not very formal. Before that we had a rather disjointed, sporadic approach. Each business unit had a different strategy. We had a five-

year plan, but we didn't have comprehensive, applied operational planning from the corporate level. We did not have any precise, articulated targets; we certainly did not have an articulated understanding what every part of the business has to do... We had a more organic, case-by-case approach. Gradually, since 2-3 years ago, we were driving to more concrete planning, started direction-setting, driving the decisions... So to summarise, before there was no centralised strategy because there was not any precise planning neither from below nor from above."

The strategic goals are defined in rather general terms, so the constraining influence of strategy is limited:

CG8: "The corporate role is to define overall strategy, corporate strategy. As far as strategic initiatives are concerned, I am more familiar with M&A deals. For M&A, the majority of the deals are originated from the business units, sometimes also from the corporate centre."

BUU1: "But this [strategy] is only a general principle, otherwise business units have a high level of discretion and freedom to think about their development."

As previously discussed, the emergence of financial and strategic targets, and the introduction of corporate strategy appeared to be a reaction to growing external and internal demand for a clear strategic vision, inefficiencies of a pure ad-hoc process in a large and complex corporation, and as a response to the economic crisis which demanded a more disciplined and focused approach. According to one interview, it was also a result of a learning process in the company's communication with its bigger international peers:

BUU1: "Well, we saw how other companies do this [strategy], like Arcelor did it, for example. I remember when we were doing the valuation; we had a lot of discussion that we need a unified plan, a strategic plan to present for the valuation."

Interestingly, the *definition* of the level of centralisation proved to be a rather contentious issue. Interviewees called the system both centralised and decentralised, bringing in very similar illustrations and examples to support their opinion. One could argue that different respondents viewed the "level of centralisation" very differently depending on such factors as their background and knowledge of company history. However, there is an almost universal

agreement that the strategy making system has become more centralised and structured over the last 2-3 years. Therefore, different views and definitions may be related to the fact that all changes are relatively recent and the system is not yet fully established, and its current pattern is not yet fully recognized by all participants.

### **The Importance of the CEO Role in Strategic Decision-Making**

Final strategic decisions are made by CEO personally. There was a direct communication between the CEO and the business units, but an unsystematic/modest involvement of the corporate centre officers:

CG7: "Final decisions on strategic issues, overall budget approval are made by the CEO. "Local" discussions are made by business units within the approved budgets and with situation-specific/patchy participation of corporate centre officers". BUR3: "Shareholders make final approval for all, more or less, significant investments. I don't see any evolution in this management approach."

The CEO is the main driver and key decision maker in the strategy process. The strategy process itself is a reflection of the CEO's personal attitude and approach to decision making. It evolves in line with the CEO's "personality" (as perceived by the interviewees):

CG10: "Strategy-making process is first of all defined by CEO, it is a reflection of his personality. Correspondingly, the process was developing and growing reflecting also his personal evolution".

The interviewees use the term "personality" as a subjective term describing the CEO's approach to exercising his leadership role. This definition may not necessarily refer to "personality" as a set of "distinctive, fundamental characteristics of an individual" (Kakabadse and Kakabadse, 2007). Therefore we can't make general conclusions about the overall "personality" of CEO on the basis of these relatively narrow observations. An appropriately more narrow term characterising the CEO's impact on the strategy process and decision-making would be "personal traits" (such as deep personal curiosity and meticulous attention to details), which would refer to a "fixed or reasonably

constant element of personal character that remains reasonably constant across different contexts” (Kakabadse and Kakabadse, 2007). According to the findings, the CEO’s personal traits play a major role as enabling (and constraining) characteristics which define and ultimately make possible some of the fundamental elements of “leader-focused decentralisation”. The term “personality” when used in the discussion of the research findings refers to the respondents’ subjective opinion.

The role of the top team in the corporate centre is either unclear or seen as secondary/advisory compared to the decisive role of the CEO:

CG7: “Globally, the corporate centre plays a role of a “consultant”, with the exception of certain support functions, such as PR or Legal.” BUG2: “Strategic issues are first discussed by the business unit top team and the final approval of all projects is, of course, in the hands of our sole decision-maker – the CEO. Usually we ( the business unit team) communicate with him directly; there is little work in between, for example with corporate centre, etc. The CEO “feeds every piece of data through himself”, there is relatively little involvement of the corporate team, as far as I can see.” CG9: “...also depends on a business unit –the corporate team, with the exception of the CEO himself, participates very little in review of organic growth in the Russian Steel unit. Otherwise, the CEO plays a decisive role in decision making on strategy... the Management Board acts more as a forum for discussion and exchange of views. Decisions are, I’d say, 80 or 90% determined by the CEO himself.”

To summarise, the key traits of “leader-focused decentralisation” were confirmed by a different set of interviews in Empirical Project II:

- A highly decentralised strategy process in the beginning. The company introduced corporate financial and strategic goals fairly recently, in the aftermath of the global economic crisis. However, their introduction, although seen as a movement to “smart” centralisation, did not alter dramatically the key premise of the system: very high role of business units, that remain the key drivers of strategic development, generators of strategic options. Bottom-up initiative is encouraged and expected as the main driver and source of business ideas.

- Small and lean corporate centre, minimum corporate rules or bureaucracy, absence of unifying strategy for disjointed business units. Despite some movement towards higher decentralisation, introduction of corporate strategic priorities and financial hurdles, the role of the corporate centre officers, apart from the CEO, remains rather unclear and nontransparent to many interviewees. There are remarks that the corporate centre top team remains passive and not very visible in the company. Business units' strategies remain disjointed and uncoordinated.
- The pre-eminent role of the leader as the “final” decision maker. Control over the “final stage” of decision making is in the hands of the CEO/majority shareholder. Deep personal involvement of the CEO in strategic discussions remains the defining feature of the decision making system. These discussions involve careful attention to granular details. Remarkably, in the earlier period of “leader-focused decentralisation”, a small circle of top managers around the CEO apparently played a much higher role than the current corporate centre top team. Nowadays, despite movement to higher decentralisation, the corporate centre remains rather “invisible”; all attention and responsibility is focused on the figure of the CEO. It is then unsurprising that the CEO's overload emerges as a significant issue that has a direct impact on the quality of strategic decisions, as will be discussed below.

## **Step 2. A More Detailed Look at the Role of CEO Leadership and Personal Traits in Shaping Strategy Process**

This section will discuss the outstanding questions, idiosyncrasies and paradoxes of “leader-focused decentralisation” emerging from the empirical Project I. The purpose is to explore this phenomenon in more detail, attempt to explain apparent paradoxes and analyse strengths and weaknesses of this rather peculiar approach to strategy making. On the practical side, the ultimate ambition would be to identify strengths, potential risks and recommend areas for improvement of the strategy making system in Severstal.

The questions addressed in the section include the characteristics of strategic discussions, the role of the CEO in encouraging initiative and aligning interests

and overall impact of the CEO's personal traits and preferences on strategy process, in particular, his dominance in decision making and obsessive attention to details. In other words, this section will focus on the fundamental reason, the most important characteristic and the main strength of "strategy-focused decentralisation" – the role of the creator and owner of strategy process, the company CEO. The section will conclude with the summary of identified strengths and weaknesses of this style of strategy making and a discussion of practical implications for future development.

### **Characteristics of Strategic Discussions with the CEO**

As discussed above, strategy-related meetings are the main instrument in strategic decision-making in Severstal. Therefore, understanding the style and particularities of these discussions is important for proper understanding of the process itself.

One of the most defining characteristics of strategy meetings is the role of the CEO. Interviewees emphasise that he leads the meetings, asks the majority of questions and has a "controlling stake" in strategic decisions. In other words, the style of the meetings confirms the ultimate importance of the CEO figure in the strategy process:

CG8: "He asks vast majority of the time, like of the two hours, 1 h 58 min – Alexei, 2 min – someone else"... BUG2: "He has "implicit" 50% stake in every decision, that is, all depends on him". BUR4: "Strategic discussions are regular but shareholder is available for extraordinary meeting if there is a need to discuss. Meetings are usually well-structured but always start late".

Another interesting observation is that the style of the meetings and strategic discussions reflects the CEO's personal traits and preferences, such as close personal attention to details:

CG10: "The CEO is very focused on the discussion of details, shows great interest in discussing small aspects and details. It defines the whole discussion. He may look through and discuss every page of a 100-page presentation, if he has time and interest. Possibly, such focus on details is explained by his personal traits – curiosity, first of all. Otherwise, it is difficult to

understand why would he need it". CG7: "CEO himself is not a very systemic person. Sometimes we don't discuss the most important, high-level questions. Like for example in the strategy discussion we didn't spend time to discuss strategic scenarios for the industry, how it will evolve, etc. This is strange and not logical".

Strategic discussions are usually relatively well-structured, although interviewees are divided on that point:

BUR3: "The agenda of such a meeting (we call them board meetings) is set in advance for a year. They are divided into results reports and strategic discussions and go in a very structured way, according to a presentation. Our meetings are regular. They usually start with a delay. We try to stick to the agenda which is helped by the structure of presentations." CG9: "Meetings on strategy are usually rather short and not very well structured. Presentations/messages are not always well-prepared; often they are one-sided and sometimes don't take into consideration risks. Time allocation is not very efficient."

Meetings are almost universally considered as very long and often focused on unnecessary details, which may be demotivating:

CG8: "After that, in the discussion itself, they may be discouraged because meetings are too long and not enough prepared before." CG10: "We invest a lot of energy and efforts into preparation of these strategic business plans, and we have to prepare to the most detailed discussions. So, these discussions are usually very long and very boring since you have to wait for hours as they discuss different matters, waiting for your turn that may never come." BUG2: "Still, we leave these strategic discussions mostly motivated because we like what we do; the CEO usually approves our suggestions "in general." Demotivation comes from the excessive attention to details; the CEO is a man of such scale that he could have spent his time much more efficiently."

Excessive focus on details may mean inefficient time allocation, as a factor constraining efficiency of decision-making and time allocation:

CG7: "CEO himself is not a very systemic person. Sometimes we don't discuss the most important, high-level questions. Like for example in the strategy discussion we didn't spend time to discuss strategic scenarios for the industry, how it will evolve, etc. This is strange and not logical". CG9: "I remember one meeting when we spent a couple of hours to discuss an

investment of \$10-15 mln. into some small extension of the coal company PBS. And we discussed in details many other deals. There was a decision of principal importance about our company Y, which involved possible default of some of our operations, and that was left to late in the night, when it was of course difficult to discuss anything effectively. Such things happen rather often”.

In addition, low spirits/time constraints of the CEO may have an adverse impact on the quality of meetings. Since decisions are focused on the CEO, it becomes an issue for the whole corporation if he becomes overloaded:

CG7: “All decisions focused on the CEO – he becomes overloaded, effectiveness suffers, suboptimal decisions can be made. Not very systemic decision-making. Quality of decision-making depends on his personal interest, on the level of his [CEO] involvement, how much time he can afford.”

Interestingly, the specifics of the CEO’s approach to discussions may be challenging/demotivating for managers from overseas, for example in the US and Italy, but are better perceived by Russian managers:

CG8: “... for example starting meetings on time. It is a stupid thing, but when you say you start at 10 and you start at 1 pm for people it may be demotivating. Second, here you have short meetings, for them to have long meetings for 10, 12 hours is challenging for people in Italy, in the US. And finally, they may not understand sometimes whether a certain decision is made or not. So decisions may not be well-communicated. It may be difficult for them. In 2007-2008, I saw lack of trust, I observed it very clearly in the US. The local team did not understand him.”

### **Encouraging Initiative and Aligning Interests within the Top Team**

All interviewees emphasise that the company very much encourages and welcomes bottom-up initiative. Employees conduct discussions in an open and comfortable manner and everyone can express his or her opinion. The CEO is interested in hearing diverse arguments:

BUR4: “Shareholder welcomes initiatives; I’d say the initiatives are very encouraged.” BUG2: “He [the CEO] is open to a dialogue, considering his level of authority. He is careful with making quick decisions, likes to listen. BUR3: “Positive attitude to initiatives. He reviews all

initiatives with interest, but may occasionally challenge someone rather strongly if there is something he would not like. CG8: "Yes, I think first of all it is encouraged; everyone can propose his ideas to Alexei, to a strategic committee. This is a positive thing; we are very open-minded in that."

However, to go through an initiative should correspond to the CEO's general, high-level vision on current priorities. The CEO (?) communicates this vision in very broad terms so that it leaves subordinates with the opportunity for creativity and taking initiatives. A good example is discouragement of "growth" initiatives in the time of economic crisis, when it was time was to focus on rationalising existing businesses:

CG7: "Initiative from below is very much encouraged. However, it has to be in line with the "party line" to go through. The CEO has his own vision of the world, and the initiatives have to be oriented towards his visions. But mostly – he supports the initiatives; he is very open to them." BUR3: "It really depends on the mood and general situation – for example, when there was a crisis we felt it was better not to come up with development initiatives. Now, as the crisis is over, we feel again if there are investments on the agenda."

There are also issues related to the presentation style of the initiative providers. The presenters of initiatives may not always show a balanced picture and may "push" for pet projects strongly:

CG8: "But everyone often wants to push through his idea, not showing strengths and weaknesses objectively, but just pushing it through to have it accepted."

This approach may be considered a natural consequence of the system where projects effectively compete for funding in the mind of the CEO and corporate top team. In this environment, the task of business units is to present as attractive case as possible, whilst the mission of the corporate team is to construct an effective screening and approval mechanism. Presumably, since realisation of strategic ideas lies mostly on the shoulders of business units themselves, they should have a reasonable confidence in the project success. Hence, involvement of business units in both options generation and realisation serves as a balancing act, providing an advantage over top-down hierarchical

command and control systems favoured by classical schools of corporate strategy (e.g. Andrews, 1971). Overall, this system is in line with the “strategy as a resource allocation” mechanisms described by Bower (1970) and Burgelman (1983).

There are many comments on a very constructive and comfortable climate for strategic discussions:

BUR4: “The discussion is normally very smooth and natural, not questions and answers, but a usual, good, intellectually rich business conversation.” CG8: “The CEO asks everybody’s opinion; he is rather democratic. There is enough time for everybody to express an opinion.” BUG2: “He is open to a dialogue, considering his level of authority. He is careful with making quick decisions, likes to listen.”

This is clearly one of the most important features of the system that ensure its ongoing competitiveness. Direct dialogue and rapid, agile decision-making, almost by definition have to rely on open dialogue and opportunity for everyone to express her opinion. The interviewees view the CEO's inclination to seek consensus and buy-in from all the team members as a personal trait of the CEO (he even gets "surprised" when somebody is not "in line" with the prevailing view). The CEO doesn't like disagreement within the team and aims to reach apparent consensus, even if this consensus is not quite real. To push for consensus, the CEO explains his own reasoning behind a decision and that brings people on his side:

CG9: "The CEO prefers to see alignment and consensus in the team. I think it is a personal thing – he prefers everyone to be aligned; this is satisfying for him personally. He is trying to convince everyone, even if there is only one person who disagrees. This is part of his personal style." CG7: “On consensus, he is always trying to achieve consensus and alignment, considering, of course, his position as the main shareholder, etc. But he listens to people, asks their opinion, lets them speak, asks detailed questions and challenges them. He usually explains his opinion, the reasons why a certain decision was taken, tries to find common ground." BUG2: “...But once he is convinced of something, he will push it through a dialogue, collect allies, in a sense making sure people buy into his vision. Inside his mind, he is rather uncomfortable with conflict.”

Too strong a push for consensus may, of course, present a problem since many observers have noted that top managers may be reluctant to raise an issue that contradicts a CEO's strong view at the moment:

CG7: "Top management is usually reluctant to raise really sensitive questions, probably because they find it difficult to appear in contradiction with the shareholder. Some strategic issues, such as North American assets acquisitions in 2008 were not probably discussed properly because raising any issues related to risks would go against the prevailing point of view in the team and the shareholder." CG8: "I think sometimes generally people don't present bad news. I think people most of the time put negative aspects in presentations and expect Alexei to find it himself, not letting him know the news directly. They prefer Alexei to look at the data and find out the negative aspects himself. Well, I don't know perhaps, maybe they are scared. Perhaps this means they are not fully prepared to discuss with him difficult topics." BUU1: "We can overlook something when we start from only one vision. One example is the acquisition of North American assets – some people were firmly against that, but since the CEO really wanted to grow in North America, all precautions were brushed aside, and finally those people who were against that had to vote pro, since the CEO was clearly in support. It turned out to be a horrible decision."

One interviewee suggested that alignment is not as important as a professional opinion of a person responsible for an area under discussion. However, the same interviewee highlighted that the CEO is uncomfortable with disagreement and prefers to delay a decision if there is one:

BUR4: "Alignment and consensus are not a very big issue. What matters in a concrete field is the opinion of the "owner" of this process, responsible manager. This is what really prevails. If there are disagreements, we can take it for further work. So one may say that if there is lack of consensus, the issue is usually postponed till next meeting for further work. Sometimes they don't get accepted just as well".

We can interpret the CEO's desire to see a consensus and alignment in the team, which is consistently mentioned in interviews through Project I and II, as another of his personal traits which have a significant impact on the process. This may well be the case, although team alignment and consensus are, logically, important elements of effective functioning in the conditions of a very

small and lean corporate team “hand-managing” a complex and rapidly growing enterprise. There is simply no time for friction, and there are very few corporate policies and instructions to regulate and structure the decision making process. In these conditions, good mutual understanding and trust become prerequisites for success. Indeed, one interviewee from the Project I put it very vividly:

CGUE1: “Before that time, before the beginning of ... before January 2006, okay, all decisions, a hundred percent of decisions were taken by the partnership of five people. So, to make it more clear, before January 2006, any decision of the group was .....by one of five of us. So, nobody else could take it, and all of the decisions were sort of distributed between five of us, so any of the five of us could take a decision, okay, which was then one hundred percent recognised and approved by the five others, even though the person did not tell others. We had very good confidence in each other; there was no need for [functional specialists] people to interfere...”

Effectively, encouragement of initiative and open discussion to an extent contradicts the CEO’s desire to see full consensus and alignment, since obviously raising issues and highlighting risks may seem at odds with everybody’s alignment. The key to solving these issues is the clear separation of the discussion stage, when all opinions and concerns are welcome, and the decision stage (once a decision is taken, everyone rallies around the flag). Arguably, the CEO is most often doing a fine job in separating these moments since common opinion (90% of interviewees) maintains that there is a good atmosphere for discussions, or, even, that discussions may be too long and too detailed. A very important part of the CEO’s approach to alignment is the fact that he is taking time and effort to explain why he has taken a certain opinion:

CG8: “Personally, he likes to convince people around the table. They may not be totally convinced, but when he is asking them again, they may pretend to be fully convinced at the end, finally. Maybe he thinks about himself that he didn’t convince people around the table. He likes to convince people, normally. This is a personal thing, maybe. He is always a bit surprised when somebody not necessarily fully agreed with his position. I don’t know. You remember that South African project and Thomas said he disagrees, and he was surprised –

why do you disagree, Thomas? Of course, sometimes somebody like Kulichenko raises his reservations; he is always, I'd say, a little bit upset."

Thus, the decision style is far away from authoritarian and capricious. The leader is genuinely trying to explain the rational and build a consensus on the basis of conscious shared understanding, rather than on simple loyalty to an organisation or its CEO. This approach certainly brings its fruits since interviewees state that they are quite comfortable with most of the decisions:

CG8: "Personally, I feel motivated most of the time because internally I agree with the CEO's decisions; he has a very good rational. For one reason- yes, he explains his rational very well. I understand why he made these decisions and I agree with almost all of them."

### **"Pilot" Strategic Management Model in Action**

The author identified the CEO's focus on details as one of the strongest manifestations of Severstal's strategy making process. The limitations of this trait are aptly reflected in the "pilot vs. astronaut" metaphor suggested by one of the Project I interviewees. The CEO pays such careful attention to details that he only sees what is immediately in front, focused on the pilot's desk at every moment. This is in contrast to the "big picture" seen by an astronaut who has enough time to reflect on what's going on in the space around him on the way to orbit. Personal attention to details, and an ability at any moment to initiate a "deep dive" into granular constituents of a strategic proposal, is an essential instrument for maintaining discipline and control in the conditions of unelaborated internal processes of checks and verifications and small/non-existent corporate bureaucracy. This is an essential instrument to keep control on the quality of business proposals. This is also a heavy load on the CEO and the top team since this approach naturally takes considerable time and managerial effort relative to standard high-level strategic discussions.

The Project II findings confirm that the CEO is very focused on details in strategic discussions, although this focus may vary depending on his level of interest and time constraints. The study participants interpret this focus as a reflection of his fundamental traits, characteristics of his "personality", which

apply to his reaction in every context, not only a narrow business setting. The most widely mentioned trait is his deep personal curiosity and interest in production processes, markets development, operational practices and other details which make up the discussion of strategic projects:

BUG 2: "Overall, this focus on details is probably explained by the CEO's *personal* curiosity and desire to understand all what's going on. The corporate centre could play a bigger role here; corporate officers could discuss these details before it lands on the discussion table with the CEO." CG8: "It's good that the CEO wants to focus on details, because the devil is in details. But sometimes it's necessary to focus on the important parts of the discussion. You need to focus on details for ten minutes, fifteen minutes. He may stay on details for an hour or more." BUR3: "Level of detail varies; I'd say it is ad hoc. The approach is rather non-systematic; depends on what he was dealing with recently. But generally, I'd say there is an inclination to look at details. This is mostly based on character, personal traits. Every detail has a value." CG10: "Discussion of business plans, strategic options may become very detailed; depending on what will catch the CEO's attention he may pick a topic and go into great details, very deep granularity."

Some of the interviewees went further and attempted to look deeper than personal curiosity and a details-conscious character. In direct confirmation to the findings of Project I, one of interviewees suggested that it serves as an instrument to teach management that it is important to track the details:

BUR4: "I think he is doing it first for himself, to satisfy his *own curiosity* and get to know more intimately the drivers of the business. And also to teach the management team that such things require a careful look; there are no items too small to look at. Another example is the CAPEX programme. In the past we were looking at CAPEX from a relatively wholesome perspective. This year he asked us to give [in depth details] – how much, into which plants, into what equipment, why do we need it, etc. when we presented it; he looked at it relatively briefly and approved. So the important thing for him was to make sure that we have looked at it ourselves."

Another interviewee suggested that such focus on details may also reflect lack of trust between the CEO and the management team. He tries to establish

tighter control by keeping an option to question any figure or detail at any moment:

CG7: "The CEO is very focused on the discussion of details, shows great interest in discussing small aspects and details. He may look through and discuss every page of a 100-page presentation, if he has time and interest. Sometimes he is too engaged with details, so that it is difficult to see the whole picture – the forest is not seen behind the trees. Possibly, such focus on details is explained by his personal traits – curiosity, first of all...Another possible explanation is that he doesn't quite trust his subordinates fully."

Therefore, it is clear that high personal involvement of the CEO is part of the model of the small and lean corporate centre with minimum internal bureaucracy and direct communication between business units and the decision maker. Attention to details, although clearly part of the CEO's personal code, is an important institutional ingredient of "leader-focused decentralisation". It serves as a substitution for precise rules and a structured bureaucratic "check and control" processes, as a simple but effective instrument for control and discipline, as a vehicle to improve the CEO's understanding and confidence in business projects brought in by business units.

Practically, too much focus on small details may mean that:

- There is a suboptimal allocation of managerial time - strategically important issues may not receive adequate attention:

BUR3: "His sometimes excessive attention to details makes the discussion rather tiresome at times. Like, "well, here it's started again." It makes no sense to discuss details if you don't have a clear big picture. We often get into details whilst we don't have clarity on strategy yet. That is rather perplexing and definitely quite inefficient."

- Sometimes too much time devoted to research and details means that an opportunity may get lost:

BUU1: "The value of the deal was simply ridiculous, especially from today's perspective: \$9-11 million dollars, if you can imagine that. We discussed for days the pros and cons, and what are the details; spent a lot of resources to investigate that. And then when we finally

were prepared to make a deal, another side exercised the right of first refusal and bought that. I think that was a very inefficient undertaking ...But it was driven by the CEO's vision and interest. Too detailed look. It was demotivating at the end."

- Management team may become demotivated by the requirement to present too detailed a business case when it is not relevant due to high uncertainty and a long planning horizon:

CG10: "That is ok if we speak about a one-year plan, or about two years, but beyond that it becomes really tedious and worthless since you can't see the market and operations that far in such details. That concerns organic growth projects since the business plan is all about CAPEX, organic growth. But the strategic business plan discussion, when it becomes so enmeshed with details, becomes totally divorced from real life. In 5 or 10 years we will have completely new assets, new markets..."

Also on the practical side, there is an argument that the company needs a bigger role for the corporate centre beyond simple CEO involvement:

BUR3: "Actually, I think there are areas for improvement here. A world-class corporate centre with good understanding of our business would help. A great strategist in the helm, to provide us with an alternative vision, [could] apply some pressure and have a serious, detailed discussion; professional auditors and HR service for the top teams in all the businesses. A strong GR would also help."

Arguably, as a company matures and grows, ad-hoc personal involvement should give way to a more structured processes involving corporate oversight beyond the CEO's personal involvement. Corporate officers could do more preparatory work in the discussions with the CEO in advance, which should mean that they spend less time at the CEO's personal meetings with business units. Overreliance on (unavoidably) an overstretched CEO creates serious systemic risks for a company of the size and complexity of Severstal. This paper will discuss these questions in more detail in the section on strengths and weaknesses of Severstal's strategy process system.

### **Step 3. Participants' Perception of Strengths and Weaknesses of the "Leader-focused Decentralisation" Strategy Process**

This section will discuss strengths and weaknesses of Severstal's strategy process as they were described in the interviews by process participants. The particularity of the strategy process is such that we often see the same traits as both strengths and weaknesses, inseparable from each other like two sides of a coin. The study identified three such "strengths-weaknesses", directly related to the idiosyncrasies of Severstal's strategy-making process.

#### **Strength-Weakness I. Adaptive and Agile Decision Making System with Strong Business Units and Direct Access to the Key Decision Maker/ "Weak" and "Underutilized" Corporate Centre and Overreliance on CEO personal involvement**

A strong role of "close-to- earth" business units, flexible interactions and direct communication with the CEO create an adaptive, non-bureaucratic and agile decision making system. On balance, the majority of interviewees viewed this as a strength for a diverse and growing company like Severstal:

CG7: "On balance, high discretion of business units and agility of decision-making is overall a good thing for a growing, global company with diverse markets and businesses, like Severstal. Business units understand their markets and customers better, can see concrete reactions from the market, so the system is more adaptive. Decision-making system is quick and can produce decisions very quickly". CG9: "Another example of decision-making is about our investments into a gold company X. Head of the gold division came up saying there is an opportunity to acquire a controlling stake, but it had to be made very urgently. So he made a presentation, we had a brief discussion, and at the end we made a decision in 30-40 minutes. It was made so quickly because it is in our nature, but also because there was a good trust in Gold business management's ability because of their good track record. So we were able to make a decision quickly, although we knew very little about this company before". BUR4: "A great advantage of him [CEO/shareholder] is that he is very flexible – if there is an urgent decision to be made, M&A deal or something, he makes himself available for a meeting or for a conference call very quickly".

Direct access to the owner of the business can solve issues of any level of complexity; there is a comfortable consistency of dealing with the same person. Normally the CEO is very “available” and readily available if the company requires an urgent decision:

BUR3: "Direct approach – you have access to the owner of the business and can solve issues of any level of complexity. This is a great strength... consistency – we are dealing with the same person so we have plenty of time to adapt and to learn his way. Little friction in the system."

On the other hand, interviews highlight a few important negative sides of the system. Business units' strategies still remain unconnected to each other. Expertise of the corporate centre is underutilised since the CEO and business units discuss decisions directly, with an unclear authority of the corporate centre:

CG7: "Experts at the corporate centre are not always involved (since communication is direct between the initiative provider and CEO). Since business units generate strategic options and corporate centre is supposed to check them and verify, but often fails to do so because of the unclear authority, the system often produces suboptimal decisions". BUG2: However, strategies of different business units are disjoint, this is an area of concern. This can be attributed to the legacy of the supremacy of steel assets. BUR3: There is no a strong, industry-focused expertise above us to challenge our strategy. I see it also as a weakness".

Mental constraints of the CEO (implied supremacy of steel assets) may reduce decision-making:

BUG2: "Historically, the objective was to buy as much steel as possible and raw materials (mining) were a supporting story... Mental supremacy of steel in the heads of top corporate officers and business units' leaders makes the whole process disjointed."

Moreover, there is recognition that dependence on one person and lack of institutionalised expertise from the corporate centre creates risks for the quality of decision making and for company performance in general. For example, this may become a practical challenge also if the CEO is too busy or overstretched:

BUU1: "I think the centralisation of decision making is a good thing, but sometimes we can be very slow in decision making because the CEO is too busy, or he just asks all the time for more details. There is a need for a stronger corporate expertise in addition to the CEO's personal involvement." BUR3: "Depending on one person, even though the contact is very close and easy, is a potential risk to a company." CG9: "Another issue is that the CEO is hugely overloaded: he combines the duty of a company CEO with his social and political obligations as a shareholder in a number of large businesses. This overload has an impact on the quality of decisions." BUU1: "I think the main issue is still, as it has always been, about the level of delegation. We need to retain flexibility because this is an important strategic asset. On the other hand, small deals with small details, like in cases of the Modul acquisition or PBS extension mentioned earlier should be decided at a level below the CEO."

To summarise, many of the interviewees view the agile decision making system with direct communication between business units and the final decisionmaker as a clear strength. This is particularly relevant for a rapidly growing, entrepreneurial company. However, some interviewees mention that lack of institutionalised corporate involvement and overreliance on one person create significant risks and inefficiencies. Moreover, focus on one person's vision means that the company becomes a hostage to established mental maps and constraints of the CEO, limiting the quality of strategic decisions. Interviews indicate dangers and negative effects from overstretch and loss of agility, which may lead to lower quality of decisions and loss of agility. There are signs that these risks are already materialising or will start to materialise in the near future, since they are explicitly mentioned in a number of interviews as current or potential threats.

### **Strength-Weakness II. Raising Sensitive Issues: Constructive Atmosphere for Strategic Discussions, but Reluctance to Question the Prevailing CEO's Opinion**

Personal relationships with the CEO and moral climate around strategic discussions proved to be the most contentious issue. Of the eight interviews, three mentioned only strengths in this area, three others found both strengths and weaknesses and two more highlighted weaknesses only. As discussed above, the interviewees mentioned encouragement of initiatives, conducive

climate for strategic discussions and the CEO's relentless focus to details as enabling factors which assured good quality decisions and the constructive attitude of participants.

However, interviewees mention the associated risks and weaknesses almost as often as the strengths. There is a clear distinction between the strength of a "generally" good atmosphere and dialogue and weakness related to the difficulty of contradicting the CEO's vision. Interestingly, they are quoted in the same interview almost consequentially:

CG10: "Overall, we have a rather cooperative, open system. There is opportunity for discussion; decisions at the top usually make good sense. Decisions on some issues can be made very quickly, if necessary... The biggest problem I see is that we don't have a process itself... Really, few discussions, everyone sits there and waits for the shareholder's opinion... For example, I stood up and offered some ideas, whilst other people hide and don't do it. But in order for your ideas to be heard, you need to be aligned with the CEO in terms of key values, with his vision. If you are in line with these values, then it's ok; if not, then people may feel frustrated and become afraid of raising their voices."

There is a nearly universal recognition that the CEO encourages initiative and open atmosphere, ensuring that there is a possibility to raise different views and express opinions. Some state directly that raising sensitive issues is easy and there is a straightforward, open atmosphere:

BUR3: "Openness, straightforward and open dialogue. This is an advantage and I aim to maintain the same openness and sincerity within our team." CG9: "Since initiative is welcome and there is always a spirit of open discussion, I personally feel ok with the great majority of decisions. Not sure about others. I think the CEO is always open to difficult and sensitive questions; he never skips a discussion." BUR4: "He may be carried away by something interesting to him, may start an unconnected discussion, but that is normally very interesting. He is also very polite, not like some shareholders of other companies, as we hear from their managers. It is ok to raise sensitive questions with him; it is important for us to know his opinion and correct our activity accordingly."

However, others comment that it may be difficult for the top team to raise really sensitive questions for the following reasons:

- Since the CEO has high authority, they are concerned about appearing in contradiction with the CEO's view:

CG10: "The top team is complacent; their main idea is to keep the CEO happy. Not enough challenge and scrutiny of strategic decisions."

- Team members may not be fully prepared to discuss difficult topics because they feel pressure from (and on) an overstretched and exhausted CEO which makes fully open discussion more difficult:

BUR3: "Usually it is easy to raise all sorts of issues, including sensitive or difficult ones. But that again depends on the mood of the shareholder. If he is in a good mood, and generally not very tired, not exhausted, I can discuss all questions. If he is not in a good mood, it should better to set them aside or you can get too much pressure on your shoulders."

- There is an insufficient level of trust between the top team and the CEO. Therefore, there is not enough challenge and scrutiny of strategic decisions. Difficulty of raising sensitive questions and focusing on one man's opinion is a significant problem and historically has led to suboptimal decisions and value-destruction. Interestingly, the same interviewee may speak about an open and trustful atmosphere and, at the same time, complain that the top team is complacent. Their main idea is to "keep the CEO happy". Also, middle managers do raise difficult issues and are better prepared to discuss them:

BUU1: "We can overlook something when we start from only one vision. One example is acquisition on North American assets – some people were firmly against that, but since CEO really wanted to grow in North America, all precautions were brushed aside, and finally those people who were against that had to vote pro, since CEO was clearly in support. It turned out to be a horrible decision".

A good climate for strategic discussions is a necessary requirement for success in the environment of direct communication and relatively unstructured, person-

focused and the quick process of decision making. As can be inferred from the vast majority of interviews, the Severstal CEO's approach provides this climate through a combination of a carefully nurtured open and constructive atmosphere, attention to new initiatives, search for alignment and a careful explanation of the CEO's position. However, the very nature of the system, which is focused on the figure of CEO and the majority owner, risks developing the "yes-man" culture and avoidance of contradiction. This becomes a highly practical risk as the CEO gets overstretched and cannot spend enough time to engage in a high-quality dialogue. Another constraining characteristic mentioned in one interview is low level of trust between the CEO and the top team which makes raising sensitive issues a bigger challenge for the team members.

### **Strength-Weakness III. Excessive Focus on Details**

Most respondents viewed the relentless focus on details as a weakness. Of the five interviewees who mentioned this feature, four considered it in an exclusively negative light, whilst only one found in it both positive and negative moments.

According to the interviewees, too much time may be spent on insignificant questions and details, driven by the CEO's personal interest. They highlight that whilst such granularity is fine for short-range planning, it becomes worthless for longer-term strategic discussions:

BUG2: "The biggest weakness is the depth of his penetration into "operating" (as opposed to "strategic") details. This is bad for him – he should not spread thinly the weight of his authority, his "50%" stake in all decisions. This is bad for us since we have to correct some insignificant detail for 10-15 times, provide reasoning, etc – this is very tedious and distracts from the real work. This penetration into details does not create additional value because at long, strategic horizons such details can not be measured adequately and, therefore, they are ultimately uncontrollable."

The interviewees often interpreted the CEO's focus on details as a reflection of his "personality", personal curiosity and hunger for knowledge. We can also

explain it as lack of trust and insufficient level of delegation. Arguably, the worst part of the story is the demotivating effect on the top team. Team members feel that the company and the CEO don't make the best use of their time, feel bored and excluded:

BUR3: "His sometimes excessive attention to details makes the discussion rather tiresome at times. Like, "well, here it's started again." It makes no sense to discuss details if you don't have a clear big picture. We often get into details whilst we don't have clarity on strategy yet. That is rather perplexing and definitely quite inefficient." CG10: "That is ok if we speak about a one-year plan, or about two years, but beyond that it becomes really tedious and worthless since you can't see the market and operations that far in such details... strategic business plan discussion, when it becomes so enmeshed with details, becomes totally divorced from real life. In 5 or 10 years we will have completely new assets, new markets."

In this case, interviewees may be missing the real point of granularity by focusing on their own experiences. A one-person-focused, "hand-managed" system with few intermediate checks and balances may not exist if that person does not immerse himself with the details, at least from time to time. Otherwise, it would be difficult to maintain proper control and discipline within the process. However, interviewees are probably right in their assumption that attention to details and curiosity are the CEO's personal traits. Had it not been the case, focus on details would be extremely difficult to maintain for a busy and, in fact, highly overloaded executive. The volume and passionate emphasis of negative feedback means that there is a need to find a proper balance between the demand for granularity, limits of forecasting power and efficient time allocation.

### **Other Weaknesses**

Two interviewees specifically highlighted "multiple-source" pressure on the CEO from his roles as executive, wealth manager and participant in political affairs. This overload has a negative impact on the quality of decisions:

CG8: "He [CEO] has to demonstrate a good management and a good investment portfolio. He has to think about good management, shareholder value and maybe some political moments. He has to invest a lot of mental energy; secondly it takes him more time and energy to decide

because he has to align many positions when he makes a decision. So, it costs him and the team a lot of effort and a lot of time. It becomes very difficult as the company grows in size.”

CG9: “Another issue is that the CEO is hugely overloaded: he combines the duty of a company CEO with his social and political obligations as a shareholder in a number of large businesses. This overload has an impact on quality of decisions.”

Besides, other interviews mentioned occasional “overstretch” as an actual or potential threat, for example, when they discussed the difficulty of raising sensitive issues. This may be difficult when the CEO is too tired and has something else on his mind:

BUR3: “Usually it is easy to raise all sorts of issues, including sensitive or difficult ones. But that again depends on the mood of the shareholder. If he is in a good mood, and generally not very tired, not exhausted, I can discuss all questions. If he is not in a good mood, it is better to set them aside or you can get too much pressure on your shoulders.”

This not very well-articulated issue may not be considered as Severstal-specific. There are quite a few business owners who combine their duties as “wealth manager” with responsibility of company executive. A little more “country-specific” is mentioning of “political responsibilities” in the context of time-consuming activities. Without going into much detail on that weakness, we may conclude that the issues of overstretch and reliance on well-being of one central person is a real and important business issue for the decision making system found in Severstal.

Another specific weakness mentioned in one interview concerned the fact that the decision making is concentrated at the top. There is little communication and involvement of middle management. The top team and CEO are rather “closed” from the rest of the company. There is a need for more connection to the rest of the group:

CG10: “The CEO usually seeks consensus among the top people, such as a head of a relevant business unit, CFO, some others. He doesn’t really care about other people. I think this is a problem since we need to have not only TOP-10, but also a wider circle, at least TOP-100 aligned around our vision... As I said, since decision-making is so concentrated at the top, there

is insufficient communication and alignment with the middle management, they don't get the message and so on. The top team should be more visible, they should be more decisive."

We can view this as another constraining feature of "leader-focused decentralisation" since only a relatively closed circle of top managers can conduct direct dialogue, which is in the heart of this system, and there is little involvement of middle management into decision making. Presumably, their indirect role is still high since they participate in the preparation of strategic decisions for the top to discuss, but their direct participation in strategic discussion itself is relatively limited.

There is an indirect confirmation of this in the remark about the reduction in the number of "direct correspondents" made at the CEO's initiative recently:

CG8: "In 2009-2010 we have a smaller team with a stronger trust level. Now he [the CEO] communicates with 5-10 people at the business unit, rather than with 30. It's impossible to build trust with 30 people in the room. Alexei has chosen personally all the people he is now sitting with at the table, and he got rid of others. One of the aspects here is the fact that he has almost exclusively Russians next to him..

One could argue that a leader-focused strategy-making system "by definition" may only involve a limited number of top people, thus constraining creative potential of a wider corporation (Floyd and Wooldridge, 2000). The question of middle-management involvement in strategy process and communication with the key decision maker in the context of "leader-focused decentralisation" deserves a deeper exploration in further, more detailed studies on the subject.

As discussed above, the interviews have effectively presented only one side of the story – the process participants on the corporate and business unit level. A detailed and careful analysis of the "opposite" perspective - the perspective of the leader - remains among the most interesting and natural extensions of this study. The author managed, however, to have a brief and practically-focused discussion with the CEO whilst presenting him with the summarised results of the previous interviews. The CEO made a few comments that may be of relevance to the study according to the author's notes after the meeting:

- He agreed with all the conclusions characterising the strategy process in Severstal (i.e. with the characteristics of “leader-focused decentralisation” as they are drawn below).
- He reiterated that the decentralised generation of ideas, agility in decision making and a high role of business units are a great asset and differentiate Severstal from its competitors, particularly the traditional “Western” corporations with slow and bureaucratic decision making.
- He agreed with the identified weaknesses, especially the risks associated with the process’s focus on one person and potential overstretch. According to him, overstretch was a crude reality and there was a clear need to undertake specific action to adjust the CEO’s workload and create a more “distributed” decision making system.

Although not nearly as comprehensive as other interviews, the CEO’s remarks still lend some support to the study’s main conclusions. Most importantly, they highlight the study’s practical relevance. On the one hand, the significance of the enquiry into the “leader-focused decentralisation” is supported by the CEO’s reference to Severstal’s decision making system as a serious competitive advantage. The CEO’s recognition that identified risks are real and serious and require urgent attention to support the study’s external validity and practical significance.

The author designed the study as qualitative and exploratory and hence, we require further, more elaborative and quantitative research before making any generalising conclusions. The study results may still start playing a practical role in the idiosyncratic context of Severstal. Its conclusions may serve as a starting point in addressing the risks and making further steps in the development of a strategic decision-making system in the company.

## ***SUMMARY OF CONCLUSIONS***

The key conclusions of Project I concerning the characteristics of “leader-focused decentralisation” were confirmed and elaborated:

- The ultimate role of the CEO and key shareholder in strategic decision making. Direct control over the “final” strategic decisions:
  - o The general role of the CEO in the strategy process is very visible at the strategy-related meetings. He is leading the discussion, speaks most of the time, asks the majority of questions and has a "controlling stake" in strategic decisions.
  - o The style of strategic discussions reflects the CEO's personal preferences, such as close personal attention to details; strategic discussions are relatively well-structured, although there is a division on that point, but also universally considered as too long and tiresome.
  
- Despite movement towards higher centralisation and better structuring of the decision making process over the last few years, the fundamental “decentralisation” traits of Severstal’s strategic decision making system remain in place:
  - o Very high role of business units in the generation of strategic ideas and options. Bottom-up initiatives form the backbone of the company’s strategic development.
  - o Direct communication between business units and the CEO; relatively modest role of intermediaries and the corporate centre team.
  - o Bottom-up, practice-oriented and detail-focused approach to strategic decisions.
  
- Nevertheless, it is important to highlight that the strategy process has far evolved from the purely ad-hoc, opportunistic approach of the early 2000s. Interviews highlight that the strategy process has become more structured and purpose-oriented. There is a clear strategic vision and the company introduces corporate strategic priorities and financial targets. Nevertheless, as discussed above, we can conclude that the key elements of “leader-focused decentralisation” have so far successfully survived this transition.

However the question remains: to what extent is this approach going to remain competitive and even feasible going forward? Rising company size and complexity, growing management overload and risks of reliance on one person in strategic decision making raise serious questions about the sustainability of this strategic management model- the model which extends, of course, much beyond the strategy-making process as such.

The role of the company leader is particularly important in this context since the CEO/majority shareholder personally defines the “rules” and atmosphere of strategic discussion and hence, overall strategy process. Along with the key characteristics of “leader-focused decentralisation”, Project I identified a number of interesting idiosyncrasies, questions or even apparent paradoxes associated with the role and importance of the leader. Project II analysed these questions in more detail.

***The study identified two areas of major impact of CEO leadership and personal traits:***

1. The role of the CEO as a strong leader making all final decisions encourages initiative, promotes creativity and aligns interest in the environment:
  - The CEO creates a very open and constructive atmosphere for strategic discussions, and welcomes diverse opinions.
  - Initiatives should correspond to the CEO’s vision that is defined in general terms so that it doesn’t constrain the team’s creativity.
  - The CEO carefully explains his vision and rationale for strategic decisions and aims to achieve alignment, buy-in and sense of ownership in the top management team.
  - The CEO’s high profile and authority, combined with push for consensus, create issues with raising sensitive issues or highlighting risks.

- This risk of poor decision quality becomes particularly acute if there is an insufficient level of trust between the CEO and the top team.
2. The role of the CEO in implementing a “pilot” management model: high personal involvement, relentless focus on details and high granularity of strategic discussions:
- The CEO is inclined to look at granular details even when long-term strategic decisions are involved.
  - High level of detail is the reflection of the CEO’s personal interest and curiosity, but also a vehicle to maintain control over the quality of strategic plans and proposals.
  - High involvement of the CEO, substitution of a bureaucratic machine for personal immersion reflects the philosophy of a small and lean corporate centre with direct communication between business units and the final decision maker.
  - “Pilot” model is very time-consuming and may lead to overstretch of the CEO and the top team.
  - Excess focus on details may lead to suboptimal time allocation, loss of agility and inadequate attention to strategically important issues.

Interviewees highlighted a number of perceived strengths and weaknesses of the process. We may view both strengths and weaknesses as continuation, a logical consequence of “strategy-focused decentralisation” since they are very closely related to its key features, such as attention to details or focus of all decisions on one person.

***Perceived strengths:***

- Small and lean corporate centre, direct communication between initiative providers (business units) and the final decision maker. As a result, agile and adaptive decision making system and low-cost, non-intrusive corporate centre.

- Open, constructive and comfortable environment for strategic discussions. The leader is interested in hearing diverse arguments and viewpoints.
- Constant focus on building consensus and alignment within the team. To achieve alignment, the leader ensures that his reasoning behind a taken decision is well-explained and shared by the top team. As a result, generally good motivation of the team members.

***Perceived weaknesses:***

- Risks associated with (over)reliance of the strategy process on one person, weak and “underutilised” corporate centre. This risk is aggravated by high pressure on the leader from his multiple roles as executive and wealth manager.
- Relentless focus on relatively small details is extremely time-consuming and may distract attention from strategically important questions. Overstretch of the leader is one of the prime causes for the loss of efficiency and focus on the system which depends so much on the energy and involvement of one person.
- Strong authority of the leader combined with ongoing time constraints and chronic overstretch may present a problem since top managers may be reluctant to raise sensitive issues and contradicts leader’s current view.
- Concentration of decision making on the very top level; little direct involvement and poor communication with middle management on strategic discussions.

The conclusions of Empirical Project II have helped to further refine and enrich the notion and characteristics of “leader-focused decentralisation” – the approach to strategy making investigates the enquiry into strategy making in Severstal. The text below summarises the conclusions from both empirical projects.

## **Characteristics of “Leader-focused Decentralisation” in Severstal: Summarising the Conclusions from Empirical Projects I and II**

This section summarises the key characteristics of leader-focused decentralisation, as well as the mental journey in the development of the “leader-focused decentralisation” concept, starting from the existing theoretical frameworks and through the evolution of empirical results as they were produced in the Projects II and III. The literature review in Project I highlighted the central dilemma of the “activist” vs. “detached” corporate centre and identified two well-developed theoretical concepts of the corporate centre’s role in strategy process (Ward et al, 2005; Goold and Campbell, 1987, 1993 a). These theoretical models (“typologies”) described “ideal types” of corporate centre roles, identified differentiating characteristics which we can use in describing these types and suggested areas (e.g. levels of corporate centre involvement, strategy-setting processes and means of corporate control). However, these studies were conceptual in nature and provided only high-level case studies as a way of illustration, calling for more evidence-based empirical investigations into the complex phenomenon of the corporate centre in varying contexts. Indeed, the authors of the models suggest that although each style has strengths and weaknesses, to be value-creating it must fit the conditions facing the business. One can extend this argument further – by exploring the unexplored contexts and firms’ reaction to these contexts, we may not only improve our knowledge about the links between contexts and typologies, but also enrich the models themselves. For example, the strategy literature in the emerging markets highlighted the phenomenon of widespread and highly successful diversified conglomerates which seemed to prosper and grow in that particular environment (Claessense et al, 1999; Khana and Palepu, 2000), contrary to the evidence on conglomerates’ performance from the Western context (Berger and Ofek, 1995). Scholars discussed institutional specificities of emerging markets as the actual reason for the successful “conglomeritisation”, drawing upon both institutional theory, transaction costs and resource-based approaches (Wright at al, 2005), as well as corporate governance-related issues (Claessense et al, 1999). This is a good illustration of high context-

dependence of strategy practices and processes (Pettigrew, 1992) and the necessity to challenge conventional wisdoms and theories by placing them into new, previously unexplored contexts. This study attempted to address the apparent lack of relatively in-depth, empirical investigations of actual roles of the corporate centre in the highly specific and interesting context of a major, owner-managed company in the post-privatisation era, operating in a volatile, but generally highly conducive environment of Russia in 2000-2008.

The author employed characteristics of varying models/typologies of corporate centre roles as a starting point and as background questions for the empirical part of the research. Naturally, the basic research question referred to the overall roles of the corporate centre and business units and the nature of corporate involvement in strategy process. Project II highlighted an interesting and dialectic approach to strategy process which combined a high role of bottom-up initiative, avoidance of formal targets and constraints, high discretion of business units with a very hands-on, involved leader playing the role of the “final” decision maker in all strategic, and partly operational issues. The involvement was deep if unsystematic, particularly at the earlier stages. This approach has shed a new light on the apparently clear-cut dilemma of corporate centre involvement. Here, the centre leaves high discretion to business units, meeting the theoretical demand for “responsiveness” (De Witt & Meyer, 2004), but also keeps tight control and involvement through the ongoing execution of leadership by the company CEO-owner. Again, we cannot describe this approach, in its “pure”, early-stage form, by either simplistic, detached, financial targets-based “financial control” corporate style (Goold and Campbell, 1987; Ward et al, 2005), nor by its conceptual opposite, “strategic control/strategic planning” styles which imply direct, elaborated and involved corporate centre roles. It means that we should extend existing theoretical models to incorporate a wider spectrum of attributes, including leadership styles that can facilitate elements of both involved and detached management styles.

However, we can use Warde et al’s (2005) more flexible and conceptually rich typology to place the “leader-focused decentralisation” within the earlier

theoretical context. Here the corporate centre influences business units' strategy indirectly, through alignment around a strong vision and corporate values. Ward et al warn that actual strategy process may, in fact, vary in this configuration depending on context. Company-wide strategy process can be more or less formal, orientation may be both short-and long-term, but the key feature and the main instrument for control would still be the "provision of meaning", sense of unity and values executed through company-wide strategic initiatives from the centre. Here, leadership, rather than abstract procedures and processes are leading the show. Indeed, the very definition of corporate centre roles includes highly leadership-dependant characteristics: "provide strong unifying vision and values... promote sense of unity within the corporation".

One of the fundamental conclusions of Project II was precisely the exceptionally high importance of leadership and leader's personal traits in shaping the strategy process in Severstal. In leader-focused decentralisation, the leadership's role in shaping strategy is both direct and indirect. Its direct influence is executed through a formal control over the "final" decision making. An indirect role, arguably much more important, lies in the creation of a conducive atmosphere for strategic dialogue, where bottom-up initiative experimentation and bold thinking are both expected and actively encouraged. Business units' teams are empowered through a high level of trust and discretion even in the decision structure which implies the ultimate role of the leader in shaping the process and outcomes. The leader goes a long way to establish a conducive and trusting atmosphere, carefully explains his own thinking and works to develop consensus and alignment within the team.

Another interesting "leadership" characteristic of leader-focused centralisation, which we can interpret as a unique "delivery channel" of corporate control, is the "pilot" management model. Again, from the theoretical perspective of Ward et al (2005), this model combines both direct and indirect control mechanisms. Direct mechanism is, of course, the very fact of the CEO's personal involvement in the lengthy and in-depth strategic discussions. Indirect mechanism stems

from the CEO's ability and willingness, "from time to time", to dig into highly granular, specific details of a particular project or process. This ability serves as a disciplining mechanism for the top team which can always expect such a "deep dive", and hence keeps itself ready and able to defend every detail of the plans that they bring. Such an approach may become a truly essential means of direct and indirect control in the environment which demand high flexibility and minimal corporate-induced bureaucracy in the strategic discussion.

Empirical projects II and III provided a full-fledged, comprehensive discussion of both "process" and "leadership" aspects of leader-focused decentralisation. The study identified the "process" characteristics on the basis of a "configurational" theoretical paradigm of strategy process research combined with the conceptual characteristics of the corporate centre role. The "leadership" side of the concept, explored in detail in Project III, formulated the nature of leadership involvement, leadership style, its connection to the leader's personal traits and their role in keeping the overall strategy process going. It has also identified the strengths and weaknesses of this leadership as they were perceived by process participants.

A traditional discussion of the corporate centre role in academic literature focuses on the "level" of corporate centre involvement in business units' management. The corporate centre may be either an "activist" shaper or "detached" shareholder leaving strategy to business units (some "intermediate" combination of both attributes is also possible, but normally deemed a-priori difficult as it is "stuck in the middle"). From this perspective, leader-focused decentralisation offers a new way of looking at the corporate centre phenomenon by building a dialectical synthesis of these theoretically constructed "opposites". As a mechanism which solves the corporate centre dilemma, leader-focused decentralisation offers a highly informal, flexible, simple and low-cost mode of corporate involvement and control which keeps corporate bureaucracy at the minimum and promotes business units' initiative, self-sufficiency and responsiveness. In leader-focused decentralisation, we can interpret the leadership's role in strategy process as both direct and indirect

means of involvement (Ward et al, 2005). Its direct influence is executed through a formal control over the “final stage” decision making and close personal involvement with details in strategic discussions. An indirect role, arguably much more important, lies in the creation of a conducive atmosphere for strategic dialogue, where the company both expects and actively encourages bottom-up initiative experimentation and bold thinking.

The characteristics of leader-focused decentralisation cannot be seen in separation from the context of the emerging markets and its demands. Strategic flexibility allows the company to benefit from the diverse opportunities for business expansion in the specific environment of high volatility and underdeveloped market and public institutions (Uhlenbruck et al, 2003). In “leader-focused decentralisation”, strategic flexibility was preserved through the “decentralisation” component which primarily concerns the areas of ideas generation and the unconstrained nature of the business units’ strategic thinking. The corporate centre and its leader maintained tight control of the decision-making by approving all major strategic decisions. At the same time, the CEO purposefully encouraged bottom-up initiative and creativity through leadership and did not impose constraining top-down strategic or financial constraints to the business units.

The concept of leader-focused decentralisation allows us to open new horizons and expand contribution to practice beyond the simplistic theoretical concepts of “either” activist “or” the detached corporate centre. Although highly useful as a first-step conceptual distinction aiming to rationalise and comprehend complex organisational phenomena, such an opposition may become counterproductive if applied uncritically and without due attention to both external and internal idiosyncrasies. By polarising the range of conceptual options, academic science risks becoming detached and irrelevant to the practice of strategy (Whittington and Caillaet, 2008), or may even create a negative impact as practitioners learn to think in simple theoretical constructions introduced at university courses on strategy. To avoid the dangers associated with inclination to create polarised alternatives, a dialectic approach, which combines elements of both opposites

and synthesises them at the next, more comprehensive and nuanced level, is often useful in strategy studies (De Witt and Meyer, 2004). We can view leader-focused decentralisation as such as an empirically-based synthesising concept of a strategy process in a multi-business firm that encompasses elements of decentralisation, bottom-up initiative and in-depth control and involvement by the central leadership.

### **Leader-focused Decentralisation in a Nutshell**

The “leader-focused decentralisation” approach to strategy making in a multi-business group combines decentralised, bottom-up, business units-led generation of strategic proposals and initiatives of which the company leader, and a small circle around him, are the “final” decision makers. The leader is personally involved in both strategic and operational details, controls the strategic agenda and makes all final strategic decisions whilst remaining closely engaged in a direct, detailed dialogue with business units.

In its “pure” form, which Severstal can track through the early 2000s-2006, we can describe leader-focused decentralisation by the following key characteristics:

- A highly decentralised and flexible strategy process, ad-hoc approach to strategic initiatives. Absence or vague formulation of explicit corporate financial/strategic goals ensures a very high discretion of business units, securing a high level of initiative and unconstrained creativity. Creativity of business units is unconstrained by “strategy as liability”, i.e. by any financial or strategic frameworks or requirements.
- Control over the “final stage” of decision-making in the hands of a highly authoritative CEO/company leader and a small circle of top managers.
- Small and lean corporate centre, minimum corporate rules or bureaucracy, very few/no “intermediate steps” or barriers between business units and the “final” decision maker.

- “Pilot” management model - deep personal involvement of the CEO, granular attention to details in the strategic discussions with business units. Attention to details is a crucially important instrument enabling the CEO to control the content and quality of decisions in the absence of a strong corporate bureaucracy. In-depth personal involvement in operational and strategic details facilitates control during the review process. One can consider this approach a unique capability since such practice is very difficult to imitate by competitors because of very tough time requirements and emotional resources from the CEO/shareholder and his small top team, given the size and complexity of businesses under management.
- Personal attention of the CEO/company leader to creating a favourable climate for bottom-up initiatives, promoting constructive and open environment for strategic discussions and ideas-sharing. Emphasis on building top team alignment and buy-in despite the high role of the leader ultimately making all final decisions.

This particular type of a corporate centre was developing in the distinct context. We can characterize the external environment in Russia at the time as highly volatile and uncertain, but it also presented unique business development and growth opportunities. The second part of the 2000s brought a more stable country context, increasing importance of financial markets and transparency and an unprecedented economic boom in the steel and mining industry which was followed by an abrupt and severe crash in the wake of the 2008 financial crisis.

A crisis of “leader-focused decentralisation” and a partnership system occurred by 2005-2006, as a result of personality issues in the top team, increased company size and complexity and a new demand for transparency after a failed merger with Arcelor and the rising role of capital markets in Russian business in general. In the wake of the leadership crisis, Severstal started moving towards higher centralisation and “professionalisation” of their management system. However, the system retained its defining features and associated strengths and weaknesses:

- Tighter centralised control, including introduction of financial targets for business units and formulation of formal corporate strategy for the first time in company history after the 2008 financial crisis. One can interpret the introduction of financial targeting and an emphasis on corporate strategic priorities as an attempt to focus the business units' attention on efficiency improvement and disciplining anti-crisis measures. The strategy process itself became somewhat more structured and systematic.
- However, the company preserved the preeminent role of the leader as the "final" decision. Business units still have a very high discretion and the company encouraged a bottom-up initiative which was the main driver and the key source of strategic ideas, although the corporate centre started playing a more important role in the development of external (inorganic) growth options.
- The evolved system retains the key perceived strengths of agility, flexibility and direct access to the final decision maker. However, it also has serious perceived weaknesses and constraints including overreliance on the energy and involvement of one single person, suboptimal allocation of managerial resources, disjointed business strategies and lack of unity and inefficiencies related to occasional overstretch and loss of focus by the company leader.

In conclusion, it is important to emphasise again that this particular approach to strategic decision making is only possible if its fundamental traits coincide with the leader's personal style and preferences. Indeed, it is not a coincidence that such fundamental attributes of the system, such as high personal involvement of the leader, focus on details and push for team alignment, are universally interpreted by interviewees as the CEO's personal traits. Had he not been comfortable with this management style, it would hardly be possible to carry this incredible burden of responsibility. In addition, such a system is probably only possible if the roles of the CEO and (majority) owner are combined. It is difficult to imagine such enormous responsibility in the hand of a "hired" CEO in a standard corporate structure of checks, balances and internal controls.

Historically, the foundations of such approach were laid in the period when young, curious and extremely energetic managers assumed ownership of big enterprises amid underdeveloped market institutions, a mistrusted legal system and poor protection of property rights. To assume direct control and focus all decisions on one person or a close partnership at the helm was then a natural choice. However, gradually the external conditions improved and companies became much bigger, much more profitable and considerably more complex. With the new conditions, company leaders could only develop and maintain the old system as long as the company leaders have enough energy and interest in detailed, hands-on management.

It remains to be seen how the system will respond to the challenges of growing size and complexity, changing external environment and overstretch of the top team. Judging by the number of weaknesses raised in the interviews, the system is currently far from the position of sustainability. A careful look would reveal that its weaknesses are merely a continuation of its strengths; therefore, they can only be addressed by reforming the basics of the overall system. The first signs hint that we will see a typical evolution of an entrepreneurial company toward a more structured, rules-based and bureaucratic organisation with more external controls and less reliance on the genius of one man (Mintzberg, 1978). Overreliance on the efforts of one person calls for a stronger and more involved corporate centre, introduction of intermediate corporate procedures and checkpoints. Of course, this also means lower self-sufficiency of business units, longer decision making and, as a consequence, inevitable loss of agility and flexibility. Alternatively, the company could preserve the old system if the CEO receives a strong reinforcement in the shape of a close circle of trusted executives with whom he can share his enormous responsibilities. However, this solution presumes a very high level of trust and partnership-like style of relationship. These conditions are extremely difficult to fulfill in practice. Moreover, as we know from history, the partnership model also bears inherent risks. It did not survive beyond 2006 because of an accumulated overstretch and diverging interests of the former partners.

That the system has lived through at least ten years of unprecedented change and volatility also implies that the company management was prepared to carry the associated burden and devote their lives to this extremely time-consuming service. This assiduous and tireless service, close personal involvement in the day-to-day management of a complex, growing and overall very successful businesses stays in sharp contrast to the popular caricature view of an “oligarch” owner of a big Russian business. Such a lifestyle would be most unnatural for a hedonist only interested in skimming a short-term financial rent of a heavily exploited natural resource business.

Finally, such an approach is not alien to the management style favoured in Russian political history. A long tradition of super-centralisation of power in the hands of an all-encompassing leader dates from post-medieval Russian history ever since the rise of the centralised Muscovite state began in the 14<sup>th</sup> century. Inclination for “hand management” of complex systems and allocation of enormous direct executive power in the hands of one person is also quite a modern trend in the most recent history of post-Soviet Russia (Petrov et al, 2010). A strong, charismatic, father-like figure of a leader involved in detailed management of the business is a common feature of many successful Russian business groups of the 1990s and early 2000s (Kets de Vries et al, 2005). This cultural background facilitated the creation of a system which was so much focused on the figure of the company leader. However, the young Severstal CEO in the 1990s pioneered a local management innovation when he created a leader-focused system which relied on a decentralised bottom-up initiative rather than on a more traditional centralised bureaucracy. Hopefully, this description of the results of this approach to strategy-making will add a new perspective to our knowledge of the variety of strategy processes in multi-business groups.

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# APPENDICES

## Appendix 1 - Key takeaways from the literature

Research area	Key papers	Key propositions	Prevalent methodology
<b>Strategy Process</b>			
<b>Strategy process concept: summary of academic approaches</b>	Mintzberg and Lampel (1999)  Hutzschenreute & Kleindienst (2006)	- Both process and content-related definitions of strategy schools; eclectic view of the field with important contributions from other disciplines; need for comprehensive “configurational” approach to strategy process, structure and context research  Mostly process-related concepts of strategy involved; recognition of the significant role of “human factor” brought by process participants; inclusion of “practice” perspective	Review, analysis and categorization of existing theories
Strategy as “design”; early conceptual writers on strategy	Andrews (1971)	- Strategy is a deliberate and analytical process owned by CEO; the process is relatively simple	Conceptual and prescriptive
Strategic Planning	Ansoff (1965) Mintzberg (1991; 2000) Miller & Cardinal, (1994) Wittington & Cailluet (2008)	- Strategy process is deliberate and conscious - Clear separation of “formulation” and “implementation” - Emphasis on formal procedures, routines, and analytical tools - Corporate planners as key figures; the process is administered by CEO and top team - Modern emphasis on the role of strategic planning as a mechanism for information exchange and alignment over the strategic agenda	Conceptual and prescriptive  Few case studies, mostly cross-sectional analysis with special focus on the impact of process on performance

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
Emergent strategies, Learning and Incrementalism	Mintzberg & Waters (1985) Stacey (1993) Quinn (1978)	<ul style="list-style-type: none"> <li>- Emerged as a response to the view of strategy as “deliberate, analytical and directive” process</li> <li>- In reality strategy process is most often a process of small incremental steps, testing, experimentation and learning</li> <li>- Emergent strategies emphasize learning while acting and gradual convergence of different processes into a distinct pattern (strategy)</li> <li>- Due to environment complexity, organisations need to employ careful step-by-step approach, gradually adapting organization to the new situations</li> </ul>	Conceptual and descriptive
Strategy process as a political phenomenon	Pettigrew (1978) Allison (1971)	<ul style="list-style-type: none"> <li>- Strategy process is contextually embedded in organisations and hence prone to political activity – a dynamic system of interpersonal bargaining and compromise in the conditions of uncertainty, competing goals, differing perspectives and limited resources</li> <li>- Strategies may be driven by political as much as by “rational” factors</li> <li>- Strategies resulting from a political process tend to be emergent rather than deliberate because political process is essentially a search for a compromise.</li> </ul>	Conceptual and empirical case studies
Upper-echelon perspective	Iaquinti & Frederickson, 1997; Bowman and Kakabadze, 1997	<ul style="list-style-type: none"> <li>- Important role of top management teams (TMT) in strategy process (similar in spirit to “deliberate” schools, especially the design and planning school)</li> <li>- Of key interest impact of TMT demographics and nature of relationships on the process and outcomes</li> </ul>	Mostly cross-sectional enquiries or empirical case studies leading to generalized conclusions and implications for practice

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
Strategy as a dialectical process of co-evolution of strategic initiatives and company's concept of strategy	Bower (1970), Bower and Doz (1979) Burgelman (1983) Fajoun (2002)	<ul style="list-style-type: none"> <li>- Placed in the context of large diversified firms , emphasizes the role of middle management</li> <li>- Company strategy evolves as "strategic initiatives" initiated bottom-up contribute to the gradual evolution of the "official" company strategy</li> <li>- "Structural context" set by corporate management serves as a selection and screening mechanism that strives to "fit" emerging strategic initiatives into the prevailing concept of strategy</li> </ul>	Case studies leading to a conceptual model
Strategy process as iterated process of resource allocation	Bower & Noda (1996)	<ul style="list-style-type: none"> <li>- Strategy as an iterated process of resource allocation by top management to the business unit/middle management level</li> <li>- Big role for strategic experimentation and past performance in determining outcomes</li> </ul>	Case study leading to a conceptual model
Strategy As Practice perspective	Jarzabkowsky (2005) Wittington (2003; 2006)	<ul style="list-style-type: none"> <li>- Practice approach to strategy is focused on the day-to-day flow, routines and attributes of strategizing activities</li> <li>- Managerial agency, situated action and strategy stability as key types of issues</li> </ul>	Conceptual and descriptive; employs both longitudinal case studies and cross-sectional analysis

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
Methodology of strategy process research	Chakravarthy & Doz (1992) Pettigrew (1992) Dess, Lyon & Lumpkin (2000) Fredrickson (1983) Jarzabkowski (2005)	<ul style="list-style-type: none"> <li>- Strategy process can't be studied as a separate phenomenon, divorced from the organisational and external context</li> <li>- Holistic approach - need for a comprehensive analysis involving many levels of contexts through the investigation of recurring patterns in strategy process</li> <li>- Strategy process is also embedded in the past</li> <li>- Strategy process is constrained by external environment, but it also shapes the environment because of the role of human action</li> <li>- Longitudinal comparative case study as the key method</li> <li>- Methodologies for operationalization of strategy process characteristics</li> <li>- Emerging field of strategy-as-practice research with a distinct methodology with attention to context and detail (ethnographic approaches, self-reports, discussion groups, practitioner-led research)</li> </ul>	Methodology studies
<b>Strategy process and organisational context</b>	Droge, Miller & Toulouse (1988) Ketchen, Thomas & McDaniel (1996) Covin & Slevin (1997)	<ul style="list-style-type: none"> <li>- Strategy process/content and context mutually evolve in a reciprocal manner</li> <li>- Organisational structure and team members attributes have a significant and direct impact on strategy process characteristics</li> <li>- Strategy process may also serve as mediator between organisational context and strategy content</li> </ul>	Cross-sectional case studies as key method to analyze the relationships between characteristics of process, context and performance

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
Participants in strategy process	Bloodgood (2001) Papadakis & Barwise (2002) Droge, Miller & Toulouse (1988)	<ul style="list-style-type: none"> <li>- According to the early works, strategy is created by a CEO or at most a close circle at the top</li> <li>- Later it was demonstrated that many activities may be performed by lower-level managers and even external professionals</li> <li>- Significant role of middle management as sources of new ideas and strategic experimentations</li> <li>- Evolving pattern of corporate-business unit strategy teams interaction</li> <li>- Personal characteristics of decision-makers have significant impact on strategy process</li> </ul>	Cross-sectional as well as longitudinal case studies
Entrepreneurial context	Miller (1983) Mintzberg & Waters (1982)	<ul style="list-style-type: none"> <li>- Entrepreneurial nature of company management exerts very significant, and in many cases decisive impact on strategy process and content</li> <li>- Particularities of entrepreneurial strategy-making</li> </ul>	Case studies of entrepreneurial companies; entrepreneurial strategy-making as a conceptual part of many strategy process models

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
Strategy and structure	Chandler (1962) Galbraith & Nathanson (1979) Miller (1987) Bower (1970), Bower and Doz (1979) Burgelman (1983)	<ul style="list-style-type: none"> <li>- Contrasting perspectives of “Structure follows deliberately chosen strategy” and “Strategy follows structure” or, at least “Strategy is shaped by structure”</li> <li>- Both perspectives find empirical support depending on data interpretation</li> <li>- More elaborate concepts emphasize dialectical role of strategy-structure relationship (structure as mediator between autonomous and infused strategic behaviors; strategy process as a mediator between context and content; “Structural context” as a tool for selection of emerging strategic initiatives )</li> <li>- Conclusion: strategy process/content and context mutually evolve in a reciprocal manner. Strategies do determine organisational structure and context and are in turn embedded in the particular organisational contexts. The nature and shape of this ongoing relationship in different phases of corporate development</li> </ul>	Case studies leading to conceptual models; prescriptive models
<b>Strategy process and external context</b>	Al-Bazzaz, Grinyer & Yasai-Ardekani (1986) Droge, Miller & Toulouse (1988) Ketchen, Thomas & McDaniel (1996) Covin & Slevin (1997)	<ul style="list-style-type: none"> <li>- Significant role for external environment in shaping strategy process</li> <li>- Environment uncertainty, hostility and (un)stability as most widely mentioned characteristics having biggest impact</li> <li>- Most often academics undertake simultaneous investigation of relationships between external and organisational context and strategy process, often relating it to performance outcomes</li> </ul>	

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
National context	Hayachi (1978) (surprisingly, at this stage only one(!) paper on the impact of national context was found)	<ul style="list-style-type: none"> <li>- Particularities of Japanese national context led to a substantial transformation of prevalent in 1970s “strategic planning” practices</li> <li>- There was a reluctance to “programme” the way to stated objectives; the nature of strategy process was very much “bottom-up” and based on informal coordination</li> </ul>	Case study
<b>Time Perspective Of Strategy Process:</b>	-	-	-
Strategic change	Quinn (1978). Miller & Friesen (1980).	<ul style="list-style-type: none"> <li>- Strategic change, including change of strategy process can be revolutionary (abrupt shifts of large magnitude in a relatively short period of time) or gradual (slow and incremental pace of small changes over extended period of time)</li> </ul>	

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
Configurations	Mintzberg et al (1998) Miller (1987)	<ol style="list-style-type: none"> <li>1. Most of the time organisations exhibit a relatively stable configuration of characteristics (structure, strategy content and processes and leadership embedded in a particular context)</li> <li>2. These periods of stability are occasionally interrupted by shorter periods of transformation (“quantum change” view of organisational transformation – Miller, 1987).</li> <li>3. “Configurations” of changing states over time may produce a certain pattern that could be summarized in a certain way, for example as “life cycle” of an organisation.</li> </ol> <p>Key questions:</p> <ul style="list-style-type: none"> <li>- What is the pattern of organisational transformation and how do the processes of change and continuity relate to each other?</li> <li>- How organisations come about change and how do they manage to maintain status quo?</li> <li>- How organisations, contexts and strategies jointly develop over time?”</li> </ul> <p>Key conclusion in relation to strategy process:</p> <ul style="list-style-type: none"> <li>- Different views of strategy process (entrepreneurial creativity, formal planning, emergent learning, etc) would adequately explain actual processes, but only for particular periods of time</li> </ul>	<p>Conceptual papers and multiple case studies leading to empirical models of configuration</p> <p>Elaboration of methodology for longitudinal studies of evolution in organisational attributes, including strategy process</p>

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
Strategy Process Case Studies	Mintzberg & Rose (2003) Mintzberg (1978) Mintzberg & McHugh (1985) Mintzberg & Waters (1982) Pettigrew (1987)	<ul style="list-style-type: none"> <li>- Longitudinal case studies, mostly in configurational tradition, looking at joint co-development of organisational structures, contexts, strategies and leadership over time</li> <li>- Key aim is to provide a comprehensive description of patterns in organisational development</li> <li>- Strategy process (“strategy formation”) remained a key focus in most of the studies</li> <li>- The purpose is to provide a variety of examples of strategy process formation in different organisational contexts (entrepreneurial firm, public body, traditional corporation, etc)</li> </ul>	Longitudinal case studies leading to conceptual insights and models

<i>Research area</i>	<i>Key papers</i>	<i>Key propositions</i>	<i>Prevalent methodology</i>
<b>Models of Strategy Process</b>	Hart (1992) Mintzberg (1973) Shrivastava & Grant (1985) Miller & Friesen (1978) Burgelman (1983)	<ul style="list-style-type: none"> <li>- Five empirical models of strategy process include such characteristics as process participants and their roles and characteristics, organisational structures and attributes, roles of objectives and influence of external environment</li> <li>- Of the four identified models, those originating from configurational approach (Miller &amp; Friesen, 1978</li> <li>- and Mintzberg, 1973) are the most comprehensive and well-developed. Of these two models, the one offered by Mintzberg offers more conscious, imitable and easy-to-operationalize process characteristics and can be successfully employed in the DBA project as source of methodology and subject of empirical testing</li> <li>- Burgelman's model of strategy process in a large diversified firm. Autonomous strategic behavior induced by entrepreneurial activity of business units over time can challenge status quo and redefine corporate strategy. Organisational context is used by top managers as a calibrating mechanism that limits deviations from current strategy concepts but can be overcome by powerful strategic initiatives.</li> </ul>	

<b>Research area</b>	<b>Key papers</b>	<b>Key propositions</b>	<b>Prevalent methodology</b>
<b>The role of the corporate centre on strategy process of multi-business companies</b>	Henderson (1979); Hedley (1977) Prahalad and Hamel (1990) Raynor and Bower (2001)	Two clearly contrasting perspectives: <ul style="list-style-type: none"> <li>- Shareholder-style corporate centre, demanding financial results and caring about diversification of corporate risks through asset portfolio adjustments</li> <li>- Active, value-creating corporate centre, “mover and shaper” of the total company strategy, fully involved into the organisation of the business, supplying strategic initiatives, staying in constant strategic dialog with business units</li> </ul>	
<b>Models of the corporate centre’s role in multi-business groups</b>	Goold and Campbell (1987, 1993 a,b) and Goold et al (1994); Ward, Bowman and Kakabadze (2005)	<ul style="list-style-type: none"> <li>- Generic models of the “strategic management styles” and “corporate configurations” describing different roles for a corporate centre</li> <li>- Models focus on content as well as process side of strategy; description of strategy process is distinct but fairly general</li> </ul>	Case studies leading to a prescriptive model; prescriptive model

## ***Appendix 2 - Interview Protocol***

### **INTERVIEW DEBRIEF**

**(sent in advance to every prospective interview participant)**

#### **Research topic**

The role of corporate centre in strategy-making process of a major diversified corporation in a distinct context of an “emerging market” (Russian) environment.

#### **Purpose of the study**

The purpose of this study is to explore how strategy-making process developed in Severstal historically, with a particular focus on the role played by the corporate centre.

- Company scope: Severstal and a related “Severstal Group”, a multi-business group, initially diversified from a single post-privatization steel-making plant into a number of both related and unrelated business; later transformed into an international steel and mining company clearly separated from unrelated businesses belonging to a majority owner.
- Strategy scope: Formation of *corporate strategy* of a parent company and role and involvement of corporate centre in the formation of *business strategies* of business units.
- Time span: from the first acquisitions and formation of multi-business structures in 1999-2000 through the creation of a metals and mining company to aftermath of the 2008 financial crisis.

#### **Confidentiality**

Anything that will be said over the interview or corresponding discussion will be treated in strict confidence and will be used only for the purposes of the research. The detailed results of the research will only be shared to the Thesis examination panel at Cranfield University whose members are bounded by confidentiality agreement. Identity of interviewees will not be recorded or disclosed to anyone, including the examination

panel. The only information available to the public will be the thesis itself, which will include literature review, methodology description and discussion of the overall results. You can withdraw from the research any time and for any reason. You can also omit any question you may not wish to answer. Any commercial or otherwise sensitive data will be removed/substituted by your request. The author, been an active employee of Severstal involved in strategy making, will also undertake relevant precautions to make sure that sensitive data does not appear in the transcript.

### **Approach and interview purpose**

The study will employ semi-structured interviews as its key research method. The purpose of the interview is to explore your view on the nature of strategy process in Severstal, the respective roles of corporate centre and business units, how the process developed historically, what were the drivers of its development. The following list of questions highlights some of the characterizing areas which were picked from previous academic literature on the topic. The interview is expected to be open-ended, without a strictly pre-defined structure or an exhaustive list of questions, so you may feel free to bring in additional topics not covered by the preliminary list of questions. Pending your permission, the interview will be taped, transcribed and analyzed, drawing conclusions relevant to the research question. Alternatively, the interviewer can be limited to making hand-written notes.

## **INTERVIEW QUESTIONS**

### **The basic research question:**

How did the role of corporate centre in the strategy-making process evolve in Severstal over the ten year period: since its emergence as a multi-business corporation and until the aftermath of the global economic crisis of 2008?

### **Semi-structured interview: key topics**

#### **I. Participants in strategy process**

Who is engaged in corporate strategy-making in Severstal? At the corporate level? At the business unit level?

How is strategy-making organized? What are the formal and informal organisational structures devoted to strategy-making (departments, working groups, committees)?

## **II. Nature of process: deliberate vs. emergent**

What are the driving forces in Severstal strategy-making?

What were the key objectives set for the company? How these objectives were reflected in strategy?

Can strategy process in Severstal (at different stages) be described as primarily structured, intentional and explicitly formulated vs. informal, intuitive and opportunistic?

## **III. Strategy process temporal development**

What are the key stages in company development from first acquisitions in 2000-2001 to the latest moment of your stay within the company?

How did the nature of company strategy and strategy-making process evolve over time? Can you identify any particular stages?

Can we identify what was the influence of the external environment on the strategy process, including macroeconomic environment, industry cycle, general business climate evolution in Russia?

## **IV. Corporate centre role**

What is the degree of centralisation of strategy process, to what extent corporate centre was involved in shaping business strategies of business units? Which means are employed to make sure that business units fulfill corporate objectives?

In particular, was corporate centre role built primarily around: 1) setting and controlling financial performance targets only 2) setting corporate objectives while leaving business-level strategy to business units and 3) centralizing strategy in the centre and closely managing the strategy process?

### ***Appendix 3 - Interview analysis: an illustrative example***

#### **Interview - CGEU1**

The transcribed interview was carefully reviewed and key concepts informing the research questions were identified throughout the text. Here the concepts are defined as ideas, characteristics and personal conclusions of interviewees informing us about a particular phenomenon relevant to the research. Each concept was highlighted in the interview text and provided with relevant quote and comment/analysis by the author explaining, when necessary, where the concept came from and how it can be interpreted or developed. The concepts were further assembled under five major topics (categories) emerging from the review. These categories are broadly in line with the main research questions. The categories, concepts, quotes and comments from the interview were assembled together in the Excel program. A summary of key conclusions and learning points from the interview completed the interview analysis.

Topic (Category)	Concepts/explanation informing the research questions	Comments and analysis
<p><b>Diversification and expansion</b></p> <p>Rational for decisions on:</p> <ol style="list-style-type: none"> <li>1) Diversification</li> <li>2) Internationalization</li> <li>3) Upstream integration</li> </ol>	<ul style="list-style-type: none"> <li>✓ Opportunistic approach to strategic decisions</li> <li>✓ Influence of government on strategic decisions</li> <li>✓ Absence of formal or informal shared vision and well-defined strategic objective for the company – again, opportunism...</li> <li>✓ Expansion and diversification driven by perceived management capabilities (“we are good in turnaround of troubled assets”)</li> </ul>	<p>Opportunistic, case-based approach to acquisitions in the first part of the covered period (2000-2006) is manifested throughout the interview. As a typical example, an automotive company UMZ was perceived as attractive ("quite important and interesting") and had debts owed to Severstal - hence, was a feasible target. The decision was characteristically made during the 2-hour waiting for a taxi in the Paris airport. No formal goal or vision was set ex-ante.</p> <p>Decision to expand followed the completion of internal optimization (“turnaround”) at CherMK and belief in “turnaround capabilities” which could be applied universally. Lack of funds to expand in the steel industry in the home market as the reason for opportunistic diversification at home and going abroad in steel.</p> <p>In one case, acquisition was the result of government’s concern for the future of socially important coal company and desire to pass it to a powerful, socially responsible company.</p> <p>Upstream integration was the only cited clear strategic priority (reason? – why it was important?). A dedicated organisational structure ("corporate center" – Severstal Group) was created early to serve the intended expansion.</p>

<p><b>Strategy-making team</b></p>	<ul style="list-style-type: none"> <li>✓ Entrepreneurial, informal decision-making in a small top team - "partnership" – at the initial stage</li> <li>✓ Opportunistic approach to strategic decisions</li> <li>✓ Very small corporate center strategy team, playing a support role for the "chief strategist"</li> <li>✓ Opportunism; very little formal strategic analysis and planning to support decision-making at the top</li> <li>✓ "Overstretch" of the small top management team as company became bigger put a brake on the development</li> </ul>	<p>In the first part of the period (2000-2006), all strategic decision-making was done among a small team of 5 top-managers. This "partnership" was very entrepreneurial in its decision-making.</p> <p>Strategy department was first introduced in 1994 at CherMK evolved into a large organisation of 120 people. By 2000 it was mostly engaged in operational planning at the business unit level. On the corporate level, the strategy-making activities of the "partnership" was supported by a small team reporting to the Chief Strategist. Its functions were mainly devoted to M&amp;A, there was little formal strategic analysis and planning to support decision-making at the top.</p> <p>As the top team became increasingly involved in operational management of ever bigger and more complex web of assets, a crisis of the entrepreneurial management model emerged. From early 2006, it changed to a "professional managerial" one, but with the CEO role and leadership as strong as before.</p>
<p><b>Role of corporate center</b></p>	<ol style="list-style-type: none"> <li>1) Push for a more decisive role of Corporate Centre; resistance of Business Units to centralisation</li> <li>2) Corporate standards as means of ensuring best practice dissemination and conformity</li> <li>3) Selective involvement of corporate centre strategy</li> </ol>	<p>In the early stages of the group, the push from the CEO for a more "decisive" role was meeting an opposition from the business units. To resolve the dilemma, universal standards in key management spheres were introduced with the help of corporate university. The progress of their introduction was slow and iterative, with prolonged discussions and search for consensus</p> <p>Business units held initiative in the budgeting process, but were challenged by CEO. It was characterized as "unusual" approach, since most business</p>

	<p>function in different lines of business</p> <p>4) Financial targets were not set ex-ante but discussed and approved during the process of budget review and challenge</p> <p>5) Very deep and detailed, hands-on involvement in operational issues, first of all by the CEO personally</p> <p>- More involvement of corporate centre from early 2006; Change of "entrepreneurial partnership" in "professional managers" structure by early 2006</p> <p>6) Overseas assets:</p> <ul style="list-style-type: none"> <li>o High self-sufficiency of overseas subsidiaries in the initial stages</li> <li>o More intervention from the corporate centre in operational management over time</li> <li>o Less motivation and leadership in business units as the authority of corporate centre increased</li> </ul>	<p>owners preferred to set strict financial targets. Weak control of financial performance post-acquisition.</p> <p>Involvement of corporate centre in strategy affairs was very selective from the onset: "chief strategist" was involved with some businesses (steel) and not with the others (mining). However, the CEO was personally heavily involved not only in strategic, but also operational details of business units' management.</p> <p>Significant change in the corporate centre role from early 2006 followed the change of "management paradigm". As business became more professional and less entrepreneurial, the "power" and interference of corporate centre with business units became more manifested. The most important driver for the changes in management structure and corporate centre role were considered the "internal relationships dynamics" between the CEO and overstretched, ever-more-distant top team members.</p>
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<b>Strategic decision-making process (nature of)</b>	<ul style="list-style-type: none"> <li>- Opportunistic approach to strategic decisions, case-by-case resource allocation process</li> <li>- Absence of formal or informal shared vision and well-defined strategic objective for the company</li> <li>- Expansion and diversification driven by perceived management capabilities (turnaround of troubled assets)</li> <li>- Long time horizon, long-term orientation (albeit deemed "not typical"); relatively short expected payback period</li> </ul>	<p>Strategy process in the initial stage (2000-2006) can be characterized as capability-driven, opportunistic expansion, based on the personal role, intuition and perception of a small number of top-managers. Extremely opportunistic ad-hoc process of resource allocation.</p> <p>Long horizon of strategic thinking, unlike with most of the other Russian players and contrary to what was observed in previous studies (Carr, 2007). Expected payback 4 years, extended to 6-7 years after 2006.</p> <p>The approach changed after early 2006, but it is not apparent how decision-making was characterized at the second stage (2006-2009), apart from the ever stronger personal role of the CEO. Apparently, one of the reasons why Severstal became public company is because CEO was looking for the way to replace the former partnership team with independent Board of Directors which could become such a sounding board with experience and expertise and replace the former partners.</p>
<b>Role of external environment</b>	<ul style="list-style-type: none"> <li>- Little apparent role of hostile but gradually improving external environment</li> <li>- Certain government influence on strategic decisions</li> </ul>	<p>External environment was not seen as playing a major role, unlike the management patterns and CEO's policy and personal preferences. Government involvement was limited to only one case (can be seen as strong but unsystematic and not necessarily unfriendly, since the company decided to pursue vertical integration thereafter).</p>

## Summary and key conclusions:

### Strategy-making process:

- Was driven by CEO personal traits and leadership style. Major changes in company management were attributed to changes in personal relationships with the CEO.
- Was very entrepreneurial and opportunistic, particularly in the first part of the period (2000-2006), with a trend towards higher formalization and “professionalization” in the second part (2006-09). Opportunistic and emergent nature of strategy-making in Russia and other emerging economies in transition was noted in many previous studies. This demands more emergent and iterative approaches, with less regard to formal planning (e.g. Carr, 2007; Gurkov, 2009).
- Was very simple in the first part of the period, based on the personal decisions of the five top team members.
- Particularly in the earlier stages, was to a large extent driven by “turnaround capabilities” which were perceived to be both strong and universal in terms of industry applicability.
- Was long term oriented, with relatively long expected payback period. It is seen as an “unusual” practice, in stark contrast to the conclusions of previous studies of the Russian context, such as Carr, (2007).

### Strategy-making team:

- ✓ Consisted of 5 top team members making all important decisions in the first part of the period. Very small, technical role of support staff, little formal analysis or planning.
- ✓ Was diverted to the wider management team, mostly from the functional directors at the second stage.
- ✓ The former “partnership” system collapsed when the company became too big to be managed in the old way. Members of “partnership” with responsibility from business units could not perform dual roles of BU operational and corporate strategic management as they became “overstretched” and out of touch with the details of corporate agenda.

### Role of the corporate centre:

- ✓ Was subject to continuing controversy and tensions throughout the period.

- ✓ At all stages, particularly at the initial ones, included very heavy and deep involvement of CEO in both strategic and operational aspects of business units' management, with very fine granularity of management.
- ✓ At the same time, as far as the wider corporate centre is concerned, in the initial period there was a considerable "freedom" of business units from interference of small corporate bureaucracy (but not from personal attention of CEO and top management team!). Even introduction of unified "standards" was slow and consensus-based. Entrepreneurship and leadership was encouraged, particularly at the overseas business units.
- ✓ In the second part of the period, there was considerably more interference from corporate functions. There were no apparent goals or limits set for this interference but business units' discretion was severely limited (the effect of this limitation was perceived as having more negative than positive effects).

Role of the external environment:

- ✓ The hostile but gradually improving external environment was as not seen as playing a major role, unlike in the previous studies (Grant, 2003). A significant but non-systematic role of government in strategic decisions.

It should be noted that the dynamic, time-dependent aspect of strategy process was very visible in the interview. Two distinctive periods with remarkably different top team composition, nature of decision-making process and role of the corporate centre were identified. It is interesting that although the interviewee is able to name the exact month which marked the step change, he nevertheless called the whole process "evolutionary", implying that the reasons for changes were accumulated over a long period although they were realized relatively quickly.

This change was driven by CEO's decision and attributed to 1) growing complexity and scale of the company which made old "entrepreneurial" system implying strong personal role difficult to sustain and 2) changes in personal dynamics between CEO and "old" top team members due to their "overload" with multiple tasks.

Interestingly enough, the interviewee noted a number of times that in some aspects, such as long-term orientation and determination of financial goals through strategic dialog the company practices were remarkably different from "standard business practices at the time. This raises the question of company perceived uniqueness which should be explored in further research.

Other additional topics for further exploration emerging from the interview include: 1) triangulation of the change period – transition from one strategic management model to the other 2) role of CEO's leadership style and top team relationships in shaping strategy process and 3) role (if any) of external environment evolution, which turned out to be surprisingly small according to the current interview.

***Appendix 4 – Summary of Project II interviews analysis***









Role of corporate center	C1. Role of Corporate Centre. Early period.	Support	+	+	+														6	100%	CGUE1: "Basically, they presented their budget for approval within this budget. Mordashov challenged them and was trying to set up higher targets whatever targets they put originally...Second thing happened was that basically how resources allocated was – there was some money on the cash account, and Severstal Auto come for some projects ..steel works or iron works come for some projects until the money are there. If the money are no longer there, then there is no finance. So it was mainly opportunistic, I would say". CG3: "I think that no one saw the need for a big corporate strategic machine" BUE1: "In terms of the corporate center influence, it was always very small. The main activity was around the review of business plans by the CEO. The participation of corporate center in strategy process was very limited, not even financial targeting. Only in one case over the 2006-2010 we were asked to increase the EBITDA plan slightly, in other cases we were taking our internally calculated figures to the discussion and received approval. " BURI: "We have proposed, they approved, and so we did it. Again, perhaps because the corporate center was busy forming another part of the holding."	Financial targets were not set by the corporate ex-ante; budgets were discussed and challenged during the review process	Minimalist corporate center. Initially, role of business plan was for cash planning purposes only. Little communication between companies within the Group	Possibly, the corporate center was more focused on external expansion rather than on the review of existing businesses	Low operational/institutional role of Corporate Center in the beginning. Very little corporate-level initiative in management of existing businesses. Effectively, corporate center was not fully separated from business units since "partners" were involved in both capacities. Business Units were almost fully autonomous with their own budgeting, CAPEX decisions, EBITDA targets etc. Corporate centre acted as a review body - approving strategic decisions (in a rather iterative and unsystematic manner) as far as existing assets were concerned; was more focused on external expansion		
		Not																		0	0%						
Role of corporate center	C2. Role of Corporate Centre. Emerging importance.	Support	+	+																2	100%	CGUE1: "Mordashov was pushing for a decisive role of Corporate Center, active role. The business units, CherMK, Severstal Auto and others were fighting for their independence " "the resolution finally I offered was the compromise way of creating the corporate university, which was creating standards in each area for the Group ... So, during three or four years it was very major work that created this kind of standards. .. "So this is the moment strong bureaucracy appeared. So in very important things business units lose a lot of motivation, drive, entrepreneurship and leadership for change. It was replaced by authority of corporate center." CG2: "the process was to try to coordinate the strategic process and try to make a rule for strategic process, try to create the rules... after 6 month we prepared some instruction regarding strategy... Every strategic plan must be the same"	Corporate standards as means of ensuring best practice dissemination and conformity	Push for a more decisive role of Corporate Center; resistance of Business Units to centralization	Resistance by BU's to observe the standards suggested by corporate center, lack of authority of corporate center officers	Emerging importance of corporate centre since its creation. Rising but still selective involvement of Corporate centre into different lines of business. More orderly work of corporate center, improved governance: separation of management of "core" (public) and "non-core" businesses. Unifying standards – were imposed by , the corporate to ensure dissemination and conformity. Push for universal standards met considerable resistance from Business Units.	
		Not																			0	0%					
Role of corporate center	C3. Role of Corporate Centre. Significant increase in involvement in the crisis-struck world	Support	+	+	+	+	+	+	+	+	+									8	100%	BUG1: "... starting from 2008 it was becoming more formal, we started to receive guidance, what should be our KPI's, what should be our priorities" BUR2: "We are now receiving the macroeconomic forecast and various scenarios from the corporate centre, and I think that's the job of the corporate centre" BUE1: "In terms of the corporate center influence, it was always very small. The main activity was around the review of business plans by the CEO. " "The control after financial side became a little more tight during the crisis, for a very evident reason ..."	Financial targets set by Business Units; budgets discussed and challenged during the review process only	Minimalist corporate center importance at early 2000's. No financial targets set. Participation in budget and investment review only. All initiative coming from the business unit.	Role of corporate center is still more informal, without clear set of targets at earlier stages (2006-2007), however correction into BU's planning becomes more often. Becomes more evident and specific with KPI's and financial goals set from 2008	Currently the role of corporate centre is focused on assumptions provision, forecasting, coordinating activities, supporting BUS.	Gradual increase in the role of corporate center over time, big shift in late 2008-2009 - time of the global financial crisis. Tighter control from corporate center, financial goals set for the first time in company history. Corporate centre becomes a controlling body step-by-step: approves CAPEX decisions, budgeting, sets financial targets and KPI's. Autonomy of business units is diminished
		Not																			0	0%					



***Appendix 5 – Summary of Project III interviews analysis***



Characteristics of strategic discussions with CEO	Support									4	65%	<b>BUR3:</b> "The agenda of such meeting (we call them Board meetings) is set in advance for a year. They are divided into results reports and strategic discussions and go in a very structured way, according to a presentation. Our meetings are regular. They usually start with a delay. We try to stick to the agenda which is helped by the structure of presentations. The style has changed a bit over time, it became a bit more structured". <b>CG8:</b> "He asks vast majority of the time, like of the two hours 1 h 58 min – Alexei, 2 min – someone else". <b>BUR4:</b> "Strategic discussions are regular but shareholder is available for extraordinary meeting if there is a need to discuss. Meetings are usually well-structured but always start late".	Strategic meetings are set in advance and well-structured. Shareholder's approach evolved to become more structured over time  CEO personality is reflected in the content of discussions. Unsystematic approach by CEO sometimes leads to suboptimal focus of strategic discussions  Strategy meetings are normally not very well structured and ill-prepared. Time allocation is not very efficient	Strategy meetings, like the overall decision-making process, are the reflection of CEO's personality. There is a division on whether they are more structured or unstructured, but they are universally considered as very long and focused on details. Excessive focus on details may mean inefficient time allocation, as a factor constraining efficiency of decision-making. Very high role of CEO personally is a defining feature of the meetings: interviewees emphasize that he is leading the meetings, asks majority of questions, has a "controlling stake" in decisions, etc. Low spirits/time constraints of CEO may have an adverse impact on the quality of meetings. Since decisions focused on CEO – it becomes issue for the whole corporation if he becomes overloaded. The specifics of CEO's approach to discussions may be challenging/demotivating for managers from overseas, for example in US and Italy, but are better perceived by Russian managers
	Not	-								2	35%	<b>CG7:</b> Strategic discussions and decision-making: usually the discussion are very long, at times tedious. They are normally not very well structured, efficiency might be improved. Sometimes there is a lot of empty talk, non-systematic approach to decision-making. CEO himself is not a very systemic person. Sometimes we don't discuss the most important, high-level questions. Like for example in the strategy discussion we didn't spend time to discuss strategic scenarios for the industry, how it will evolve, etc. This is strange and not logical.		
Encouraging initiative and aligning interests	Support	+	+	+	+	+	+	+		7	90%	<b>CG7:</b> "Initiative from below is very much encouraged. However, it has to be in line with the "party line" to go through. CEO has his own vision of the world, and the initiatives have to be oriented towards his visions. But mostly – he supports the initiatives, he is very open to them. On consensus, he is always trying to achieve consensus and alignment, considering of course his position as the main shareholder, etc. But he listens to people, asks their opinion, lets them speak, asks detailed questions and challenges them. He usually explains his opinion, the reasons why a certain decision was taken, tries to find common ground". <b>BUG2:</b> "He [CEO] is open to a dialog, considering his level of authority. He is careful with making quick decisions, likes to listen. He has "implicit" 50% stake in every decision, that is, all depends on him. But once he is convinced of something, he will push it through a dialog, collect allies, in a sense making sure people buy into his vision. Inside his mind, he is rather uncomfortable with conflict". <b>BUR3:</b> "Positive attitude to initiatives. He reviews all initiatives with interest but may occasionally challenge someone rather strongly if there is something he would not like. It really depends on the mood and general situation – for example, when there was a crisis we felt it was better not to come up with development initiatives. Now as the crisis is over, we feel again if there are investments on the agenda". <b>CG8:</b> "Yes, I think first of all it is encouraged, everyone can propose his ideas to Alexei, to a strategic committee. This is a positive thing, we are very open minded in that". <b>CG9:</b> "CEO prefers to see alignment and consensus in the team. I think it is a personal thing – he prefers everyone to be aligned, this is satisfying for him personally. He is trying to convince everyone, even if there is only one person who disagrees. This is part of his personal style".	Initiatives are encouraged, but to get support have to be in line with CEO's loosely defined vision/feelings. This vision is communicated in very broad terms so that it leaves opportunity for creativity and initiative by subordinates.  CEO usually tries to find consensus and alignment. This is part of his personal profile. He is careful to listen to what people have to say and provide a good feedback on his opinion, about the reasons for his decisions. CEO encourages discussion and wants to hear different opinions  CEO is open to a dialog and listens to what people have to say  Shareholder does not like disagreement. Always seeks a consolidated decision or postpones the project  Presenters of initiatives don't show a balanced picture but aim to put them through  CEO usually seeks consensus among the top people in his team, but there is little involvement among middle management.  Alignment is not very important. If there is disagreement, the issue is sent for further work, gets postponed till next meeting or does not get accepted	All interviewees emphasize that initiative is very much encouraged and welcome. Discussions are conducted in an open and comfortable manner, everyone can express her opinion. CEO is interested in hearing diverse arguments. However, to go through an initiative should correspond to CEO's general, high-level vision on current priorities. Also, presenters of initiatives may not always show a balanced picture, may "push" for pet projects too aggressively. CEO's inclination to seek consensus and buy-in from all the team members is seen as a personal trait of the CEO (he even gets "surprised" when somebody is not "in line" with the prevailing view). CEO doesn't like disagreement within the team and aims to get to apparent consensus, even if this consensus is not quite real. To push for consensus, CEO explains his own reasoning behind a decision and that brings people on his side. This may present a problem since many observers have noted that top managers may be reluctant to raise an issue that contradicts CEO's strong view at the moment. Interestingly, CEO's interest in consensus seems to be focused on the very top team and does not extend to the middle management, which is seen as an issue
	Not									1	10%	<b>BUR4:</b> "Alignment and consensus are not a very big issue. What matters in a concrete field is the opinion of the "owner" of this process, responsible manager. This is what really prevails. If there are disagreements, we can take it for further work. So one may say that if there is lack of consensus, the issue is usually postponed till next meeting for further work. Sometimes they don't get accepted just as well".		

<p style="text-align: center;"><b>-Pilot- strategic management model. Attention to details and high granularity of discussions: impact on</b></p>	<p>CEO is normally very focused on details in strategic discussions, although this varies from time to time depending on his level of interest and time constraints. This is a reflection of his personality - deppe personal curiosity. It also serves as an instrument to keep management team alert and focused on details in presentation of strategic options. Occasionally, too much focus on details distorts strategic picture and may demotivate management team</p>	<p style="text-align: center;">Support</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">8</p>	<p style="text-align: center;">100%</p>	<p><b>CG7:</b> "CEO is very focused on the discussion of details, shows great interest in discussing small aspects and details. He may look through and discuss every page of a 100-page presentation, if he has time and interest. Sometimes he is too engaged with details, so that it is difficult to see the whole picture – "forest is not seen behind the trees". Possibly, such focus on details is explained by his personal traits – curiosity, first of all. Otherwise it is difficult to understand why would he need it. Another possible explanation is that he doesn't quite trust his subordinates fully". <b>BUG 2:</b> "Overall, this focus on details is probably explained by CEO's personal curiosity and desire to understand all what's going on. Corporate center could play a bigger role here, corporate officers could discuss these details before it lands on the discussion table with CEO". <b>BUR3:</b> "But generally, I'd say there is an inclination to look at details. This is mostly based on character, personal traits. Every detail has a value". <b>CG8:</b> "It's good that CEO wants to focus on details, because the devil is in details. But sometimes it's necessary to focus on the important parts of the discussion. You need to focus on details for ten minutes, fifteen minutes. He may stay on details for an hour or more". <b>CG9:</b> "I think people are generally ok with this style, they have adapted to it. Although the newcomers usually don't like it and see it as too intrusive, not good usage of time. But they get accustomed over time as well". <b>CG10:</b> "Discussion of business plans, strategic options may become very detailed, depending on what will catch CEO's attention he may pick a topic and go into great details, very deep granularity". <b>BUR4:</b> "I think he is doing it first for himself, to satisfy his own curiosity and get to know more intimately the drivers of the business. And also to teach the management team that such things require a careful look, there are no items too small to look at. Another example is CAPEX programme. In the past we were looking at capex from a relatively wholesome perspective. This year he asked us to give a very high detailization – how much, into which plants, into what equipment, why do we need it, etc. when we presented it, he looked at it relatively briefly and approved. So the important thing for him was to make sure that we have looked at it ourselves".</p>	<p>CEO is focused on the discussion of details, especially if he has time and personally interested in a topic. Sometimes excessive focus on details doesn't allow to see the big picture _____ CEO expects to see a high level of details. If details are not there, even inherently good ideas may not be well-perceived. Excessive attention to details demotivates people and makes for inefficient use of CEO's time _____ CEO's focus on details may become excessive, too much time devoted to digging into small details _____ CEO goes in ot details if he is not confident in a decision. Sometimes too much time devoted to research and details means that an opportunity may get lost _____ Attention to details reflects shareholder's personal curiosity but it is also a vehicle to teach management that it is important to track the details</p>	<p>Generally, shareholder is inclined to look at details although it depends on whether he is personally interested in a topic . One idea is that CEO goes in ot details if he is not confident in a decision. High level of detailization is the result of CEO's personal interest and curiosity but it is also a vehicle to teach management that it is important to track the details. One interviewee suggested such focus on details may also reflect lack of trust between the CEO and management team: he tries to establish tighter control by keeping an option to question any figure or detail at any moment. High personal involvement of CEO is part of the model of small and lean corporate center with minimum internal bureaucracy and direct communication between business units and the decision-maker. There is a bigger role for corporate center in this area – corporate officers with business units could prepare the discussions with CEO in advance which should that less time should be devoted to details at CEO's personal meetings with business units. Practically, too much focus on small details may mean that 1) there is suboptimal allocation of managerial time - strategically important issues may not receive adequate attention 2) sometimes too much time devoted to research and details means that an opportunity may get lost. 3) management team may become demotivated by the requirement to present too detailed business case when it is not relevant due to high uncertainty and long planning horizon.</p>
<p style="text-align: center;"><b>Strengths and weaknesses of strategy process in leader-focused decentralization</b></p>	<p>Adaptive and agile decision-making system with strong business units and direct access to the key decision-maker/weak corporate center and overreliance on CEO personality</p>	<p style="text-align: center;">Not</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+/-</p>	<p style="text-align: center;">+/-</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+/-</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">+</p>	<p style="text-align: center;">4.5</p>	<p style="text-align: center;">75%</p>	<p><b>CG7:</b> "On balance, high discretion of business units and agility of decision-making is overall a good thing for a growing, global company with diverse markets and businesses, like Severstal. Business units understand their markets and customers better, can see concrete reactions from the market, so the system is more adaptive. Decision-making system is quick and can produce decisions very quickly. Experts at the corporate center are not always involved (since communication is direct between the initiative provider and CEO). Since business units generate strategic options and corporate center is supposed to check them and verify, but often fails to do so because of the unclear authority, the system often produces suboptimal decisions". <b>BUG2:</b> "In terms of initiative, we have high freedom of initiative on the one hand. On the other hand our initiative is limited because we are required to supply at least 50% of our production to captive steel assets. In this respect we are centralized and our self-sufficiency in terms of strategic initiatives is limited...". <b>BUR3:</b> "Direct approach – you have access to the owner of the business and can solve issues of any level of complexity. This is a great strength. here is no a strong, industry-focused expertise above us to challenge our strategy. I see it also as a weakness. Depending on one person, even though the contact is very close and easy, is a potential risk to a company. Consistency – we are dealing with the same person so we have plenty of time to adapt and to learn his way. Little friction in the system". <b>CG9:</b> "Another example of decision-making is about our investments into a gold company X. Head of the gold division came up saying there is an opportunity to acquire a controlling stake, but it had to be made very urgently. So he made a presentation, we had a brief discussion, and at the end we made a decision in 30-40 minutes. It was made so quickly because it is in our nature, but also because there was a good trust in Gold business management's ability because of their good track record. So we were able to make a decision quickly, although we knew very little about this company before". <b>BUR4:</b> "A great advantage of him [CEO/shareholder] is that he is very flexible – if there is an urgent decision to be made, M&amp;A deal or something, he makes himself available for a meeting or for a conference call very quickly".</p>	<p>Since Business units are closer to the markets and customers, the decision-making system is quick and agile Little expertise of the corporate center involved in strategic discussion since decisions are discuss directly between the CEO and Business units _____ On the one hand, initiative of business units is encouraged. On the other hand, initiative is constrained by mental constraints in CEO's and top team minds, implied supremacy of steel over mining Very quick decision-making when necessary, very agile and non-bureaucratic decision-making. It was possible because there was a good level of trust to the business unit</p>	<p>High role of "close-to earth" business units, direct communication with CEO create adaptive, non-bureaucratic and agile decision-making system. This is on balance is good for a diverse and growing company like Severstal. Too centralized decision-making would be too slow and costly. Direct access to the owner of the business can solve issues of any level of complexity, consistency of dealing with the same person, but may present a challenge if CEO is too busy or overstretched. On the other hand, business units strategies remain disjoint and unconnected to each other. Expertise of the corporate center is underutilized since decisions are discussed directly between the CEO and Business units, unclear authority of corporate center. There is a need for a stronger corporate expertise in addition to CEO's personal involvement. Mental constraints of CEO and top team (implied supremacy of steel assets) may reduce efficiency of decision-making</p>
	<p>Weakness highlighted in the interview</p>			<p style="text-align: center;">+/-</p>	<p style="text-align: center;">+/-</p>		<p style="text-align: center;">+/-</p>			<p style="text-align: center;">1.5</p>	<p style="text-align: center;">25%</p>	<p><b>BUG2:</b> "However, strategies of different business units are disjoint, this is an area of concern. This can be attributed to the legacy of the supremacy of steel assets. Historically, the objective was to buy as much steel as possible and raw materials (mining) was a supporting story... Mental supremacy of steel in the heads of top corporate officers and business units' leaders makes the whole process disjoint". <b>BUR3:</b> "There is no a strong, industry-focused expertise above us to challenge our strategy. I see it also as a weakness. Depending on one person, even though the contact is very close and easy, is a potential risk to a company". <b>BUU1:</b> "I think the centralization of decision-making is a good thing, but sometimes we can be very slow in decision-making because CEO is too busy, or he just asks all the time for more details".</p>	<p>Strategies of diverse business units are still disjoint, despite the growing centralization of strategy. Part of the reason may come from the mental supremacy of steel assets in the minds of the top team _____ Strong expertise is absent at the corporate level – unsatisfied need for a competent challenge aside from shareholder's. _____ The process of strategic decision-making can be too slow if CEO is busy or asks for more details</p>	

Strengths and weaknesses of strategy process in leader-focused decentralization	Raising sensitive issues: constructive atmosphere for strategic discussions but reluctance to question the prevailing CEO's opinion.	Strength highlighted in an interview	+/-	+/-	+	+	+/-	+	4.5	56%	<p><b>CG7:</b> "Raising difficult questions is both easy and difficult. Top management is usually reluctant to raise really sensitive questions, probably because they find it difficult to appear in contradiction with shareholder. Some strategic issues, such as North American assets acquisitions in 2008 were not probably discussed properly because raising any issues related to risks would go against the prevailing point of view in the team and the shareholder. Younger, high-potential middle managers do raise issues and appear prepared to discuss challenges". <b>BUG2:</b> "Everybody has a voice, cash-generating initiatives are always welcome. Regarding capacity to raise sensitive issues, it depends on whether such an issue touches upon some "legacy" problem, such as the efficiency in an influential business unit, or the mental construct of steel supremacy over mining, etc." <b>BUR3:</b> "Usually it is easy to raise all sorts of issues, including sensitive or difficult ones. But that again depends on the mood of the shareholder. If he is in a good mood, and generally not very tired, not exhausted, I can discuss all questions. If he is not in a good mood, it should better set them aside or you can get too much pressure on your shoulders. Openness, straightforward and open dialog. This is an advantage and I aim to maintain same openness and sincerity within our team". <b>CG9:</b> "Since initiative is welcome and there is always a spirit of open discussion, I personally feel ok with great majority of decisions. Not sure about others. I think the CEO is always open to difficult and sensitive questions, he never skips a discussion". <b>CG10:</b> "Overall, we have a rather cooperative, open system. There is opportunity for discussion, decisions at the top usually make good sense. Decisions on some issues can be made very quickly, if necessary". <b>BUR4:</b> "He may be carried away by something interesting to him, may start an unconnected discussion, but that is normally very interesting. He is also very polite, not like some shareholders of other companies, as we hear from their managers. It is ok to raise sensitive questions with him, it is important for us to know his opinion and correct our activity accordingly".</p>	<p>There are some areas where it is difficult to raise sensitive questions with CEO. It is easier to discuss an issue where CEO has some opinion already, otherwise it may take a long time to make a painful but necessary decision.</p> <p>Raising difficult questions and issues is usually not very difficult but it depends on circumstances and shareholder's mood. Sometimes it is better to put them aside.</p> <p>CEO is open to difficult and sensitive questions and never avoids a discussion Overall the atmosphere for strategic discussion is very open and decisions can be made very quickly if necessary</p> <p>It is easy to raise sensitive questions with the shareholder. It is important to know his opinion</p>	Interviewees have divergent views on the climate for discussion. On the one hand, there is a universal recognition that CEO encourages initiative and open atmosphere, makes sure that there is a possibility to raise different views and express opinions. Some state directly that raising sensitive issues is easy and there is a straightforward, open atmosphere. However, other comment that may be difficult for the top team for the following reasons: 1) Since CEO has a high authority, they are concerned about appearing in contradiction with CEO's view 2) team members may not be fully prepared to discuss difficult topics because they feel pressure from (and on) overstretched and exhausted CEO which makes fully open discussion more difficult 3) there is insufficient level of trust between the top team and CEO. Interestingly, some interviewee may speak about open and trustful atmosphere and at the same time complain that top team is complacent, their main idea is to "keep the CEO happy". Therefore, there is not enough challenge and scrutiny of strategic decisions. Difficulty of raising sensitive questions and focus on one man's opinion is a significant problem and historically has led to suboptimal decisions and value-destruction. Interestingly, middle managers do raise difficult issues and are better prepared to discuss them.
		Weakness highlighted in the interview	+/-	+/-	+	+/-	+	3.5	44%	<p><b>CG7:</b> "Inability to raise sensitive issues is a huge drag on the company. Therefore, failure to raise them means stagnation in company development in the best case and destruction of shareholder value on the worst case". <b>BUR3:</b> "Sensitive issues can be raised, but it depends on shareholder's mood and how exhausted he is". <b>CG8:</b> "I think sometimes generally people don't present bad news. I think people most of the time put negative aspects in presentations and expect Alexei to find it himself, not letting him know the news directly. They prefer Alexei to look at the data and find out the negative aspects himself. Well, I don't know perhaps, may be, they are scared. Perhaps this means they are not fully prepared to discuss with him difficult topics. Because Alexei is in the double capacity – as a CEO and shareholder, so he has double pressure. He is in charge of management of his investments and is in charge of managing his portfolio. And other people around him also feel this pressure". <b>CG10:</b> "Top team is complacent, their main idea is to keep the CEO happy. Not enough challenge and scrutiny of strategic decisions". <b>BUU1:</b> "We can overlook something when we start from only one vision. One example is acquisition on North American assets – some people were firmly against that, but since CEO really wanted to grow in North America, all precautions were brushed aside, and finally those people who were against that had to vote pro, since CEO was clearly in support. It turned out to be a horrible decision. Also we can miss some opportunities because the one strong vision may not allow us to look at different directions".</p>	<p>Top managers avoid raising difficult topics, probably because they are reluctant to contradict the shareholder. Younger middle-managers are eager to raise questions</p> <p>Difficulty of raising sensitive questions is a significant problem and historically has led to suboptimal decisions and value-destruction</p> <p>People are reluctant to present bad news to CEO, expect him to find out himself. Team members may not be fully prepared to discuss difficult topics because they feel pressure from (and on) CEO . The top team is complacent and shows little initiative</p> <p>Focus on one vision (CEO's) may not allow the company to look at different opportunities. It is difficult to go against CEO's vision once he has made up his mind, and this may at times lead to very inefficient decisions</p>		





## ***Appendix 6 – A brief history of Severstal***

### **Severstal operational and financial highlights**

The group of companies related to Severstal and its main shareholder, Alexey Mordashov, exhibited many classical features of similar “integrated business groups” which made up the core of the Russian economy in the 2000s (Pappe and Galukhina, 2009)<sup>1</sup>. Like in most other cases, its growth started from a “core” industrial enterprise operating in the export-oriented natural resources industry. Severstal engaged in an overall rather active expansionary policy in the 2000’s, going through two distinct stages. In Stage I, 2000-2006, the IBG was engaged in active diversification, building up a relatively diverse portfolio of assets; however, most of them were still one way or another related to the main enterprise, either through a value chain or as financial services providers – hence, an “integrated” business group. In Stage II, after the November 2006 steel and mining company IPO at the London Stock Exchange, the Severstal separated the management of “core” and “non-core” assets and divested a number of “non-core” assets altogether. At a new stage, the company made significant investments into new ventures, this time totally unrelated to the now-public “core” business, but they made the majority of new acquisitions in the core business of the metals and mining company Severstal.

Overall, the “core” business of metals and mining has always made up the majority of earnings, investments and commanded most public attention. By the end of 1999, Severstal consisted of a Soviet-era steel giant in Cherepovets and two iron ore production and enrichment facilities in Karelia which supplied the Cherepovets Steel Mill with its key raw materials. In 2000-2002, the company acquired two major coking coal assets, the traditional Cherepovetz supplier, Vorkutaugol, based in Northern Russia and the strategically less significant

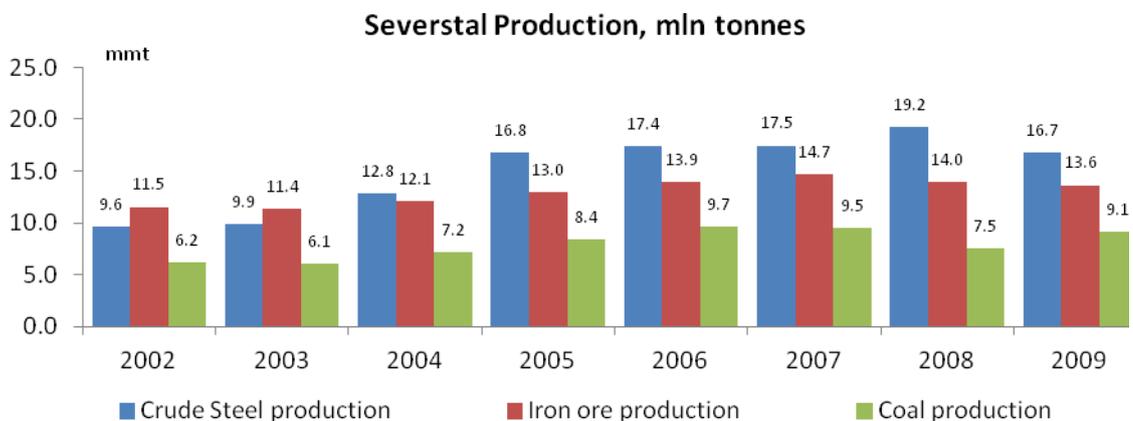
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<sup>1</sup> This section will employ the term “integrated business group”, or “IBG Severstal” as suggested by Pappe and Galushkina (2009) for similar consortiums. It will be used to define the group of companies affiliated with the main Severstal shareholder, Alexey Mordashov. For all practical purposes, these companies, either “core” steel-related or “non-core”, were part of the overall history of Severstal as a “multi-business” corporation. In contrast, the name “Severstal”, without the “IBG” attachment, will refer to the steel and mining company only.

“Kuzbassugol” based in the South of Western Siberia. The company later sold this to ArcelorMittal in early 2008. In late summer 2008, right before the global crisis struck, Severstal acquired a mid-sized coking coal company in the United States.

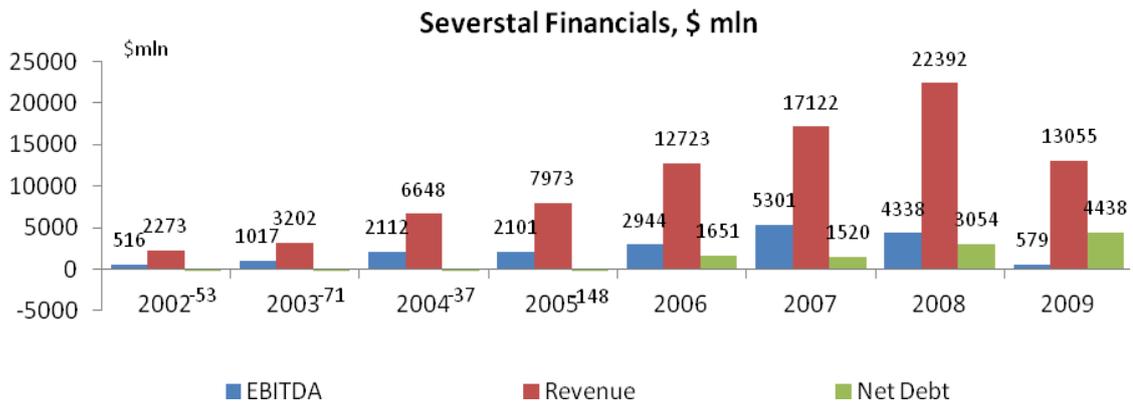
On the steel side, the expansion was focused on overseas markets: acquisition of a steel plant in the US Midwest in 2004, the Lucchini Group with assets in Italy and France in 2005, and three consecutive acquisitions of standalone steel plants in the US in spring and summer 2008.

Thanks to a combination of acquisitions and investments in organic growth, Severstal has demonstrated a robust growth in its production profile in mining and particularly steelmaking (see the charts below). Steel production was growing at an average rate of 12% until 2008 and decreased sharply in 2009 compared to 2008 because of the sharp slowdown in global demand.



Source: Severstal data

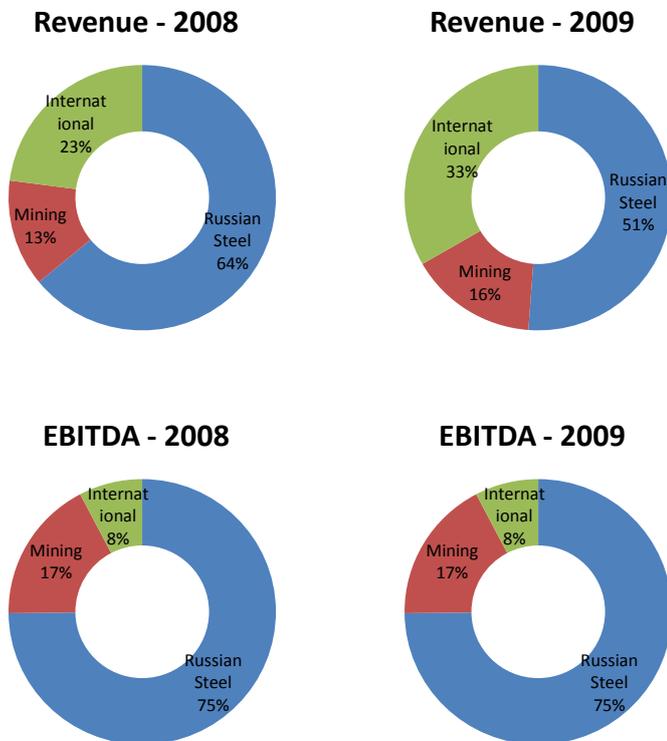
The growth in business profitability was much more impressive. Rising volumes and the unprecedented boom in raw materials and steel markets, boosted Severstal’s profitability at an astounding rate of over 40% annually on average between 2002 and 2008. The impact of the 2008 financial crisis was very serious. The company EBITDA collapsed by over 85%, bringing it to the 2002 level, whilst its net debt increased by over a billion dollars. The strong shock prompted significant changes in both strategy content and process.



Source: Severstal data

As a way to structure the growing business, Severstal established a three-divisional structure in 2007. Although the contribution of overseas assets in revenues was significant, it was much smaller in terms of earnings. The bulk of earnings has consistently been provided by the Russian steel assets which have further increased their contribution in “crisis peak” 2009.

#### Severstal Divisional Highlights: Contribution to Revenue and EBITDA, % of total

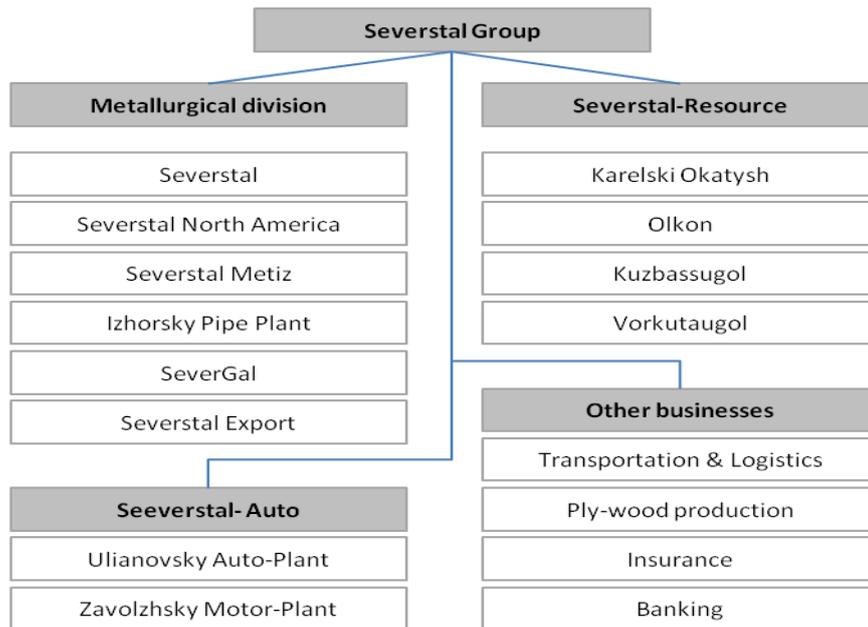


Source: Severstal data

## **“Diversified” Business Portfolio and Assets Structure**

The first significant non-steel related diversification effort started in 2000-2002. The company acquired three automotive plants: Ulyanovsk Automotive Plant and the related Zavolzhskiy motor plant and the Naberezhnie Chelny mini-car plant. These companies made up the newly formed “Severstal-Auto”, which became at the time the fourth largest car producer in Russia by production volume (Pappe and Galukhina, 2009). Another relatively major venture was the creation of “Severstal-Trans”, a logistics business mostly involved with railcars and seaport terminals. This business partnership, a 50:50 joint venture with a number of private shareholders outside of Severstal, quickly became one of the three largest rail operators in Russia.

The company made a number of smaller-scale investments in the early 2000s, including the creation of a plywood business, the establishment of an insurance company (a captive bank was established even earlier), investments into a retail project and certain media assets. However, the dominant logic of “classical” expansion along the value chain (cars as a “downstream” derivative of steel production, logistics and financial services as an essential component serving the steel operations) was evident at the time. The figure below shows the approximate structure of IBG Severstal’s assets before the 2006 reshuffle (as of year end 2005):



Source: Severstal

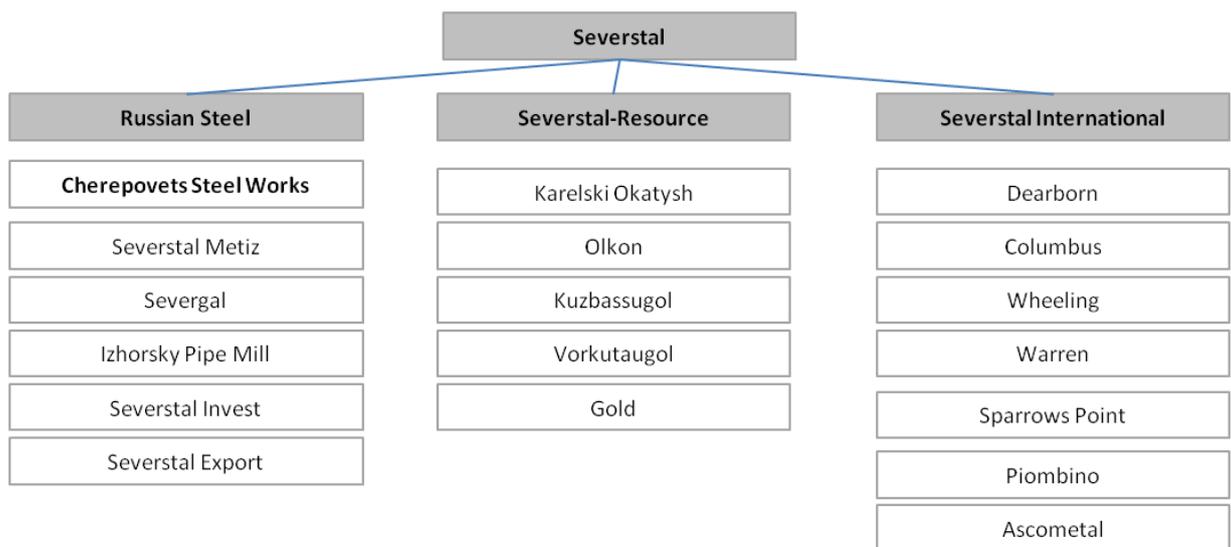
A decisive event which had a profound impact on the destiny of Severstal and its affiliates took place in 2006. The international expansion of Severstal aimed at rapid international growth from the already highly profitable Russian base. The ultimate objective was to transform Severstal into a major international player. The most daring bet in the international expansion was the ultimate defeat in the headline-capturing “battle” for European steel major, Arcelor, in 2006. Arcelor, trying to protect itself from a hostile takeover bid by an international steel group, Mittal Steel, announced that it would consider acquiring a majority stake at Severstal in exchange for a 32% ownership in Arcelor for Mr. Mordashov. As a result, Severstal could become a part of the largest steelmaker in the world and Mordashov could have a blocking stake in the newly created company. However, Mittal Steel was able to improve its bid and Arcelor gave up the merger with Severstal in favour of a merger with its original suitor.

Following these dramatic events, IBG Severstal initiated an international IPO in 2006 and engaged in a management and assets reshuffle. In 2006, the company sold both Severstal-Auto (“Sollers” from 2008) and Severstal-Trans (“N-trans” from 2008) to their management, reflecting a shift in strategy and dissolution of the previous management model. For a brief period, the business

essentially “came back to its roots” and was almost exclusively based around steel and steel-related raw materials. Note that the steel and raw materials industry was at the early stages of demand and pricing boom (discussed below), so the external environment was quite conducive for the “core” business.

The second wave of diversification started after 2006. The company acquired a controlling stake in “Power Machines”, the leader and near-monopolist in the Russian energy machine-building, from the state-owned energy monopoly RAO UES. Investments into a completely new line of business – gold mining – started in 2007. Remarkably, they were executed through Severstal’s steel and mining company, to the surprise of the financial markets.

The figure below shows the Severstal (steel and mining) structure as of 2009:

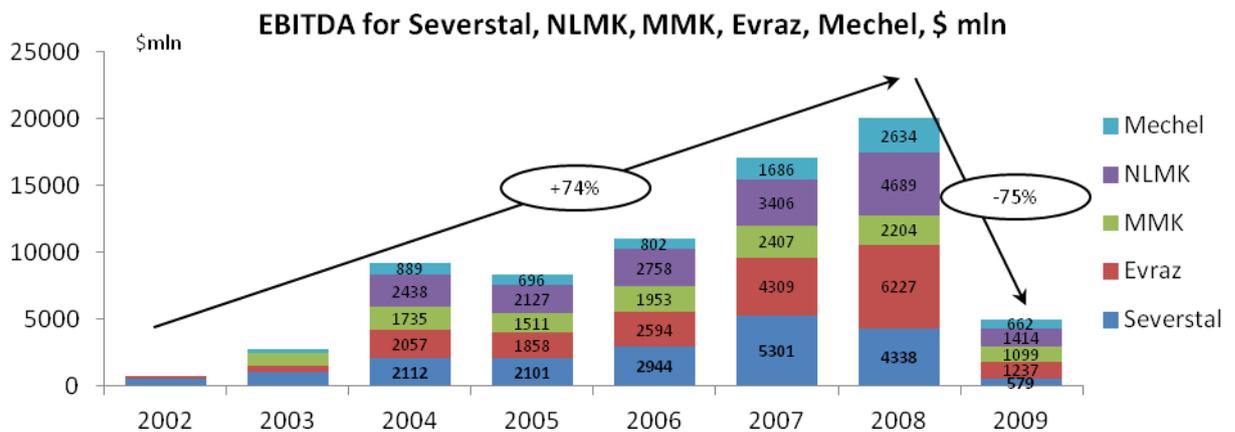


Source: Severstal

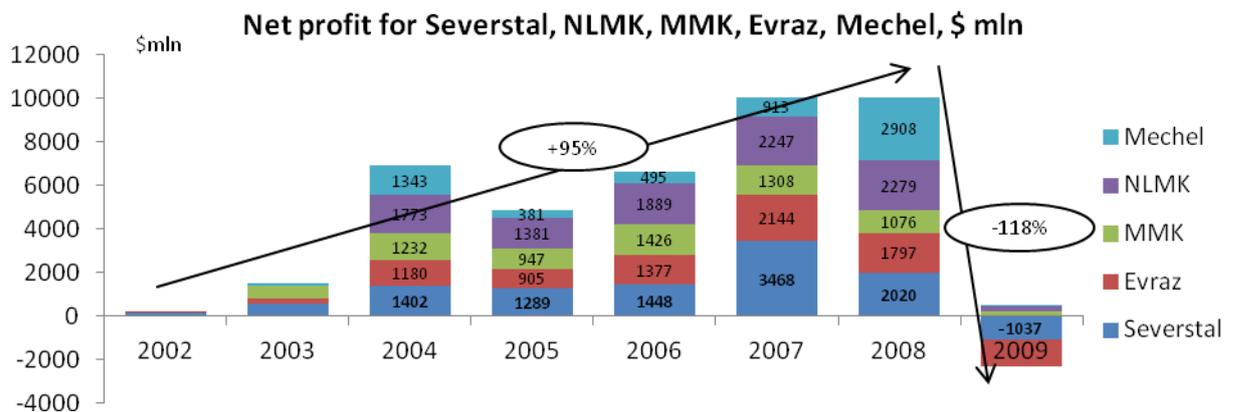
### Severstal Russian Peers

Major Severstal competitors in Russia are NLMK, Evraz, MMK, Mechel. All these companies, as well as Severstal, have shown significant improvement in profitability since the early 2000’s. The 2009 financial crisis send EBITDA back to pre-boom levels. The collapse was particularly astute for Severstal which

registered negative net profit on the back of losses and write-downs related to poor performance of its newly acquired international assets.



Source: Companies' data

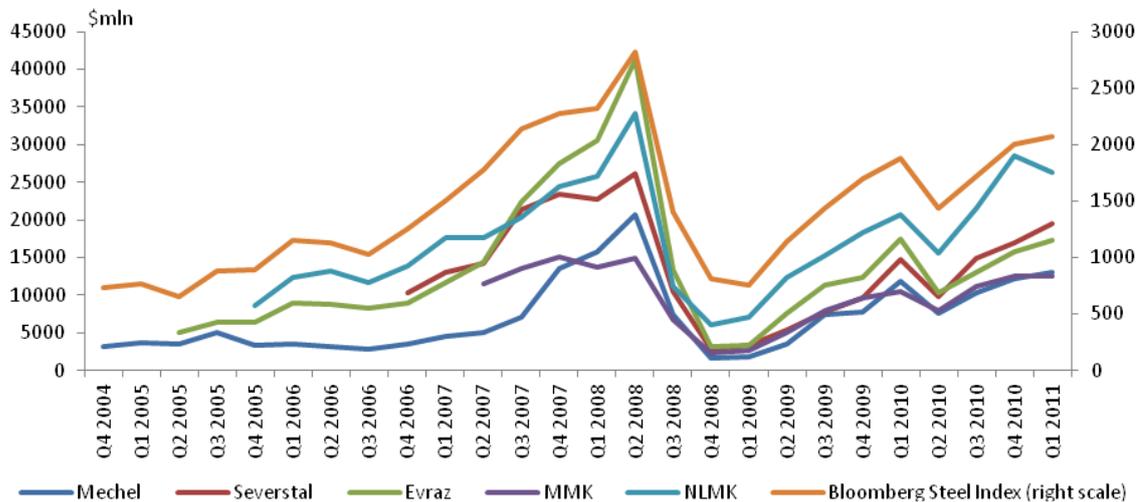


Source: Companies data

In 2004-2007 all Russian steel companies listed their shares on international stock exchanges. Their shares demonstrated excellent performance in 2005-2006 and particularly in 2007-2008, as steel and raw materials markets achieved their all-time highs. Interestingly, the collapse in Q3 2008 seemed to be more pronounced for Severstal and its Russian peers compared to the global steel index, arguably reflecting a total run for “quality” and away from emerging markets prevalent in the peak of the crisis. By Q1 2009, nearly all Russian steel companies saw their market value collapsing to the historically

lowest levels, reflecting the scale and magnitude of the shock caused by the crisis to the steel industry.

**Russian Steel Companies Market Cap and Bloomberg Steel Index**



Source: Bloomberg

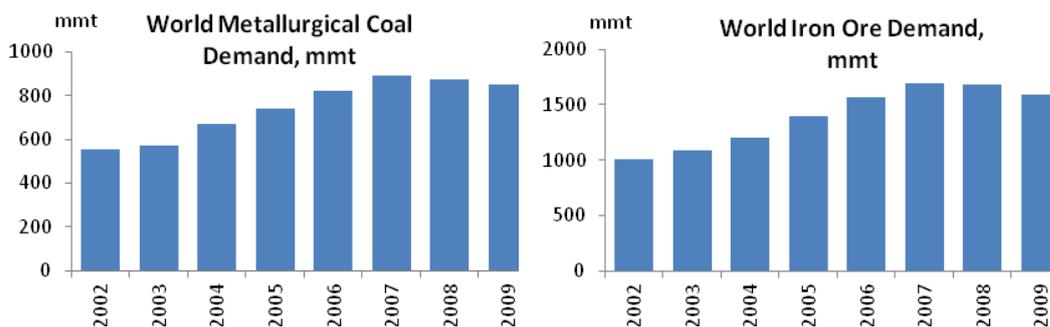
### Steel and Steel-related Raw Materials: The Long Boom and Quick Collapse

The boom in profitability and market capitalisation was by no means unique to the Russian steelmakers. The decade between 2000 and 2009, despite its ups and downs, was a time of rapid growth in demand for steel and its key raw materials. Rapid urbanisation and industrialisation of China and other emerging markets, combined with a reinvigorated, debt-led demand for housing in the developed world created a fertile ground for rapid rise in global demand.



Source: Severstal

The rise in global steel demand was reflected in similar expansion of the key raw materials.



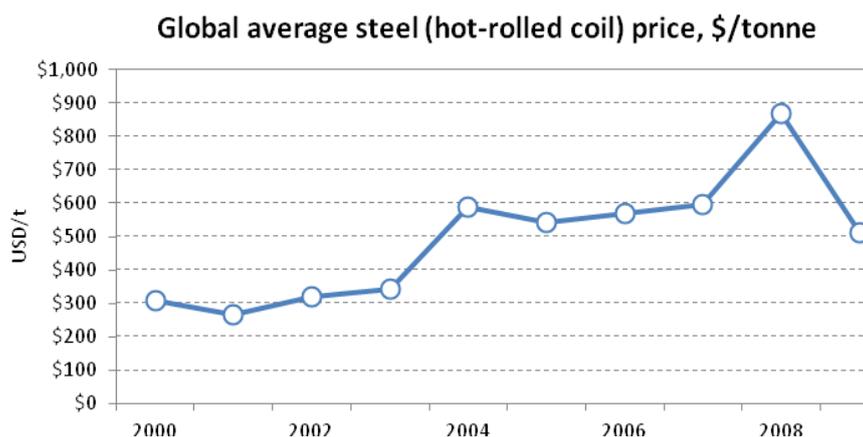
Source: Severstal

As far as the domestic market is concerned, Russian steel demand remained relatively stable until about 2004 when the much-improved external demand for key commodities gave rise to a real housing and infrastructure boom. The demand also contracted extremely sharply in 2008, although the boom continued in first half of the year, and in 2009, reflected the overall seriousness of the economic reaction to the externally-imposed crisis.



Source: Severstal

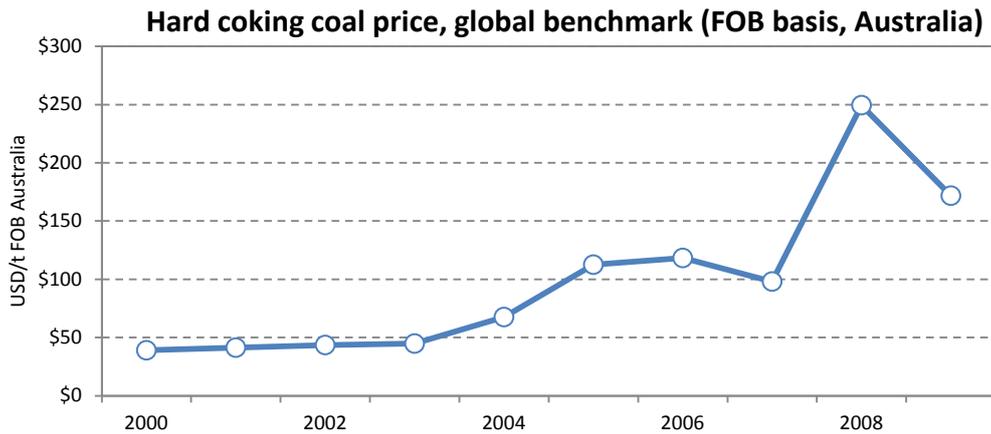
Steel, and particularly its raw materials, are capital-intensive industries, with long lead-times and construction costs for new capacities. It takes between three and five years to construct a new steel plant, and even longer to conduct exploration and develop all necessary infrastructure for a coking coal or iron ore project. This, combined with the fact that the best and easily accessible iron ore and coking coal projects were already developed in previous periods, meant that the supply response to rampant demand was relatively slow, giving way to rising margins and prices, as the charts below demonstrate.



Source: Bloomberg

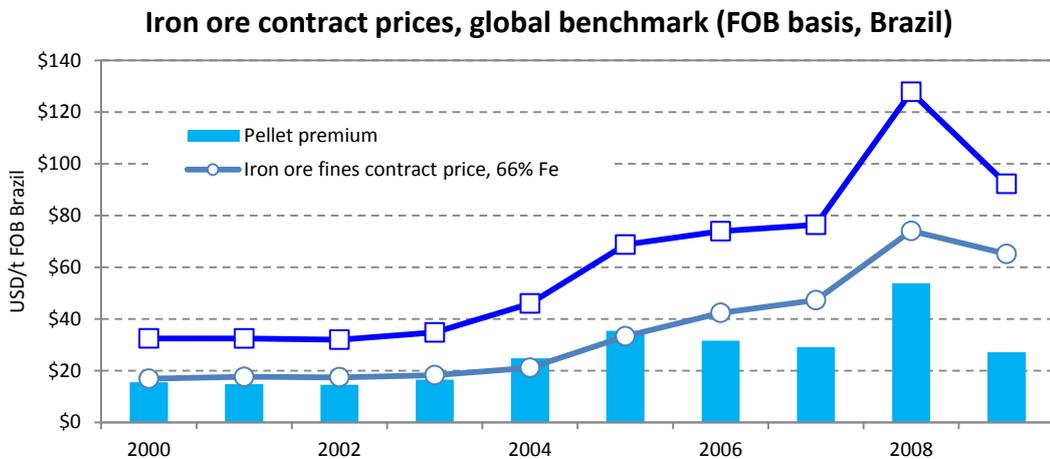
Coking coal prices started growing from 2004, following the sharp rise in steel price. Interestingly, higher lead-times and longer inertia of raw materials

investments, combined with a higher concentration among raw materials producers, facilitated a relatively more robust performance of raw materials prices. Steel prices have increased by a factor of three between 2003 and 2008, and by 70% between 2003 and 2009, whilst coking coal cost in 2008 five times its value in 2003, and was still more than 300% more expensive in 2009 compared to 2003.



Source: Bloomberg

The price for iron ore demonstrates a similar pattern, with expanding margins for premium product (iron ore pellets). Like for coking coal, despite the 2009 recession, the contract prices have still more than tripled between 2000-2009.



Source: Bloomberg

## ***Appendix 7 – Russian Economic and Institutional Environment in 2000-2009***

### **Russian Economic Journey, 2000-2009**

The period between 2000 and 2008 was an era of active growth and radical transformation for the Russian economy. At the same time, the impact of global economic and financial crisis was particularly strong as the country faced double shocks of falling export prices and collapsing capital inflows, the key drivers of its previous economic boom.

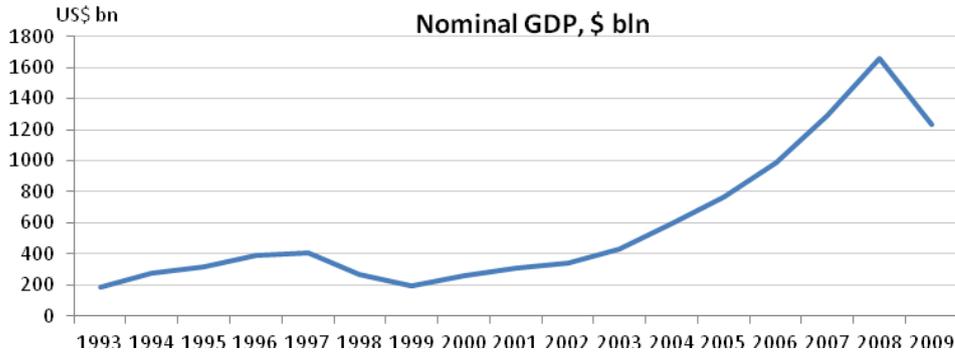
Russia has undergone significant changes since the collapse of the Soviet Union, moving to a more market-based and globally-integrated economy. The country essentially completed its transition to market and corresponding painful structural adjustments by the end of the 1990s. The positive impact of the 1998 rouble devaluation further facilitated subsequent economic growth, rising prices for Russia's key exports, including oil, gas and metals and sound economic management. Russia enjoyed a budgetary surplus in every year between 2000 and 2008 and accumulated the world's third-largest foreign currency reserves by the end of that period. Increased political stability was a welcome change relative to the highly volatile 1990s. Vladimir Putin assumed his new office on December 31,1999, and left it in May 2008, presiding over a long period of uninterrupted economic expansion.

In the 2000s, Russia's economy saw its dollar-nominated GDP nearly doubling, climbing from 22nd to 11th place among the world's largest economies. It ranked sixth in terms of purchasing power parity-adjusted GDP ([www.imf.org](http://www.imf.org)). The economy made real gain of an average of seven percent per year<sup>2</sup>. In 2007, Russia's GDP exceeded that of 1990, meaning it had overcome the devastating consequences of the long recession in the 1990s. On a per capita basis, Russian GDP reached US\$11,500 in nominal and \$16,000 in real terms by 2008, making it a middle-income country. At the same time, Russia also was

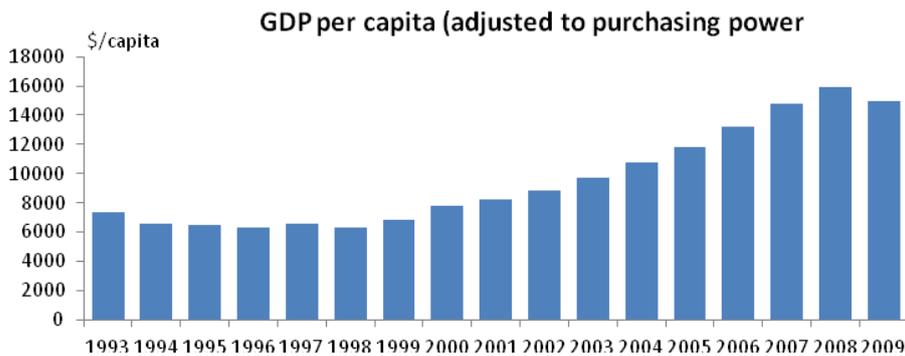
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<sup>2</sup> Unless stated otherwise, all data in this section is taken the Russian State Statistical Service

one of the hardest-hit countries in the aftermath of the 2008 economic crisis, with the economy contracting by almost seven percent in 2009.

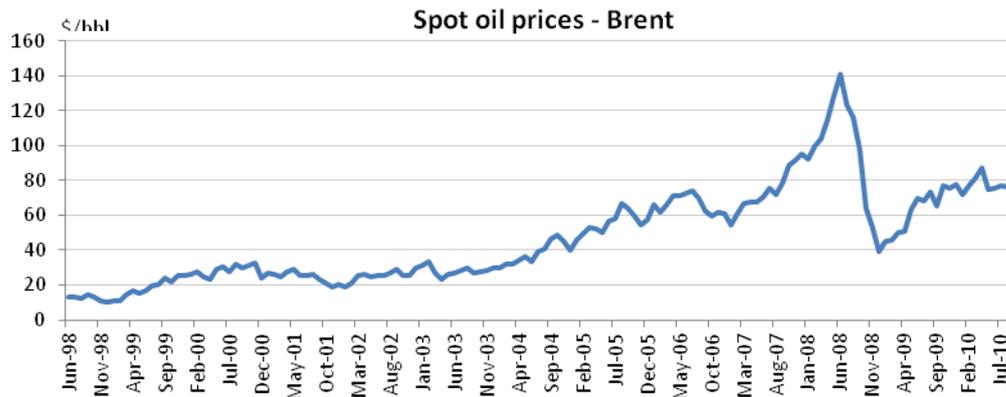


Source: Rosstat (Russian State Statistical Service)

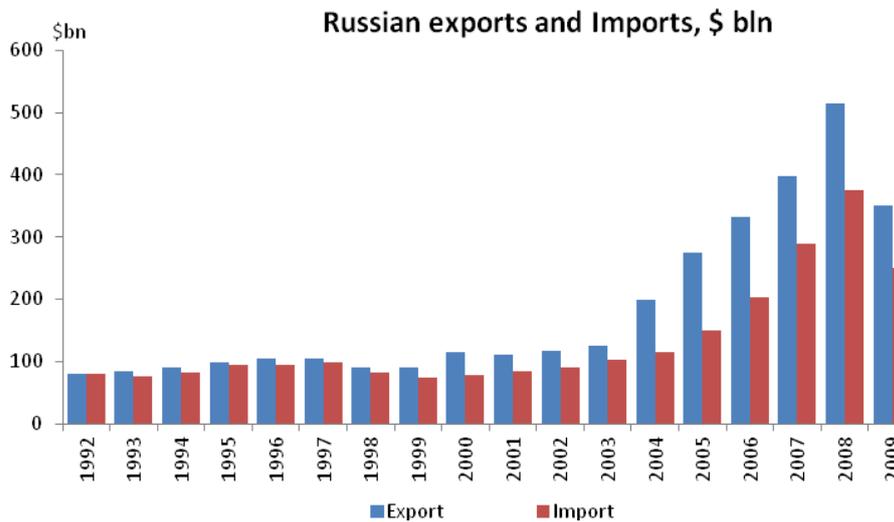


Source: Rosstat (Russian State Statistical Service)

In the second part of the period, economic growth was increasingly driven by rising commodity prices, which also greatly augmented the country's balance of payments. Oil remained the key commodity for the country and booming oil prices have made a decisive contribution to rising exports and balance of payments between 2000 and 2008, and particularly after 2003.

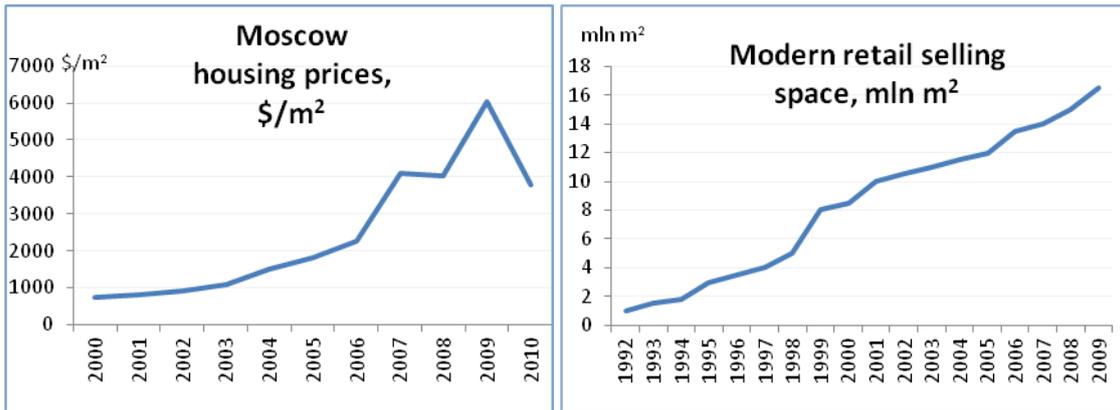


Source: Bloomberg

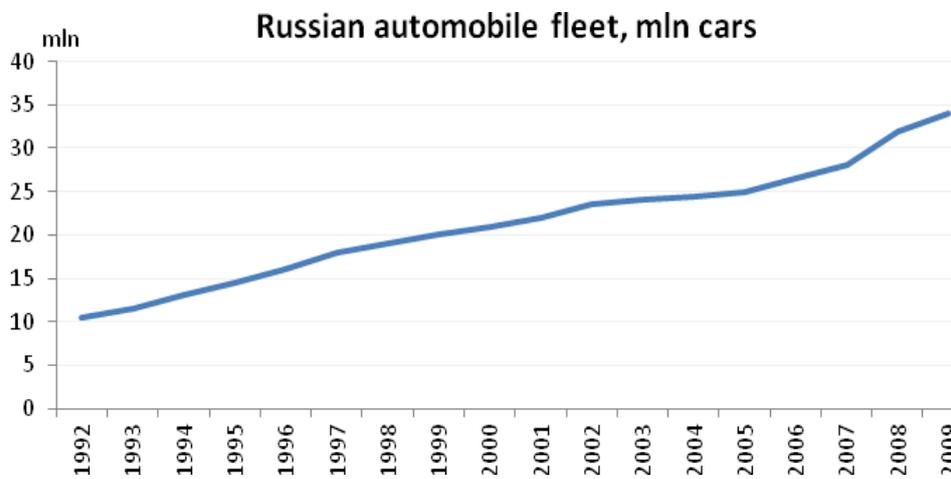


Source: Bloomberg

Although the industrial production increased by 75% between 2000-2008, it was Russia's internal market which arguably benefited the most from the economic boom. Real incomes more than doubled and the dollar-nominated average salary increased eightfold from \$80 to \$640. The volume of consumer credit between 2000–2006 increased 45 times, and during that same time period, the middle class grew from 8 million to 55 million, an increase of seven times. The number of people living below the poverty line also decreased from 30% in 2000 to 14% in 2008.

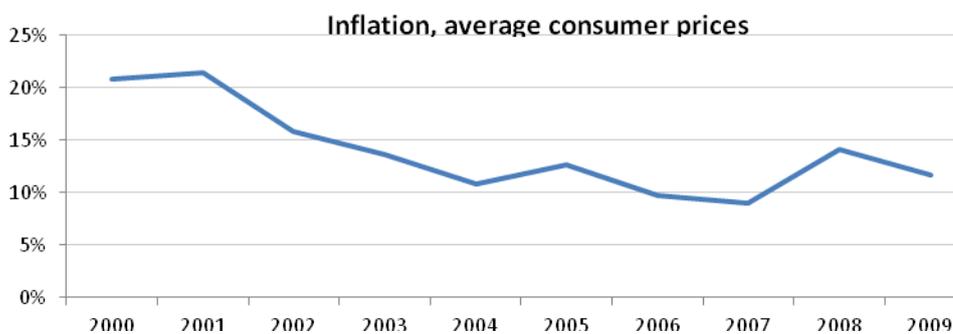


Source: Rosstat (Russian State Statistical Service)



Source: Rosstat (Russian State Statistical Service)

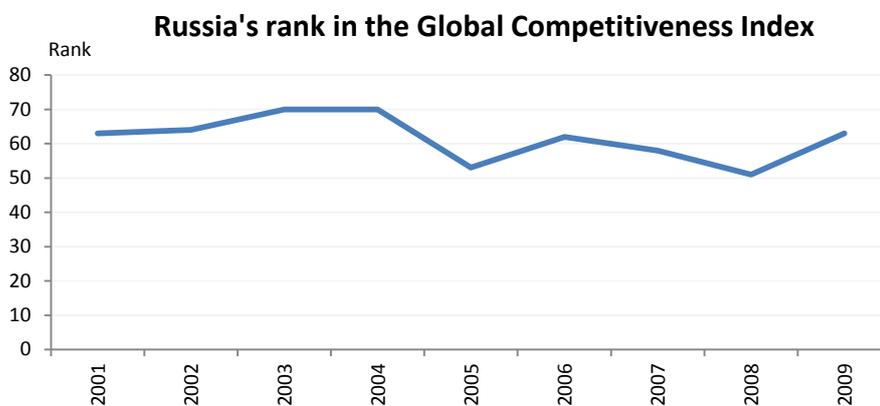
Inflation remained a problem, however, as the government failed to contain the price increase. From 1999–2007, inflation was kept within the forecast ceiling only twice, and in 2007 the inflation exceeded that of 2006, continuing an upward trend at the beginning of 2008.



Source: Bloomberg

## Institutional Environment

The institutional environment, however, remained relatively problematic for the business climate in Russia. Despite substantial growth in nearly all economic indicators, poor institutions contained overall country competitiveness, high bureaucracy and red tape, difficult tax regulations and the relatively poor state of many infrastructure elements (see the next chart). Signs of improvement, if any, were volatile and incoherent. These conditions created a challenging and volatile background for doing business in the country.



Source: Global Competitiveness Report, World Economic Forum

Interestingly, despite (or perhaps because of) economic success, corruption, a traditional hurdle for economic activity in Russia, remained on the rise compared to the situation in other countries of the world, according to Transparency International.

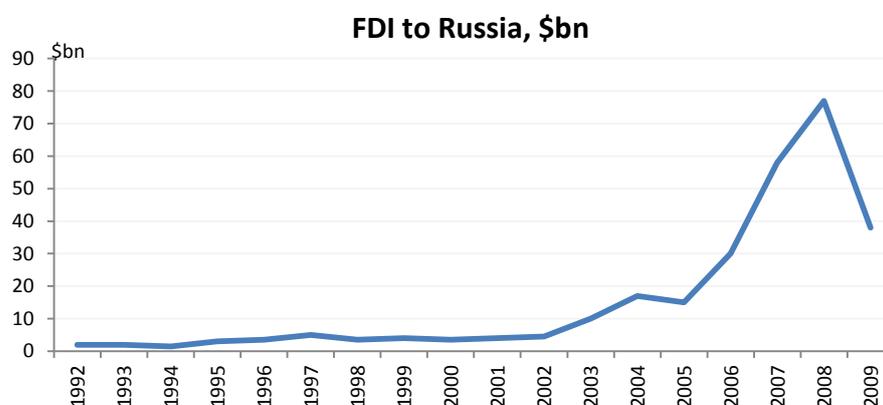


Source: Transparency International

To summarise, in 2000-2009 the economic climate and external environment were overall very favourable and conducive for business expansion. At the same time, the overall business climate remained challenging and volatile. It was heavily dependant on the external conjuncture as evident from the excessive impact of the economic crisis in 2009. Even in the absence of external shocks, there were significant issues associated with the local business climate, as evidenced by Russia's place in the global competitiveness rankings. However, for those who were able to overcome internal challenges and stand up to volatility, the environment presented multiple and exciting opportunities for development and growth.

### **Rising Importance of Capital Markets and Access to Foreign Capital**

The early 2000s were also the time when foreign investment inflows started in earnest in Russia. Investments have accelerated after 2005 on the back of an overall economic boom, rising commodity prices and a growing interest of Russian businesses in receiving external funding for their growth.



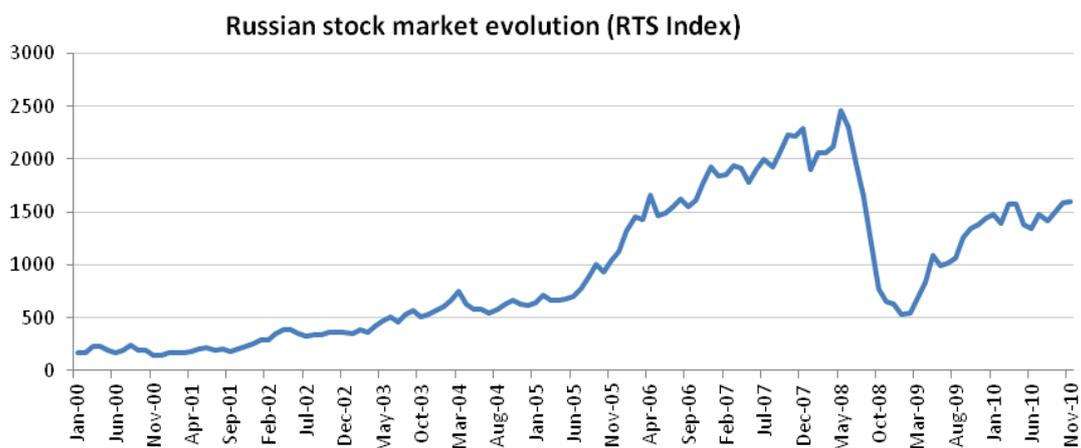
Source: Rosstat (Russian State Statistical Service)

Generally, foreign strategic investors had acquired assets in the majority of industries and sectors of the Russian economy, including pharmacy, IT, media, advertising and, of course, natural resources. The table below presents the largest acquisitions from the period between 2000-2008:

Acquirer	Target	Industry	Year	Deal size (\$bln)
ConocoPhillips	Lukoil (20%)	Oil & Gas	2004-2006	7,5
BP	TNK-BP (50%)	Oil & Gas	2003	6,8
E.ON	OGK-4	Power	2007	3,9
Société Générale	Rosbank	Banking	2006-2008	2,4
Enel	OGK-5	Power	2007	2,2
PepsiCo	Lebedyanskiy	Beverages	2008	1,4
Axa	RESO- Garantiya	Insurance	2007	1,2
KBC	Absolutbank	Banking	2007	1
Renault	AvtoVAZ (25%+1 share)	Automotive	2008	1
Allianz	ROSNO	Insurance	2001, 2007	0,77

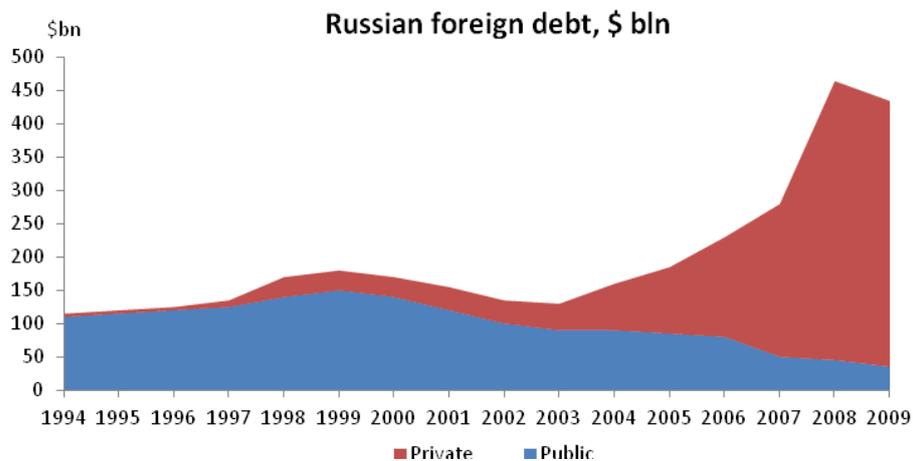
Source: Pappe and Galukhina, 2009

Rising importance of capital markets was also reflected in the rampant growth of the domestic stock market.



Source: Bloomberg

Debt markets arguably played an even more important role compared to equity markets. Growth in debt funding skyrocketed after 2003, as Russian corporations were opening for themselves to cheap foreign debt financing to fund the exciting investment opportunities within the country. The Russian debt structure shifted from an equal amount of external private and government debt in the late 1990's, to the absolute dominance of private debt over government debt in Russia's external debt structure.



Source: Bloomberg