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**The Temporal Development of Strategy:
Patterns in the UK Insurance Industry**

by

David Langston Webb

*A thesis submitted in partial fulfilment of the requirements for the degree of
Doctor of Philosophy in Management.*

Warwick Business School, University of Warwick

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Declaration

The following declarations are made as required by the University of Warwick Graduate School's guide to examination for higher degrees by research.

1. No material is contained in this thesis which was published or submitted for publication before the start of this study.
2. All material used in this thesis originated from the research conducted for the purpose of this thesis.
3. It is confirmed that this thesis or part of it has not been submitted for a degree at another university.
4. The work described by this thesis is the candidate's own work.
5. No collaborative work has been included in this thesis.

Abstract

Much writing in the field of strategic management remains an exercise in comparative statics. Cross sectional research methods are combined with the notion of stable equilibria to analyse the fit between the positioning or resource base of the firm and its performance. However, the inadequacies of this tradition are increasingly being recognised even by the scholars who created it (Porter 1991). Strategy can no longer be conceived through the static language of states or positions and must be understood as an innovation contest where the bureaucratic and inflexible will not survive (Webb and Pettigrew 1999).

This study takes up the challenge to explore the dynamics of strategy development. The empirical focus of the paper is the UK insurance industry in the 1980s and 1990s, a period of considerable upheaval. By means of an innovative cross-correlational time series analysis, we are able to show the ebb and flow of strategic change in the industry and the patterns of initiation and imitation as certain firms lead in areas of strategy and others follow. A comparative case study analysis enabled the micro processes and internal contexts of consistent early and late adopters of strategy to be investigated. The findings of our case studies were interrogated and interpreted by developing theoretical ideas from three literatures which historically have not talked to one another. These are the literatures on innovation, institutionalism and contextualism.

The empirical results show firms pursuing multiple strategies at one point in time and altering the strategic agenda over time. Our analysis of nine firms reveals the existence of leaders and laggards in the development of a variety of strategic initiatives. The comparative case studies indicate that the 'strategic agility' of a firm depends both on management having the ability to act and the context in which such action occurs being receptive.

Chapter 1

Introduction

As ever, the rhetoric of organisational change is ahead of our empirical understanding of actual change in firm strategy and structure. We are variously informed about the consequences of hypercompetition (D'Aveni 1994), the rise of 'individualised' corporations (Ghoshal and Bartlett 1998) and the new rigours of 'competing on the edge of chaos' (Brown and Eisenhardt 1998). Behind such claims lies a new interest in the dynamics of organising and strategizing. There is a recognition that strategy can no longer be conceived through the static language of states or positions, but must now be understood as an innovation contest where the bureaucratic and inflexible will not survive (Webb and Pettigrew 1999).

Amongst those who champion the new dynamic view of the firm, there is the belief that managers are unable to influence, or even to comprehend, their rapidly changing environment (Stacey 1993 and Peters 1987, 1992). Hence, they urge for the adoption of flexible structures and systems which react to change automatically. This is a highly deterministic view - the actions of the manager being limited merely to making adjustments to the structure and systems. Others (e.g. D'Aveni 1994) suggest a more proactive role for the manager in which he does have the ability to influence the environment in which the firm operates.

Despite these emerging dynamic views, much strategic management writing, like a good deal of the social sciences, is still an exercise in comparative statics. Cross

sectional research designs are combined with the static metaphors of contingency thinking to analyse the fit between the positioning and resource base of the firm and its performance in differing environments. The inadequacies of this tradition are now well recognised even by those scholars who created it (Porter 1991). Thus Rumelt et al (1991) ask for more dynamic explanations of strategy and Porter (1991) applauds research which utilises historical data to reveal the chains of causality that help to make up a more dynamic theory of strategy development.

Recognition of the dynamic character of the content of strategy raises a number of important questions concerning the emergence, development and demise of types of strategy over time and the factors that trigger these changes. In particular, what are the characteristic patterns of strategy development that occur at both firm and industry level over time? Do firms pursue single dominating strategies at any point in time, or is the process of strategic evolution a pattern of changing emphases between different strategic initiatives and pathways? In any industry, are certain firms leaders and others followers in this process of strategy change? Is it possible that a firm could be an early adopter of a strategic initiative in one area of strategy but a later adopter in some other strategy area? If some firms are indeed consistent early or late adopters in an industry, why? What mixture of internal and external features of firm and industry conditions creates such industry leaders and laggards? Does the early adoption of strategies depend on the firm quickly reacting or flexing to match change or does proactive management action play a role?

This study takes up the challenge to explore the dynamics of industry and firm strategy development. The empirical focus of the paper is the UK insurance industry

in the 1980s and 1990s. This was an era of considerable upheaval in an industry with a long history of tradition and continuity. We explore patterns in the strategic development of nine of the largest firms in the UK insurance industry. Our analysis draws upon a combination of secondary and primary data. By means of an innovative cross-correlational time series analysis, we are able to show the ebb and flow of strategic change in the industry and the patterns of initiation and imitation as certain firms lead areas of strategy and others follow. The internal micro processes and contexts of two firms, one a consistent early adopter of strategy and one a consistent late adopter, were investigated using the comparative case study method.

Outline of this Thesis

Chapter 2 presents and critiques the two main schools of strategy content – the positioning school and the resource based view of the firm. Two main criticisms are described. Firstly, these schools have tended to adopt a static view of strategy content due to their belief in the notion of stable equilibria and because of the methodologies they have utilised. Secondly, each school has tended to concentrate on a single level of analysis, e.g. the firm, and to exclude, or even dismiss, the influence of factors at other levels. We describe how three alternative literatures – innovation (e.g. Damanpour 1991), institutionalism (DiMaggio and Powell 1983) and contextualism (Pettigrew and Whipp 1991) – can be used to build a more dynamic and multilevel view of strategy content. These literatures also raise several issues about the patterns of strategy content that occur across an industry group and the firm level factors that influence these patterns. These issues led to the three main research questions that were investigated by this study:

1. Do common strategies emerge and diffuse through an industry over time?
2. Are there consistent early and late adopters of common strategies or does the order of adoption depend on the nature of the strategy?
3. Why are certain firms consistent early or late adopters of common strategies?
What factors influence a firm's strategic agility?

Chapter 3 describes the methodology adopted for our empirical research. A dual phase research strategy was used which incorporated the strengths of the comparative case study method and those of an innovative mapping and analysis technique. Strategy types were mapped through time for each of nine UK insurers to allow cross industry patterns to be detected. A cross-correlation analysis technique was developed for this study which allowed the quantitative recognition of consistent early and late adopters of strategy. The case study approach allowed the internal micro processes and contexts of these early and late adopters of strategy to be investigated. The chapter provides details of this unique approach and the steps that were taken to ensure validity.

In Chapter 4 we begin our multi-level analysis of the UK insurance industry by analysing the macro and competitive environment faced by insurers in the 1980s and 1990s. We describe how this environment changed from one of protection and collaboration to one of hypercompetition (D'Aveni 1994). We show that some firms were able to cope with the environment better than others.

Chapter 5 focuses on the patterns of strategy development and diffusion among our sample of insurers. We describe how certain strategies emerged and spread to the rest of the sample. Through the use of the innovative cross correlation analysis we show that certain firms were consistent early adopters of strategy, while others were consistent late adopters.

The results of our comparative case study analysis are described in Chapters 6, 7 and 8. Chapters 6 and 7 provide a narrative of the significant strategic and organisational issues within the two case study firms – Prudential and Guardian Royal Exchange. Chapter 8, compares the two companies and describes the factors that our analysis identified as influencing strategic agility i.e. the speed with which a firm adopts new strategies.

The final chapter, Chapter 9, concludes this thesis. Having summarised our findings we discuss the contributions made by this research to the study of strategy. We also comment on its limitations and suggest areas for future research to address these limitations and to further utilise the methodology described.

Chapter 2

Towards a Dynamic Perspective of the Content of Strategy

"All this is true, if time stood still"

Francis Bacon (1561 – 1621)

Introduction

Strategy researchers have frequently distinguished been the content, process and context of strategy (Pettigrew 1985, Mintzberg 1990 and De Witt and Meyer 1994). This fragmentation of the strategy field has led to the development of separate content and process research traditions. While this has proved analytically beneficial, several authors have argued that it ignores the fact that strategy process, content and context are strongly interrelated. Hence, focusing on any one of the three in isolation will give only a limited view (Mintzberg 1990 and De Witt and Meyer 1994). Pettigrew (1992) makes the same point and calls for the reintegration of research on these three dimensions of strategy. However, for such reconciliation to occur, each stream of thinking must develop in commensurable lines and there must be the academic motivation to attempt such reconciliation.

Having dominated academic research on strategy during the 1970s and 1980s, interest in the content of strategy has waned over the last decade. Researchers have turned their attention to the process of strategy and this has led to significant progress in this area (Mintzberg et al 1998). However, the development of thinking on strategy content has slowed. This has led some authors to express concern that it is lagging behind other areas of management science, including strategy process (Montgomery et

al 1989 and Porter 1991). Others claim that current views are inadequate to deal with today's competitive environment (D'Aveni 1994 and Brown and Eisenhardt 1998). It is these concerns that form part of the subject of this chapter.

In this chapter, we first review the main streams of literature on the content of strategy: the positioning school and the resource-based view. Through this review two critical themes become apparent. Firstly, that research on strategy content has tended to take a highly static view based upon the notion of stable equilibria. Secondly, that this research concentrates on a single level of analysis, i.e. the industry or the firm, and fails to develop a multi-level view.

While some progress has been made in addressing these criticisms, comparison with the highly dynamic views that have emerged within the strategy process literature reveals significant conceptual and empirical gaps. In particular, with the exception of a small and eclectic group of empirical studies, research that takes a dynamic view of strategy across an industry is limited.

Research from other streams of management thinking suggests that cross industry patterns of strategy content will reveal important aspects of firm behaviour that are linked to performance. This insight leads to the development of a number of research questions relating to such cross industry patterns which our empirical study will seek to explore.

This chapter comprises six sections. After this brief introduction, the second section discusses the main schools of thought within the strategy content literature – the

positioning school and the resource-based view of the firm. The third section describes significant criticisms of these two schools of thought. Section four explores a small group of studies of strategy content that address the concerns raised in section three. Section five describes three 'alternative literatures' – innovation diffusion, institutionalism and contextualism – which offer important insight into the nature of strategy content. The final section, demonstrates how our research questions emerge from this review of the literature.

The Content of Strategy

Two fundamentally different streams of research - the positioning school (Mintzberg 1990) and the resource-based view of the firm (Wernerfelt 1984) have dominated the strategy content literature (De Witt and Meyer 1994). The positioning school is most closely associated with the work of Porter (1980 and 1985) and has had a significant impact on strategic management since the 1970s. In contrast, the resource-based view is relatively new and less well developed (Grimm and Smith 1997).

The Positioning School

The positioning school emphasises the importance of the strategies themselves i.e. the content of strategy (Mintzberg 1988 and 1994, Mintzberg et al 1998). It assumes that the structure of the industry in which a firm operates largely determines the firm's freedom to manoeuvre (De Witt and Meyer 1994, Teece et al 1997). Hence, understanding the structure of the industry and then positioning the firm to take advantage of the insights gained are of prime importance. Management's aim must be

to discover or create a defensible and sustainable position within which the firm can generate above average profits.

Industrial Organisation Economics

The Harvard stream of industrial organisation economics has heavily influenced the positioning school. This micro-economic perspective has its theoretical roots in Chamberlin's (1933) model of monopolistic competition and Robinson's (1933) concept of imperfect competition. At the core of industrial organisation economics is the structure-conduct-performance (S-C-P) paradigm (Mason 1939, Bain 1958).

In the S-C-P framework, structure refers to industry structure in terms of the number, size and distribution of firms in that industry, the elasticity of demand and the existence of barriers to entry. Conduct refers to the behaviour of firms, whilst performance, to the industry's performance in terms of profitability and growth in output. Originally, a one way causation was implied with structure determining conduct and hence industry performance. Later work questioned this linearity (Scherer 1970) and suggested interdependency among the three elements of the S-C-P paradigm.

The primary aim of the early industrial organisationalists (Mason 1939 and Bain 1956) was to improve performance at an industry level by the use of public policy to manipulate industry structure. Governments were urged to counter monopoly power by removing barriers to entry and promoting competition - thus preventing individual

firms from seeking defensible positions that exploited imperfections in competition and thereby gaining above average profits (monopoly rents).

Strategic Positioning and Generic Strategies

From the early 1970s strategy researchers began to adopt the S-C-P paradigm. Reversing the intent of the Harvard industrial organisation theorists, it was seen as a model which managers could use to assess competition, develop monopoly positions and maximise profits.

Porter (1980) argued that the performance of a firm is determined by the strength of five structural forces - the threat of new entrants, supplier bargaining power, customer bargaining power, the threat of substitute products and the intensity of rivalry among competing firms. Firms achieve competitive advantage by adopting advantageous positions relative to these five forces or by shaping them to their own benefit.

Porter (1980 and 1985) suggests that, regardless of industry context, there are two basic types of competitive advantage a firm can possess: low cost and differentiation. These combine with the scope of the firm's activities to produce "three generic strategies for achieving above average performance: cost leadership, differentiation and focus" (Porter 1985 and Mintzberg et al 1998).

Focusing on a single generic strategy is seen as essential to maximising firm performance (Ketchen et al 1996). Firms that have no coherent strategy or try to

pursue two generic strategies simultaneously are described as 'stuck in the middle'. According to Porter (1985), the profitability of such firms will be below average.

The belief that there are a limited number of viable strategies is an essential feature of the positioning school and has practical implications for firms. Senior management is advised to target a defensible product/market position identified through a careful industry analysis. A generic strategy that matches the conditions at hand is selected (Hofer and Schendel 1978 and Mintzberg et al 1998) and the organisation adjusted to deliver that strategy.

Strategic Groups

The Harvard stream of industrial organisation economics asserts that industry structure determines firm conduct and assumes that firms are homogeneous in all respects but size (Cool and Schendel 1988). This suggests that there will be one optimal strategy that all firms in an industry will adopt (McGee et al 1995). However, empirical studies show that groups of firms cluster around different strategies or positions on a range of strategic dimensions (Porter 1980, McGee and Thomas 1986 and Cool and Schendel 1988). These industry sub-groupings are termed strategic groups (Hunt 1972/Fiegenbaum and Thomas 1990).

Caves and Porter (1977) suggested that strategic groups are formed partly as a result of variations within the industry structure and partly as a result of similar investment decisions made by firms in the past. Mobility barriers, a 'downsized version of entry

barriers' (Mintzberg et al 1998), were seen as impeding firms from freely changing their competitive positions and changing groups (Cool and Schendel 1988).

Porter (1979 and 1980) argued that firm profitability depends on the structure of the group in which the firm operates. The higher the inter-industry mobility barriers and the lower the degree of rivalry between group members the lesser competition and the greater the opportunity to generate higher than average profits. However, group structure does not replace industry structure. Rather it defines segments within an industry (Caves and Porter 1977).

Empirical Evidence

The cross sectional and quantitative analysis of questionnaire surveys or existing data bases (e.g. PIMS) have dominated empirical work on generic strategies. Typically such analyses have used either single or multi variable linear regression analysis (Ginsberg and Venkatraman 1985) to propose generalisations and imply causation (Aharoni 1993).

Using the typologies proposed by Porter and others (e.g. Henderson 1979, Hambrick 1983 and Miller and Friesen 1986) researchers have attempted to find the optimal match between generic strategy and environmental conditions (Hambrick 1983, Kim and Lim 1988 and Kumar and Subramanian 1997). Others have sought to determine the effect of strategy type on financial performance, and the influence of intermediate variables such as organisational structure (e.g. Miller 1988 and 1992).

Opinion as to the success of this research is varied. Ketchen et al (1996), Miller and Dess (1993) and Mehra (1996) suggest that strategy content research has been unable to establish a clearly defined relationship between strategy and performance. Ginsberg and Venkatraman (1985) on the other hand state that research relating strategy to firm performance has been consistent and significant when studies have used industry structure and environmental factors as contingent variables. However, similar studies where the link between performance and strategy is contingent on organisational variables have produced inconsistent findings.

Research on strategic groups has concentrated on identifying clusters of firms within an industry or on attempting to prove the relationship between group conduct or the height of mobility barriers, and firm performance (Day et al 1995 and Dranoe et al 1998). Strategic groups are identified either by using a simplistic manual inspection of key attributes or by cluster analysis based on existing data bases (e.g. COMPUSTAT) (McKee et al 1995 and Day et al 1995). However, the results from this research have been mixed (Dranove et al 1998) - leading some to question whether there is a link between strategic groups and firm performance or even to doubt the existence of strategic groups (Barney and Hoskisson 1990 and Peteraf and Shanley 1997).

How much does Industry Structure Matter?

The Harvard approach to industrial organisation economics asserts that industry structure determines firm performance. Other industrial organisation researchers do not share this view. The Chicago School was particularly critical of the notion of permanently defensible positions (Stigler 1968 and Demsetz 1974). They argued that

it is the efficient exploitation of heterogeneous and immobile resources at the firm level that generates above average profits (Jacobson et al 1996).

The conflicting views on the importance of industry and firm factors have led a number of researchers to ask 'how much does industry matter?' (Rumelt 1991). Conflicting results have emerged. Schmalensee (1985) showed that 75% of the variance in industry rates of return was due to industry influences, while firm level factors had negligible impact. In contrast, Rumelt (1991) and Roquebert et al (1996) indicate that industry level influences were responsible for only 10% of differences in firm performance, while firm level factors accounted for around 50% of such variance.

Responding to Rumelt's (1991) findings McGahan and Porter (1997) used a more sophisticated statistical approach (Mintzberg et al 1998) to address this issue. They found that industry level influences accounted for 19% of variation in firm performance. However, differences due to firm level factors were more significant, accounting for 36%.

In the light of Rumelt's (1991) findings, McWilliams and Smart (1993) suggest that the positioning school misdirects managers to expend resources on influencing industry structure because the firm's performance will not be greatly affected by the changes that result. Black and Boal (1994) argue that strategy should primarily be concerned with firm level factors rather than seeking industry level positions. Such an internal focus is adopted by the resource-based view of the firm.

The Resource-based View of the Firm

Like the positioning school, the resource-based view also has its origins in economics and Penrose's (1959) characterisation of the firm as a collection of productive resources is widely acknowledged (Peteraf 1993 and Foss et al 1995). It also has affinity with the Chicago School of industrial organisation economics (Conner 1991).

Building on Penrose's insight, Wernerfelt (1984) argues that the fundamental determinant of a firm's performance is the distinctive resources it controls. These resources could be physical assets, capabilities, information, knowledge or other assets. To be strategically relevant they must be rare, inimitable, and non-substitutable and have a high utility (Barney 1991). Barney (1991) highlights the problems of resource inimitability and this has led many researchers to consider intangible resources or bundles of resources as the source of sustainable competitive advantage.

The pattern and quality of the bundle of resources controlled by each firm will vary. Imperfections in the market for such resources will restrict their mobility and hence, differences between firms will persist (Barney 1986 and Peteraf 1993). Hence, the possession of scarce and valuable assets will be the source of sustainable competitive advantage, allowing firms to earn above average profits (scarcity rents).

While the resource-based view is primarily concerned with firm level factors, there has been some attempt to integrate the key aspects of industrial organisation economics (Grimm and Smith 1997). Peteraf (1993) provides an example. She suggests that there are four cornerstones of competitive advantage. Two, the

heterogeneity of resources and the imperfect mobility of key resources, both well developed in the work of Barney (1991) and Wernerfelt (1984), are at the firm level. The other two are industry level cornerstones - 'ex ante limits to competition' and 'ex post limits to competition'. In essence, on their own valuable resources cannot generate above average profits, it is only through their interplay with market forces that their value is released (Collis and Montgomery 1995 and Russo and Fouts 1997).

The resource-based view sees strategy making in terms of senior management rationally identifying and exploiting the firm's resources and capabilities to gain competitive advantage. Content of strategy is therefore the unique collection of valuable resources that senior management identify and deploy rather than a set of product-market positions (Wernerfelt 1984, Barney 1986 and Teece et al 1997).

The resource-based view of strategy is relatively young and its theoretical approach is yet to be fully developed (Black and Boal 1994 and Peteraf 1993). Foss et al (1995) argue that as a result researchers are unable to identify *a priori* what resources or bundle of resources might lead to competitive advantage.

Firm Heterogeneity and Strategic Groups

The assumption that resource bundles, and therefore firms, are heterogeneous is at the heart of the resource-based view of the firm. However, as we have seen other research has noted the presence of strategic groups within an industry, the members of which pursue similar strategies (Caves and Porter 1977) Despite the apparent contradiction a

number of researchers have adopted the resource-based view in defining strategic groups (Mehra 1993 and McGee and Thomas 1985).

Amit and Schoemaker (1993) provide an answer to this apparent contradiction. They suggest that there are two types of valuable resources - 'strategic industry resources' and 'firm idiosyncratic resources'. Firms that possess similar configurations of strategic industry resources can constitute a strategic group (Mehra 1993). Cool and Schendel (1987 and 1988) suggest that whilst in total a firm's bundle of valuable resources may be unique, components of that bundle will be found across a strategic group. However, while strategies may be similar, firm performance will vary across the group due to firm idiosyncratic resources (ibid).

Empirical Evidence

Empirical research relating to the resource-based view has concentrated on determining what features identify strategically valuable resources (Barney 1986 and Maijoor and Witteloostuijn 1996). Such work has typically employed cross sectional analysis to identify resources or clusters of resources associated with above average firm profitability. However, due to the often intangible nature of the resources being studied and a wide variation in the definitions and statistical methods used, empirical results are mixed (Rouse and Daellenbach 1999). Beyond stating that resources and combinations of resources can confer a competitive advantage, evidence for the resource-based view of the firm remains largely theoretical (Pettigrew et al 1999).

Criticisms of Strategy Content Research

The positioning approach to strategy has come under significant criticism since the 1980s. Typically the positioning school has been grouped with the earlier planning and design schools (Mintzberg 1990) and variously described as being 'prescriptive' (Mintzberg 1990), linear (Chaffee 1985) or economically rational (Knights and Morgan 1991). Similar comments have been made about the resource-based view (Conner 1991 and Oliver 1997). Often the perspective is then used as a 'straw man' against which to extol the virtues of an alternative approach.

Much of the criticism relates to the adoption by both the positioning school and resource-based view of ideas stemming from the planning school. In particular, the decoupling of strategy making from strategy implementation has been widely criticised, as has the notion that senior management, armed with the necessary information and analysis, rationally and deliberately select the appropriate strategy to pursue (Pettigrew 1985 and Mintzberg and Waters 1985).

However, critics have also raised two particular conceptual and empirical concerns that relate directly to the content of strategy. Firstly, that research on strategy content focuses unduly on either firm or industry factors rather than taking a multi-level view (Mintzberg et al 1998 and Pettigrew 1985). Secondly, that both the positioning school and the resource-based view promote a static view of the firm and its environment (Jacobson 1992, Grimm and Smith 1997 and Mintzberg et al 1998). This static view is amplified by the research methods utilised.

Single and Multi Levels of Analysis

Strategy content, for the positioning school, is a defensible position defined by competitive forces at the industry and strategic group level. In its quest to investigate industry structure and define generic strategies, this stream of research, as we have seen, has tended to ignore firm level and macro environment factors (Pettigrew 1985 and Mintzberg et al 1998).

The resource-based view is perhaps equally guilty of taking a blinkered view. Emphasis is heavily on firm level factors, often to the exclusion of industry effects and certainly macro environmental issues. While firm level differences contribute most significantly to performance, industry level factors are not without influence. With the rise of the resource-based view in the 1990s, the internal focus has become dominant. This has led some authors to suggest a more balanced view is needed (Mintzberg et al 1998). Through the work of Peteraf (1993), Mehra (1996) and others such a view has begun to emerge.

Static Views of Strategy Content

Central to neo classical economics and intrinsic to both the positioning school and the resource-based view of the firm is the notion that a firm is in a state of equilibrium, i.e. the economic forces acting on it are exactly balanced. Small displacements away from this equilibrium are self corrected and a state of balance restored (Bettis and Prahalad 1995). Hence, there is no tendency for the firm to change. Different

defensible positions, generic strategies or bundles of resources reflect alternative equilibrium states.

The implicit assumption of much of the strategy content research is that management rationally identifies a new and more attractive equilibrium position as a result of extensive analysis. The organisation will then be swiftly moved to this new position. This shift will be 'step like' or quantum.

Over the last decade the notion of long periods of environmental stability has been challenged (D'Aveni 1994 and Brown and Eisenhardt 1998). Increasing globalisation, deregulation and blurring industry boundaries have led many researchers to envisage continuously changing and chaotic markets (Kanter et al 1992, D'Aveni 1994, Brown and Eisenhardt 1998). In responding to the chaos, organisational change is seen as 'continuous and never discrete, fragmented or broken' (Sztompka 1993).

Strategy process researchers have responded to the demands of this new environment by adopting more adaptive models that stress flexibility and change (Chaffee 1985 and D'Aveni 1994). However, it is apparent that thinking on strategy content has been slow to take a similar step (D'Aveni 1994 and Webb and Pettigrew 1999).

The static natures of the positioning school and the resource-based view have been the subject of extensive criticism (Pettigrew 1992, Mintzberg 1994 and Grimm and Smith 1997). The failure to address how organisations create and develop market positions or resources over time receives particular attention (Fiegenbaum et al 1990, Black and

Boal 1994, Peteraf and Shanley 1997 and Lieberman and Montgomery 1998). Recently, researchers from both schools have begun to recognise these concerns.

Developments in the Positioning School

A number of writers from the positioning school have urged their colleagues to take more dynamic perspectives (Porter 1991, Bogner and Thomas 1993 and McGee et al 1995). However, very few researchers from this school have taken up this challenge.

Fiegenbaum et al (1990) McGee et al (1995) do suggest a more dynamic view, proposing a punctuated equilibrium model of strategic groups. Stable periods where the membership of a group and the strategies pursued are invariant are interrupted by periods of disturbance during which there is change in both group membership and strategy. Fiegenbaum et al (1990) and McGee et al (1995) urge researchers to identify strategic groups during periods of stability and investigate subsequent change. They identify a small number of studies that take this approach.

Developments in the Resource-based View

Researchers have begun to recognise that in a dynamic environment any advantage provided by an unchanging bundle of resources will be dissipated or bypassed as competitors imitate or find alternatives (Benasko et al 1996). Hence, firms must continuously adapt and renew their strategically valuable resources. This realisation has led a number of writers (Foss et al 1995, Levinthal 1995 and Chang 1996) to

suggest that evolutionary economics (Nelson and Winter 1982) could be used to provide a dynamic perspective of the resource-based view.

Foss et al (1995) suggests that such an amalgam was evident in Penrose's work but was ignored by early resource-based view theorists. An evolutionary view implies that a bundle of resources will evolve over time through a continuing process of variation, selection and retention within the firm (Levinthal 1995).

Teece et al (1997) also stress the importance of adapting to a changing environment. They suggest that firms must have the ability – which they refer to as dynamic capability - to adapt, integrate and reconfigure skills and resources in response to change. A similar dynamic perspective is evident in Prahalad and Hamel's (1990) construct of core competencies. Here core competencies relate to both tangible assets and less tangible resources such as organisational learning and knowledge.

The development of an evolutionary approach to the resource-based view suggests that strategy content will comprise continually changing bundles of firm level resources. Although this approach focuses narrowly on the firm, it does provide a highly dynamic view of strategy content. However, it is in its infancy (Teece et al 1997) and little empirical testing has taken place.

Empirical Limitations

The bias towards a static view of strategy content has been partly driven by the methodologies adopted. The use of cross sectional analysis at single points in time

dominates empirical work (Huber and Van de Ven 1995 and Rouse and Daellenbach 1999). Researchers aim to uncover statistical correlation between various sets of variables and imply generalisations of causality.

While such an approach will have a place during stable conditions it will fail to detect change (Delacroix and Swaminathan 1991 and Tuma and Hannan 1984). This is a significant problem when continuous change in the firm and its environment is envisaged.

As criticism has grown of this static orientation, some researchers have begun to adopt longitudinal research methods. Typically, cross sectional analyses are repeated at several discrete points in time and the differences between each time point used to demonstrate change. However, this approach may assume that equilibrium has been reached at the points at which variables were sampled. Quantum change between states of equilibrium occurs sometime between the sample points (Meyer et al 1993 and Coleman 1981). Thus, a quantum or punctuated equilibrium model of change is implied by the method used, though not necessarily by the data.

Various researchers have suggested that methods that are more dynamic should be applied to strategy content research (Russo and Fouts 1997 and Rouse and Daellenbach 1999). Quantitative methods, such as event history analysis (Tuma and Hannan 1984), and qualitative approaches, including case studies and interview programs (Rouse and Daellenbach 1999) have been proposed. However, the application of such approaches to strategy content research is still rare (Van de Ven and Huber 1995).

Summary

Two critical themes of the research on the content of strategy have been discussed. The first highlights that both the positioning school and the resource-based view focus on a single level of analysis.

From a positioning perspective strategy content is a defensible position within the structure of the industry in which it operates. While sub-structures are revealed through work on strategic groups, the emphasis is on industry level attributes often to the exclusion of firm and macro environmental factors.

The central tenet of the resource-based view is that firm level factors determine performance. Industry and macro environmental factors have largely been ignored. However, there has been some attempt to introduce industry level effects into the resource-based view. Peteraf (1993) offers a model that includes both firm and industry level factors and various researchers have attempted to use firm level resources to define strategic groups (Mehra 1993 and Cool and Schendel 1988).

The second critical theme addresses the static nature of the positioning school and resource-based view. The static nature of these constructs is inherited from the economic traditions upon which the two approaches are based. Central to neo-classical economics is the notion of stable equilibria, which implies little or no change. Consequently, little attention is paid to how strategies emerge and develop over time.

Assumptions of economic rationality and a linear view of the strategy process imply that a firm's management identify new and attractive markets or resource positions

and then quickly shift the organisation to a new position. Change, if it occurs, is quantum or 'step like' and possibly unproblematic.

Authors in both content schools (Porter 1991 and Foss et al 1995) have called for the development of more dynamic perspectives. Within the positioning school, there has been some response from strategic group researchers by way of the adoption of a punctuated equilibrium model (Fiegenbaum et al 1990, McGee et al 1995).

A dynamic view of strategy has recently emerged in the resource-based view. Evolutionary or adaptive views are taken of a firm and its resources to develop concepts such as core competencies (Prahalad and Hamel 1990) or dynamic capabilities (Teece et al 1997). Despite the growing popularity of these concepts, they are still in their infancy and empirical work is limited.

The adoption of more dynamic research has been hindered by the research methods commonly utilised. Cross sectional methods with data collected from a single point in time dominate research on strategy content. These methodologies are biased towards a static perspective.

The main areas of strategy content research together with recent developments have been mapped in relation to the two critical themes (Figure 1). This schematic representation of the literature demonstrates the lack of research that takes a dynamic view, particularly at the industry level. The diagram also highlights the lack of multi-level research; i.e. that covers both firm and industry factors.

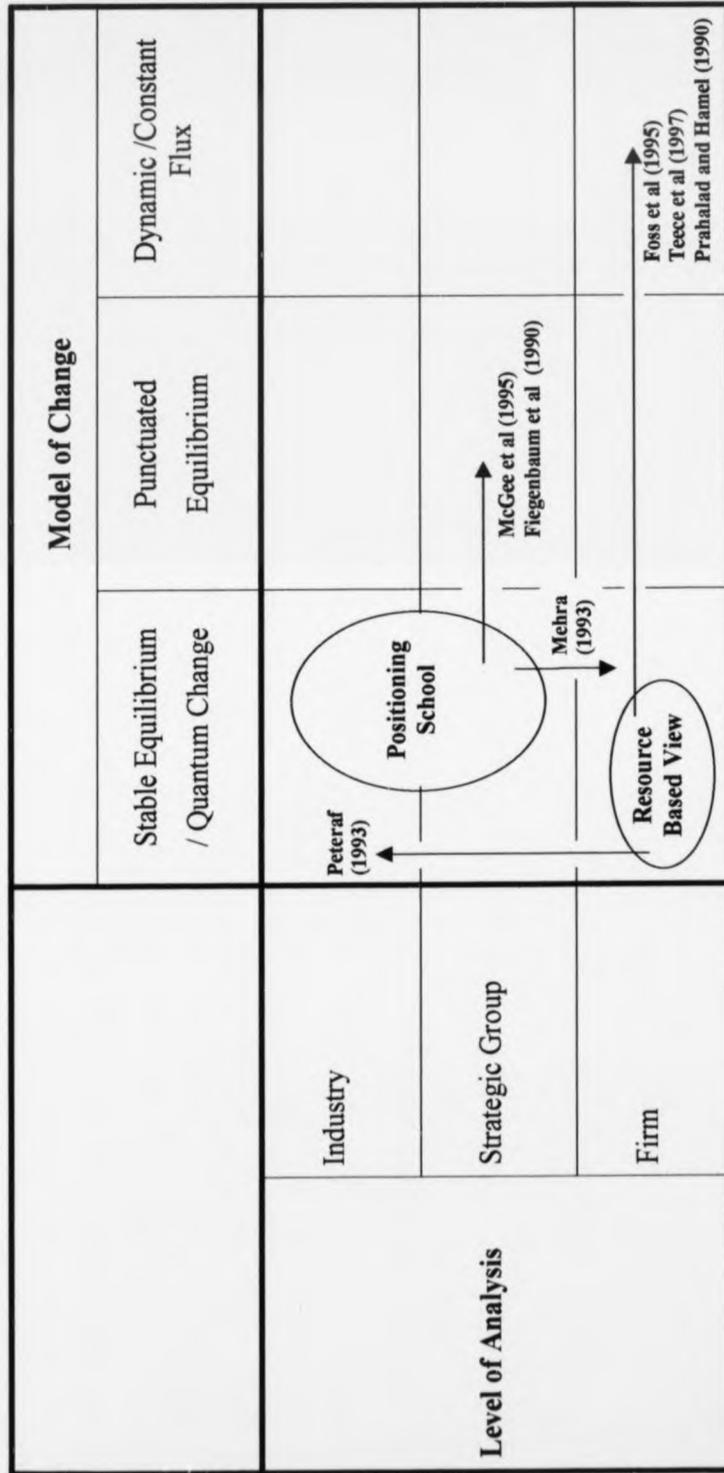


Figure 2.1: Concepts of Strategy Content: Dominant Perspectives and Recent Developments

Dynamic Studies of Strategy Content

In addition to the mainstream content research, there is a small and eclectic group of empirical studies that have taken a dynamic view of the content of strategy while pursuing wider research issues. Notably, these studies have used methodological approaches that attempt to maintain a dynamic perspective. We will review four studies that take a multi-level view.

The prime thrust of **Miller and Friesen's (1984)** quantum view is on organisational and strategic configurations. However, this study is augmented by their 'transition survey'. This survey aims to identify common evolutionary patterns or sequences that characterise periods of change (which they refer to as transition periods). While this view is similar to the punctuated equilibrium model of change, Miller and Friesen (1984) concentrate on the transition periods during which continuous and major change is apparent.

Given the study's goal of identifying generalisable types of organisational adaptation (ibid) a longitudinal methodology that incorporated a broad sample of firms was required. Miller and Friesen (1984) suggest that the 'only manageable way to do this' was through the use of 'detailed published organisational histories in the form of books'. Histories were compiled for 36 firms covering a 20-year period and, from these, transition periods were identified. The reliability of the histories obtained was checked using questionnaires sent to the chief executives of 12 of the firms.

Twenty-four variables were coded at the beginning and end of each transition period and a 'transition score' for each variable obtained by taking the difference in each case. Six significant transition archetypes were then identified using a cluster analysis of the scores.

Miller and Friesen's (1984) study is mainly concerned with organisational variables, e.g. centralisation and delegation, and strategy making. However a few of the variables relate to strategy content, e.g. differentiation and product-market innovation, and it is implied that during transition periods strategy content is in a state of flux.

The transition survey has several strengths. In particular it utilises an effective and, at the time novel way of investigating large samples of firms over long time periods. However, it also has a number of weaknesses. The reliance on books to create organisational histories restricts the number of firms that can be studied and it limits the accuracy of the timing of change events to, at best, the year in which they occurred. A further weakness is the use of difference scores to characterise transition periods. In effect having carefully collected data over a continuous time period, the temporal component of this data is removed by the coding and scoring process.

Smith, Grimm and colleagues (Grimm and Smith 1997, Smith et al 1989, 1991 and 1992) conducted a series of six investigations that take a dynamic view of strategy content. These studies are based on an action-reaction model developed by action theorists (Parson 1937/Grimm and Smith 1997).

This model holds that strategic actions taken by a firm to improve or defend its competitive position are countered by reactions by competitors. Any competitive advantage gained is temporary and dependent on the time taken for competitors to respond (Smith et al 1992). Speed of response is linked to an organisation's ability to learn and a set of organisational variables: external orientation, structural complexity, organisational slack and management experience (ibid). Later work (Smith et al 1997) adopts a resource-based view, linking speed of response to tangible and intangible firm resources.

Of the six studies, five targeted individual industries while the sixth investigated pairs of industry leaders and challengers in 41 industries. Methodologies varied between the studies. Two were based on field interviews and questionnaires. In the other four investigations archival studies of industry publications and/or national newspapers were utilised. Key word searches were used to identify responses, which were then linked to an initial action (Smith et al 1992).

Regression and correlation analyses related firm performance to average response time and firm order of response, and linked speed of response to organisational variables.

The approach taken by Smith and Grimm suggests a highly dynamic view of strategy content. In addition, it links industry level patterns of strategy content to firm level factors that explain the phenomena observed. While this must be applauded, there are a number of concerns.

Firstly, the data is analysed by calculating average response times for a firm across the study period (7 to 15 years). Hence, any variation occurring in firm responsiveness or organisational change over this period will be hidden. Secondly, it was not possible to check for agreement between the two approaches as different industries were targeted by different methodologies. The nature of the secondary data used in the archival study suggests that such a check would have been valuable.

Meyer, Goes and Brooks (1993) adopt a similar methodology to that used by Miller and Friesen and Smith and Grimm to investigate strategic change in US hospitals. The central thrust of their argument is that hyper-turbulence at the environment level will result in continuous change at the organisational level. However, survival during hyper-turbulence is possible if firms are able 'to adopt radically new strategies' (ibid).

'Highly detailed time lines' or event histories were created for a number of strategic dimensions and environmental factors. These time series were generated from published information including 'hundreds of newspaper articles' (ibid). Having generated a highly temporal data set, Meyer et al (1993) interrogate the data using a factor analysis based on counts of change types. They then show graphically how their strategic dimensions, e.g. service differentiation and low margin defence, vary continuously over time and in step with environmental changes. The patterns observed are corroborated using primary data obtained from questionnaires and structured interviews.

This study is widely praised for the insights it provides into the nature of change in hyper-turbulent environments (e.g. Huber and Van de Ven 1995). The work takes a

highly dynamic view of strategy content and utilises a research methodology that provides temporal data. In addition, the study takes a multi-level view of strategic change integrating organisational level and industry level variation.

However, a weakness is apparent in Meyer et al's (1993) use of factor analysis. By basing this analysis on counts of change types, the approach removes the temporal component of the data. In addition, while the study does take a multi-level approach, it does not attempt to uncover the behaviour or internal dynamics of individual firms.

Research which takes a multi-level approach and relates strategy content to the internal dynamics of the firm is provided by **Pettigrew and colleagues'** investigation of managing change for competitive success (Pettigrew and Whipp 1991, Pettigrew et al 1989). They suggest that strategy content is never static, but the result of the constantly changing interplay between management's intentions and contextual forces, both from inside the firm and from the external environment.

Pettigrew and Whipp (1991) show that firm performance is related to management's ability to recognise change in the environment and mobilise the appropriate resources. They demonstrate the influence of various organisational factors on successfully implementing strategic change.

Unlike the other empirical work that takes a dynamic view, a purely descriptive methodology is adopted. Seven comparative case studies of high and low performing firms from four UK industries are undertaken. Over 350 semi-structured interviews were conducted with personnel from the seven firms and other industry experts. A

range of documentary data from within the firms and secondary published material supplemented the interview data.

This study clearly demonstrates the advantages of a descriptive, case study based methodology for the study of change. The approach allows the temporal element of the phenomena observed to be maintained during analysis. The method also provides a rich level of information regarding the internal dynamics of each organisation, and as a result of the comparative approach taken and of the coverage of four industries provides generalisable lessons for the management of change.

The descriptive approach, however, is also the study's main weakness. The level of access to firms required and the amount of researcher time entailed restricts the number of organisations that can be studied. Consequently, polar types, e.g. a high performing firm and a low performing firm, are selected to highlight variations in significant factors. This approach cannot delineate patterns of variation across an industry.

Summary

This section has described a small group of empirical studies that addressed the issue of strategy content as part of wider studies. The four studies demonstrated that the content of a firm's strategy is constantly changing in response to turbulence in the external environment and to the interplay between management's intentions and the internal context of the firm. These studies also take a multi-level perspective in addressing strategy content at the firm, industry and macro-environment level.

Each of the studies utilises a longitudinal approach that allows the tracking of strategic change over time. However, the analytical approaches taken by Miller and Friesen (1984), Grimm and Smith (1997) and Meyer et al (1993) aggregate the data collected across time and across the industry. Such averaging obscures variations during the study period and across the sample group. Consequently, cross industry patterns of strategy content are missed.

The comparative case study approach adopted by Pettigrew and colleagues also fails to detect cross industry patterns of variation in strategy content. The use of polar types reveals differences between extremes within an industry but is insufficient to reveal the patterns these differences form across that industry.

The homogeneity of strategy content implied by work on strategic groups suggests that changes in content will be mirrored across a number of firms. However, polar type case studies cannot explore issues such as how the adoption of common strategies might vary across an industry group.

Alternative Conceptual Perspectives

While the group of studies reviewed in the last section does take a dynamic approach to strategy content, it provides little insight into what patterns of strategy emerge across an industry over time. This issue is rarely addressed in the strategy literature

and is more commonly associated with research on innovation, institutionalism and contextualism.

Research on the Adoption of Innovations

Organisational innovation literature is composed of three streams – organisational innovativeness, process theories of innovation and diffusion of innovations (Wolfe 1994). Each of these streams addresses a different research question.

The **organisational innovativeness** stream of research attempts to uncover the determinants of a firm's propensity to innovate or adopt an innovation. A wide variety of individual (e.g. levels of education) and organisational factors (e.g. firm size, slack and structure) are highlighted as influential (Slappendel 1996). The **process theory** approach focuses on how innovations emerge and develop within an organisation. Research on the **diffusion of innovations** takes a higher level view, concentrating on the spread of an innovation through a population of potential adopters (Wolfe 1994)). The aim is to observe and explain rates and patterns of innovation adoption over time and space.

Potential adopters are assumed to make independent and rational choices to close gaps between the firm's objectives and its current performance (Abrahamson 1991). With certain knowledge of the nature of the performance gap and the efficiency of the innovation, firms with similar goals will act in the same way.

Based on this efficiency choice view (Abrahamson 1991), four models of innovation diffusion are described in the innovation literature (Tidd et al 1997). The **Epidemic** and **Bass** models assume that innovations spread as potential adopters become aware of their advantages. Adopters are seen as being homogeneous. The rate of diffusion will vary between innovations and will be a function of the number of firms that have already adopted and the number of potential adopters remaining.

The **Probit** model of diffusion rejects the assumption of firm homogeneity, suggesting that potential adopters have different thresholds to adoption. Organisational attributes, such as firm size, determine the height of threshold levels. **Bayesian** models of diffusion reject the notion of perfect information implicit in the other three models. Potential adopters hold different levels of knowledge about an innovation and it is lack of information that acts as a restraint on innovation adoption.

Each of these models describes a skewed 'S-shaped' curve as the basic pattern of innovation diffusion through a group of companies over time (Jensen 1988, Nabseth and Ray 1974). However, there are many exceptions to this S-shaped model of innovation diffusion, and researchers have yet to understand when, and why it can be applied (Wolfe 1994).

The positioning of a firm on the diffusion curve indicates its tendency to adopt the innovation, with descriptions ranging from early adopter to late adopter or laggard being applied.

The diffusion of innovations, based on the Epidemic and Bass models, has attracted considerable attention from marketing researchers (Rogers 1983, Lieberman and Montgomery 1998). In particular, there is interest in the issue of when to launch new products and the relationship between entry order and performance. Order entry is widely linked to firm performance, with first movers gaining long term competitive advantage (Kerin et al 1992). However, long term advantage only materialises if firms are able to exploit their early moves (ibid).

Equating innovations to new strategy initiatives suggests that strategies will diffuse through an industry. The rate of such diffusion will depend on the nature of the strategy and/or a number of organisational and individual attributes. The speed with which firms adopt new strategies will influence their performance (Lieberman and Montgomery 1988 and 1998).

Diffusion models of innovation have their detractors. Pettigrew et al (1992) and Tidd et al (1997) argue that diffusion models tend to assume that the benefits and methods of implementing the innovation are clear and non-contentious. While such situations may occur with technical innovations, in the majority of cases of strategy innovations the pay off matrix is unlikely to be so clear cut (see Spender 1993). Increasing levels of uncertainty will emphasise the effect of institutional influences (DiMaggio and Powell 1983 and Abrahamson 1991).

Institutional Perspective

Institutionalism provides a less rational picture of diffusion, emphasising the role of mimetic behaviour (DiMaggio and Powell 1983). This perspective allows initiatives, which are not driven by necessity or obvious advantage, to diffuse through an industry group. Firms' tendencies towards social conformity lead to homogeneity of their activities (Oliver 1997).

Institutional theory is usually used to explain similarity and stability of firms within a population (Greenwood and Hinings 1996). Indeed, institutional pressures act to prevent change and the adoption of innovations. However, such pressures can also be used to explain the pattern of diffusion of a new innovation or strategy across an industry.

Each organisation will assess the potential returns a new innovation will yield (Abrahamson and Rosenkopf 1993). This assessment will be influenced by the degree to which the firm is subject to institutional pressures. The less institutionally bound firms will be more likely to adopt innovations. Adoption by one firm will influence the adoption decision of others, leading them also to adopt (ibid). As more firms adopt the new approach it becomes increasingly institutionalised and pressures on others to follow suit grow.

Hence, a new innovation will diffuse through an industry over time. The rate of diffusion will depend on the extent to which early adopters influence other firms (i.e. are opinion leaders) and secondly the strength of institutional pressures.

At its core, the institutional perspective suggests a model of adoption that is socially deterministic. However, recent literature in this area has begun to recognise a role for managerial action. Oliver (1991) suggests a number of strategies that management can pursue in relation to institutional pressures. Greenwood and Hinings (1996) argue that in addition to the dynamics of the dominant coalition, the adopting organisation must also possess a capacity to implement the change. This growing view suggests a role for both management agency and structuralism, a duality that is at the heart of the work of Giddens (1979) and of contextualism (Pettigrew 1990).

Contextual Perspective

The focus of the contextualists is on the interplay between internal and external factors on the birth, evolution and development of strategies within firms (Pettigrew 1992, see also McKelvey 1997). Managers are seen as being capable of mobilising aspects of the inner and outer context in order to reconfigure the pattern of attachment to different strategic alternatives.

Strategies will be adopted as a result of key individuals recognising opportunities or threats in the firm's environment and convincing others in the controlling dominant coalition of the accuracy of their interpretation and the appropriateness of the proposed response. Implementation of the strategy will depend upon the ability of the dominant coalition to mobilise the required resources.

The ability of the firm to adopt a new strategy will be influenced by the internal and external context of the firm, and the quality of attributes such as leadership skills and human resources (Pettigrew and Whipp 1991). In the event of a change in the environment, the organisation that first perceives and interprets this change and mobilises the appropriate resource will be the quickest to respond. Such resources may be of many kinds e.g. financial, political, or ideological (ibid).

Comparison of Alternative Perspectives

These three alternative streams of literature all provide a dynamic view of the organisation. Application to strategy implies that strategy initiatives will diffuse through an industry forming patterns of emergence and development over time. Within an industry, firms will vary in the speed with which they adopt a new strategy.

While the notion of early and late adopters is well developed in innovation and marketing research, it has seldom been addressed in relation to strategy. Lieberman and Montgomery (1998) have recently suggested that the field of strategy would benefit from adopting the findings of marketing research on first mover advantage. In particular, they highlight research relating order of entry to market share and firm performance. However, Lieberman and Montgomery (1998) argue that there is little understanding of the market and firm level determinants of entry order.

The alternative perspectives reviewed here address this apparent weakness, although offering contrasting explanations as to why a firm may be an early or late adopter.

The three streams of innovation literature taken together suggest that the speed at which a firm will adopt an innovation will be determined by the nature of the innovation, attributes of the organisation (e.g. size and structure) and characteristics of individual managers (e.g. levels of education). The institutional view suggests that the speed at which a firm will adopt an innovation is determined by the degree to which the firm is influenced by pressures to conform to industry norms. Finally, the contextual perspective, while recognising the role of internal and external contextual influences, promotes the importance of management ability to recognise environmental change and mobilise an appropriate response.

Themes and Questions for Empirical Research

During the last decade, the competitive landscape faced by firms has become more turbulent and uncertain (D'Aveni 1994 and Brown and Eisenhardt 1998). In such hyperturbulent or hypercompetitive environments, traditional approaches to strategy have collapsed because of their assumptions of stability (Brown and Eisenhardt 1998). Within the literature on the process of strategy, concepts have emerged that reflect this highly dynamic situation. However, as we have seen in this chapter, research on the content of strategy has been slow to respond to the demands of the new environment and approaches that rely on stable equilibria still dominate the field.

At the firm level of analysis, resource-based view theorists have begun to adopt ideas from evolutionary economics and develop approaches that are more dynamic. Concepts such as dynamic capabilities (Teece et al 1997) and core competencies (Prahalad and Hamel 1990) have been widely acclaimed, although empirical work is

still limited. In contrast, conceptual work that takes a dynamic view at an industry level or multi-level of analysis is notably limited to a small and eclectic group of studies (see Miller and Friesen 1984, Smith et al 1992, Meyer et al 1993 and Pettigrew and Whipp 1991).

This small group of studies does have a number of methodological limitations. In particular, they are not able to observe patterns of strategy content across an industry in time.

Yet research on innovation and marketing suggests that the diffusion of initiatives through an industry and the strategic agility of firms, i.e. the speed at which it adopts a new strategy are related to firm performance and hence are important issues (Kerin et al 1992, Lieberman and Montgomery 1988 and 1998 and O'Neill et al 1998). Hence, the lack of attention to patterns of strategy content across an industry is a significant oversight.

It is this theme that will form the basis of our empirical research.

Research on strategic groups suggests that similar or common strategies exist across groups of firms. The innovation and institutional literatures imply that such common strategies will emerge and diffuse through an industry group. This leads to the first research question:

Question 1 : Do common strategies emerge and diffuse through an industry over time?

Allied to the concept of diffusion is the notion of early and late adopters. However, the innovation literature is divided on the relative influence of innovation and firm attributes. If innovation attributes are predominant then the identity of early and late adopters will not be consistent between different innovations. Alternatively, if firm level factors are predominant then the identity of early and late adopting firms will remain the same regardless of the innovation. Similar logic applies to the adoption of common strategies, hence:

Question 2 Are there consistent early and late adopters of common strategies or does the order of adoption depend on the nature of the strategy?

If some firms in an industry are consistent early or late adopters of common strategies it would suggest that firm attributes rather than the nature of the strategy determine the strategic agility of a firm and influence its performance. Hence, understanding why a firm is an early or late adopter of common strategies is an important issue. However, as we have seen, the literature on diffusion provides contrasting views on what factors drive speed of adoption. This leads to our final question:

Question 3 Why are certain firms consistent early or late adopters of common strategies? What factors influence a firm's strategic agility?

Investigation of these three questions will allow an integrated view of industry and firm level factors to emerge. In addition, developing a dynamic view of strategy

content will contribute to efforts to reintegrate the content, process and context of strategy. Further, by identifying firm level factors that determine strategic agility this research offers guidance to practitioners.

As we have seen, traditional analytical methods have significant failings when used to investigate dynamic phenomena. These shortcomings must be addressed in order to pursue our research questions. It is these issues that are taken up in the next chapter where we discuss the methodology used for this study.

Chapter 3

Methodology

Introduction

Three philosophical and methodological issues are central to any research study – ‘why to research?’ ‘what to research?’ and ‘how to research?’ (Remenyi et al 1998). The first two of these questions were addressed in Chapter 2, which culminated in the statement of our research questions. In this chapter, we will address the issue of ‘how to research’.

During the last half of the 20th Century, the positivist view of the nature of knowledge has increasingly come under attack from philosophers such as Popper, Kuhn and Feyerabend (Crotty 1998). In particular, the notion that the researcher is independent and value-free has been challenged. From a post positivist perspective (Guba and Lincoln 1998), the rejection of this positivist assumption does not necessarily mean that research cannot be used to uncover general truths or statements about the nature of reality. However, what it does mean is the researcher must not only convince his audience of the validity of his methods, but also that he has been reflexive (Huberman and Miles 1998). The assumptions the researcher has made about reality and about the nature of knowledge should therefore be made explicit. In addition, the steps taken to minimise any bias that the researcher’s values may introduce into his findings must be described.

In this chapter, we detail both the epistemological underpinnings and the research methods that we used. We discuss how our research questions and epistemological stance influenced our research design. A two phase longitudinal approach was taken – first quantitative mapping and analysis, using secondary data from online databases, was used to identify firms that were consistent early and late adopters of strategy, then a case study analysis was used to collect primary data and explore the internal processes and contexts that influenced their strategic agility, i.e. the speed with which a firm adopts new strategies. Each phase will be described in detail.

This chapter has eight sections. This introduction is followed by a discussion of the ontological assumptions we have made. Sections two and three describe the epistemological underpinnings of our research and our assumptions of the way in which knowledge is gained. Section four discusses the impact of these ontological and epistemological issues on the design of the study, while section five describes the methodology chosen. Section six and seven describe the methods used in detail while section eight provides a short conclusion.

Ontological Assumptions

Burrell and Morgan (1979) use two ontological dimensions or continua to define four paradigms which they claim can be used to categorise social theories. Their approach has attracted considerable criticism, particularly of the categorisation of a highly complex field by the use of only two ontological dimensions (Clegg 1982, Wilmott et al 1993, Donaldson 1996 and Burrell 1996). However, Burrell and Morgan's scheme is used widely in discussions on the ontological and epistemological underpinnings of

management research (Easterby-Smith 1991 and Remenyi et al 1998). Typically, these discussions have concentrated on one dimension - objectivity/subjectivity.

Briefly, an objectivist or realist views reality as being external to the individual, i.e. exists independently of our thoughts or beliefs (Marshall 1994). A subjectivist, or more accurately constructionist, views reality as being socially and cognitively constructed. From a constructionist viewpoint there are multiple, apprehendable and sometimes conflicting social realities (Guba and Lincoln 1998).

Burrell and Morgan (1979) argue that the majority of organisational research is underpinned by a view of reality that is towards the objectivist end of the objectivist/subjectivist dimension. Several authors claim this is still the case (Marsden and Townley 1996). The majority of the strategy literature has taken an objectivist view (Knights 1992, Calori 1998 and Tsoukas 2000). In many cases, a firm's strategy is viewed as having an existence of its own. More recently, theorists of strategy process have adopted more subjective views, particularly of the intentions of managers (e.g. Knights and Morgan 1991). However, within the main schools of strategy content literature – the positioning school and resource based view – a highly objectivist view of strategy still prevails.

In this study an objectivist view of reality is taken. Our focus is on the actions of firms – e.g. Prudential opening a representative office in Vietnam - which are categorised as particular types of realised strategy. In this respect, we have assumed that these actions are real.

Burrell and Morgan's (1979) second dimension - regulation/social change - has received little attention. Some authors even suggest that 'one can ignore this dimension without much loss' (Tsoukas 1994), claiming it is a property of social theories rather than an ontological assumption. However, a closer look at Burrell and Morgan's definition reveals that this dimension contains an important assumption about the nature of reality. The dimension is essentially a re-statement of Dahrendorf and Lockwood's earlier division of social theories on the basis of assumptions of order and equilibrium and those founded on assumptions of change and conflict (Burrell and Morgan 1979). It therefore captures the debate we detailed in Chapter 2 between the belief that reality is static or stable or the belief that it is in a state of continual change.

Burrell and Morgan (1979) argue that organisational theories have largely adopted a view of reality based on assumption of order and equilibrium rather than of change. As we saw in Chapter 2, this is also very much the case in the literature on strategy content (Porter 1991 and Foss et al 1995). Burrell and Gibson (1979) identify Marxist theory as being one of the few social theories that have influenced management science that assume change (see also Tuma and Hannan 1984).

Within the broader sociological field, Marxist theory has been criticised for its deterministic and fatalistic view of change (Popper 1964). These criticisms are mirrored by a related concern over the assumption of growth that underlies all evolutionist social theories, including Marxism (Nisbet 1969, Stompka 1993). However, Marxism's dynamic orientation must be applauded. Stompka recognises this while at the same time sharing Popper's concerns. He develops a similarly

dynamic view of reality based on the work of historical sociologists, e.g. Elias (1987) and Abrams (1982), and agency theory, which he entitles 'social becoming'.

Central to the concept of 'social becoming' are two key assumptions about the nature of reality. Firstly, social reality is not in a steady state but rather perpetually in the process of becoming (Stompka 1991). Secondly, the notion of determinism is rejected in favour of the notion that an individual can initiate changes in the environment - however, the environment in turn influences or constrains these actions (Stompka 1993 and Pettigrew (1997). This view of reality is still objectivist. While reality is constantly changing, it exists independently of our thoughts and beliefs (Stompka 1993 and Adams 1995).

In this study we make explicit three ontological assumptions. We take the objectivist view that reality is real. We also agree with Stompka (1991 and 1993) that reality is constantly changing. Finally, we favour the notion that an individual is able to initiate change in his or her environment although is in turn influenced by it.

Epistemological Stance

Objectivist assumptions about the nature of reality are often linked to a positivist epistemology. Positivism assumes that reality can be accurately perceived and studied by an independent researcher. Knowledge is acquired by collecting quantifiable and verifiable observations from which general laws and theories can be deduced or falsified (Remenyi et al 1998 and Guba and Lincoln 1998). Strategy content research has tended to adopt a positivist stance (Calori 1998 and McKelvey 1997). Strategy is

seen as an objective entity that can be perceived accurately. The researcher hypothesises about determinants or components of strategy and then tests his hypotheses using quantifiable measures. The findings are then used either to generate new theories which are generally applicable, or to support or cast doubt on earlier research and theory (see Kim and Lim 1988 and Maijoor and Witteloostuijn 1996).

Within the social and even the natural sciences, positivism has come in for widespread criticism. This criticism has addressed two issues. Firstly, theorists adopting more subjectivist ontological views (e.g. phenomenology) have criticised the positivist's objectivist view of the nature of reality. Secondly, and perhaps more damagingly, criticism has stemmed from the emergence of Heisenberg's 'uncertainty principle' and 'quantum mechanics' within the natural sciences, supposedly the home of positivism. These developments have challenged the ability of researchers to perceive reality correctly and fully and the notion that the observer and the observed are independent.

Several authors (Guba and Lincoln 1998, Huberman and Miles 1996 and Crotty 1998) suggest that as a result of these criticisms an alternative objectivist or realist epistemology has emerged, which they term 'post positivism'¹. This 'quasi-positivist' position suggests that reality can never be fully comprehended, only approximated in a probabilistic manner (Guba and Lincoln 1998, Denzin and Lincoln 1998 and McKelvey 1997). Comprehension is limited either because of an intrinsic inability to apprehend the complexity of reality or as a result of our perception being mediated or

¹ These authors use the term to define a specific epistemology rather than to refer to any paradigm that has followed positivism in time. Guba and Lincoln (1998) and Denzin and Lincoln (1998) define two objective paradigms – positivism and post positivism – and two subjectivist paradigms – 'critical theory and related ideological positions' and 'constructivism'.

directed through our membership of social communities or through the limitations of the language we use to describe reality (Clark 2000).

The notion that how a phenomenon is perceived will be unaffected by the researcher or by how the phenomenon is researched is rejected. 'Post positivism' relies on multiple methods, i.e. critical multiplism, as a way of capturing as much of reality as possible (Guba and Lincoln 1998 and Huberman and Miles 1998). Different methods will reveal different aspects of reality. As with positivism, the emphasis is placed on verification - however, the criteria for judging validity are modified to reflect both the impossibility of fully apprehending reality and the influence of the researcher and the methodology on the research findings (Hammersley 1992).

While the goal of 'post positivist' research is still the formation of generalisable statements or theories, such statements will be based on interpretations of reality made by the researcher which themselves are based on observations that do not fully represent reality (Strauss and Corbin 1998). However, even if these statements do not amount to invariant laws, they are still manifestations of the underlying reality (Tsang and Kwan 1999). So, while they may be fallible, this does not mean they are not valuable in guiding judgement and action.

In this study we have made assumptions about the nature of knowledge that are similar to those made by the 'post positivist' position described by Guba and Lincoln (1998). The complexity and constantly changing nature of reality make it impossible to be perceived fully and attempts to develop theory that accurately depicts social reality at all times are likely to fail (Pettigrew 1992). However, we do believe that

there are patterns in this changing social reality that can be perceived probabilistically and can be used to guide action. So, in this study firms that *tended to be or were on average* early or late adopters of strategy can be recognised. Clusters of factors that *'probably'* influence strategic agility can be identified in the patterns of internal and external change that occur over time.

The positivist approach to revealing causality relies on the detection of co-variance of variables, when all other possible sources of influence are held constant (Clark 2000). However, the complexity of social reality and our inability to fully perceive it casts doubt on our ability to recognise let alone control all relevant factors. Here we agree with the realist position described by Tsang and Kwan (1999) and Clark (2000) – that causal explanation requires the understanding of the mechanisms and structures that shape or drive the patterns or regularities we detect. Hence, it is not enough to identify a company as a consistent early adopter of strategy, our goal must be to understand the underlying mechanisms and factors that enable it to be a consistent early adopter.

Further, and reflecting our ontological assumption of constant change, the influence of causal mechanisms and structures will unfold over a period of time. So, explaining the occurrence of events and patterns of events requires the investigation of a phenomena over time. Thus, in this study the speed of adoption of companies and the factors that influence it must be monitored over time.

If the independence of the researcher and the subject is rejected (Guba and Lincoln 1998) it places considerable emphasis on critically assessing the findings of research. Replication and reflexivity are required to demonstrate that the findings are probably

true (ibid). This means that the researcher must make explicit the influence of the researcher, the subject of inquiry and the research method on his or her findings and the steps taken to reduce this influence. He or she must also show triangulation of the findings by the use of multiple methods and multiple observations. In addition, fit must be shown between the findings and 'pre-existing knowledge' (e.g. existing literature) and acceptance by 'the critical community' (e.g. journal editors and reviewers) (Guba and Lincoln 1998).

As different aspects of reality will be revealed by different research methods we must utilise multiple methods to enable us to apprehend reality as closely as possible (Guba and Lincoln 1998). So, in our study we cannot expect one method to be appropriate both for revealing industry level patterns of strategy and providing understanding of the in-firm processes that generate these patterns.

Finally, the influence of the limitations of language on our approach must be recognised. Typically, research on strategy content has used a vocabulary that implies static states e.g. cost leader or vertically integrated (Porter 1980 and Ansoff 1987), and restricts consideration of its dynamic properties (Pettigrew and Webb 1996 and Pettigrew 1997). Hence, in revealing patterns of strategy within an industry a more dynamic vocabulary must be adopted. The choice of terms in previous work on strategy content also implies that some absolute level of a particular strategy, e.g. diversification, can be measured or graded in a positivist manner (e.g. Rumelt 1974). However, the inability to accurately perceive reality suggests that such grading will be flawed. For example, where do we place divisions between categories on a continua of different levels of diversification?

Pepper (1961) describes four 'world hypotheses' or approaches to obtaining formal knowledge – formism, mechanism, contextualism and organicism. Central to these hypotheses is the notion that knowledge is acquired through the constant refinement of common sense claims by criticism and improvement (Tsoukas 1994). Our ontological and epistemological stance implies a method of inquiry that is closely aligned to one of Pepper's world hypothesis - contextualism (Pepper 1961, Pettigrew 1990 and Tsoukas 1994).

Contextualism

Pepper (1961) describes contextualism as a synthetic and dispersive theory. Synthetic in that it takes as its subject patterns of historical events, rather than discrete facts, and dispersive in that it assumes that these patterns are loosely structured, rather than connected by fundamental laws or algorithms (Tsoukas 1994). Events are intrinsically complex and composed of interconnected patterns of activities, which are constantly changing over time (Pepper 1961). Although, the reality of the structure of these events is 'vigorously asserted'.

The structure of events can be described in terms of their 'quality and texture' (Pepper 1961). Quality refers to the overall meaning or 'character of the event', while texture is the 'details and relationships that make up that character' including its context. Tsoukas (1994) suggests that these features are 'two sides of the same coin'. He argues that when we perceive the wholeness of an event, we suppress its detail, and when we analyse the detail, we ignore the overall pattern. Contextualist researchers

therefore face the difficulty of capturing both the quality and texture of the patterns of events being studied.

Pettigrew (1985, 1990 and 1997) suggests contextualist research must aim to develop holistic explanations. He argues that this requires phenomena to be examined at multiple vertical and horizontal levels of analysis and the interconnections between those levels through time recognised. The vertical levels of analysis refer to the social and economic, industrial and internal contexts in which events and processes are embedded. The horizontal level of analysis refers to the 'sequential interconnectedness of phenomena' in time (Pettigrew 1990). Managers' actions will be influenced by the past, the present and expectations about the future.

Methodology

Our epistemology, together with our ontological assumptions, had significant implications for the research methods we adopted. We needed to:

- collect data using multiple methods
- acquire data from multiple levels of analysis
- acquire longitudinal data and maintain the temporal component of this data during analysis
- describe events in time and explore the influence of context and management action on those events.

Multiple Methods and Multiple Levels of Analysis

The post positivist view that different aspects of reality are revealed by the use of different methods was central to the design of this project. Our research questions required not only the identification of phenomena at an industry level but also an explanation of the firm level features that cause such phenomena. Pettigrew (1990) describes these types of questions as the 'what, why and how' of organisational research. To these we should perhaps add 'when' to emphasise the importance of time to our study. Given such a broad set of research questions it would be unrealistic to expect one method to meet all our requirements.

Traditionally, researchers adopting a contextual approach have used the comparative case study methodology (Pettigrew 1990 and Eisenhardt 1989). This qualitative method has considerable strengths. It is particularly useful for revealing and understanding the micro processes within a firm and how these processes interact with the firm's internal and external contexts. However, it also has its weaknesses. In particular, the method is limited in its ability to 'see the wider terrain' (Pettigrew 1997). So, while the case study method was ideal for addressing our questions on firm level phenomena, it is not suited to detecting patterns at an industry level.

It was apparent that a multiple method approach was required for our study. There is considerable debate within the methodological literature about the appropriateness of such a research design (Jick 1979, Greene et al 1989 and Creswell 1994). This focuses on whether qualitative and quantitative methods should be mixed. Crotty (1998) suggests that there has been a 'great divide' portrayed in 'most research textbooks',

with qualitative and quantitative research being seen as polar opposites. Typically, quantitative methods would be deemed appropriate for positivist research while qualitative methods would be deemed appropriate for phenomenology and other subjectivist epistemologies.

Greene et al (1989) suggests there are three groups in the debate – purists, pragmatists and those who adopt a middle ground position. Purists (e.g. Guba and Lincoln 1998) argue that particular methods are intrinsically related to a particular ontology and should never be mixed with methods associated with other views of reality. Creswell (1994) argues that academic journals are intrinsically purist due to the limitations of space in which researchers can adequately detail the use of multiple methods. Pragmatists take the opposite view (Miles and Huberman 1998, Jick 1979 and Mathison 1988). Methods are independent of ontological and epistemological positions (Crotty 1998). For instance a case study based on interviews may be designed in a positivistic manner to test or prove false hypotheses or in a phenomenological way to build a narrative of the situation being studied (Remenyi et al 1998). As a result, methods can be mixed and matched to meet research requirements. Researchers who adopt the middle ground position suggest that the epistemological stance of the research will determine the main research tool that is used (Creswell 1994). However, other methods can be introduced to prompt new ideas, corroborate findings or through elaboration provide richness and detail (Greene et al 1989).

In line with the post positivist view we agree with the pragmatists over the issue of mixing methods. Like Remenyi et al (1998) and Crotty (1998) we believe it is not the

method itself, but how that method and the results obtained are used that is dependent upon the ontological and epistemological position. So, we are free to pick and choose methods to explore different aspects of reality providing we pay due regard to the validity and credibility of our results (Denzin and Lincoln 1998).

Longitudinal Research Methods

Management science, including research on strategy, has been dominated by cross sectional methods that collect and analyse data from a single point in time (Monge 1990 and Huber and Van de Ven 1995). Pettigrew (1985) makes the same point suggesting that the majority of such cross sectional studies are ahistoric and aprocessual.

While far less common, qualitative longitudinal methodologies are now well established within management research. The case study method increasingly forms part of studies on the process of strategy (e.g. Pettigrew and Whipp 1991 and Brown and Eisenhardt 1998). However, due to the heavy commitment of research time and funding required, normally only a small number of cases are undertaken. In addition, as we discussed above, the case study method is of limited use when the objective is to explore patterns at an industry or societal level.

As we saw in Chapter 2, the use of quantitative longitudinal methods is rare within management and particularly within strategy research (also see Huber and Van de Ven 1995). Even where researchers have assumed that organisations and their environments change over time they have often used analytical techniques that assume

stability or that equilibrium has been reached (Teece 1984, Boeker 1991 and Coleman 1981). Techniques such as regression analysis and standard correlation techniques assume relationships between variables are unchanging (Tuma and Hannan 1984 and Delacroix and Swaminathan 1991). Monge (1990) has suggested that, as a result, organisational research has suffered from methodological determinism, i.e. that the methods used by researchers introduce a static view into their research questions and the theories they develop. Similar concerns have been expressed within sociological research (Tuma and Hannan 1984).

Patterns of change can be described using longitudinal quantitative data in three ways – numerically, visually or graphically, and mathematically (including statistically) (Menard 1991). Numerical methods typically involve the use of event counts over defined periods of time, e.g. number of changes in a year. Visual methods generally involve the plotting of variables on a graph where the horizontal axis is time. Where data is categorical or dichotomous, mapping may provide a more informative presentation. Whether seen as the initial or final step in an analysis, the visual display of data is essential for detecting general patterns or problems within a data set (Morris 1989, Mason and Lind 1990 and Pettigrew 1990). However, few authors provide a comprehensive discussion on the appropriate forms of visual display. The researcher is left to innovate and find the approach which best reveals the information contained within their data.

Tuma and Hannan (1984) suggest that there are three types of mathematical analysis of longitudinal data which should be used more often in sociological research – panel analysis, event history analysis and time series analysis. Panel analysis is conducted

by undertaking two or more cross sectional analyses at different points in time and then comparing the results of each analysis. While this type of analysis can provide significant insight (see Whittington et al 1999), the actual timing of changes is ignored (Tuma and Hannan 1984). Event history analysis is used to study the probability of an event occurring during a given period (Yamaguchi 1991). Hazard rates, the risk of an event occurring during a given period, are calculated and then compared or linked to explanatory variables (Yamaguchi 1991, Menard 1991 and Allison 1984). Event history analysis is a valuable tool for social scientists and has been used widely by population ecologists. However, rather than analysing the overall pattern of events, incidents are analysed one at a time and their aggregate properties determined across a group of cases (i.e. companies or other entities) (Abbott 1990).

The third mathematical approach suggested by Tuma and Hannan (1984) is time series analysis. Although much of the literature on the use of this method focuses on the analysis of a single time series, techniques are available to compare sets of time series. These techniques use modified correlation and regression analysis. Typically methods that deal with the analysis of a single time series are prefixed by the term 'auto' – e.g. 'autocorrelation' – while those that deal with the comparison of multiple time series are prefixed with the term 'cross' – e.g. 'cross correlation'. While little used in sociological inquiry these techniques have been extensively adopted in economic research and signal processing. They allow patterns of events found in one case (i.e. a firm) to be compared to patterns observed in another, although as with all regression and correlation techniques causality is not necessarily implied.

Earlier Longitudinal Quantitative Research on Strategy Content

As we discussed in Chapter 2, four earlier studies have taken a dynamic view of strategy content. Three of these have used quantitative methods to collect and analyse longitudinal data (Miller and Friesen 1984, Smith et al 1992 and Meyer et al 1993). The fourth (Pettigrew and Whipp 1991) has relied mainly on qualitative data collection and analysis in the form of the comparative case study method

All three of the quantitative studies used a combination of archival searches and questionnaires to build time series of the events that occurred during the period under study. However, the approach each used to analyse the data differed considerably. Miller and Friesen (1984) calculated the differences in a range of variables between two points in time and then used a form of cluster analysis to identify types of transitions. Their approach can be likened to the panel analysis described by Tuma and Hannan (1984). Smith et al (1992) and Meyer et al (1993) generated counts of events during periods of time and average order rankings. These representative statistics were then linked to organisational variables using graphical and standard regression techniques.

In each of these studies the data collection method provided detailed time series of the events that occurred during the study period. However, the data analyses undertaken do have their problems. In particular, the use of counts and difference scores removes the temporal element of the data. This suggests that these approaches would not be suited for this study.

Research Strategy and Design

Having discussed the implications of our ontological assumptions and of our epistemological stance for our selection of the methods to be used for this study, we can now detail the research strategy we adopted. Our first two research questions required us to identify cross industry patterns of strategy in time and determine if particular companies were consistently early or late adopters. To accomplish this we had to acquire longitudinal data to construct time series of the strategy initiatives pursued by each of the companies within an industry group. These time series would then be compared with each other. The success of Miller and Friesen (1984), Smith et al (1992) and Meyer et al (1993) in composing rich time series from archival data suggested that this approach was an appropriate data collection methodology. From our discussion above, it was apparent that two methods of analysis were appropriate - visual display or mapping and time series analysis. Although well used in other areas of research, both methods were innovative within the field of strategy research.

Our third question required us to explore why firms were consistently early or late adopters of strategy. Here a very different approach was needed since the internal processes and contexts of the firms identified as early or late adopters needed to be explored. The ideal method of inquiry was the comparative case study technique (Pettigrew 1990 and Eisenhardt 1989).

Our study was therefore conducted in two phases. The first involved the collection of archival data, in the form of newspaper and journal articles, for a large group of firms within one industry and its analysis using mapping techniques and time series

analysis. In the second, the comparative case study method was used to explore the internal processes and context of the firms identified in the first phase as being consistent early or late adopters of strategy.

In addition to complementing each other in terms of the insights they were able to provide, triangulation between the two phases strengthened the validity of our findings. The case study interviews provided the opportunity to check the patterns of strategy observed and the identification of early and late adopters, while the mapping and analysis confirmed the sequencing and timing of the events discussed by our interviewees.

We will now discuss in detail each of these two phases.

Longitudinal Mapping and Analysis Phase

Sector and Sample Selection

The UK insurance industry was chosen as the site for the investigation of the dynamic nature of strategy content. It was selected for several reasons. Firstly, it is one of the few UK sectors which contains a significant number of companies within the FTSE 200. The media closely follows companies within the FTSE and their actions are widely reported in newspaper and journal articles. Secondly, it has undergone extensive change, particularly following the deregulation of the UK financial services sector in the mid 1980s. Prior to this, the sector had been relatively closed and tradition bound. Indeed, we can trace the history of most of the top 10 insurers back a

century or more. This long historical legacy was in turn compounded by the dominance of the traditional professions of actuaries and underwriters. More recently, however, the dominating cognitive and political influence of the actuarial profession has been reduced with the appearance in senior positions of managers from fields such as I.T., personnel, finance and investment management. Many of these executives had worked in other sectors before joining the insurance industry. These demographic changes have undoubtedly influenced the patterns of strategic thinking and action in our sample firms. Lastly, earlier research into the insurance sector by the researcher's supervisor (see Pettigrew and Whipp 1991) meant that there was a strong network of established relationships through which we could negotiate access for interviews with prominent industry executives.

In order to maximise the amount of material available from archival sources we decided to select the ten largest insurance companies. However, during the data collection phase we found that very little public information was available for one of the top ten firms (Standard Life). Efforts to replace this firm in our sample with another company from the top 20 firms also proved unsuccessful, again due to lack of available information. As a result, we reduced our sample to 9 firms. These companies together with their net premium incomes for 1994 were as follows:

Prudential Corporation	£8,271 million
Commercial Union	£6,762 million
General Accident	£5,140 million
Royal Insurance	£4,762 million
Sun Alliance	£4,651 million
Norwich Union	£4,329 million
Guardian Royal Exchange	£3,703 million

Eagle Star	£2,990 million
Legal & General	£2,417 million

Source: Company Accounts

Study Period

Initially it was decided to confine the study to a two year period, 1993 and 1994. However, it was soon apparent that this time span was too short to sample adequately ongoing change processes. Consequently, the period was extended to cover approximately six years, from 1990 to mid 1996. This extended period can still be criticised for its shortness, particularly when we consider the emergent and long term character of major change (Pettigrew 1985). However, we were unable to extend the period further back given the poor coverage of UK sources by online services prior to 1990. In addition with the merger of Royal Insurance and Sun Alliance in 1996 we were unable to extend the period forward and maintain a consistent sample.

Data Collection

The data collection method used for this study was based on the use of online computer databases. This approach was developed as part of the 'New Organisation Forms for the Information Age' project, a collaborative study initially involving Duke, Cologne, Waseda and Warwick Universities and now also incorporating research teams in The Netherlands, Korea, Sweden and Switzerland. This project aims to build a database of organisational change events occurring within the largest companies in Germany, The Netherlands, Korea, Japan, Scandinavia, Switzerland, the UK and the

USA, using business related information and news sources. The study detailed by this thesis formed the UK group's input to this international project.

In the UK the main source of data was the Lexis Nexis online database. This system provides users with the facility to search news and business articles from major newspapers and journals both in the UK and internationally. Lexis Nexis articles are extracted using a common set of search terms, which are modified depending on the country and industry being studied. These search terms determine the period being studied, the number of occurrences of the organisation's name and if one or more of a number of key phrases are present in the article.

A control check was conducted by repeating the search for one company in our sample but with the search terms determining the number of occurrences of the company name removed and ensuring that the articles originally omitted did not include useful data.

Following the capture of articles using this automated approach, a further manual filter was required to remove unwanted data still present. This was accomplished firstly by using citations and secondly by scanning the complete articles. Having selected the required data, the full articles were downloaded for analysis.

The Use of Secondary Data

Our data collection for the mapping study relied entirely on secondary data in the form of published newspaper and journal articles, press releases and news-agency reports. Hence, it had not been collected for the purposes of this study. As Stablein (1996) points out the user of secondary data cannot even assume that such data represents organisational reality. Consequently, it is the responsibility of the researcher to demonstrate the reality of the phenomena it describes and validate his use of it.

In this study, a high level of validity can be claimed due to the nature of the data and the way in which it was used. The data was used solely to identify the types of initiative being pursued by the sample companies and to record the year and month they were implemented. No attempt was made to use any explanation given in an article by the company or the reporter for a particular initiative. Information was gathered primarily from articles that appeared in national newspapers or from international news agency reports. It would be unlikely that these types of source would misrepresent the actions of major companies - particularly at the level at which we were using these reports - e.g. 'Prudential opened a representative office in Vietnam' or 'GRE sold their Australian subsidiary'. In most cases, the same information appeared in several of the major newspapers, and therefore although only one article was used to code the initiative, we could be fairly confident that the event had in fact occurred. Finally, the companies' annual reports were used to verify information sourced from press articles.

There is a second problem for the researcher intending to in the use of secondary data for the creation event histories and for mapping strategies – missing data. The press may not have picked up all the strategic moves made by a firm. However, our selection of FTSE 200 companies meant that the firms in our sample were the subjects of close media scrutiny, particularly within the UK. Consequently, the main danger was that we might miss strategic moves made in other countries. Here our database selection was crucial in ensuring that it provided coverage of international news sources including ‘news agency reports’. The listings of strategic initiatives obtained from our online database work was checked carefully against the annual reports for each company for missing data. In addition, in the case of our case study companies, our interviewees were asked to confirm the initiatives detected and identify any we had missed.

The issue of missing data is equally relevant to primary data collection methods. Such methods rely on the memories of individuals or on them being willing and able to access archival sources. We would argue that whether primary or secondary data is used for the purposes of identifying and timing past strategic initiatives there will always be some risk of data being missed, but of the two, the use of secondary data, of the type used here, is likely to be far more reliable.

Operational Experience of Data Collection Method

Given the novelty of the data collection methodology, it might be valuable to describe our experience of its use. Three issues were found to be of critical importance – data base selection, cost and research time.

Data base selection proved critical to the study's success. First, to ensure coverage of all the initiatives undertaken by each company and to provide confidence in the information reported, the data base must cover a wide range of national and international publications over the entire period being covered. Secondly, the number of times a FTSE 200 company is mentioned in the press during the course of a year is surprisingly high, with mentions including share price listings, details of company sponsored cricket matches and many other unwanted reports. It is therefore essential that the database offers search algorithms that go beyond a simple key word search. Using an effective search facility is vital if the best use of researcher time in downloading and sifting the acquired data set is to be made and research costs are to be kept at an acceptable level. Lexis Nexis was identified as providing both an impressive coverage of publications and a programmable and highly flexible search facility. It was therefore chosen for this study.

The cost of this type of data collection can be high. Multi-source online databases charge both by connection time and for supplying articles (usually by the line of text!), some even increase their charges for recovering data from earlier years. Given the volume of data required for this type of study it is obvious that these charges will mount up quickly even when an effective search algorithm is being used. This became a significant issue. Initially, Lexis Nexis was available through the Warwick University library at a specially reduced academic rate. However, mid way through our data collection this were withdrawn, making it impossible to complete our data collection within the budget available (or even one that could be practically obtained).

Fortunately, our involvement in the NOFIA project allowed data collection to be continued at one of the associate universities where the reduced rate still applied.

Subsequently, the cost of database use was to prove a problem for some of our colleagues in the NOFIA group. They also encountered difficulties because of the amount of downloading that was occurring. The suppliers became concerned that because such a significant proportion of their data was being downloaded it could be used to establish a rival database.

This form of data collection consumes a large amount of researcher time. The initial access to the Lexis Nexis system in the Warwick University library was over the Internet via the 'Janet' gateway. The combination of the volume of data being transferred, the volume of traffic on the Internet and the limitations of a personal computer (processor power and size of RAM and hard disk) meant that the process of searching and downloading was excessively slow. Downloading was also hampered by frequent breaks in communication and the need to let others use the system. Eventually, permission was sought and given to leave the system running overnight to download data, although the researcher was not allowed to be present. On several occasions, the communication link went down and hence searches frequently had to be repeated.

Data collection at our NOFIA partner's site was less fraught. A more stable and faster communication link to the database supplier and the ability to use the system continuously greatly speeded up data searching and downloading.

Strategy Content Typology

In order to undertake this investigation it is necessary to expose the in-firm sequencing and cross sector patterns of strategy content. In addition, to separate firm attributes from those of the strategies being pursued we needed to investigate multiple types of strategy. Hence, strategic actions need to be identified and categorised using a set of standard descriptors. Such a typology should have the following requirements:-

1. be well supported by the existing conceptual and empirical literature,
2. be embedded in the empirical realities of the 1990s' business environment,
3. be expressed in a dynamic rather than a static vocabulary, and
4. contain clearly defined and easily recognised strategy types that can be identified in the data collected.

Existing typologies of strategy content appear to be the product of the context in which they were born and hence their adequacy in defining the strategies evident in the 1990s is debatable. Available strategy typologies are also shaped by the theoretical assumptions and perspectives adopted in the existing strategy literature and consequently have invariably taken a static rather than a dynamic view.

Our empirical study required us to track a variety of strategy types. With the four above restrictions in mind, we decided to concentrate our analysis on 3 or 4 easily recognised strategy types that were well grounded in the literature and frequently referred to in newspaper articles in the 1990s' business context

To check the relevance of such strategy types to the 1990s, we utilised a survey of the strategies of 100 UK organisations based on interviews with senior managers and

published by the Corporate Research Foundation (1995). The strategies implied by the reports compiled on each company were coded using a variety of widely used strategy types. The frequency with which particular strategy types were indicated was as follows:-

Market Penetration	48
Diversification	34
Internationalisation	34
Consolidation	33
Innovation	25
Focus	19
Flexibility	12

In the light of this analysis, four strategy types were chosen: diversification, internationalisation, consolidation and market penetration. However, during coding it became apparent that the reporting within the UK insurance industry of initiatives to increase market penetration was inconsistent. Therefore, in this study we focused on diversification, internationalisation and consolidation.

In addition to the type of strategies adopted it is clear from our database work, and our analysis of the Corporate Research Foundation (1995) study, that managers are likely to report their company pursuing more than one strategy at the same time and to describe these strategies emerging dynamically. Typically, they detail intended or realised moves in a certain direction, for example, increases or decreases in the degree of internationalisation or diversification. Strategic initiatives are normally portrayed by managers as movements of the firm in a certain direction along a number of continua or dimensions.

As a result of this observation, we adopted an approach that reflected this dynamic and directional view of strategy. Thus instead of recording levels of, say, diversification, we coded movement and direction and captured this by means of the dynamic language of, for example, diversifying and downscoping (Hoskisson and Hitt 1994). Using this approach we defined the following strategy typology based on the three strategy types discussed above.

Diversifying/downscoping involves actions that increase or decrease the product/market scope of the firm's activities within its home nation (see Ansoff 1987, Porter 1980, Hoskisson and Hitt 1994). Diversification may be accomplished by acquisition, co-operation with others or by organic growth that increases the scope of the firm. Downscoping occurs by divestment, reducing co-operative arrangements with others or by other closures that decrease the scope of the firm.

Internationalising/withdrawing consists of actions that increase the geographic scope of the firm's activities outside its home nation (see Ansoff 1987, Porter 1990, Mintzberg 1988). Internationalising may be the result of acquisitions, joint ventures or other partnerships, or through greenfield organic growth. In addition to coding the occurrence of internationalising, we also logged the target of such moves by geographic area. Initiatives that represented a diversifying move but only outside the home market were logged as internationalising. However, where initiatives were made that involved both the home and other nations, the action was logged as both internationalising and as the other appropriate strategy type.

Our third strategy type - consolidating, was operationalized as actions aimed at reducing costs and/or increasing efficiency within existing activities in the home

nation without reducing the scope of the firm's activities. Typically such actions were described in terms of downsizing, rightsizing and re-engineering. While it can be argued that the boundary between downscoping and consolidating is ill defined, separating and coding these two types proved straightforward.

Trials of this typology have been conducted by our NOFIA partners in Germany, Japan and the USA, in addition to this project in the UK, and have proved effective in coding the strategic actions reported by firms in all four countries.

Formal inter-coder reliability tests were conducted with an independent researcher repeating the coding for one of our companies. An intercoder reliability of 94% was obtained. In addition, a repeat coding of the data for two of the companies by the same coder, but after a gap of around one year, demonstrated a 96% agreement. These figure finds close agreement with work on other NOFIA studies, using similar data collection and coding procedures but where multiple coders were used. In the Duke NOFIA studies inter-coder reliability scores of between 93% and 97% were noted (Hunter 1999).

Data Mapping

The data contained in each collected article was interpreted using the strategy classification system described above.

The details of a firm's strategic actions contained within the articles obtained from our database work can be assessed in two ways. Firstly, we can consider the statements made by managers of their intentions. However, such statements may not reflect

accurately the true intentions (see Mintzberg 1978) or may indicate a post hoc rationalisation of some action. Alternatively, the actual actions of the firms can be interpreted in terms of the 'realised' strategy they imply, thus avoiding any elaboration attempted by the managers or interpretation by the reporter. It is this second approach that we adopted.

The prime focus of our analysis was the three strategy types of diversifying, internationalising and consolidating. However, we did examine the database for the occurrence of other strategy types. This wider analysis revealed that strategy initiatives implying changes in diversification, internationalisation and consolidation accounted for 85% of the strategic actions of the firms in our sample.

The strategy descriptors were then colour coded and mapped over time, based on the month in which they occurred, to allow patterns and possible relationships to be observed. The resulting map is displayed in Figure 3.1, where the vertical 'bar codes' for each company demonstrate the timing of each initiative and the different shading the type of initiative. The figure shows the occurrence of seven types of strategy: diversifying (1), downscoping (2), internationalising into Europe (3), internationalising in the Far East (4), internationalising elsewhere (5), withdrawing (6) and consolidating (7). Although detail regarding individual strategy types cannot be discerned in Figure 3.1, it does indicate the level and variety of strategic activity that occurred during the study period. Given the evident complexity of Figure 3.1, maps were redrawn for individual strategy types and the companies ordered according to the timing of the first reported incident of that strategy (see for example Figure 3.2).

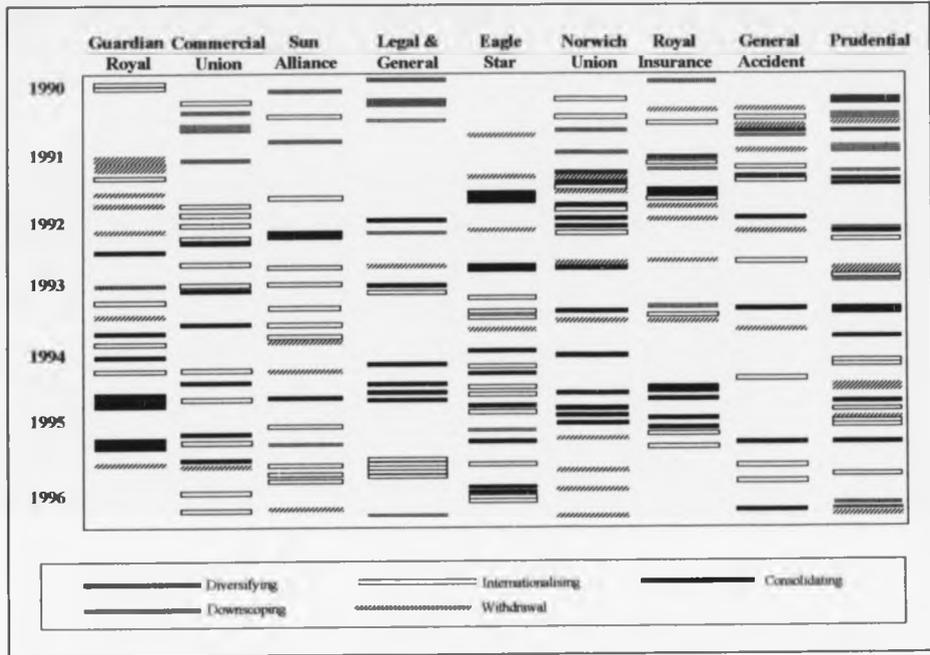


Figure 3.1 – Map of Strategy Initiatives.

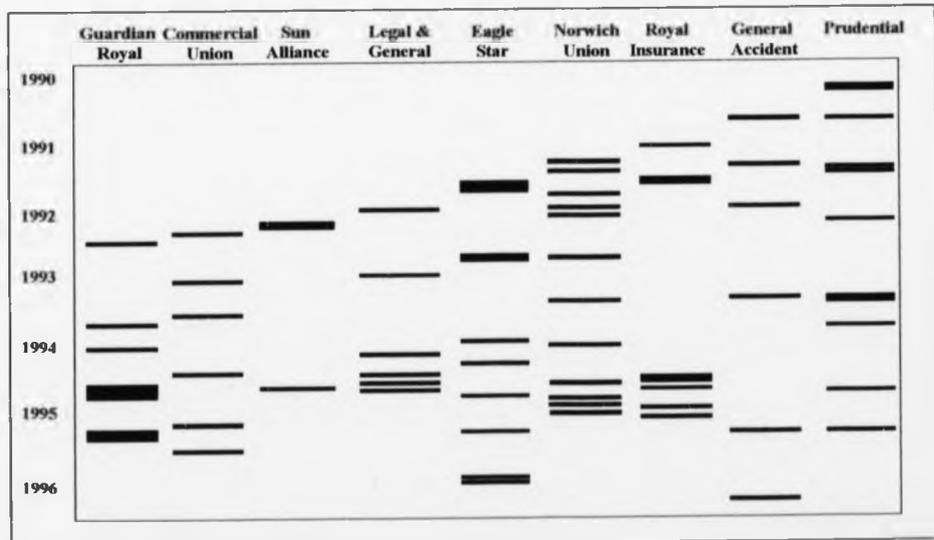


Figure 3.2 - Realised Strategy - Consolidating Actions

Quantitative Data Analysis

The visual mapping provides evidence of the presence of industry patterns of strategy and suggests that early and late adopters do exist. However, these findings are based on the timing of the first detected occurrence of a particular strategy in each company. Given our reliance on secondary data we cannot be certain that each company's first move has been recorded. Quantitatively comparing the sequences of strategy initiatives for each company would provide a way in which this potential problem could be overcome and a more robust set of results obtained. Such an approach would confirm the presence of cross industry patterns and would enable the detection of companies that tended to be consistently early or late adopters, irrespective of strategy type. It would also allow variations in such tendency to be assessed.

There are however a number of problems in conducting such an analysis. Firstly, in order to detect variations in the time of adoption and therefore identify early and late adopters, the temporal component of the data must be maintained. Secondly, any match between the time series for each company would occur after some unknown delay, which itself would be subject to a degree of variation. Thus, we are unable to apply standard correlation techniques. Finally, as a result of preserving the temporal component of the data, the approach adopted must be applicable to dichotomous variables, i.e. is each strategy type either present or absent?

Given these issues, we decided to utilise the cross-correlation method of analysing time series. This formal analysis has been used in research undertaken in a number of fields, including economics (see Koch et al 1988, Brock and LeBaron 1996, Huang et

al 1996 and Cheung and Ng 1996). The method is also widely used in the natural sciences, in particular signal processing (see Bendat and Piersol 1971). The analysis generates the cross-correlation function which describes the measure of similarity between the two time series as a function of positive or negative time lags applied to one of the series.

This analysis technique has a number of strengths. Firstly, the approach does not require the summing of data over time and hence meets our requirement of preserving the temporal component of the data. Secondly, by measuring the degree of similarity over a continuous range of time lags it identifies where the degree of similarity is at a maximum. This addresses the issue of an unknown and variable time lag between matching patterns in the two time series. Thirdly, the measure of similarity used to compare the two time series at each time lag can be selected according to the nature of the data, and hence by appropriate selection of this measure can be applied to dichotomous data.

The cross-correlation analysis is conducted in a number of steps. First, a check of each time series must be made to ensure it is stationary and if not, that it is converted to a stationary series by appropriate filtering (see McCleary and Hay 1980). Secondly, the two time series are compared at each time lag using an appropriate similarity measure, to produce the cross-correlation function between the two series. With a sample of nine time series, nine sets of results are produced each containing eight individual functions. Given our wish to observe the relationship between one time series and all the other eight series, the third step is to sum each set of cross-correlation functions. The final step is to check the statistical significance of the resulting summed function.

The first step in this process is critical. If the series are non-stationary, i.e. contain patterns of drift and trend, they will always be cross-correlated and spurious results will be produced. In this study the check was conducted by calculating the autocorrelation function for each time series and ensuring these functions decayed rapidly to zero (see McCleary and Hay 1980 and Gottman 1981).

The main issue in calculating the cross-correlation functions (step 2) is the selection of the similarity measure to be used to compare the series at each time lag where the data is dichotomous. Abbott (1995) has suggested that in such situations management researchers should make use of methods widely used in other fields. In particular, Abbott highlights research on macro molecules and species identification in biology (see Sokal and Sneath 1963 and Abbott 1995).

In addressing dichotomous data, Sokal and Sneath (1963) state that a critical issue in selecting the type of similarity measure is whether to consider only matches of presence for a particular attribute or both matches of presence and absence. Given our reliance on published reports of the actions of the companies studied, we cannot be confident that our failure to detect an initiative during a particular month implies the absence of that initiative. Consequently, we adopted the approach of only considering matches where the particular strategy type was present.

In such situations, Sokal and Sneath (1963) recommend measuring similarity by counting the number of matches and dividing this figure by the total number of possible matches. Given that the data series for each of our companies are of constant

length, we simplified this coefficient by removing the denominator. Therefore, the measure of similarity at each time lag becomes a simple count of the number of matches.

Thus, at each time lag, the strategy sequences for two companies are compared month by month and a tally kept of the number of occasions when the same strategy types are present in adjacent samples. The result is that the cross-correlation function obtained is equivalent to a frequency distribution of the time lags between matching strategy initiatives. This procedure is then repeated for each company against each of the other companies in the sample to generate sets of cross-correlation functions.

As we have suggested, the time lag between the adoption of particular strategies by two companies will not be consistent. However, if one firm consistently adopts initiatives ahead of the other, when comparing two companies we would expect the distribution of time lags between initiatives to be skewed (positively or negatively depending on the ordering of the companies used). Further, when we sum the set of cross-correlations obtained for one company (step 3) if that company is a consistently early or late adopter we would expect the summed function also to be skewed (see Figure 3.3).

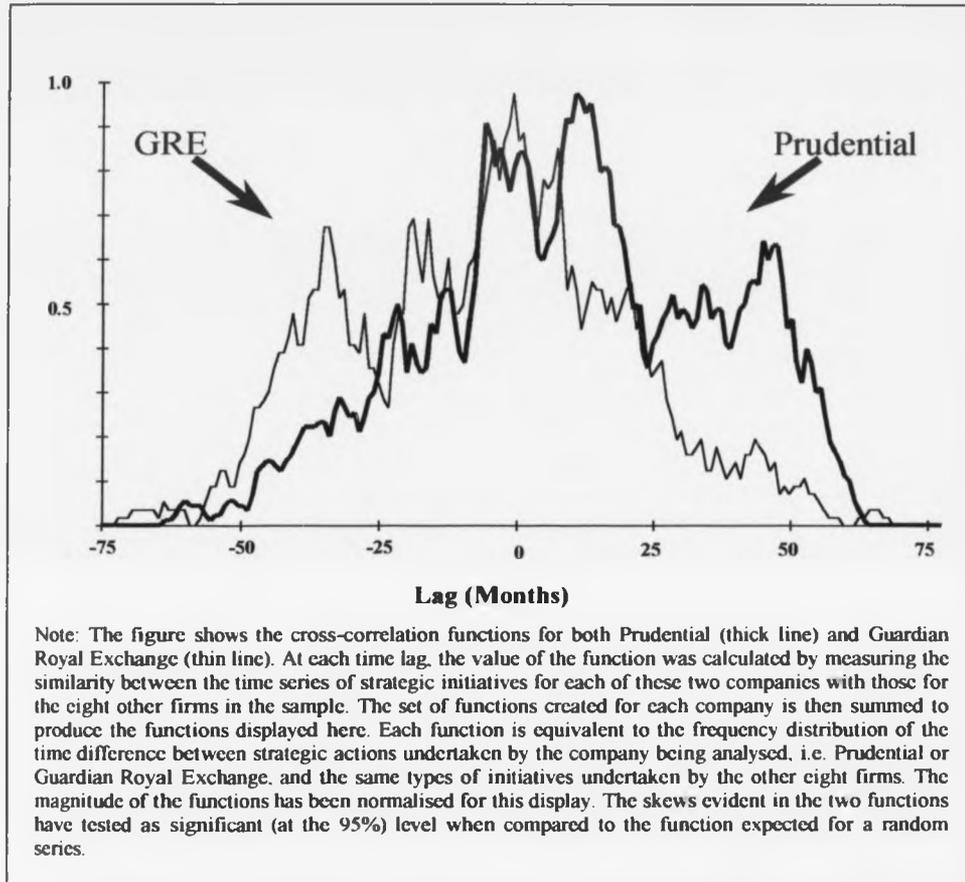


Figure 3.3 – Cross Correlation Functions - Prudential and GRE

Recognising that not all strategies will be related and that a considerable level of noise will be present, we must then question if the skew detected by the cross-correlation is significant (step 4). In testing for significance, we defined a null hypothesis model by determining the probability of each strategy type occurring in each month for each company assuming a random distribution. This model was then subjected to the cross-correlation analysis and summed for each company. The actual summed cross-

correlation functions were then compared to the null hypothesis model using the chi-squared test.

It must be recognised that there are limitations to the cross-correlation approach and hence the results must be interpreted with care. At a statistical level, the short time period covered by our study and the data collection method do cause some concerns. In particular there is the question of right or left censoring, i.e. events that form part of the trends detected but fall before or after the study period and regarding the possibility of missing data, stemming from our reliance on secondary data.

There were also potential concerns regarding the assumption that one company will respond to another by moves of the same strategy type. This was addressed by repeating the analysis but with the type of strategy ignored. Thus when similarity was measured a match was recorded when any strategy type was present in each time series. This second analysis confirmed our identification of significant early and late adopters, suggesting that this concern is not a major limitation for this study.

Finally, it must be stressed that while our analysis addressed the speed of response, it did not address the quality or appropriateness of the strategies implemented.

Despite these potential problems, we believe the cross correlation approach has a number of merits for the analysis of time series data. Provided the researcher is aware of the problems we describe above, the method provides a valuable and innovative contribution.

In order to assess the degree to which firms varied in their speed of adoption an additional step was taken. The time series for two of the significant early and late adopters were divided into three overlapping 'windows', each four years in length. The cross-correlation analysis was then repeated on each of these windows and the mean for the resulting distribution of lags calculated and plotted against time (see Figure 5.16, page 183). Given the reduced time period covered by each window, confidence in the mean values obtained will be lower. Significantly, it was the trends suggested by this approach that received the greatest support during the interview phase of our research.

Interview Support for our Mapping and Analysis Findings

In order to confirm the results of the mapping and analysis, our case study interviewees were asked to comment on our findings. Their responses confirmed the broad patterns derived from the analysis of secondary data. In particular, all commented on the accuracy of the patterns produced by our time varying cross correlation analysis. In addition, they supported our identification of early and late adopters within our survey group.

Case Study Phase

The second phase of our research strategy required an investigation into why the firms identified by our mapping study were early or late adopters. The case study method was selected as the most appropriate approach for exploring the internal processual and contextual factors that influence a firm's strategic agility. The strength of the case

study approach is its ability to provide detailed answers to the questions of 'why?' and 'how?' organisational phenomena occur (Pettigrew 1990 and Eisenhardt 1989). It was an approach that complemented our mapping study where the emphasis was on the questions of 'what?' and 'when?'.

Traditionally qualitative methods, such as case studies, have been linked to research that takes a phenomenological or subjective stance. However, as the writings of Pettigrew (1990), Remenyi et al (1998) and Huberman and Miles (1998) show, these methods are equally valuable to researchers who take a 'post positivist', or even positivist view. However, the need to demonstrate the validity of any findings adds considerable rigour to the approach that is followed.

Case studies can be used in two ways. Firstly in a deductive manner to test established theory (see Remenyi et al 1998). Hypotheses based on existing theory are articulated, case data collected and analysed and then the hypotheses are tested against the case material. Secondly, case studies can be used inductively as part of a grounded theory approach (Glaser and Strauss 1967 and Strauss and Corbin 1998). This approach builds theory by the continuous comparison of data and existing theory and begins with data collection (Eisenhardt 1989). Theoretical concepts or themes emerge from the case data which direct the researcher to streams of the literature, which in turn suggest modifications to the initial concepts. Huberman and Miles (1998) dismiss the distinction between deductive and inductive case studies, suggesting that in building theory from case studies, the researcher shifts between inductive data collection and analysis and deductive testing and verification.

There is an on going debate over whether a single case study has any real value (Gummesson 1988). A single case study can provide useful empirical evidence to test hypotheses or provide context specific information in the manner of ethnography (Remenyi 1998). However, for a post positivist, the need for findings to be generalisable and of demonstrable validity does place a question mark over the utility of a single case study for theory building. The grounded theory approach to theory building relies on researchers continually making comparisons both between subjects and with existing theory (Strauss and Corbin 1998). Pettigrew (1990) and Eisenhardt (1989) advocate that this comparative approach should be adopted when the case study method is used. To enable comparisons to be made at least two case studies must be undertaken.

Pettigrew (1990) describes the choice of case study companies as often being shaped by 'planned opportunism'. The nature of the research topic, the questions being posed and the practical issue of gaining access may all guide the choice of case study sites. Pettigrew (1990) suggests that as the number of case studies that can be undertaken will be limited, those chosen should be polar types, i.e. reflect opposite extremes of the phenomena being studied. Eisenhardt (1989) agrees that they should be chosen to fill theoretical categories rather than for statistical reasons and should provide examples of polar types.

In line with Pettigrew's (1990) and Eisenhardt's (1989) advice, in this study we chose to conduct retrospective case studies of polar types. To this end we targeted Prudential, which was shown by our mapping to be a significant early adopter, and Guardian Royal Exchange, shown to be a significant late adopter.

In addition, we also adopted the approach advocated by Huberman and Miles (1998) in that we cycled between different phases of inductive data collection and analysis and deductive testing and verification.

Interviewee Selection

Given our aim of exploring the way in which strategic decisions were made, we needed to gain access to a large number of executives at board level and just below. Two issues determined the number of interviews conducted for each case study. Firstly, a sufficient number of interviews were needed to provide coverage of the period being studied and to establish confidence in the information provided. We found, however, that there was a balance to be struck between the number of interviews and the value of the material that each additional interview was able to provide. We found towards the end of our study that interviewees were tending to confirm the details provided by others rather than giving fresh insight. Secondly, there was a limit to the number of senior managers who were able to provide insight into the firm's strategic decision-making and who were willing to be interviewed.

In total twenty-one in-depth interviews were undertaken. Of these nineteen were with current or former executives of Prudential or Guardian Royal Exchange. Of these nineteen interviews, two were conducted with ex-chief executives and ten with current or former executive directors. The other seven were with senior managers who reported to executive directors.

Transcripts from a further six interviews with directors of Prudential were made available to the researcher. These were conducted by Professor Andrew Pettigrew and Dr Terry McNulty during the course of their study of the Power and Influence of Board Members (Pettigrew and McNulty 1995). They proved valuable for checking the responses obtained during our primary interviews.

Gaining Access

Gaining access to the two companies for our study proved challenging. In the case of Prudential, initial contact was made with an executive director who had close connections with the Warwick Business School. While he was willing to be interviewed, he unfortunately felt unable to champion our research to his colleagues. This was not seen as a major problem as most of the other executives we wished to interview had either retired or left the company. Two ex-executive directors (who also had close links with the Warwick Business School) agreed to participate. With these three interviews arranged or completed, other potential interviewees were contacted in a series of 'cold calls' and, hearing of the involvement of their ex-colleagues, readily agreed to participate.

Arranging access to Guardian Royal Exchange proved more problematic. Initially help was sought from the IBM Consulting Group, one of the sponsors of this research, whose insurance practice claimed to have close contact with Guardian Royal Exchange. However, Guardian Royal Exchange were concerned that confidential information could be put to commercial use and hence they did not respond to IBM's approach. It was then decided to make a direct approach and a cold call was made to

an executive director. He was assured that IBM would only see the results of the project, not the details of individual interviews, and that material gained from the interviews would only be used in this thesis and academic journal articles. Our contact agreed to be interviewed and to arrange interviews with two other senior managers (although not executive directors). He then began to avoid agreeing dates for the interviews. It later transpired that the company had begun negotiations for its takeover with several firms including AXA.

Eventually in February 1999, the researcher was able to arrange the three promised interviews. Realising that three interviews would not be sufficient to develop the depth of insight and confidence required, cold calls were made to other senior Guardian Royal Exchange executives. With the AXA takeover agreed, these calls proved highly successful and nine interviews in all were arranged.

Data Collection

Timing

As we discussed above, data limitations and the need to maintain a consistent sample dictated the period studied during the mapping phase. However, the shortness of the study period is a limitation to this research (Webb and Pettigrew 1999). Given that the purpose of the case studies was to help us understand the patterns observed in the mapping phase, it was essential that the antecedents of the change observed in the 1990s were investigated. Consequently, it was felt necessary to extend the period investigated by the case studies back in time.

Judging by how much the study period should be extended was, however, more difficult. As authors such as Pettigrew (1985) and Lewin et al (1999) argue action that takes place in the present is influenced by patterns of action and decisions taken throughout the history of the firm. This would suggest that our analysis should extend back to the formation of our case study firms. However, these firms have histories extending back into the 18th and 19th Centuries and this would be impracticable. It was therefore decided to compromise by extending the period to be covered by in-depth interviews back to 1980. In addition, each company's history would be briefly investigated using published information to determine what earlier patterns of strategic agility there were.

Case Study Protocol

The literature on the case study method (e.g. Pettigrew 1990 and Eisenhardt 1989) advises researchers to plan how they 'enter the field' carefully (Eisenhardt 1989). This advice was followed - the objectives of each case study and each interview together with the approach to be taken were carefully considered.

The objective of the two studies was to uncover 'how' and 'why' Prudential and Guardian Royal Exchange differed in the speed with which they adopted new strategic initiatives. To accomplish this, we planned a series of semi-structured interviews which would enable the interviewees to comment on the issues relating to the processual and contextual factors that influence the emergence of strategic initiatives.

Data Types

The case study phase of our research involved three main types of data – in depth interviews, observational notes and documentary data. Our mapping phase supplemented this with published articles and press releases. We will deal with each of these data types in turn - although in fact all data types were collected simultaneously and used in combination to build and triangulate our narrative of each case study.

Case Study Interviews

The interviews for this study were semi-structured. While pre-established questions were used to guide the subject through the topics we wished to cover, many were deliberately open ended to allow the interviewee to link his answers to other issues and introduce new themes. A conversational style was adopted in order to gain the subject's trust and build rapport (Fontana and Frey 1998). In all but one of the interviews this was achieved and the study benefited greatly from the subjects' frankness. The level of rapport that was established is evident from the fact that each interview lasted for on average two hours and some lasted for more than three.

The GRE interviews were conducted against the background of the company's acquisition by AXA. However, while our interviewees and the other staff we met were concerned about the future, all were keen to talk about the past and some even seemed to see it as a release from their worries. When assessing the responses of the GRE interviewees, we bore in mind that ill feeling about the takeover might have biased

their responses. However, if anything the takeover seemed to inspire positive memories - almost akin to mourning - rather than bitterness.

Prior to each interview, the nature of the research project and the purpose of the interview were explained. The researcher also briefly described his background. This seemed to be genuinely appreciated - it demonstrated openness and helped to build trust. The interviewee was then asked if he was willing for the interview to be recorded. We confirmed that all information provided would be held in confidence and that the interviewee's comments would not be attributed if the material was used for any purpose other than this thesis. All of our interviewees agreed to be recorded.

In the first part of the interview, the interviewee was asked to describe his current position and career history. If he had joined the company from elsewhere or had left to work elsewhere, the opportunity was taken to ask how the company compared with his previous or current company. The interviewee was then asked to describe which strategic moves he saw as being the most significant during the 1980s and 1990s. This provided data that was used to confirm the patterns detected in our mapping analysis. It also led to significant events or 'critical incidents' being raised, which could be used to explore the influence of organisational processes and internal and external contexts that existed at the time they occurred (see Pettigrew 1990 and Easterby-Smith et al 1991).

Usually the initial questions would prompt the subject to discuss his experiences and insights. As the interviewee opened up, the role of the researcher would shift from one of questioning to one of prompting and guiding the conversation. Remaining flexible

was vital but in most cases the historical order of events was used to provide some structure and guide the subject - with the researcher regularly probing (Easterby - Smith et al 1991) for comparisons with previous initiatives or periods. As trust developed, these comparisons provided deep insights into the relative strengths and weaknesses of individuals and into sensitive and controversial issues. In addition, this cycling back to previous initiatives also provided a way of checking earlier answers.

At the end of the interview, the subject was asked if there any were further issues that he felt were important to the strategic agility of the firm. The executive directors were also asked what they would have done differently if they had become CEO. This question proved very effective in revealing what alternative moves had been considered and the extent to which the interviewee had agreed with what had been done.

Initially, the interviewees were shown the results of our mapping and analysis study at the very end of the interview and asked for their comments. In later interviews this practice was changed and instead the analytical themes that were emerging from the case studies were presented and discussed with the interviewee.

- Interview Pro-forma

An interview pro-forma was developed to guide the researcher through a series of questions grouped around the themes found within the literature and highlighted by our mapping exercise. This was tailored before each interview to reflect the position

and background of the intended interviewee and the information gathered from previous interviews.

The pro-forma proved an invaluable tool for prompting the researcher to ask specific questions and for guiding the direction of the interview. It was at its most useful during the initial phase of each interview when most subjects appeared happier answering specific questions and were less inclined to elaborate or raise and discuss related issues. It was also valuable to be able to use a pre-prepared question when the direction of the interview needed to be realigned or when there was a lull in discussion.

It should be stressed that the pro-forma was used as a guide and not a template. Questions were added or rejected depending on the interviewee's responses and to enable the researcher to explore themes that emerged or forced a reinterpretation of earlier interviews. While this flexibility could be criticised as it reduced the consistency between interviews, it was essential to our analysis and theory building (Eisenhardt 1989).

- Tape Recording

Obtaining value from interviews relies on capturing the detail that the interviewees impart. Even if the researcher is skilled at note taking, such detail may be lost due to poor or inaccurate articulation, or poor listening and recording. Tape recording enables the researcher to evaluate not only what is said, but also how it is said (Goodman and Pryluck 1974).

In addition, to maximise the value of the data collected the researcher must coax the interviewee to reveal the type of information required in the depth required. He must be able to pick up quickly any issues which warrant further exploration and shift the focus of the interview accordingly. The concentration required to get the most from the interview will be reduced if the researcher needs to undertake note taking at the same time.

All the interviews conducted for this study were tape recorded, with the interviewee's consent. In most cases, after a short while, most of the interviewees seemed to forget the tape recorder was running and became increasingly less guarded. Only in one interview did the subject point to the tape recorder and say, "I will tell you later", which indeed he did.

- Transcription

Each interview was transcribed. In all cases care was taken to transcribe every word used by the interviewee and to indicate where pauses occurred. As a result, the process was very time consuming. However, it proved an invaluable aid to the researcher, helping him gain an in-depth familiarity with the wealth of material contained in each interview.

The transcriptions formed the basis of the subsequent analysis.

Documentary Data

The validity and reliability of documentary data is the subject of considerable debate (Manning and Cullum-Swan 1998 and Remenyi et al 1998). Pettigrew (1990) highlights the dangers of the selective deposit and survival of documents, while Remenyi et al (1998) point out that most documents are not written with future research in mind. However, if treated with appropriate caution documentary data can provide essential support for the oral responses of interviewees, confirm the timing of events and provide insights into the context in which decisions were taken (Remenyi et al 1998). Pettigrew (1990) describes this use of documentary data as an aid to triangulation.

Four types of document were used during this study in addition to the archival data used in our mapping analysis – annual reports, press releases, company histories and internal documents. They were used to corroborate the data obtained from our interviews - although it quickly became apparent that the interview data was far richer.

Both Prudential and Guardian Royal Exchange were happy to provide annual reports back to 1980, press releases, company histories and general archive material. However, obtaining access to internal confidential documents proved more difficult. This was limited to reading brief sections during interviews.

Observational Notes

The collection of observational data involved making field notes during or while waiting for interviews. Wherever possible the opportunity was taken to have informal chats with other members of staff e.g. secretaries and reception staff. These notes proved useful in prompting questions during interviews and in getting the general 'feel' of the place. The interest in different types of questions from the interviewees in each company was revealing. In general, the interviewees from Prudential were more happy to discuss strategic issues, while those from GRE were more interested in operational details. This insight prompted a series of questions regarding the willingness of managers to question the nature of the organisation and its environment, which became an important sub-theme of this study.

Case Analysis

The objective of the analysis stage was to identify from the case study data consistent themes or factors that explained the differences observed in strategic agility. The analysis involved two phases. The first phase adopted an approach based on 'grounded theory' (Glaser and Strauss 1967) in order to identify significant themes. The second phase used a more deductive approach to validate and demonstrate the support for these themes across our interviews.

Researchers have commented extensively on the iterative and, at times, messy character of case study analysis (Pettigrew 1990, Huberman and Miles 1998 and Eisenhardt 1989). Analysis overlaps data collection and literature review, with each

mutually informing the others. Pettigrew (1990) describes the process of analysing case studies as cyclical, involving alternating periods of complexity and simplification. He explains that while maintaining the richness of the data is essential, it must be simplified to reveal common analytical themes and the interrelationships between them. As themes emerge, they stimulate the collection of further data and further comparison with existing academic literature, therefore generating further complexity. Pettigrew (1990) highlights the value of data reduction techniques based on visual display and analytical writing.

Eisenhardt (1989) suggests that there are three interwoven and iterative threads to the inductive analysis of comparative case studies – analysing within-case data, searching for cross case patterns and ‘enfolding’ the literature (comparing and contrasting with existing literature).

Analysing within-case data involves detailed write-ups or narrative descriptions and longitudinal displays and graphs. Huberman and Miles (1998) describe the value of constructing simple narratives detailing what was going on and why. Visual displays allow the researcher to see the patterns within each case study. Ultimately the objective is to develop a ‘rich familiarity’ (ibid) with each case.

The second thread is the search for cross case patterns. Researchers are encouraged to beware of the tendency to reach a conclusion quickly based on only part of the data, which may then act to filter out disconfirming evidence. Eisenhardt (1989) suggests being overly influenced by the opinion or the seniority of individual subjects is a common error. To counteract this tendency, researchers should look at the data in

many different ways and through diverse theoretical lenses. We encountered a good example of this type of danger during this study. One of our first interviews was with an ex-chief executive who gave the impression that the turnaround in his organisation's performance was the result of changes he had personally implemented and heavily criticised his predecessor. However, over time the slow accretion of contradictory opinions from other sources and reinterpretations prompted by alternative streams of literature allowed a more balanced view to emerge.

It quickly became apparent that the differences between the two case study companies were not the only contrasts that were revealed by our data. In each case study, there was also a significant variation in strategic agility over time. This variation was of considerable value to our analysis for it allowed us to test the explanatory power of the factors identified from the cross case analysis in relation to the temporal variations.

The final thread detailed by Eisenhardt (1989) is 'enfolding the literature'. She suggests that a key feature of theory building from case studies is the comparison of emergent concepts with the existing literature. Similarities and contradictions are identified and the researcher must seek to understand and explain them. As we saw above, contradictions can be particularly valuable as they can lead to alternative interpretations and suggest new issues to be considered. The constant cycling between case data and existing literature ensures that emergent theory is well grounded and improves its validity. This is particularly important when the findings rest on a limited number of case studies.

Our approach to the case study analysis conformed to the approach described by Eisenhardt (1989) - however, it was also supplemented by a more deductive approach (Miles and Huberman 1998). Our reading of the literature enabled us to develop a number of hypotheses about the factors that influence strategic agility. These hypotheses were then used to interrogate the case study data. This process greatly aided our understanding of the case material and its connection with the existing literature.

In addition, writing a paper for *Organisational Science* (see Webb and Pettigrew 1999) helped our analysis. The comments of the editors and independent referees proved particularly beneficial in clarifying our analytical themes and methodology.

As ideas began to form, various visual and textual tools were used to develop analytical themes. Highlighter pens and the cut and paste facilities on word-processing packages were used to sort the interviewees' comments into nascent themes. Mind mapping was used to find links between quotes and to delineate themes and sub-themes (see Figures 3.4 for a schematic example). During the later interviews the themes that had emerged were discussed with our interviewees and refined in the light of their comments. As we will describe in Chapters 6, 7 and 8 four consistent factors ultimately emerged from this process.

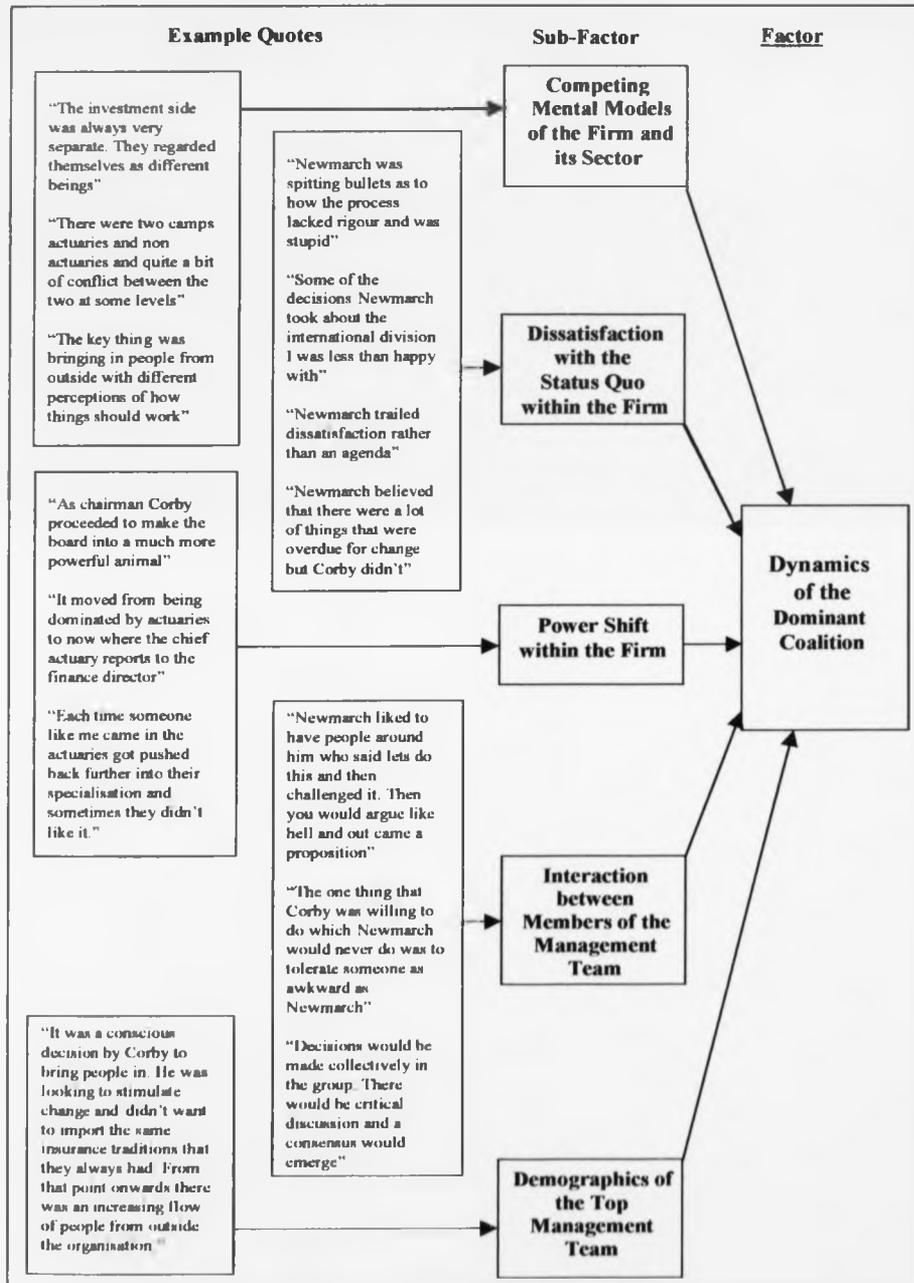


Figure 3.4 – Schematic Example of Mind Map

The second phase of our case analysis began once the emerging factors had established themselves. For each factor, existing literature was used to develop a set of analytical questions e.g. 'did the organisation see itself as similar to other insurers in the sample?'. Each case was split into three periods - the 1980s, early 1990s and mid 1990s - based on the tenure of the chief executives. The interview data for each of the two companies was coded according to the response it prompted to each question into four categories - 'yes', 'no', 'it changed during the period/it was different in different parts of the company' or 'no data supplied'. The results of this coding were then displayed visually with the responses that would be expected to lead to greater levels of strategic agility highlighted (see Figures 8.1 and 8.2, pages 297 and 298).

An inter-coder reliability check, using 10% of our interview transcripts, was conducted independently by a second researcher and the results compared with those of the researcher. This check demonstrated a reliability of between 86% and 90%.

The coding provided a way in which to holistically compare the two case studies (see Figure 8.11, page 341). It also demonstrated the consistency with which our factors were supported by our interview data.

Validity and Limitations of the Case Studies

Researchers who adopt a positivist perspective judge the quality of research using four tests - construct validity, internal validity, external validity and reliability. However, from a post positivist viewpoint these tests can never be satisfied. As Heisenberg shows, we can only perceive reality imperfectly or probabilistically (Guba and

Lincoln 1998). Hammersley (1992) suggests four criteria by which research can be assessed from a post positivist viewpoint. Firstly, its ability to generate formal theory. Secondly, the degree to which its findings can be generalised or transferred to other settings. Thirdly, the degree to which it is empirically grounded and scientifically credible and finally the degree to which it is internally reflexive, i.e. the extent to which the researcher has addressed issues of bias originating from the researcher, subject or research strategy. We will use Hammersley's set of tests to discuss the validity of our case study findings.

As will become apparent in this thesis, we believe the use of the case study method in association with our mapping and analysis work allowed us to identify some of the factors that influence the strategic agility of a firm. While we must be cautious before claiming transferability of our results (see Eisenhardt 1989), the strong support provided by the existing literature suggests that these factors will have similar effects upon other companies and industries.

As this section and Chapter 9 discuss, there are limitations to our study, however, we would argue that the findings are well grounded empirically and reasonably credible. As we have seen, the approach we took in conducting the case studies was well grounded within the research methods literature (e.g. Pettigrew 1990, Eisenhardt 1989 and Remenyi et al 1998). The support gained for our findings within the literature and the responses obtained from both interviewee subjects and academic peer review suggest that our findings are credible.

While the case study method is now well established within the management literature, there has been some criticism that it is susceptible to bias (see Yin 1989 and McCutcheon and Meredith 1993). However, to satisfy Hammersley's fourth test of internal reflexivity we must consider the bias that may be introduced by the researcher, the interview subjects and by the research strategy adopted. It is the primary function of the researcher to identify and minimise the influence of bias (Remenyi et al 1998).

The Role of the Researcher and Bias

The positivist view, that the researcher must be a detached and independent observer if his results are to be valid, has been widely criticised, particularly by phenomenological and post modernist theorists (Hussel 1932/Crotty 1998 and Lyotard 1979/Crotty 1998). Even within the natural sciences, post positivists have demonstrated that the researcher will always influence the findings of a study (Heisenberg / Crotty 1998).

This post positivist view recognises that the researcher interacts with the subject and hence may introduce bias due to his own values and preferences (Easterby-Smith et al 1991). However, to get the maximum value out of semi-structured or unstructured interviews demands such interaction (Fontana and Frey 1998). Case study interviews can never be perfectly objective. Remenyi et al (1998) agree but argue that by recognising this problem the researcher can take steps to minimise any bias that might be introduced.

Eisenhardt (1989) stresses the importance of the researcher remaining receptive to the views and interpretations of his interview subjects whatever his own opinions. Fontana and Frey (1998) agree, stressing that the interviewer must try to share the concerns and views of his subjects. However, the researcher must also recognise that his own rationality will be unconsciously bound (March and Simon 1958) and that it would be naïve to assert that any form of research is without bias (Remenyi et al 1998). Hence, (mirroring one of the findings of this study) a willingness to question ones own assumptions and beliefs is a critical requirement for a researcher conducting case study interviews.

In this study, a number of steps were taken to minimise any bias that might be introduced by the researcher. All interviews were recorded and transcribed word for word rather than selectively. These transcripts were then used for coding. Chains of evidence or audit trails (Pettigrew 1990 and Morse 1998) were created demonstrating how comments made by our interviewees related to the themes that emerged (see Figure 3.4 for a schematic example). An inter-coder reliability check was conducted by an independent re-coding of 10% of the interview transcript (see above). The inductive approach adopted to analyse our interviews also meant that the researcher was constantly revisiting the literature and then reinterpreting the patterns suggested by the interviews. This proved to be an effective way of introducing new ideas and challenging pre-existing assumptions.

It is also worth mentioning that all of the subjects interviewed for this study were very senior, and most were executive directors of FTSE top 200 companies. They each had strong, and, in some cases dominant, characters with strong views. It is difficult to

envisage how this group could have been influenced, particularly given the semi-structured and open-ended format adopted for the interviews.

Bias Introduced by the Interview Subjects

Bias could be introduced into the interview responses of subjects in a number ways. Remenyi et al (1998) identify three. Firstly, an individual may not accurately recall events, secondly he may be unwilling to disclose important feelings and thirdly, he may be unwilling to disclose information that reflects badly on him or his company. To these, we would add the possibility of a subject wishing to emphasise the importance of his role in the events being investigated or of post hoc rationalisation of emergent events. Remenyi et al (1998) argue that these dangers are present in all areas of social science but particularly within management studies where a subject may be concerned about his career. These difficulties are, however, not confined to case studies but also need to be borne in mind by researchers using other types of research instruments, e.g. questionnaires.

Huberman and Miles (1998) believe that the influence of subject bias on a study's findings may be minimised by the use of triangulation. Triangulation occurs at three levels. Firstly, multiple sources of evidence are used to support assertions (Remenyi et al 1998). Secondly, evidence is sought from multiple interviewees within the firm (Strauss and Corbin 1998) and finally the opinions of external commentators are considered. As we have seen in this study, multiple data sets were used, and a large number of senior managers from both case study companies were interviewed. The opinions of external commentators were obtained - journal and newspaper articles

provided confirmation of significant events and 'analysts reports' provided opinions on the strategies pursued and on the financial performances of the two firms. In addition, two interviews were conducted with senior managers from other insurers in which their opinion of the two case study companies were sought.

Bias introduced by the Research Strategy

Bias may also be introduced by the design of the case studies themselves. Three elements in particular can cause difficulties – case selection, interview selection and timing.

The comparative case study method relies on the researcher identifying significant differences between two firms. However, no organisation will be identical to another in all ways except the phenomena being investigated. For example, firms will differ in size, in their markets and in the products they produce.

The influence of such differences can be reduced by ensuring that the organisations selected are of similar order in size and from the same industry group. As far as possible this was the case in this study. However, there were still differences in size and market and product coverage although their influence was not expected to be significant.

Our mapping study failed to show a significant relationship between size and strategic agility. While the literature on innovation suggests that larger firms can afford to adopt more innovations (Subramanian and Nilakanta 1996 and Tidd et al 1997), it is

generally assumed that smaller firms are more agile, although a significant statistical relationship has not been demonstrated between size and speed of adoption (Subramanian and Nilakanta 1996 and Tidd et al 1997). Thus, we would expect the influence of size on speed of adoption to either be insignificant or, as the largest firm in our study proved to be the more agile, to narrow the difference between the two firms. So far as the difference in the markets covered by the two firms is concerned the debate on the relative influence of the firm and the industry is informative (see Chapter 2). The majority view within the literature (Rumelt 1991 and McGahan and Porter 1997) is that the industry or sector is only responsible for between 10% and 20% of variations in the performance between firms within that industry. As the sectors served by our two firms overlap considerably the influence of any difference was expected to be negligible.

While we did not expect our findings to be influenced by this type of bias, we still took care to ensure that we remained alive to the possibility.

The second possible source of bias that can be introduced by the research design relates to the selection of interviewees. In this study the objective of the interviews was to explore the nature of the strategic decision making process within each of our two case study firms. In order to achieve this we needed to interview those senior executives in each firm who were or had been involved in the process. However, this necessarily meant that our interviews concentrated on the top management team in each case. It could be argued that this may have distorted, or led us to underestimated the influence and contribution of members of the two organisations at other levels, e.g. the non executive directors, unions, or other factors, e.g. the organisation's culture.

Several steps were taken to try to reveal any bias resulting that there may have been. We made a point, during our interviews, of probing for the influence on initiation or implementation of new strategies of other stakeholders, for example all the executive directors were questioned about the influence of non executives. In addition, we sought the views of external industry experts. One of our interviewees did in fact become the non-executive chairman of the companies during the early 1990s and so was able to provide particular insight into the influence of non-executives. An interview transcript with his successor was also made available to this study by another Warwick Business School research project, which had specifically focused on the role of non-executive directors.

The Unions and other employee groups had had quite a strong influence on Prudential's efforts to reorganise its UK sales force and we therefore made a particular effort to probe our interviewees about the power of these groups. We were helped by our archival study as some of the comments of union leaders and disgruntled ex-salesmen we uncovered suggested questions we could put to our interviewees.

It is argued that these steps will have gone some way to uncover any distortion introduced by our selection of interviewees. In particular, we believe they helped strengthen the credibility of the four factors identified by this study as influencing the speed of strategy adoption. However, a wider group of interviewees might have revealed the importance of other factors.

The third design issue concerns the choice of study period. As Pettigrew (1990) observes, time sets a frame of reference for what events are studied and how they are

explained. A key ontological assumption made in this study is that change is continuous and is influenced by past actions, current situations and expectations about the future. While it is believed that this view reflects the real world more accurately than models of change based on discrete jumps, it does present the researcher with a problem – what period needs to be studied to capture the patterns of change and causality adequately? There is always the danger that if too short a period is selected the pattern of change will not be fully captured and bias or ‘aliasing’² will be introduced. In Pettigrew’s (1990) words, ‘truth is the daughter of time’.

Aware of this potential problem, we extended the case study period back into the 1980s. In addition, we generated a narrative of each case study company back to its formation, through the use of published company histories. This approach ensured that long-term patterns would be observed and could be taken into account in our analysis.

Summary

This chapter has considered the methodology we adopted to investigate the three research questions we developed in Chapter 2. We described how our work made ontological assumptions informed by Stompka’s (1993) theory of ‘social becoming’ and adopted a post positivist and contextualist epistemology. These underpinnings influenced our selection of research methods – we needed to collect data using multiple methods and levels of analysis, and we needed to collect longitudinal data and maintain its temporal component during our analysis.

² Here the concept of aliasing is adopted from signal processing. It refers to the sampling of a sound or electric wave that is not sufficient to allow an accurate representation of the wave to be recreated from the sample values.

In the light of these requirements, we adopted a two phase approach. In the first phase, we used innovative mapping and analytical techniques to uncover patterns of strategy adoption within a sample of nine companies within the UK insurance industry. In the second phase, we used the comparative case study method to explore the internal processes and contexts of two firms which our mapping analysis had shown to be a consistent early adopter and a consistent late adopter.

This research strategy had several strengths. It allowed different aspects of the phenomena being studied to be targeted by different methods. Thus, the strengths of the mapping and analysis technique in detecting patterns at an industry level were complemented by the power of the case study method to uncover the internal processes and context of the firm. There was also a degree of overlap between these two methods - so the findings of one method could be triangulated against those of the other.

Finally, the epistemological position taken for this study meant that we had to establish the validity of our findings. We have discussed in depth throughout this chapter the steps that were taken to ensure the credibility and relevance of our methodology and findings. In particular, we paid particular attention to the issue of internal reflexivity - i.e. the influence of the researcher, interview subjects and the research strategy on our results. Although, no study can ever be completely without bias, we believe that the steps we took have minimised distortion to a point where our findings are internally and externally valid (Remenyi et al 1998).

We are now in a position to begin our exploration of early and late adopters of strategy. In accordance with the contextual method of inquiry, we will proceed by considering three different levels of analysis. We will begin in the next chapter by discussing the macro environment encountered by the UK insurers in the 1980s and 1990s. In Chapter 5 we will deal with the industry level patterns detected by our mapping and analysis exercise and in Chapter 6, 7 and 8 consider the internal processes and contexts of our case study companies. Inter-relationships between these different levels of analysis will be highlighted where appropriate.

Chapter 4

The UK Insurance Industry

Introduction

The insurance industry is one of the UK's largest sectors, worth around £98 billion in premium income in 1996. The market can be divided into two segments, general and long term insurance. General insurance, which is worth around £31 billion, includes fire and property, marine, motor, liability, accident and health insurance. Long term insurance accounts for around 50% of UK personal savings, and is worth around £67 billion. It comprises industrial and ordinary life insurance and pensions. Premiums are paid either as single lump sum payments or as regular contributions over the period of the policy¹. In addition to premiums from policyholders, insurance companies also receive a significant income stream from investments (£38bn in 1996).

The UK insurance market is one of the largest in Europe, only the German (£120bn) and French (£110bn) markets are larger in terms of premium income. Based on premium income the UK accounts for 19% of the European market. In 1996, Europe represented 32% of the World insurance market, North America 33% and Asia 31%. Global premiums were approximately £1600bn.

This chapter describes the structure and development of the UK insurance industry in the 1980s and 1990s. During this period, the environment faced by the insurers has changed from one of considerable stability and benevolence to one characterised by

environmental turbulence and hypercompetition (D'Aveni 1994). This shift is the result of regulatory change, the erosion of barriers to entry and the breakdown of traditional industry practices.

We review the changes that have occurred in the industry's macro-environment and discuss how they have affected the demand for insurance and the competitive pressures faced by insurers. Although initially slow to respond, the insurers have begun to adapt to the new environment. However, it is suggested that some firms, such as Prudential, General Accident and Commercial Union, were more responsive to environmental change than their industry competitors.

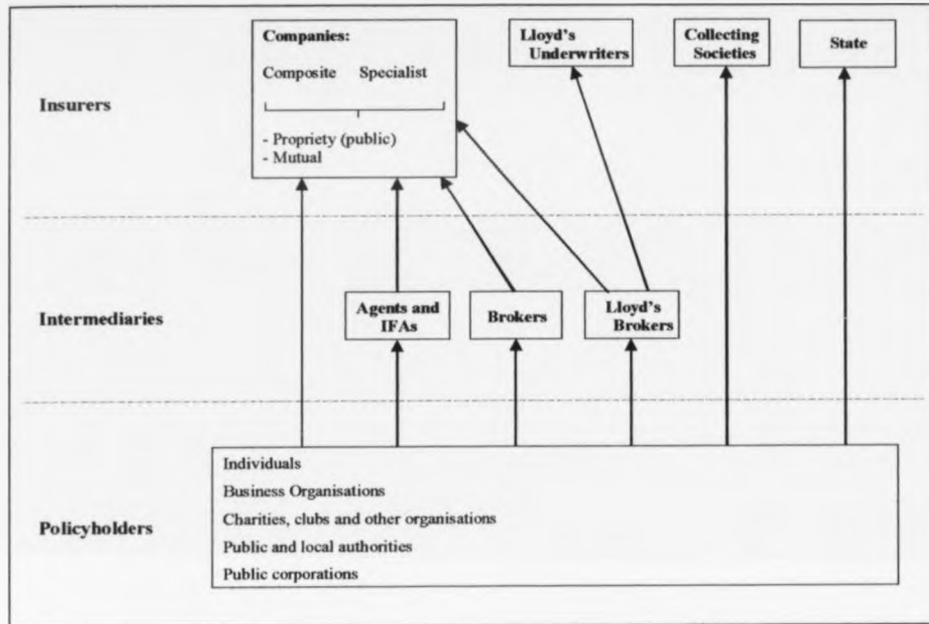
Market Structure

The structure of the UK insurance market is complex, having evolved over a period of at least three centuries. The market consists of three components²: Policyholders (customers), intermediaries and insurers (see Figure 4.1).

Policyholders range from individuals to companies and other profit and non-profit making organisations, including local and public authorities. The insurers provide insurance either directly to their policyholders or via intermediaries such as financial advisors, brokers and agents.

¹ Sales of yearly payment policies are more valuable as the payments may last up to 30 or more years. Typically, industry analysts compare the value of single and yearly premiums by only taking 10% of the value of single premiums.

² Reinsurance adds additional complexity and has been excluded.



Source: Based on Diacon and Carter (1992)

Figure 4.1 – Structure of the UK Insurance Industry

Intermediaries, as required by the Financial Services Act 1986, are either independent or are tied to a particular insurer. A tied intermediary will either be owned by the insurer or bound to it by a long term contract and will only offer the products of that insurer. Intermediary organisations range from individual consultants to large brokers such as Willis Corroon Group and Sedgwick Group, both FTSE 250 companies until 1998³. Other large organisations such as banks and building societies act as intermediaries, although they have increasingly begun to offer their own insurance products.

³ The US firm Marsh McLennan acquired Sedgwick in 1998. Willis Corroon was the subject of a KKR led buy out in 1998.

The insurers comprise insurance companies and the collecting, or friendly, societies together with the individual underwriters who operate through Lloyd's. In addition, through the compulsory National Insurance scheme, the state also acts as an insurer, providing state pensions and sickness and unemployment benefits.

In the UK, there are two types of insurance company: proprietary and mutual. Proprietary companies are the largest group and are shareholder owned. Mutual companies are owned by their policyholders, who gain a share in any profits made by the company through the allocation of bonuses. A significant difference between the two forms of organisation is their access to additional capital. While proprietary companies are able to raise funds by issuing new shares, mutual companies must rely on retained earnings.

Insurance companies are also often defined as either 'specialist' or 'composite'. Specialist insurers concentrate on life or general insurance or in some cases more narrowly on a particular type of life or general insurance (e.g. motor insurance). Composite insurers transact both life and general insurance although the proportions of each vary from firm to firm. All of the companies in our sample are composites.

Collecting or friendly societies are a special type of mutual company and only write industrial insurance business. They have their origins in the collective protection societies of the 18th and early 19th Centuries, which provided local sickness financial support for low paid workers and their families. Several of these societies have since become trade unions. Following the introduction of the welfare state and more recently The Friendly Societies Act 1992 they have broadened their activities, and it is

increasingly difficult to distinguish them from mutual insurers⁴. However, the majority of these firms tend to operate in restricted regional areas and offer low premium policies to low income customers.

While there are over 800 insurers in the UK, market share is heavily concentrated among the largest firms, with the top ten holding a combined share of around 55% (50% held by the members of our sample).

Professional and Trade Associations

The industry's two main professional bodies are the Institute of Actuaries and the Chartered Insurance Institute. The Institute of Actuaries is widely seen as having considerable influence⁵ as it governs entry into the actuarial profession and hosts regular meetings of the industry's chief actuaries.

The main trade organisation is the Association of British Insurers. Membership is open to all British and foreign insurers registered to transact insurance business in the UK. It represents approximately 450 firms who between them write approximately 96% of the UK's insurance (ABI 1998). Specialist committees, under the ABI umbrella, deal with particular types of insurance product or key issues and are populated by managers from the member companies. The ABI was formed in 1985 from the amalgamation of various industry associations and tariff committees (see below) to act as a focus for industry discussion, communication and government lobbying.

⁴ Personal conversation with Independent Order of Odd Fellows Manchester Unity Friendly Society

⁵ Interview with an ex Prudential finance director

With membership of trade associations open to anyone selling insurance in the UK, a variety of more restricted, informal groups have formed. The primary aim of such groupings has been the promotion of UK insurers in the face of increased foreign competition and new entrants, such as banks. In addition, these groups aim to present a united front to the National Union of Insurance Workers, the MSF and other industry-wide trade unions⁶. As our interviewees revealed many of the gatherings of these groups are held under the title of the 'Usual Friends' and they include regular meetings of chief executives and personnel directors.

Summary

The structure of the UK insurance industry is complex and consists of three components - policyholders, intermediaries and insurers. Insurers, the subject of this study, vary widely in the nature of their ownership and the range of products they offer. While there are over 800 providers of insurance products in the UK, market share is heavily concentrated among the largest insurers.

A number of well supported trade and professional associations exist within the industry. Of these the Institute of Actuaries and the Association of British Insurers (ABI) have considerable influence and act as focus points for inter-company contact and collaboration. Closer ties exist between the larger traditional insurers through informal groupings such as the 'Usual Friends'. These informal groups regularly bring

⁶ Interview with a director of GRE

together senior managers to discuss industry level issues and collectively promote the interests of the UK insurers

A Brief History of the UK Insurance Industry

Long Term Insurance

Life insurance has been available in the UK since the 16th Century. Initially premiums were set at a single rate and insurance societies⁷ restricted their membership to limit risk.

The introduction of mortality tables⁸ in the mid 18th Century enabled risk to be assessed more accurately and consequently permitted pricing to be more flexible and a wider range of risks to be considered. Although at first slow to be widely adopted, this development, together with legislative change⁹, led to an influx of new companies into the life insurance market in the late 18th and early 19th Centuries¹⁰. This period also saw the expansion of many of the fire offices into life insurance, e.g. Sun Life, Pelican¹¹, Eagle¹² and Atlas¹³.

Despite the influx of new companies, the life insurance market remained small, with policyholders coming mostly from the landed, professional or commercial sections of

⁷ For example the Union (a subsidiary of Commercial Union after 1907) and the Amicable (merged with Norwich Union in 1866)

⁸ First used by Equitable Life Assurance Society in 1752

⁹ The Life Assurance Act 1774 allowed joint stock companies to enter the market.

¹⁰ E.g. Norwich Union and Scottish Widows

¹¹ Amalgamated with Phoenix in 1908, subsidiary of Sun Alliance from 1984.

¹² Now Eagle Star

¹³ Acquired by Royal Exchange 1959

society. In the 19th Century, however, many of the life companies began to seek a wider market by the increased use of advertising, expansion overseas and the introduction of new products. Life insurers increasingly began to offer products such as annuity loans, mortgages and endowment policies. These efforts were helped by a change in the tax law in 1853, which allowed life insurance premiums to be deducted from income tax¹⁴.

Of particular impact was the introduction of industrial life insurance in the 1850s. Up until then 'ordinary' policies had required the payment of relatively large annual or quarterly premiums. However, this type of policy did not meet the needs of the vast majority of weekly wage earners (Cockerell and Green 1994). Instead, industrial policies provided life cover in return for a small weekly premium collected by 'home service' agents going from door to door. To develop and service this new business the 'industrial insurers' established large chains of agents, in some cases numbering tens of thousands. The first industrial life policies were issued in 1852 by British Industry Life closely followed by Prudential in 1854 (ibid).

The 20th Century has seen a growing need for retirement provision resulting from the increasing longevity of the UK population. The emphasis has been subtly "shifted from taking out insurance against an early death to insuring against living too long"¹⁵. In the 1920s and 1930s, this led to rapid growth in the sale of pension schemes. With the average life expectancy in the UK exceeding 65 years since 1945 and the establishment of a standard retirement age, this growth has continued more strongly in the post war years.

¹⁴ Relief that was finally withdrawn in 1984

¹⁵ Personal contact with a director of Prudential

In the 1960s and 1970s, a number of new entrants to the market, such as Allied Dunbar and Abbey Life, began to offer unit linked life assurance. With this product, benefits are paid in direct relation to the investment performance of a portfolio of shares managed by the insurer. Since the late 1970s, unit linked policies have become increasingly popular due to the stock market's continuing growth, and this has forced the traditional insurers to move into such products. This trend has increased the importance of investment management skills.

General Insurance

Forms of fire loss compensation and the spreading of risk relating to ships and their cargoes have existed in the UK since at least the 14th Century (Dickson and Steele 1984). Transactions tended to be conducted by individual brokers in coffee-houses, one of which was later to develop into Lloyd's of London. In 1720, London Assurance¹⁶ and Royal Exchange Assurance¹⁷ were granted royal charters to transact marine insurance. These charters ensured that the two firms had a virtual monopoly until 1824.

The need for the more formalised provision of fire insurance was triggered by the losses incurred in the Great Fire of London in 1666 (Cockerell and Green 1994). This led to the establishment of a number of 'fire offices', the first of which, the Phoenix¹⁸

¹⁶ Subsidiary of Sun Alliance from 1965

¹⁷ Merged with Guardian to form Guardian Royal Exchange in 1968

¹⁸ Subsidiary of Sun Alliance from 1984

was established in 1680. The Friendly Society¹⁹ (1683) and the Hand in Hand²⁰ (1696) followed. While these pioneering firms initially focused on the London area, the companies that followed²¹ such as the Sun Fire Office²² (1710) sought wider markets for fire insurance by appointing agents throughout the country and as the British Empire grew, throughout the world. As the 18th Century progressed, the fire offices insured an increasingly wider range of industrial, commercial and personal risks.

Despite a growing number of entrants, by 1800 the market was dominated by Sun, Phoenix and Royal Exchange. The increasing complexity and level of risk insured stimulated co-operation rather than competition between these three firms. Discussions in the 1820s led to a sharing of underwriting experience and then to the formation of a fire insurance tariff system, or cartel (Cockerell and Green 1994). By the 1860s this system of minimum premiums or tariff rates had been adopted by all the main fire offices and was being extended to other types of insurance, including life insurance.

The system of tariffs formally operated for over a century. In the late 1960s and 1970s increasing competition from non-tariff insurers and growing government opposition caused most tariffs to be abandoned, although the industrial fire insurance tariff survived until 1985 (Diacon and Carter 1992). The effect of the tariff system was to limit price competition and encourage a high degree of co-operation between insurers.

¹⁹ Traded until 1730

²⁰ Amalgamated with Commercial Union 1905

²¹ Including marine insurers Royal Exchange Assurance and London Assurance in 1721

²² Subsidiary of Sun Alliance from 1959

Government Regulation

Prior to the 1980s, much of the legislation governing the industry had its origins in the 19th and early 20th Centuries. The framework for the regulation and supervision of the life industry had been established by The Life Assurance Companies Act 1870. The Assurance Companies Act 1909 introduced a similar regulatory framework to fire and personal accidents insurance, and was extended in 1946 to include motor and other new insurance types. The Industrial Assurance Act 1923 restricted the transaction of industrial life insurance to a limited number of companies. Between 1946 and 1982, various Acts have adjusted or consolidated previous legislation rather than introduced radical change²³.

Summary

The provision of insurance products in the UK has a long history stretching back into the 16th Century. However, it was not until the mid 19th Century that it became a major industry. Growing collaboration between insurers, due to the increasing range of risks being underwritten, led to the formation of tariff or cartel systems in the early 19th Century. These systems remained in place until they were gradually abandoned in the 1960s and 1970s, although the last continued to operate until 1984.

Competition started to increase with the abandonment of the tariff system and the entry of unit trust companies into the long term market. However, prior to the 1980s

²³ The Insurance Companies Act 1958 amended requirements for accounting and auditing while the Companies Act 1967 increased solvency requirements. The Insurance Companies Act 1974 consolidated earlier legislation (Dickson and Steele 1984).

long standing inter-company relationships, strong professional and trade bodies and deeply rooted industry practices limited the impact of these changes (see also Knights and Wilmott 1993 and Diacon and Ennew 1996). A director of GRE, commented that the insurers would avoid making “unfriendly or hostile” competitive moves towards each other as “it wasn’t the done thing!” With little radical change in regulation, the environment faced by the insurers prior to the 1980s was passive.

The power of such industry groupings was significant even in the 1980s. For example when Scottish Equitable raised its commission rates for its agents, the Association of Scottish Life Offices expelled the insurer and the chief executive was forced to resign.

The Insurance Market in the 1980s and 1990s - Political, Economic and Social Factors.

During the last two decades, the UK insurance market has grown dramatically. Between 1980 and 1996, in terms of premium income, the long term market grew by 657%, and the general insurance market by 347% (see Figure 4 2c) (in real terms, 250% and 105% respectively - see Figure 4 2d). This section looks at the pattern and causes of that growth.

There is a direct relationship between the demand for insurance and national prosperity (Diacon and Carter 1992). As national income rises individuals engage in more activities and acquire more property (e.g. larger houses or cars). Firms increase capital expenditure and production. Consequently, the overall demand for general insurance increases. At the same time individuals are able to save more and invest in

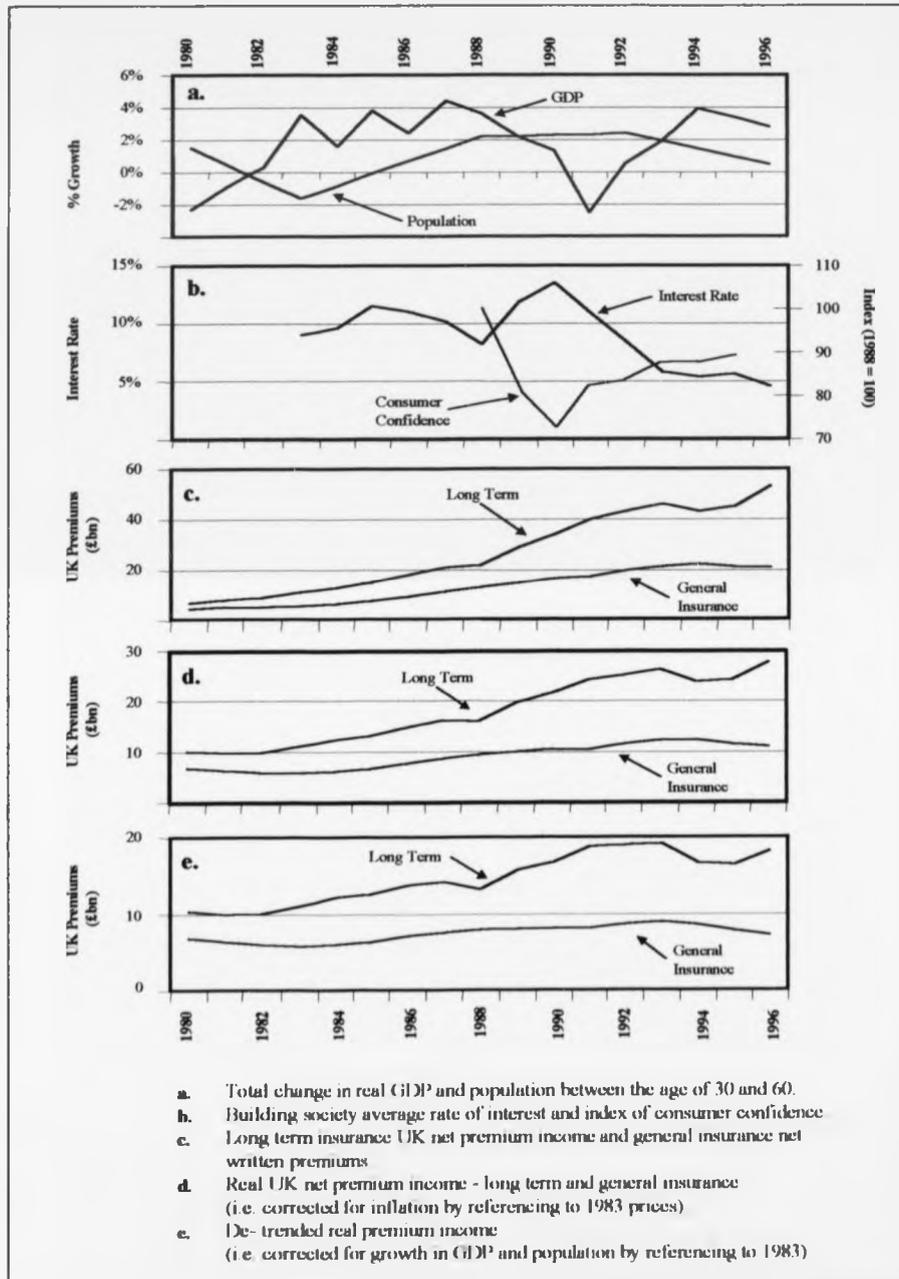
financial products such as long term insurance. Hence, an increase in the economic performance of a country will produce a proportionate increase in the demand for insurance (ibid).

There is also a direct relationship between demand and demographics (Diacon and Carter 1992). The larger the population the greater the insurable activity and the greater the demand for financial products such as pensions. This was particularly apparent during the 1980s and 1990s as the 1960s baby boomers reached adulthood, bought houses and other property and made provision for retirement. Figure 4.2a indicates that the number of people in the UK between the ages of 30 and 60, the group most likely to require insurance products, grew throughout most of the 1980s and 1990s, reaching a growth rate of over 2% between 1988 and 1992²⁴.

Adjusting, or 'de-trending' the general insurance net premium income in real terms, for the effects of UK economic performance and population changes, reveals that these two factors were the primary drivers for the growth between 1980 and 1996 (see Figure 4.2e)²⁵. De-trending the time series of long term premium income reveals that demand for long term insurance was also influenced by a range of other factors (see Figure 4.2e and Figure 4.3). These include changes in government regulation, taxation, and interest rates and in the level of consumer confidence.

²⁴ The post war and 1960s baby booms were followed by a period of low birth rate. This fall has led to concern regarding future funding of existing state and personal pension schemes and has been termed the pensions time bomb.

²⁵ Multiple regression analysis of the demand time series against the population and GDP growth gives R^2 values of 95% for general insurance and 91% for long term insurance.



- a. Total change in real GDP and population between the age of 30 and 60.
- b. Building society average rate of interest and index of consumer confidence
- c. Long term insurance UK net premium income and general insurance net written premiums
- d. Real UK net premium income - long term and general insurance (i.e. corrected for inflation by referencing to 1983 prices)
- e. De-trended real premium income (i.e. corrected for growth in GDP and population by referencing to 1983)

Based on data from ABI (1993 and 1998) and Bank of America

Figure 4.2 – Economic Indicators and UK Insurance Premiums

Between 1980 and 1996 there was a series of major changes in legislation which had a significant effect on demand for long term insurance. In 1984, the Finance Act removed tax relief on premium payments for new life policies²⁶. Although pre budget speculation led to a short-term increase in demand, the effect of the change was to reduce the attractiveness of life insurance as a form of savings (Cockerell and Green 1994). However, the continuing boom in the UK housing market and with it the requirement for life insurance linked to endowment mortgages, ensured continued growth in premium levels (*ibid*) (see Figure 4.3).

Perhaps the most significant changes in legislation occurred in 1986 and 1987. The Social Security Act 1986 and the Finance Act 1987 were both designed to encourage people to make provision for their own pensions (Diacon and Carter 1992). These Acts made two major changes. Firstly they allowed people to contract out of SERPS (the state earnings related pension scheme) and replace it with either a personal pension plan or an employers occupational scheme. Secondly, they allowed employees in company pension schemes to switch to other company schemes or to personal pension plans. The insurers responded by introducing and aggressively marketing a wide range of new pension products. Although delayed by the effects of the stock market crash of 1987, the result was a rapid growth in premium levels in the period 1989 to 1991 (see Figure 4.3).

Declining interest rates, low consumer confidence and further tax changes gave added stimulus to the boom in long term sales in the early 1990s. Interest rates fell from their 1980s level of around 10% to just over 5% between 1990 and 1993 (see Figure 4.2b).

²⁶ Although tax reliefs remain on the proceeds of qualifying policies and on pension policies.

Traditional savings accounts in building societies and other financial institutions ceased to be as attractive and many savers sought more tax efficient savings vehicles such as pensions, life insurance, unit trusts and personal equity plans - thereby increasing the insurers share of the UK savings market.

Low consumer confidence from 1989 onwards (see Figure 4.2b) led to a reduction in consumer spending and an increase in the propensity of the UK population to save. The ratio of savings to consumer spending in the UK rose from 5.6% to 11.5% between 1989 and 1992 - again leading to an increased demand for long term insurance products.

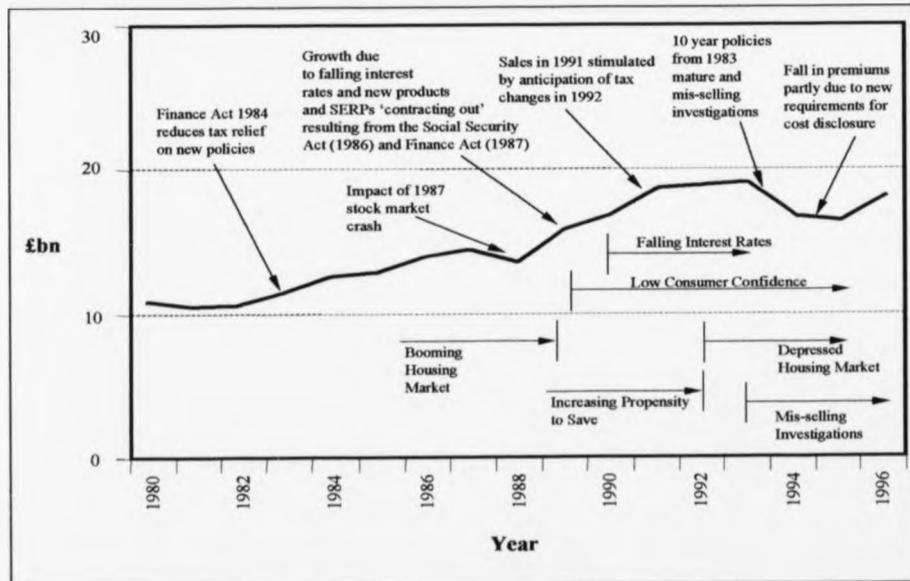
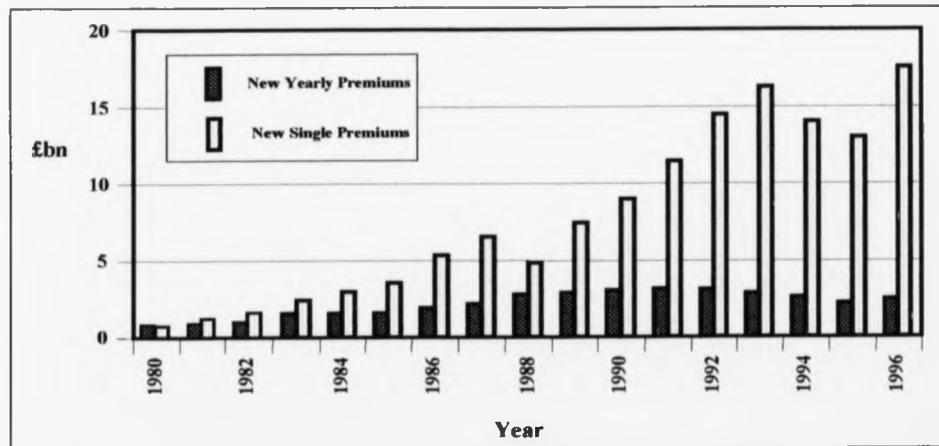


Figure 4.3 – Macro Influences on Long Term Insurance UK Premiums (*De-Trended Real Net UK Premiums)

The low level of consumer confidence also had a significant effect on the levels of new yearly and single payment premiums (see Figure 4.4). In particular, financial

insecurity made consumers increasingly reluctant to commit to long term policies and instead stimulated sales of single premium products²⁷.

The dramatic growth of the previous decade came to an end in 1993 as interest rates stabilised and the housing market slumped. In addition, following the publication in 1993 of a KPMG Peat Marwick report on pension transfers, the Securities and Investment Board (SIB) launched a series of investigations into the selling of personal pensions since 1988. The result has been an increasing number of highly publicised cases of ‘mis-selling’, although opinions vary on the culpability of pension providers and the extent of ‘mis-selling’. Irrespective of the blame, the episode has reduced the public’s confidence in the long term insurance providers and given a boost to the non-insurance providers of savings products (ABI 1998b) (see Figure 4.3 and 4.4).



Source: ABI (1993 and 1998)

Figure 4.4 – Long Term Insurance – New UK Premiums

²⁷ See annual reports of all 9 of our sample between 1992 and 1994.

A further cause of the slow down, in the view of many of the insurers, was the introduction in early 1995 of legislation requiring savings product providers to clearly disclose the expenses and commission linked to each product. It is argued that these requirements have increased the administration associated with each sale and hence have reduced the effectiveness of the sales process. This resulted in a reduction in new premium income in 1994, while they were gearing up for the change, and again in 1995²⁸.

Summary

Both the long term and general insurance markets showed considerable growth in the 1980s and 1990s. Demographic and economic growth over the period contributed significantly to this growth, particularly that of the general insurance market. The long term market has been highly turbulent, buffeted by a string of legislative and fiscal changes and regulatory issues.

The combination of high growth and significant macro environmental turbulence has placed considerable pressure on the established firms. They are faced with the problem of responding to environmental shocks while at the same time trying to cope with new competitors attracted by the high levels of growth. These pressures have been amplified by radical changes in the competitive landscape of the industry during the 1980s and 1990s.

²⁸ See Prudential accounts 1995

The Changing Competitive Landscape in the 1980s and 1990s

Over the 1980s and 1990s, the competitive landscape faced by the UK insurers has changed from being passive, even protective, to being intensely competitive and hostile. This change was the result of 'deregulation', the emergence of new competitors and changes in working practices resulting from advances in information technology. However, many insurers were slow to recognise what was happening as the effect of these factors was obscured by the macro influences discussed above and by a growing investment income (see Table 4.1). The periodic rise and fall of general insurance profits, known as the insurance cycle (see below), further masked their impact on firm profitability. This section looks at how the industry structure developed over the 1980s and 1990s.

£bn	1989	1990	1991	1992	1993	1994	1995	1996
General	25	25	27	30	34	33	32	31
Long Term	36	40	47	52	55	53	56	67
Total Premiums	61	65	74	82	89	86	88	98
Invested Funds	333	309	363	431	541	546	643	690
Investment Income	19	20	23	25	26	27	34	38

Source: Association of British Insurers

Table 4.1 – The UK Insurance Industry – Worldwide Net Premiums and Investments (1990-1996)

Falling Entry Barriers and New Entrants

Until the 1980s, the insurance industry operated within a framework of government regulations and industry practices that effectively protected it from outside competition. Regulation had changed little since the late 19th and early 20th Centuries.

Competition began to increase in the 1970s with the entrance into the insurers traditional market of unit trust companies and the ending of the tariff system. However, rivalry between firms was still relatively subdued. Consequently, the fundamental changes seen elsewhere in the UK economy in the late 1970s and early 1980s were not initially replicated in the UK insurance industry.

While there were earlier signs that change was coming, it was the Financial Services, Social Security and Building Societies Acts of 1986 that really signalled the end of this passive environment. This series of legislation, although described as 'de-regulation', re-regulated the financial services industry (Pettigrew and Whipp 1991). The effect was to remove many of the barriers to entry for non-UK companies and non-financial services firms, as well as allowing established financial services firms to expand into parallel sectors. The insurance industry was initially generally dismissive of the implications of the new Acts, feeling that any new entrant would lack the infrastructure and insurance expertise to be a serious threat.

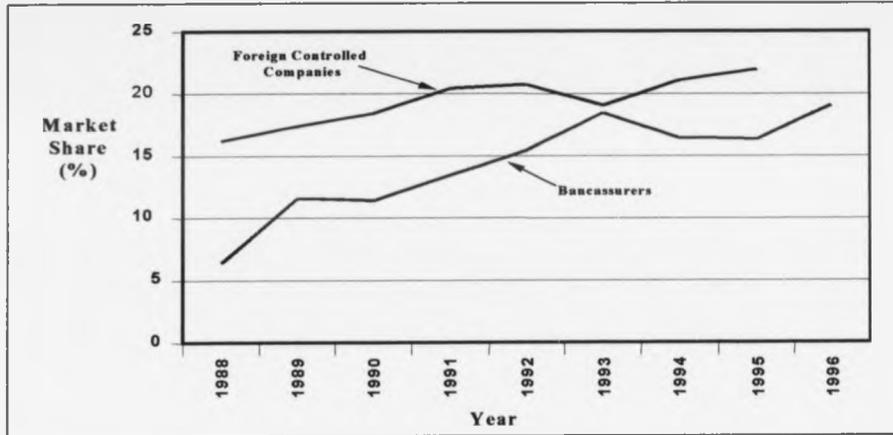
The industry was also initially dismissive of Direct Line, a subsidiary of The Royal Bank of Scotland, formed in 1985²⁹. Based on the then innovative concept of selling general insurance via the telephone, Direct Line side-stepped the need for the large chain of brokers or sales force that traditional insurers had thought essential to marketing and servicing insurance products. The increasing acceptance by customers of telephone-based distribution (see Figure 4.6) and the failure of many insurers to respond until the early and mid 1990s resulted in the dramatic growth of Direct Line. By 1995, the company was the largest motor insurer in the UK.

²⁹ Interview with ex-director of Prudential and a director of GRE.

The growth of direct distribution increased the pressure on brokers and other intermediaries, a group traditionally viewed as the customer by the insurers. The larger of these intermediaries increased the pressure on the insurers to provide more attractive products and pricing and in some cases began to offer their own insurance products. In addition, early attempts by the insurers to counter Direct Line's success by selling insurance directly via car manufacturers or by establishing telephone based operations themselves were fiercely resisted by the major brokers³⁰.

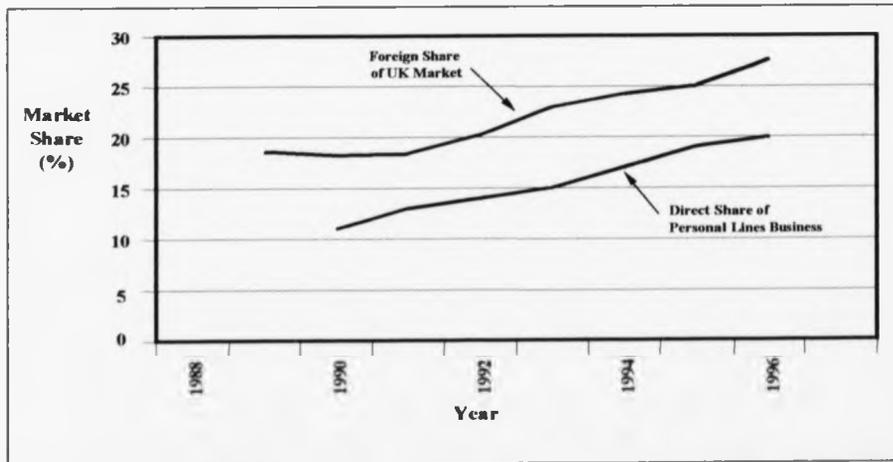
The recognition that customers would accept new distribution channels combined with the realisation that insurance expertise could be acquired, often via joint ventures with the traditional insurers, had by the mid 1990s, removed any remaining barrier to entry. By 1996 new entrants in the form of banks and building societies ('bancassurers'), global brands (e.g. Virgin) and even the multiple chain food retailers had entered the market for both general and long term products (see Figure 4.5 and 4.6). The result of this growth in competition was to put pressure on premium rates and therefore income.

³⁰ Interviews with two group directors of GRE



Source: ABI (1998)

Figure 4.5 – Market Penetration by Foreign Insurers and Bancassurers (Long Term Insurance)



Source: ABI (1998)

Figure 4.6 - Market Penetration of Foreign Insurers and Direct Distribution (General Insurance)

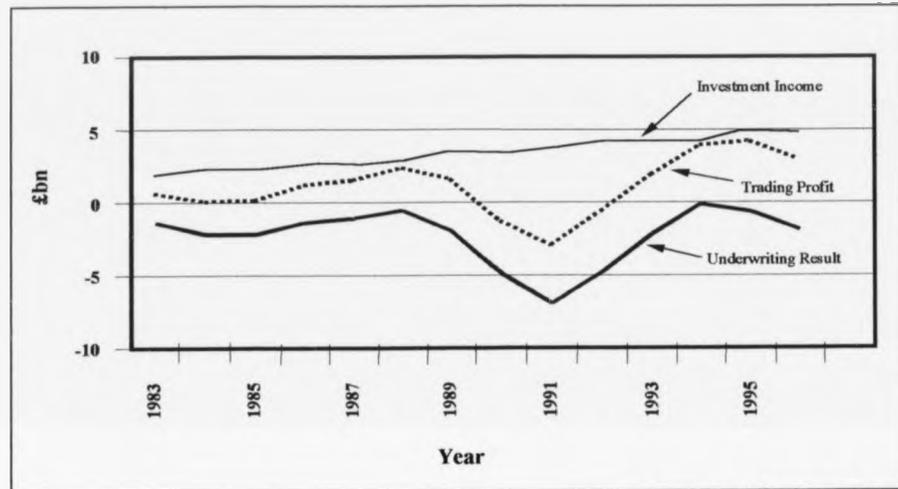
Rising Claims and the Insurance Cycle

On the general insurance side rising claims produced a worrying trend for the insurers. The level of liability awards and the size of claims following natural or man-made disasters had continued to grow. With competition restricting premium rates, the impact of any error in a firm's underwriting became far more significant.

The financial performance of the industry was also significantly affected by the insurance cycle (see Figure 4.7). The insurance cycle or underwriting cycle is the tendency for general insurance premiums, insurer's profits and the availability of coverage to rise and fall with some regularity over time (Rubin 1995). The cycle starts when premium prices rise sharply after a period of underwriting losses. These higher prices bring increased profits, which in turn attract more capital and hence raise the industry's underwriting capacity. Insurers compete to fill this capacity, driving prices down, eventually leading to losses before a new cycle starts. Cycle periods are between 5 and 10 years, although they vary between countries and types of insurance (see Lamm-Tennant and Weiss 1997).

During the 1980s and 1990s, lows in the insurance cycle occurred in 1984/85 and 1990/91 with highs in 1988 and 1994/95 (see Figure 4.7). The bottom of the insurance cycle in 1990/91 was far deeper than in the past due to the rising level of claims, pressure on premium prices and the coincidence of a dip in UK economic performance. In 1991 claims and costs exceeded premiums by 34% and in 1992 by 18% (Economist 1992). The resulting slump in the financial performance of our sample is clearly demonstrated in Figure 4.8. General insurance profits improved

between 1992 and 1995 as prices were increased and risk profiles reduced after the slump. Profit levels started to decline again in 1996.



Source: ABI (1993 and 1998)

Figure 4.7 – General Insurance Underwriting and Investment Performance

The Response of the Insurers

We can conclude that at the beginning of the 1990s the UK insurance industry was facing a new competitive landscape and challenges to its traditional practices and structures. However, as our interviewees identified, most of the insurers were slow to recognise what was happening and respond. A director of Prudential in the 1980s and early 1990s, described the insurers as being “frozen in time” and “believed the industry to be in a solid state where there were no great threats”. The 1990s have seen the insurers struggling to adapt as they finally began to confront their changed environment. Significant actions were, in some cases, further delayed by the slump in performance in 1990/91.

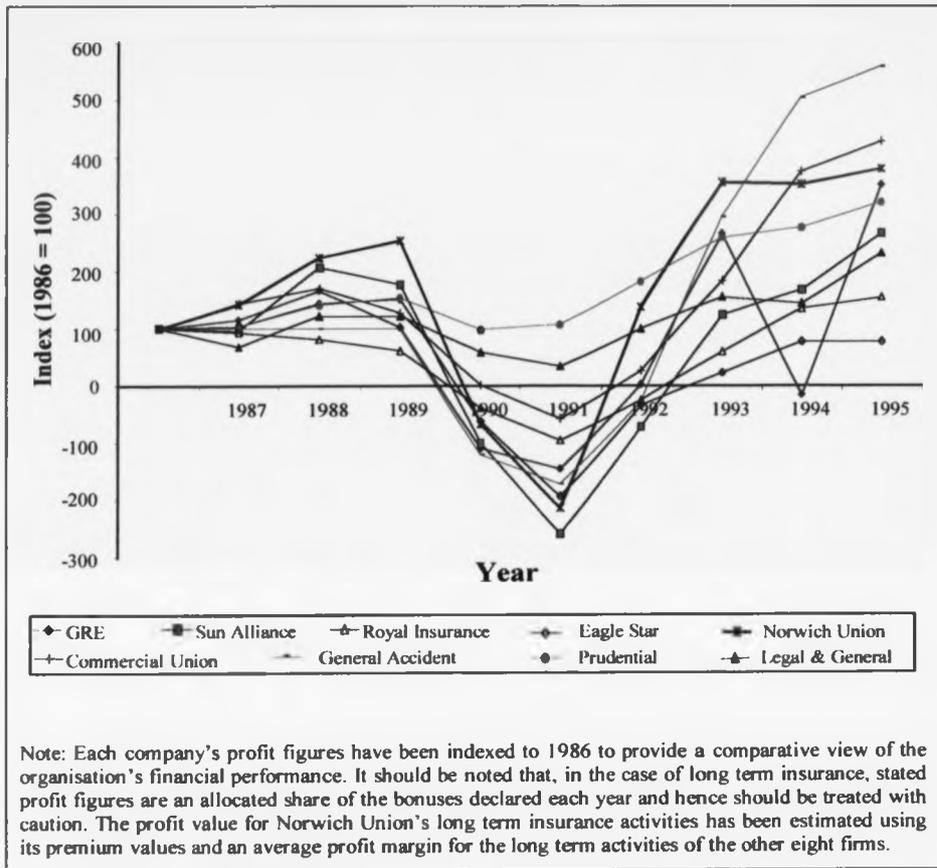
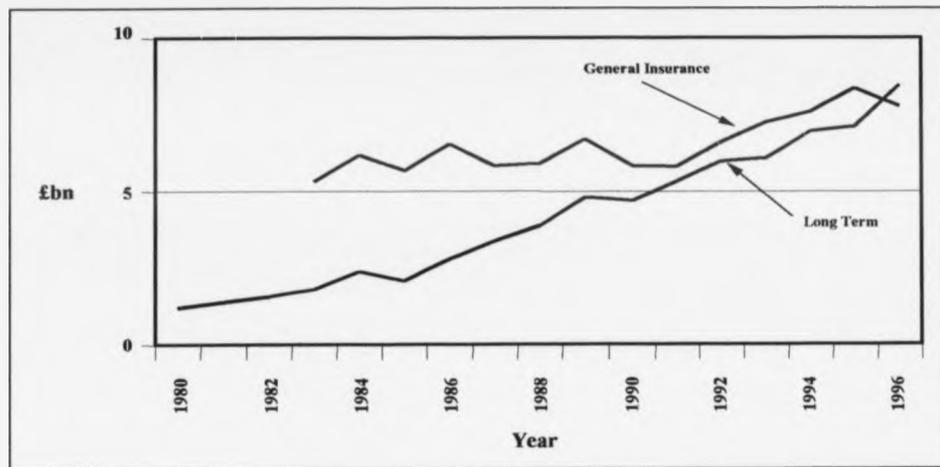


Figure 4.8 – Financial Performance of the Sample

The response when it came was to cut costs³¹ while at the same time attempting to diversify geographically (see Figure 4.9). The rise of direct distribution both for long term and general products required the insurers to enter new distribution channels and to learn new skills and create systems that focused on the end customer rather than on the intermediary³².

³¹ Between 1991 and 1996 the number of people employed in the UK insurance industry fell from 246,000 to 200,000.

³² Interview with a director of GRE



Source: ABI (1993 and 1998)

Figure 4.9 – Overseas Real Net Premium Income of UK Insurers

The continued expansion of the role played by information technology has had a dramatic effect on traditional working practices. The computerisation of claims handling and policy servicing has enabled significant cost cutting via a reduction in staff levels as well as improving customer service.

From the early 1990s there was a growing desire to achieve 'critical mass' to gain economies of scale and ensure access to funds. This has generated increasing speculation that there would be industry consolidation via take-overs and mergers. This speculation proved correct with the merger in 1996 of two of the UK's largest insurance firms, Royal Insurance and Sun Alliance. Others have subsequently followed this move³³. The desire to gain critical mass has also led to an increasing number of mutual companies opting to become publicly quoted, either by merger with

³³ General Accident and Commercial Union merged in 1998.

other insurers (e.g. Scottish Amicable) or by becoming an independent proprietary insurer (e.g. Norwich Union).

Towards the end of the study period continual escalation of the definition of critical mass shifted from a national to a global scale. However, a comparison of the relative sizes of the UK's largest insurers and of the major foreign players suggests that the UK insurers were at a disadvantage in terms of size (see Table 4.2). By 1996, such global foreign insurers were emerging as potential predators in the UK takeover market³⁴.

Global Company	Country	Market Capitalisation (1996) (\$bn)	UK Company	Market Capitalisation (1996) (\$bn)
AIG	USA	47.3	Prudential	13.4
Allianz	Germany	40.5	Royal Sun Alliance	9.7
ING	Netherlands	24.2	Norwich Union ³⁵	-
Allstate	USA	21.9	Commercial Union	6.4
Muenchener	Germany	19.4	Legal & General	6.2
Generali	Italy	18.8	General Accident	5.1
Cathay Re	Taiwan	16.9	GRE	3.6
Swiss Re	Switzerland	15.7	Eagle Star ³⁶	-
Aegon	Netherlands	13.2		
Zurich	Switzerland	12.8		
Axa	France	11.7		

Source: FT (1997)

Table 4.2 – The World's and The UK's Largest Insurance Companies

³⁴ In 1998/99, Zurich acquired BAT's financial services operations, including Eagle Star and Axa acquired GRE.

³⁵ Norwich Union was a mutual company until 1997 and hence not quoted on the stock exchange

³⁶ In 1996 Eagle Star was a subsidiary of BAT and not quoted separately.

Summary

The structure of the UK insurance market has been severely disrupted. Traditional barriers to entry provided by government regulation, access to distribution channels and technical know-how have been eliminated or side-stepped. This has allowed more innovative and/or deep-pocketed new competitors to enter the market.

The rise of direct distribution increased customer power. Intermediaries responded by increasing the pressure on the insurers to provide larger discounts. With greater choice of distribution and more providers, the customer was able to more easily compare prices and switch between insurers.

In long term insurance, the increasing availability of alternative savings products and the reduction of the tax advantages favouring the traditional products has eroded the boundary between the long term insurance market and the wider financial services and personal savings sectors. This has dramatically widened the range and diversity of competing firms.

With its traditions of stability and co-operation, the insurers have been slow to recognise the changing nature of their industry. The impact of this industry change has also been obscured by rapidly growing investment income and the periodic fluctuations of performance that have been a feature of the industry. However, the insurers have now begun to respond and rivalry between firms has grown. Reactions have typically focused on international expansion and on increasing efficiency. While initially attempts to become more efficient focused on staff and branch cuts, more

recently the emphasis has switched to trying to gain critical mass to gain economies of scale via mergers and acquisitions.

A Hypercompetitive Environment?

Over the last three decades, several management researchers have contrasted stable and turbulent environments. Each has defined the degree of turbulence in relation to a number of environmental dimensions.

Emery and Trist (1965) suggest that a turbulent environment is characterised by a high degree of change and a high level of interconnectedness between the environment and the firm. Lawrence and Lorsch (1967) define the environment in terms of the diversity and interconnectedness of factors influencing the firm and the degree to which these factors can be perceived and predicted.

Khandwalla (1977) provides a more extensive list of dimensions, arguing that an environment is turbulent if it is dynamic, unpredictable, fluctuating and expanding. Ansoff and McDonnell (1990) highlight the changeability and predictability of the environment. Changeability is defined in terms of the complexity of the environment and the novelty of the challenges faced by the firm, while predictability by the rapidity of change and the “visibility of the future” (ibid).

Volberda (1998), echoing these earlier writers, develops a ‘scorecard’ of turbulence based on dynamism, complexity and unpredictability. Dynamism is defined in terms of the intensity and frequency of change. The number and diversity of factors driving

change and the interrelatedness of such factors determine complexity. Unpredictability is assessed in terms of the availability of data concerning future developments, the degree to which current trends are identifiable and the extent to which the future can be extrapolated from past trends. Volberda suggests that all three dimensions should be considered simultaneously.

The application of Volberda's (1998) approach to the analysis of the environment faced by the UK insurance firms in the 1990s is illuminating.

As we have seen, prior to 1980, the competitive environment faced by the UK insurers was relatively stable, but during the 1980s and 1990s it became increasingly dynamic as the intensity and frequency of change grew.

With the advent of new competitors and products, new regulation and the development of new distribution methods the number and diversity of factors the insurers have to consider has grown significantly. These factors have become increasingly interrelated as the distinction between product types has continued to blur, particularly in the case of long term insurance. Hence, the level of complexity of the environment has increased.

As we saw in our analysis of the macro influences on the insurance industry, demand for insurance was partly determined by factors for which forecasts can be made. However, the demand for long term insurance has also been shaped by a number of other factors whose effects, particularly in combination, are far less predictable. On the general insurance side, while demand has remained predictable, the level of claims

was highly unpredictable, influenced as it is by single events, for instance the hurricane of 1987, the severe storms and flooding of 1990 and terrorist activity (e.g. 1992, 1993 and 1996).

Prior to the 1980s the insurers were highly connected and well known to each other. Industry and internal firm information was widely shared among competitors³⁷ and competitive moves were well signalled and predictable. The unpredictability of the competitive environment had increased greatly by the 1990s. However, the growing rivalry between traditional firms reduced the amount of information that was shared, while new entrants often had new and different business practices and did not follow established industry norms.

The competitive environment faced by the UK insurance industry has therefore moved over the 1980s and 1990s from being one of stability, to being one of considerable turbulence, scoring highly on all three of Volberda's (1998) dimensions. Volberda (1998), following D'Aveni (1994), describes such intense turbulence as hypercompetition.

D'Aveni (1994) defines a hypercompetitive environment as being in a market in a constant state of disequilibrium or turmoil, where competition is intense and 'competitive advantages are not sustainable for long'. He argues that in such an environment the traditional sources of competitive advantage – cost and quality, timing and know-how, barriers to entry and deep pockets – are quickly eroded or bypassed. This description closely fits the UK insurance industry in the 1990s. As we

³⁷ Interview with a group director of Prudential

have seen, previous advantages based on underwriting and actuarial know-how and barriers to entry resulting from regulation and access to distribution have disappeared. The advantage of deep pockets has also been curtailed as larger, deeper pocketed banks and foreign insurers have entered the market. The cost and quality of products or the speed of introduction of new variants can only provide short-term advantage before imitation occurs³⁸.

Despite this manifestly hostile environment, some of the major UK insurers such as Prudential, General Accident and Commercial Union have increased their market share of new premium income in the long term sector over the 1990s³⁹ (see Figure 4.10). However, for others, Legal & General, Norwich Union, Royal Insurance and GRE market share has declined (see Figure 4.10). In the general insurance sector, the market share of General Accident and Commercial Union has also increased⁴⁰. The differential performance of the firms in our sample indicates that some coped more effectively with the increasingly hypercompetitive environment than others.

According to D'Aveni (1994) successful firms in hypercompetitive environments will be those that can string together temporary competitive advantages. Leading firms will constantly attempt to disrupt their market by rapidly adopting new strategies and forcing their competitors to respond. These firms will move on quickly as each advantage becomes unsustainable. This view closely matches Schumpeter's (1934)

³⁸ A group director of GRE, pointed out that the advantage stemming from new product variations lasts until the next visit of a salesman from a rival insurer.

³⁹ In the early 1990s both analysts and the stock market has tended to value life insurance more highly than general insurance. Consequently, insurers have looked to increase their life insurance activity (Cockerell and Green 1994).

⁴⁰ Prudential consciously reduced its general insurance activity after 1990 (Interview with an ex. CEO, of Prudential).

concept of 'creative destruction' and the thinking of the Austrian school of economics (Hayek 1949 and Jacobson 1992).

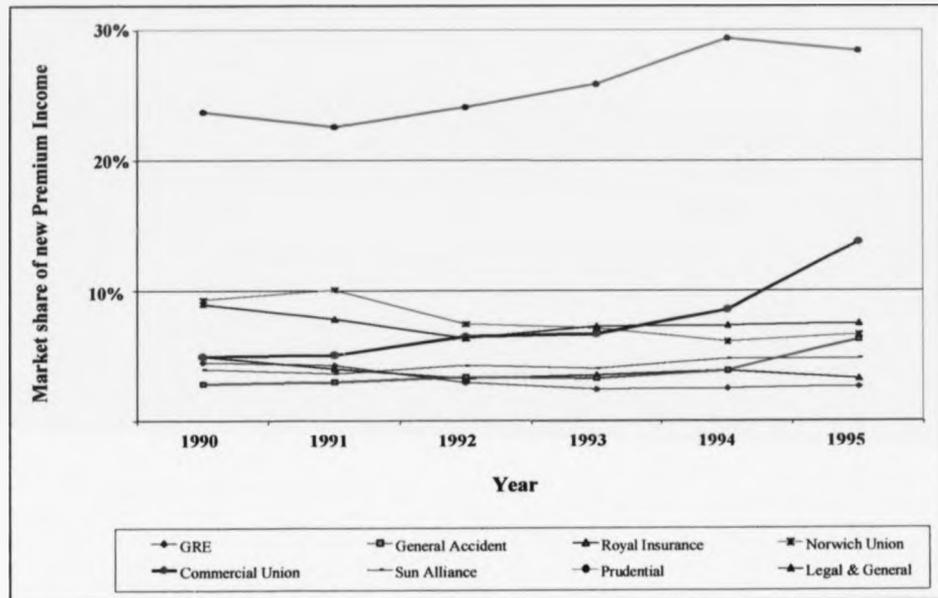


Figure 4.10 – Market Share of New Long Term Premium Income⁴¹

The Austrian school contends that firms earn profits through entrepreneurial discovery and innovative strategies. However, competitors will move to imitate new strategies and hence above average profits will be only temporary (Jacobson 1992). This dynamic view of competition suggests that firms who attempt purely to maintain their present position will be doomed, while high performing firms will be those who can recognise and effectively exploit temporary advantages as they occur. As Jacobson (1992) suggests, lead time is more important than erecting competitive barriers. Kanter et al (1992) and Volberda (1998) make a similar point, arguing that firms must

⁴¹ New premium income has been calculated by taking 100% of new yearly premiums and 10% of new single premiums. This measure is known as Annual Premium Equivalent and is the industry standard measure.

be flexible in order to respond in a timely manner to the wide variety of changes in the competitive environment.

The ability of Prudential, General Accident and Commercial Union to respond more effectively to the hypercompetitive environment they faced suggests that they were able to exploit temporary advantages. We would expect these firms to be quicker at introducing new strategies, which would then be imitated by others. So, is there evidence to support this proposition? It is this issue that we will explore in our next chapter where we describe the results of the mapping and analysis phase of our study.

Chapter 5

Patterns of Strategy in the UK Insurance Industry

Introduction

This chapter describes the strategic initiatives realised by our sample of nine insurance firms between 1990 and 1996. The results of our mapping and statistical analysis (as outlined in chapter 3) are considered and a number of consistent early and late adopters of strategic initiatives identified.

The chapter is divided into nine sections. After this brief introduction, the second section compares the models of strategic change that appear within previous academic writing on insurance companies. The third section describes the 'in firm' patterns of strategy initiatives for each of the nine firms in our sample. The fourth part discusses these observed patterns and compares them with those detailed in the previous literature on the industry. In section five the focus switches to the cross industry patterns of strategy observed, while section six describes the results of the cross correlation analysis and highlights the support provided by our interviews. Section seven uses the time varying cross correlation analysis and the interview data to demonstrate how the speed with which two of the insurers adopted new strategic initiatives, their strategic agility, the speed at which they adopted new strategies, varied over time. The penultimate section draws on the innovation diffusion literature described in Chapter 2 to discuss the findings. The final section is a short summary of the chapter.

Previous Research and Contrasting Models of Change

As we saw in Chapter 4, the last decade witnessed the UK's traditional insurers being forced to respond to an increasingly turbulent business environment. However, despite the severity of the turbulence and the presence of several research groups that focused on the industry (e.g. Nottingham's CRIS¹ and Edinburgh's CFMR²) there has been little management research into the strategic response of the insurance companies. Hardwick (1994 and 1997) highlights this point in his study of the cost efficiency of UK insurers, expressing surprise at the lack of research on the strategic and organisational issues that affect the UK's financial services sector and the insurance industry in particular.

Database searches of Lexis Nexis, ABI/Inform and BIDS confirm this lack of academic research. A key word search of the BIDS database indicates that the emphasis to date has been on financial (e.g. Armitage and Kirk 1994) and macro economic issues (e.g. Dimson and Marsh 1997 and Hardwick 1997) and to a lesser extent on marketing and sales (e.g. Fletcher and Wright 1997 and Stone et al 1997). A search of the BIDS database for the period 1986 to 1999 shows that of the 7500 articles³ that mention insurance in their title or abstract only 37 relate to the strategies pursued by insurers.

¹ Centre for Risk and Insurance Studies

² Centre for Financial Markets Research

³ The figures for the search of the BIDS database are used here, as its coverage is more restricted to academic journals. ABI/Inform and Lexis-Nexis provide a greater number of articles however in both cases this literature is sourced from newspapers and trade journals.

In Chapter 2 we contrasted static and dynamic views of strategy content and argued that a static or stable equilibrium perspective heavily dominated research in this area. While this bias is replicated within the work that focuses on the insurance industry there are a small number of studies that recognise strategic change. This more dynamic work can be further categorised as research which adopts a punctuated equilibrium model of change and that which assumes continuous change (see Chapter 2 and Figure 2.1, also see Weick and Quinn 1999).

Fiengenbaum and Thomas (1993 and 1995) describe an empirical study of strategic groups in the US insurance industry between 1970 and 1984. As we discussed in Chapter 2, this study attempts to define strategic groups during periods of stability and then investigate changes in group composition and strategy between stable periods. Fiengenbaum and Thomas (1993) hypothesise that within each strategic group there will be a high level of consistency in strategic direction and that the group which is able to change its strategic variables most during transition periods will be the highest performing. Using a cluster analysis they identify three stable strategic groups – diversified (composite), focused life (or long term) insurance and focused personal lines (or personal general) insurance. Regression and correlation tests are then used to demonstrate that the diversified group undertook the highest number of strategic changes and performed better than the other two strategic groups.

Grundy (1993 and 1995) infers a similar punctuated equilibrium model in his study of strategic change within a division of Prudential. Effective strategic change is envisaged emerging from a rational and linear planning phase followed by a short and

sharp period of change. Grundy (1993) cautions that piecemeal and incremental change is likely to falter.

The model of change proposed by Grundy and Fiegenbaum and Thomas suggests that in mapping the strategies of our nine UK insurance companies over time we should observe periods of stability during which the size and geographic and product scope of the firm change little or remain the same. These periods will be interrupted by periods of major change during which there are numerous strategy initiatives. Romanelli and Tushman (1994) indicate that transition periods are usually completed within a two year period, although describe outlier companies where the period was as high as four to five years.

Tushman and Romanelli (1985) and Sastry (1997) suggest that as the environment changes, the strategic orientation that the firm requires to maximise performance will also change. However, inertia or resistance to change will impede the firm from making all but minor and incremental change to achieve a greater consistency between internal activities and the strategic orientation (Tushman and Romanelli 1985). As the competitive environment continues to change the 'required strategic orientation' increasingly differs from the actual strategic orientation of the firm and the pressure for radical change grows. Eventually, this pressure overcomes the inertia and the organisation re-orientates in an attempt to regain fit with the environment (Sastry 1997).

An alternative model of strategic change in the insurance industry is provided by both Knight and colleagues (Knights and Murray 1992, Knights et al 1993 and Knights and

Morgan 1995) and by Pettigrew and Whipp (1991). For these researchers, an organisation's strategy is in a state of constant flux due to the constantly changing influence of the internal and external environment.

Knights and colleagues provide an overview of strategy in the UK insurance industry and describe a case study of a small long term insurance firm in the south east of England between 1986 and 1990. They suggest that the UK financial services sector was slow in adopting the 'discourse and practices of strategic management'. These methods finally began to be utilised during the 1980s. However, Knights and Morgan (1995) show that the strategic commitments generated by these practices were often quickly abandoned to meet short term sales targets or the demands of politically influential managers or departments (Knights and Morgan 1995). Consequently, strategic initiatives were often panicky and reactive with no clear underlying pattern.

Knights and Morgan (1995) suggest that the development of strategic management was uneven across the UK insurance industry. While some firms acted in a similar manner to their case study company, others were more committed to the strategic management approach and hence were more consistent in their actions. Consequently, within our study we would expect to observe a variety of patterns of strategy ranging from stability to discontinuous random change.

Pettigrew and Whipp (1991) provide an alternative view of strategic change in Prudential which is in marked contrast to that of Grundy's (1993). This detailed case study of the company in the 1970s and 1980s formed part of a wider study of strategic change in UK companies (see Chapter 2). Based on their research findings, the

authors argue that 'fundamental changes are less achieved through revolutionary upheavals than along an opposite path; one of long term, cumulative progressive synthesis' (Pettigrew and Whipp 1991). An organisation will attempt to continually adjust its strategy both as the demands of the environment change and as the interplay between the internal and external context of the firm evolves.

Thus, in the face of the apparent hyperturbulent environment of the 1990s, Pettigrew and Whipp's research suggest that the pattern of strategic initiatives implemented by our nine insurance firms should be one of constant flux.

We are therefore presented with two models of change by the insurance industry literature, which imply differing patterns of strategic change over time. On the one hand, a punctuated equilibrium model as proposed by Fiegenbaum and Thomas (1993) and Grundy (1993) suggests a pattern of stability interrupted by short periods of dramatic change. On the other, the work of Knights and colleagues and Pettigrew and Whipp (1991) indicate that our mapping should show patterns of constant change throughout the study period.

Figure 5.1 contrasts these two predicted patterns with the horizontal bars representing strategic initiatives plotted against time for a single company. Each of the vertical 'bar codes' represents a schematic 'event history' of the strategic initiatives a firm may implement over time. Each event is represented by a single horizontal bar, with different shading indicating different types of strategy. As the figure shows for the punctuated equilibrium model we would expect to observe marked changes in the frequency with which strategy changes occur, with observable periods of considerable

activity interspersed by more stable periods. In contrast the continuous change model predicts that the frequency of change will be reasonable consistent through out the sample time-period.

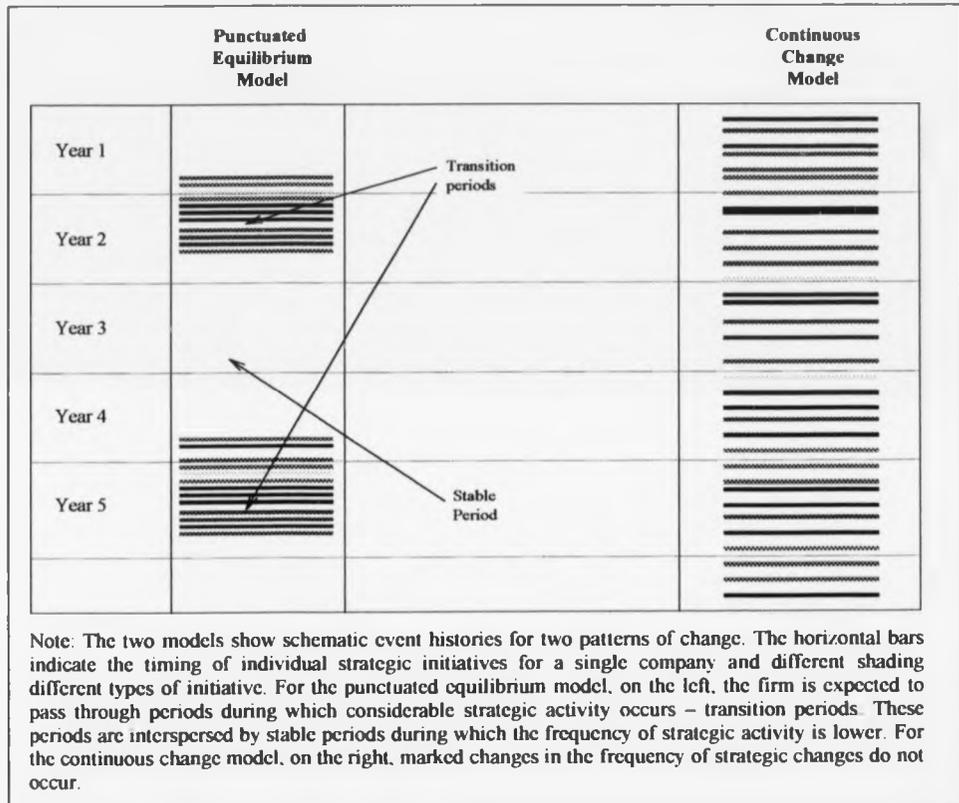


Figure 5.1 – Alternative Patterns of Change

In the following section we will describe and map – in a similar manner to figure 5.1 (see Figures 5.2 to 5.10) - the strategy initiatives implemented by each of the nine firms in our sample and determine which of these two patterns more accurately describes the sequences observed.

The Strategic Initiatives of the Sampled Firms

Prudential

Prudential is the largest insurance company within the UK and is ranked among the world's top 10 insurers. Prudential is a publicly quoted company and provides both long term and general insurance, with general insurance accounting for 17% of annual premiums in 1990. It was founded in 1848 as an 'ordinary' life insurer, however, in 1854, it began to provide industrial life insurance and it was through this activity that the company gained prominence. The company continued to sell 'ordinary' long-term products and since the 1950s, 'ordinary' business has been the larger contributor to premium income.

The 1980s saw Prudential undertake a series of expansionary moves both in terms of product diversification and geographic expansion. These initiatives included the acquisition of its US subsidiary, moves into Western Europe, and the establishment of an estate agency chain of over 800 offices. However, the property market slump from 1989 onwards brought into question the value of the estate agency chain.

The 1990s opened with the appointment of a new group CEO, Mick Newmarch, with Brian Corby, the previous incumbent, taking over as chairman. After initial moves to rationalise the company's investment division (PPM), the focus of attention shifted to the estate agency chain. An initial decision to close around 20% of the estate agency branches in mid 1990 was followed by an announcement at the end of that year that the remaining offices were to be sold. 1990 also witnessed the beginning of a major

restructuring of the company's direct sales force to shift the emphasis away from door to door selling and cash collection towards sales through financial advisers and premium payment via direct debit.

While downsizing was evident during 1991 and at the beginning of 1992, in general a more strategic approach was taken by retreating, or downscoping, from what the company perceived to be non-core activity. Its general insurance operations, broker business and commercial lines were cut back significantly. There was also a shift away from European expansion towards regional growth in the USA and expansion in South East Asia.

The move away from door to door sales and cash collection, and expansion in the USA and South East Asia continued in 1993 and 1994.

At the beginning of 1995, Newmarch resigned following continued disagreement with the industry regulatory authority, and was replaced as CEO by Peter Davis. Shortly afterwards, the group was restructured to a geographic divisional arrangement to emphasise the importance of the US and Asian operations. In 1996, plans were announced to set up telephone banking and mortgage operation by the end of the year. To date this move has proved highly successful (Times 21st July 1999).

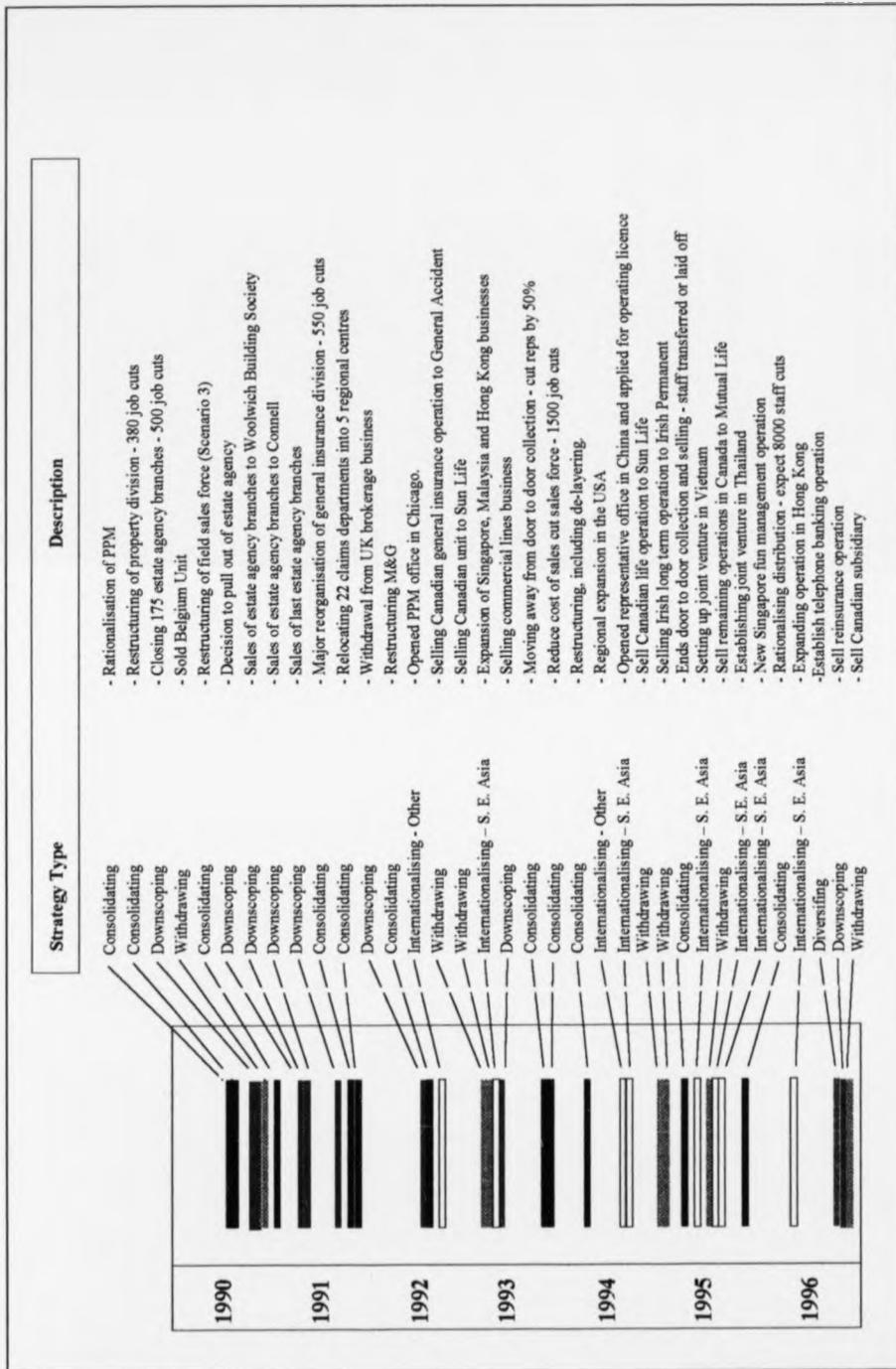


Figure 5.2 – Summary of Strategic Initiatives 1990 to 1996 - Prudential

Norwich Union

Norwich Union is unique among the sample in that it is a mutual company, i.e. owned by its policyholders. In addition, it also differs in that its Chief Executive, Alan Bridgewater, occupied that position throughout our study period.

Norwich Union was formed in 1797 as a fire office. A life company selling ordinary life assurance was formed in 1808. The fire office was briefly a subsidiary of Phoenix between 1919 and 1925, before it was recombined with the life office. In 1990, general insurance business accounted for 31% of premium income.

Unlike the Prudential, Norwich Union continued the expansion of the 1980s into 1990, with developments in Europe and the establishment of a direct sales force for its life and pensions operation and of Norwich Union healthcare insurance. This expansionary period extended into 1991, with the setting up of a second “dual” headquarters in Sheffield, in addition to the existing Norwich base. However, there is evidence of a dramatic change towards the end of 1991, with the first phase of a series of redundancies and other cost cutting actions taking place. These actions continued through to the start of 1995.

In 1994, the industry regulator fined Norwich Union for ‘miss-selling’ pension products and the company suspended its entire life and pensions sales staff for retraining. Shortly after this action, the general manager of life and pensions was replaced and the direct sales force was halved and restructured.

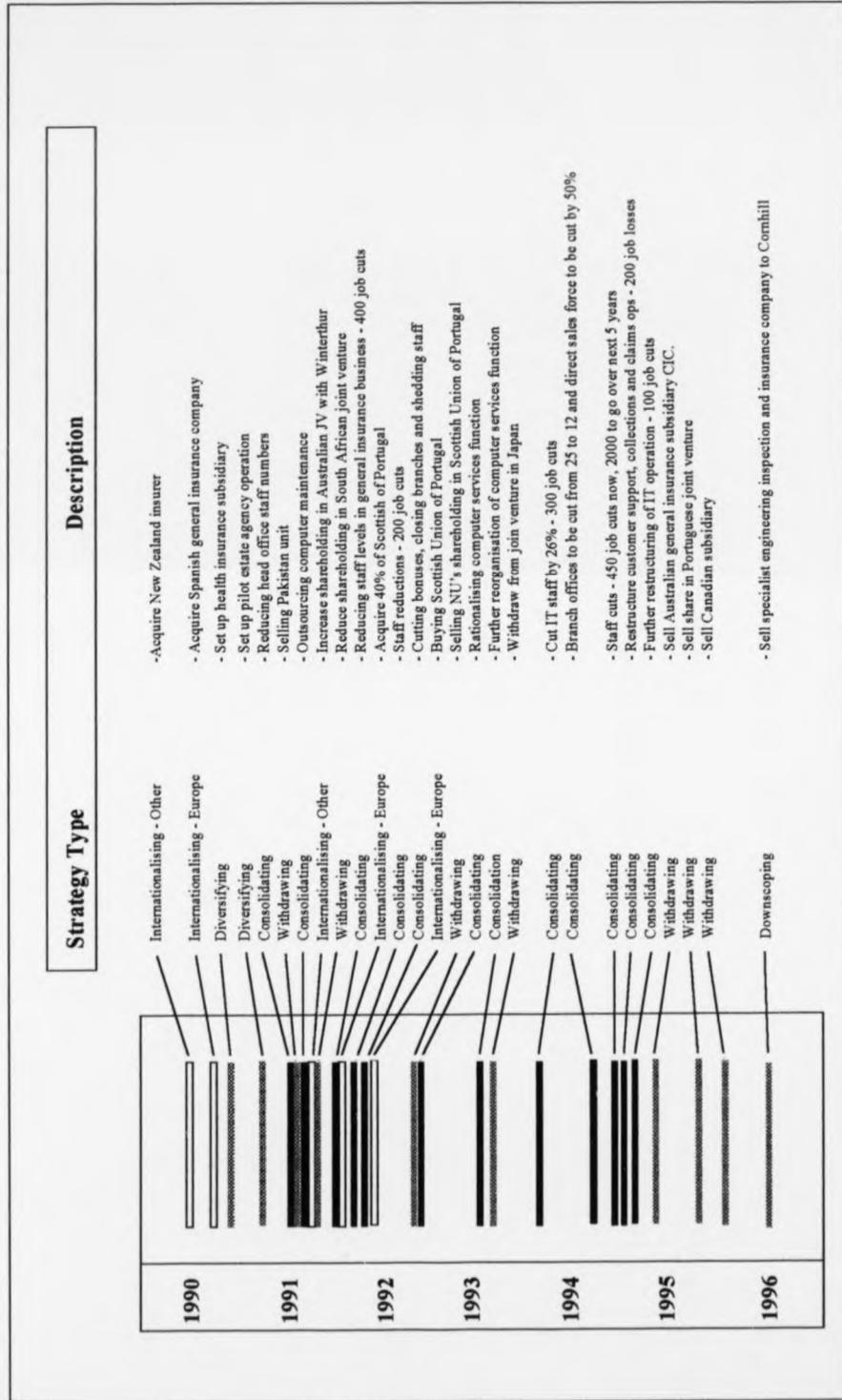


Figure 5.3 – Summary of Strategic Initiatives 1990 to 1996 – Norwich Union

The beginning of 1995 saw the establishment of a telephone direct selling joint venture with Virgin, which operated until the end of the year. Norwich Union subsequently established its own direct operation at the beginning of 1996.

Towards the end of 1995, the company announced that it was considering abandoning its mutual status by flotation on the stock exchange. This 'demutualisation' occurred in 1997.

Eagle Star

Eagle Star provides an example of a third type of ownership, being part of the UK conglomerate BAT. The company was formed in 1904 as British Dominions. After a series of amalgamations, including the Eagle Insurance Company in 1916 and Star Life in 1917, the company assumed the name of Eagle Star in 1937. It was acquired by BAT in 1983. In 1990, general insurance accounted for 63% of company's premium income. BAT also owned Allied Dunbar, another large British insurer. However, it was not until the mid 1990s that the conglomerate began to merge Eagle Star and Allied Dunbar.

The period 1990 to 1996, started with a relatively quiet 18 months, only interrupted by the disposal of French and Belgium subsidiaries. However, after a warning of possible downsizing, 1991 ended with staff redundancies and the closure of branches. Following the resignation of Eagle Star's Chairman and Chief Executive - Michael Butt - the roles of CEO in both Eagle Star and Allied Dunbar were combined and

Brian Galloway, deputy chairman of BAT, took on the new role as a temporary measure.

At the end of 1992 there was further cost cutting with branch closures and downsizing in the insurer's life insurance division. In addition, the company's Australian subsidiary was sold.

In 1993, Allied Dunbar's chairman, George Greenway, was appointed as CEO of both companies. Eagle Star began to expand in South East Asia increasing its presence in Hong Kong and Taiwan. In Europe, the company disposed of its Dutch unit.

Eagle Star's and Allied Dunbar's asset management operations were brought together at the beginning of 1994 to form Threadneedle Asset Management. Meanwhile, within Eagle Star, South East Asia operation became a separate division with a managing director reporting directly to the Eagle Star/Allied Dunbar CEO. Expansion in South East Asia interspersed with consolidation in the UK continued throughout the remainder of 1994 and into 1995. Towards the end of 1995 BAT took the integration of their financial services operations a step further by announcing plans to merge the marketing operations of Eagle Star and Allied Dunbar, treating each as a separate brand.

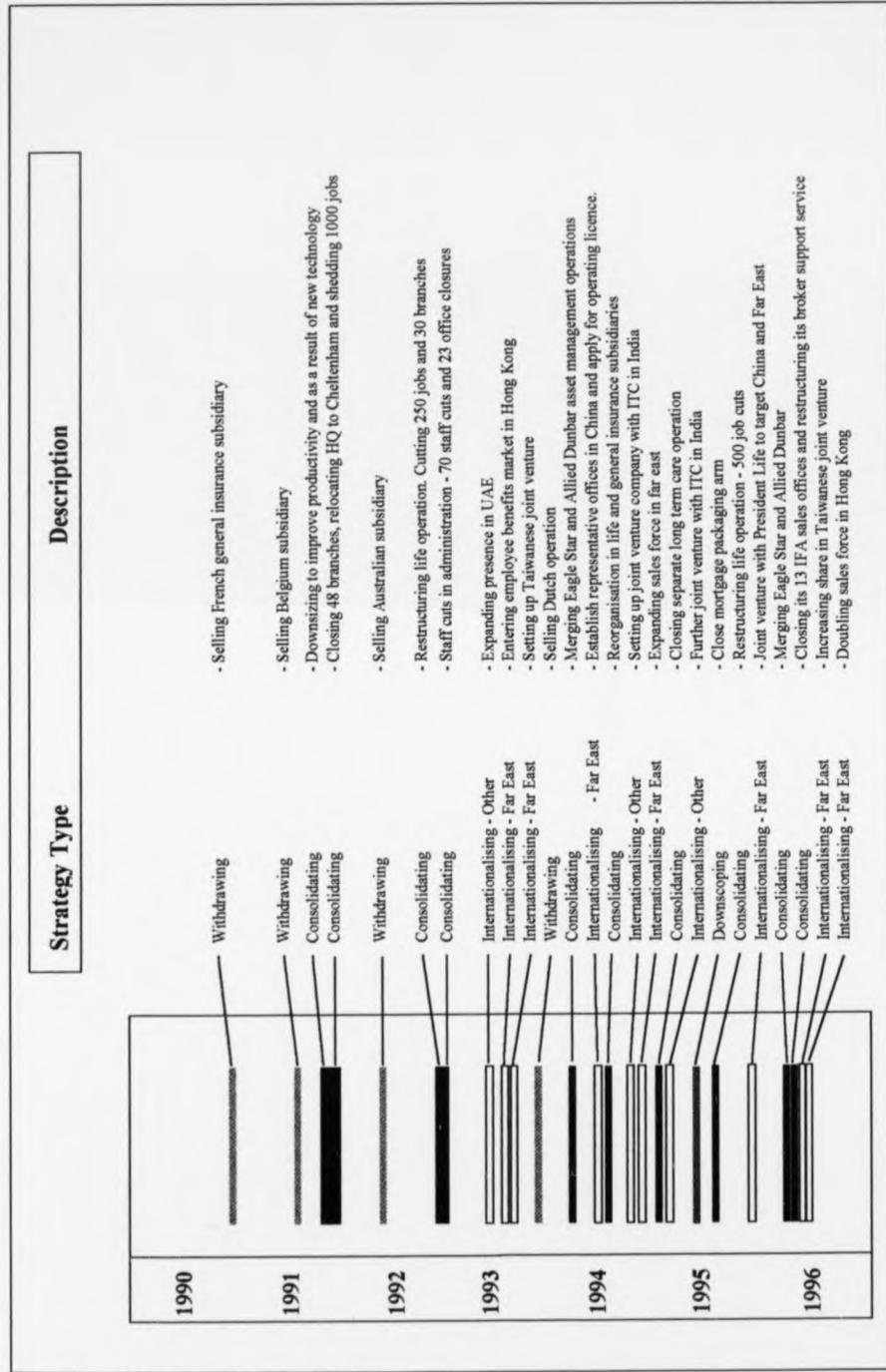


Figure 5.4 – Summary of Strategic Initiatives 1990 to 1996 – Eagle Star

Royal Insurance

Royal Insurance was established in Liverpool in 1845. By the early 20th Century, it had become the largest general insurer in the UK, although by the 1990s it had dropped to third. In 1990, general insurance accounted for 77% of premium income.

In 1990, Royal Insurance was pursuing a diverse strategic programme that included expansion in Europe and consolidation in the USA (including the sale of a subsidiary company to General Accident). However, following its first ever trading losses in 1990 and 1991, UK staff numbers were cut, financial controls tightened and there was an attempted withdrawal from the reinsurance market. In September, further cuts in staff numbers were announced, together with the restructuring of the life insurance division. The UK life subsidiary centralised its administration functions and moved from a divisional to a functional structure.

In January 1992, Richard Gamble was appointed group CEO - replacing Ian Rushton who was elevated to the position of vice chairman. The early part of the year saw the establishment of a European joint venture company, EPIC, with AMB and Fondiara. Royal's subsidiaries in Holland and Spain were then sold to EPIC to ease Royal's losses. In August, the UK operation was restructured with the transfer of the UK life operation, Royal Life, to Royal Insurance Holdings, the parent company. However overseas life operations remained under Royal Insurance.

In the UK, cost cutting in 1992 resulted in some 5% of the company's staff made redundant and the closure of 67 branches from the company's estate agency division.

Towards the end of the year the Australian general insurance subsidiary was merged with Sun Alliance's Australian operation, to form a joint venture company. This move signalled the start of a number of transactions with Sun Alliance which culminated in the two companies merging in 1996.

The cost cutting measures continued into 1993 and the company withdrew from the reinsurance market. In October a further deal with Sun Alliance was completed - swapping Royal's New Zealand operation for Sun Alliance's Canadian business.

1994 and the first six months of 1995 were marked by further consolidation through downsizing in the general, life and estate agency operations. The staff cuts, which were driven by the phasing out of manual operations by the introduction of IT and the redesign of business processes, were predicted by the company to continue for a further 2 or 3 years. In addition, an investigation by the regulatory authority brought allegations of 'miss-selling' and the recall of the company's entire sales force for retraining and re-examination.

By the second half of 1995, Royal Insurance's performance had improved and although cost cutting in the UK continued, the company began to expand in South East Asia and India. In 1996 Royal Insurance merged with Sun Alliance to form Royal Sun Alliance.

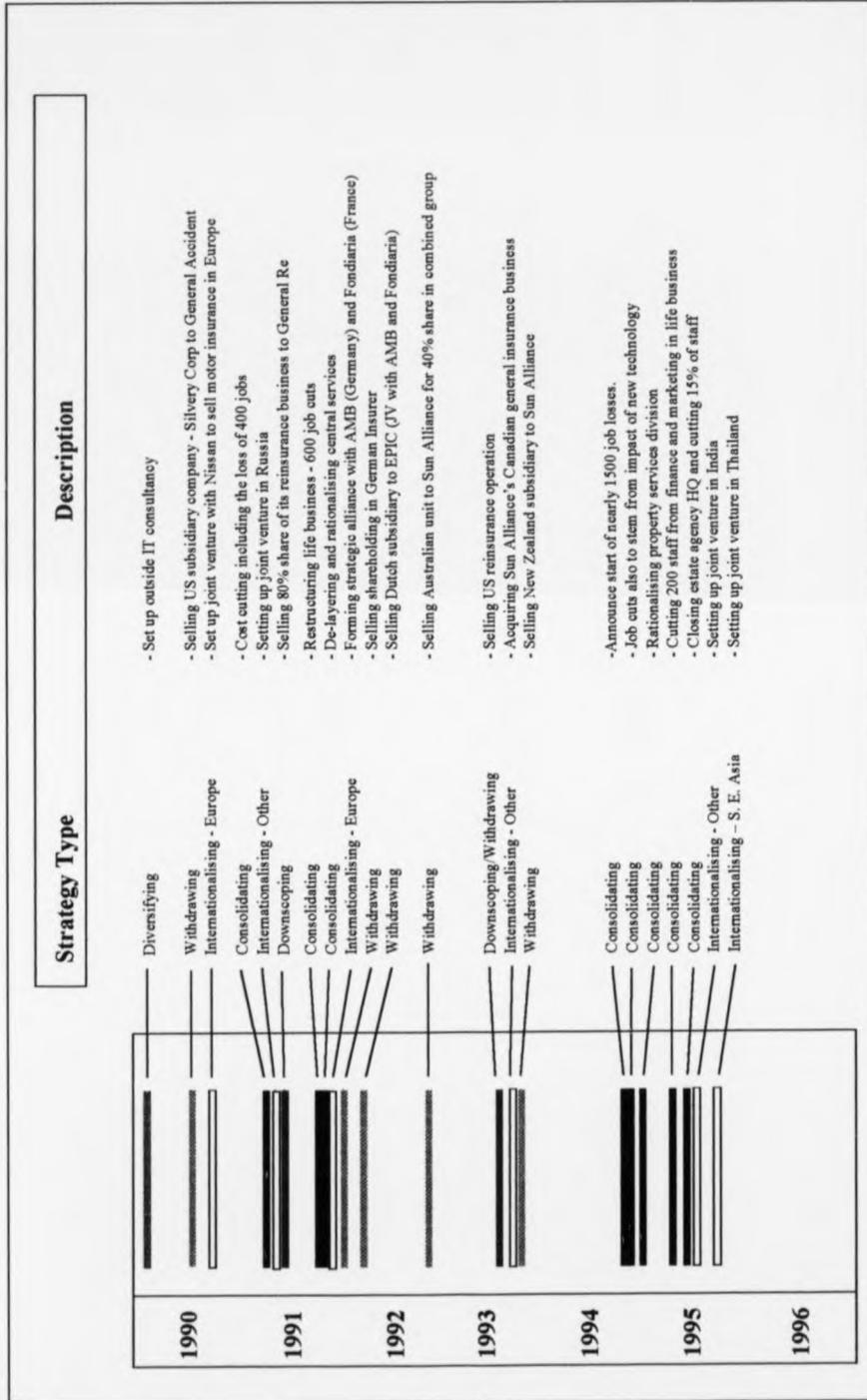


Figure 5.5 – Summary of Strategic Initiatives 1990 to 1996 – Royal Insurance

Sun Alliance

Sun Alliance was created in 1959 through the merger of the Sun Insurance Office (the Sun Fire Office) and the Alliance Assurance Company. A further two mergers with London Assurance in 1965 and then the Phoenix in 1984 followed. In 1990, Sun Alliance was the fifth largest UK insurer by premium income - 74% of this being generated from general insurance activities.

During the first two years of the study period Sun Alliance moved to create new distribution channels through the setting up of a number of joint ventures with other financial services companies, e.g. The Woolwich Building Society. At the same time, it expanded in Europe and acquired GRE's New Zealand operation.

Whilst 1992 saw continued overseas expansion there was further consolidation in the UK. A sequence of downsizing was initiated with some 1200 job losses announced. In addition, the company reorganised its operations to shift from a geographic divisional to a functional form. Although expansionary activity continued to focus on Europe with the take over of the Danish firm, Hafnia, there was also increased interest in South East Asia. 1993 closed with the exchange of a Sun Alliance Canadian operation for Royal Insurance's New Zealand subsidiary.

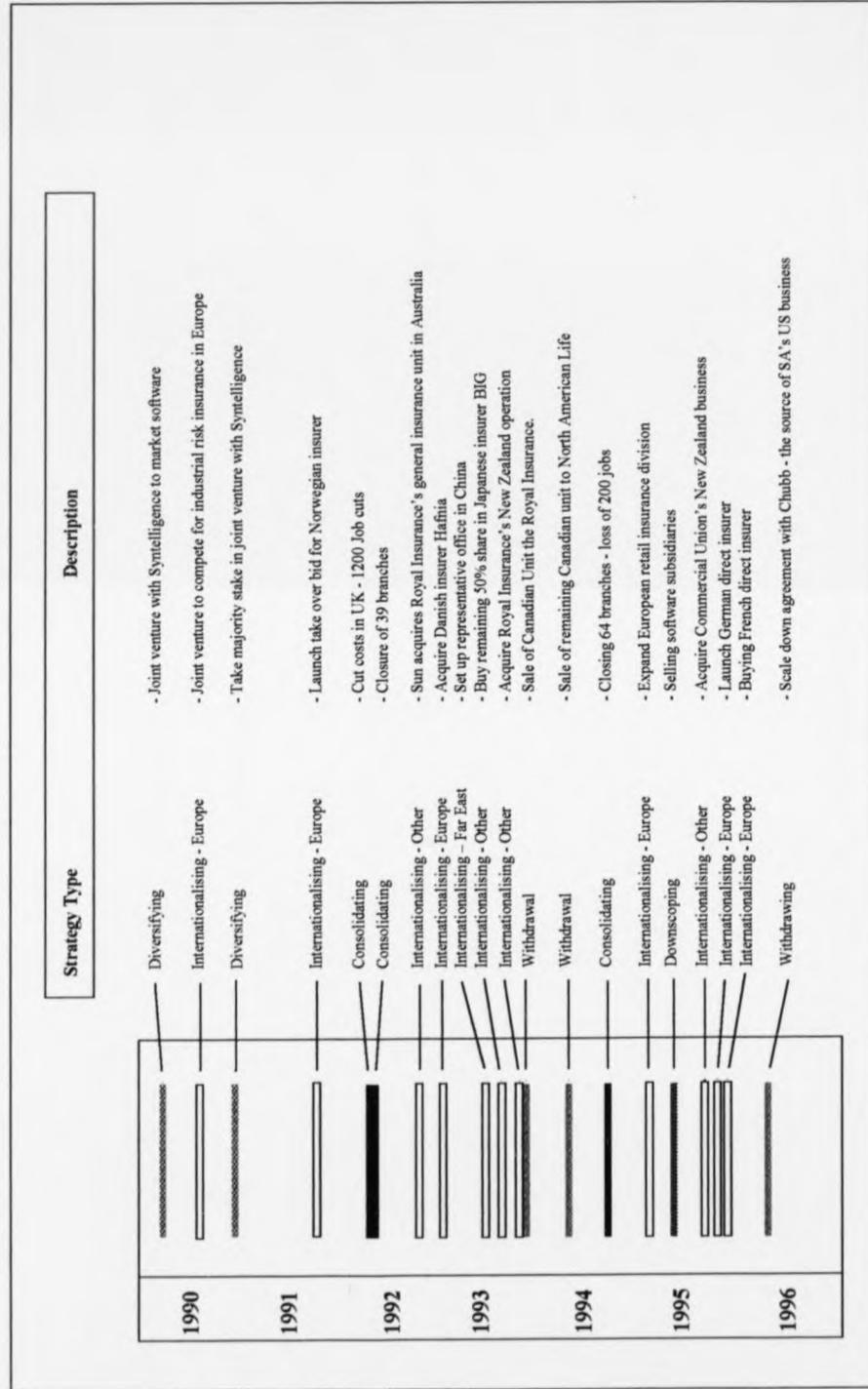


Figure 5.6 – Summary of Strategic Initiatives 1990 to 1996 – Sun Alliance

In March 1994 Sun Alliance's group CEO retired and was replaced by Roger Taylor - previously a group executive director. 1994 and 1995 saw further expansion in Europe and Asia. In addition, the company set up a direct operation, which opened in 1995. This expansion was interspersed with efforts to concentrate on core activities in the UK, which resulted in further job losses and some branch closure. In 1995 Sun Alliance again restructured, reverting to a divisional form based on product and geographic lines.

The merger with Royal Insurance, which saw the creation of Royal Sun Alliance (RSA) took place in 1996.

Guardian Royal Exchange

Guardian Royal Exchange was formed in 1968 when two long established companies the Guardian and the Royal Exchange merged. As we saw in Chapter 4, Royal Exchange had been founded in 1720, while Guardian was established in 1821. In 1990, Guardian Royal Exchange was the 8th largest UK insurer with 72% of its premium income being derived from general insurance activities.

In 1990, GRE's strategic actions continued a drive for international expansion, with the integration of the three Italian insurers purchased in 1989, and moves in Asia and South East Asia. Two of the Italian purchases proved disastrous and were sold in 1991. 1991 also saw GRE withdrawing from New Zealand, Barbados, Kenya and Trinidad and Tobago.

1992 opened with the sale of GRE's Australian operation to Zurich Insurance. In return, GRE received shares in Zurich's Australian operation. In the UK, cost cutting via cuts in staff numbers was initiated through natural wastage and redundancies.

The following year began with the acquisition of Orion Health Care and the disposal of the company's Spanish subsidiary. In the UK, cost cutting via staff reductions continued. A policy of niche expansion in the US was announced and was implemented by acquisitions in late 1993 and in 1994.

In February 1994 the Group CEO, Sid Hopkins retired and was replaced by John Robins, an appointment from outside the company. In early 1994, GRE established a direct telephone sales operation, Guardian Direct. The second half of 1994 was dominated by more staff cuts and branch closures in the UK. Outside the UK, and in addition to the niche expansion in the USA, GRE expanded in South East Asia.

The first half of 1995 was marked by further widespread staff cuts in the UK. Staff cuts were also made in Germany and US. In June Guardian sold its shareholding in Zurich's Australian operation, thereby completing its exit from the Australian market. In the second half of 1995, the company's collaboration with the Nationwide Building Society came to an end. Since the 1980s and until 1994, the Nationwide had acted as a tied agent for GRE's life insurance products. After 1994 GRE had assisted the building society establish its own life operation. GRE reverted to a more expansionary mode in the UK during 1996, buying RAC Insurance Brokers and Legal & General's commercial general insurance business.

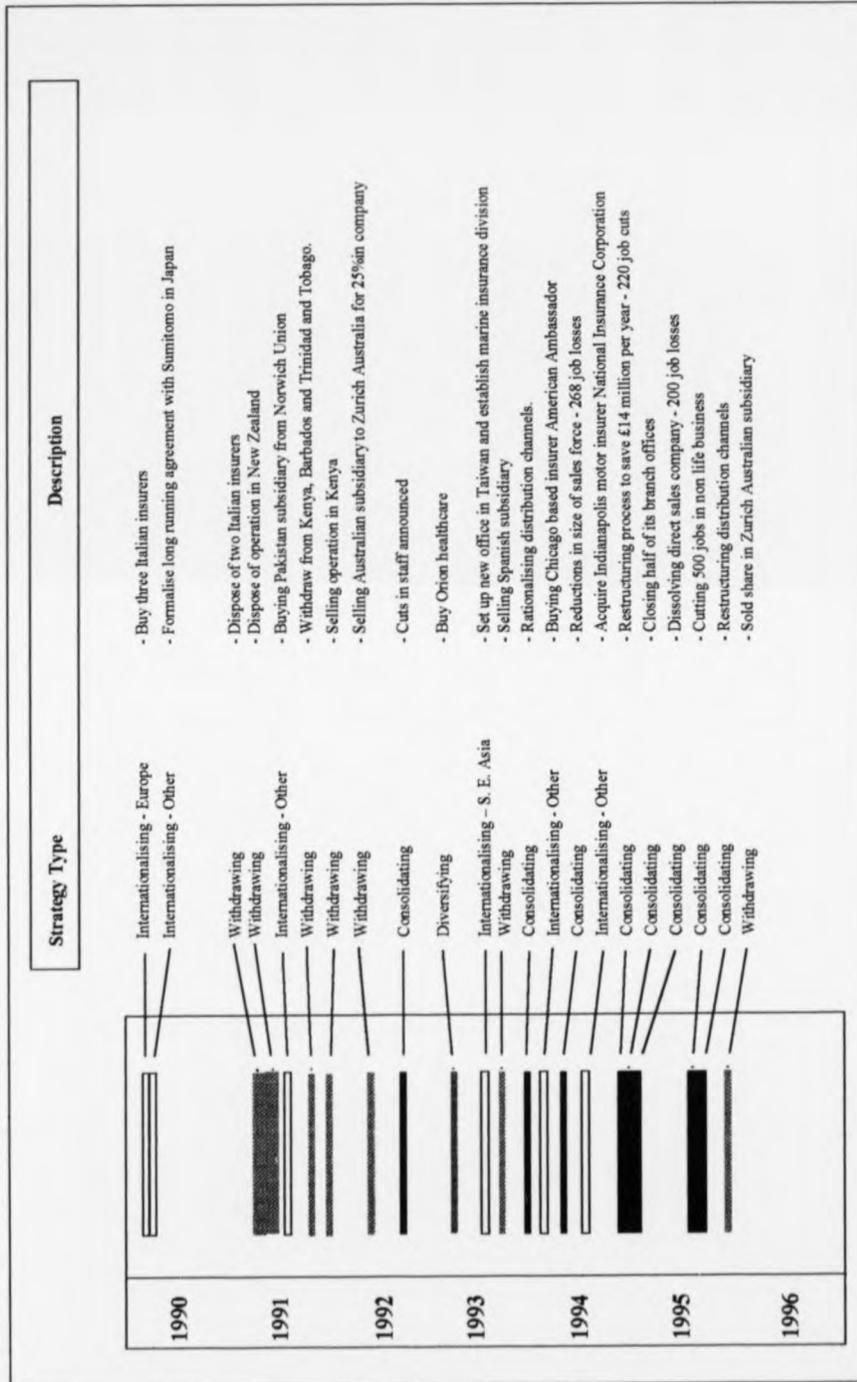


Figure 5.7 - Summary of Strategic Initiatives 1990 to 1996 - Guardian Royal Exchange

Legal & General

Legal & General was established in 1836, initially writing ordinary life insurance only but after 1919 general as well. Long term insurance has tended to provide the larger share of premium income and in 1990 it attributed for just over 80%.

The 1990s opened with Legal & General continuing to expand into estate agency and in the USA, while at the same time seeking to withdraw from the reinsurance market. However, between 1991 and 1992 the move into estate agency was reversed with the disposed of 25% of its branch outlets, David Prosser became chief executive, replacing the retiring Joe Palmer.

1992 marked the start of a period of consolidation in the UK that was to last until 1995. In particular, the company's sales channels were restructured to improve efficiency and 24 branch offices closed. In addition, Legal & General's information systems and services unit was floated as a separate company.

In 1993, a payroll products and services company in Australia was acquired. In the UK, the Cheltenham and Gloucester Building Society terminated its tied agency agreement.

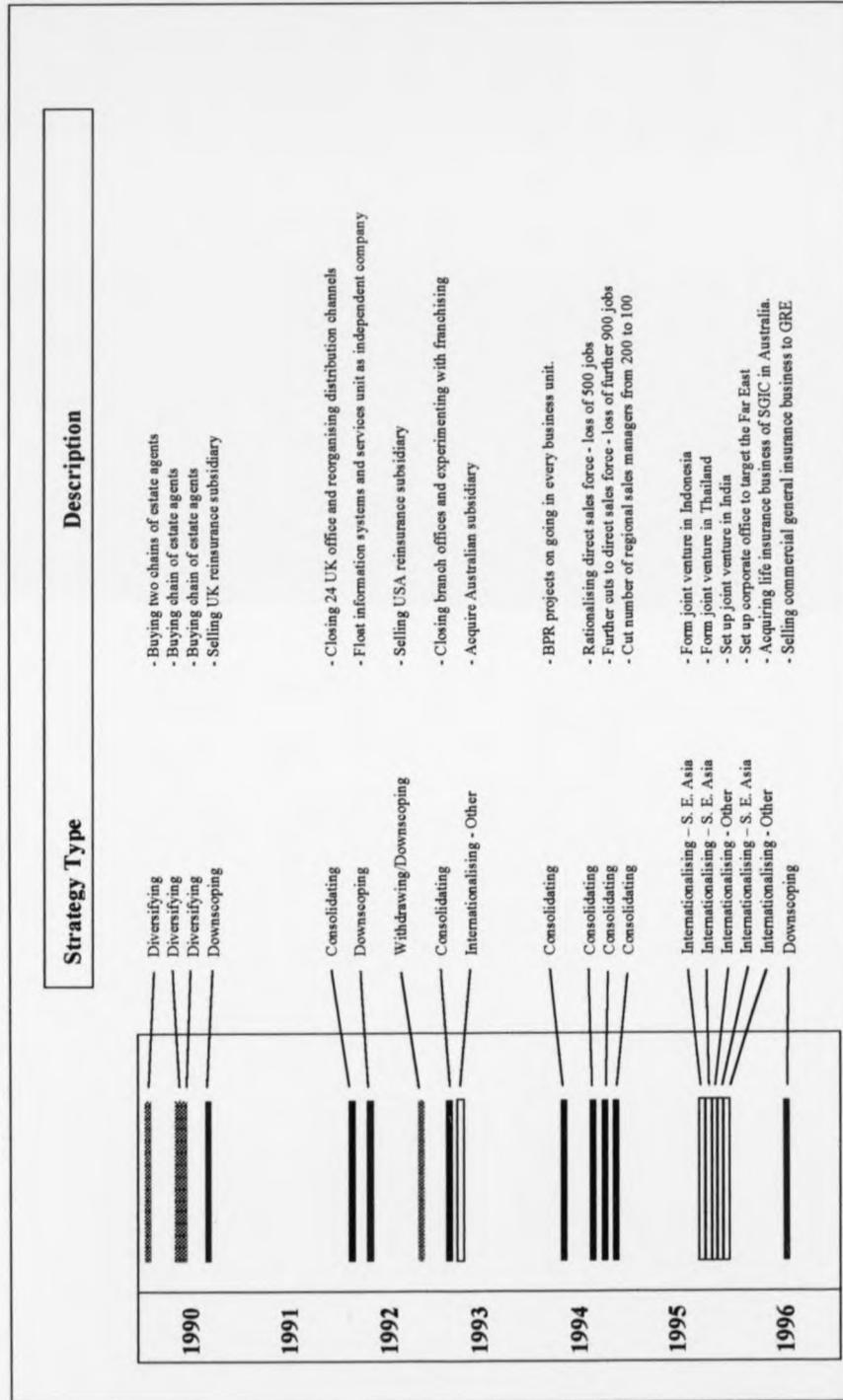


Figure 5.8 – Summary of Strategic Initiatives 1990 to 1996 – Legal & General

Consolidation initiatives continued into 1994 with job cuts, a range of business process re-engineering programs and continued refocusing of the company's distribution channels. In addition, as the result of an investigation, by the industry regulator, into its sales force's activities between 1991 and 1992, Legal and General was fined £180,000. In light of the investigation, the company reduced the size of the sales force still further during 1995.

A joint venture with the Woolwich Building Society was established with general insurance products being sold through Woolwich's high street branches. A healthcare insurance operation and a direct telephone sales operation were also launched. Towards the end of the year, expansionary moves in South East Asia were initiated with joint ventures being undertaken in Indonesia and Thailand.

Plans for expansion of the telephone sales and healthcare operations were announced in 1996. Also in the UK, the company sold its commercial insurance business to GRE. Internationally, Legal & General established a joint venture in India.

General Accident

General Accident was established in Perth, Scotland in 1885 to provide accident, theft and motor insurance. A series of acquisitions in the early 1900s extended its general insurance activities and took it into long term insurance. In 1990, the company was the 4th largest UK insurer, deriving 88% of its premium income from general insurance activities.

During the latter half of the 1980s General Accident had made two notable strategic moves, the first was the establishment of a chain of 580 estate agency branches, the second was the acquisition of a New Zealand banking group, NZI. However, by 1990, both these initiatives were causing concern and the company sold 25% of its estate agency chain and began the break up and disposal of NZI.

The New Zealand reinsurance operation was sold and there was expansion in the USA, with a regional general insurance company being acquired from Royal Insurance. At the end of 1990, the company began to consolidate its UK operations, looking for cost reductions through staff cuts. These cuts continued in 1991.

1991 also saw continued expansion in the USA and Canada. The company also made known its desire to increase its European presence although no action was reported.

Consolidation in the UK continued in 1992, as did the disposal of the company's New Zealand banking interests. In Canada, it bought Prudential's general insurance operation, becoming that country's leading direct insurer.

1993 saw further moves to improve efficiency and cut costs in UK. The company also began to collaborate with the Halifax and the Leeds Building Societies in setting up and administering the two societies' life insurance operations.

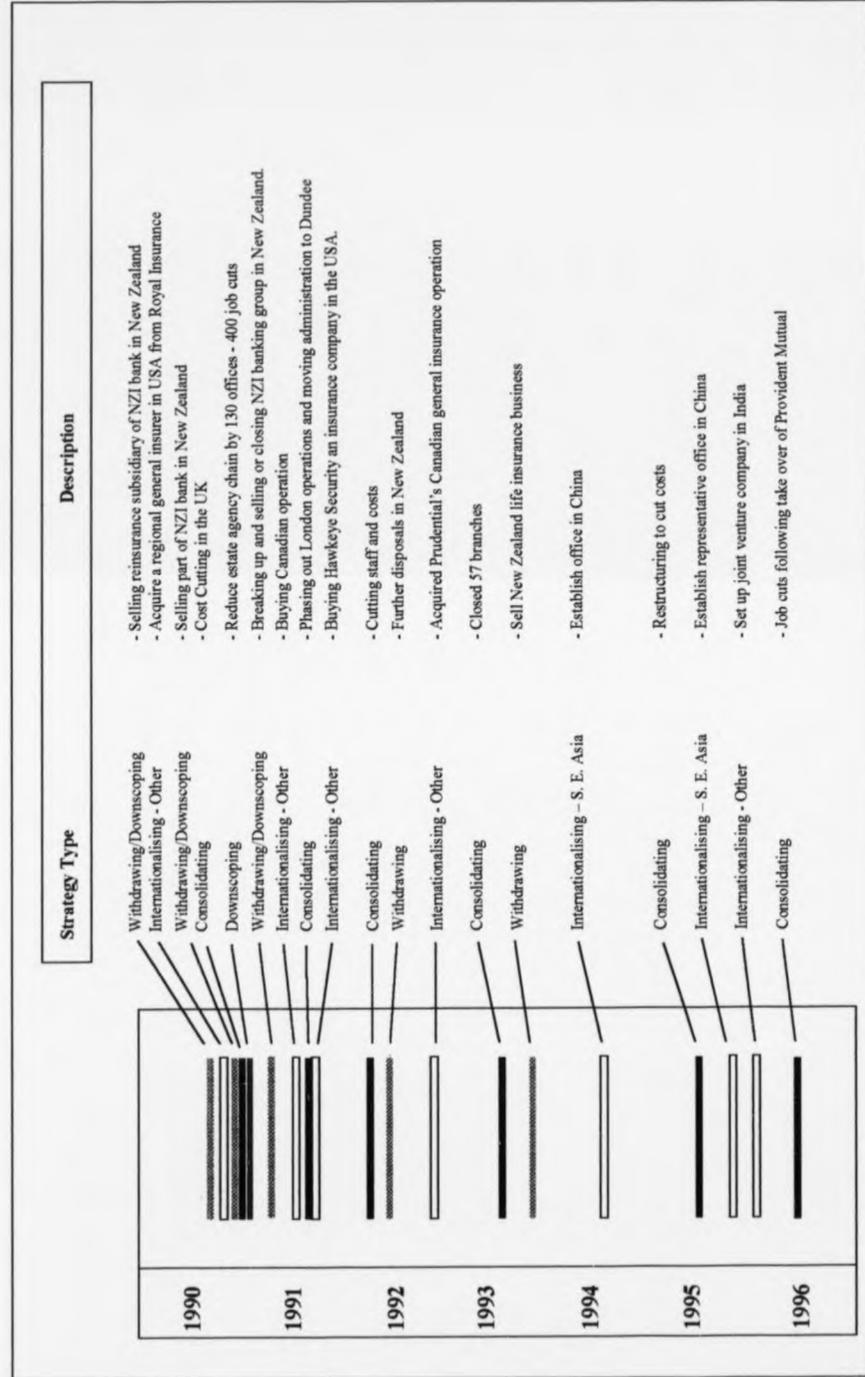


Figure 5.9 – Summary of Strategic Initiatives 1990 – 1996 – General Accident

In 1994, expansion in South East Asia and India became a focus of the company's strategy. Initiatives included the setting up of a representative office in China. On the home front, a direct sales operation, GA Direct, was launched, based on the previously established telephone sales operation GA 1-2-1.

The following year, Nelson Robertson, General Accident's chief executive since 1990 retired and was replaced by Bob Scott. Under Scott's leadership and throughout 1995 and 1996 there was continued expansion in South East Asia and the establishment of a joint venture company in India. In September 1995, General Accident acquired Provident Mutual, another UK insurer. The integration of Provident Mutual into General Accident continued into 1996 and resulted in a number of job losses amongst both General Accident and Provident Mutual staff.

Commercial Union

Commercial Union was formed in 1861 to write general insurance, and began writing long term insurance in the UK and overseas from the early 1900s. During the latter years of the 19th Century and the first two decades of the 20th Century the company grew rapidly as a result of the acquisition of a wide range of other insurers, including some of the oldest general and long term insurance firms (see Chapter 4). In 1990, the company was the second largest UK insurer with general insurance activities accounting for 68% of its premium income.

In contrast to the other firms in our sample, a key feature of Commercial Union's strategy between 1990 and 1996 is its emphasis on expansion in Europe. Initiatives include the setting up of a Polish joint venture insurance company and the acquisition of a Dutch bank in 1992, the establishment of an joint venture in Italy in 1993, and most notably the £1.5 billion acquisition and subsequent integration of the French Insurer, Groupe Victoire, in 1994.

While these European initiatives dominate Commercial Union's activities in the 1990s, the company did undertake other moves. In 1990, it disposed of its surety bond business and closed its leasing operations, while at the same time expanding its financial services operations with the acquisition of two asset management companies. This expansion continued in 1991 with the purchase of a further two firms.

While 1992 was dominated by European expansion, 1993 also saw moves to consolidate the company's Canadian subsidiary, as well as its Dutch insurance operation, Delta Lloyd. In December 1993 Tony Brend retired as chief executive and was replaced by John Carter.

The key event of 1994 was the launch of the take over bid for Groupe Victoire. In the UK, however, a number of consolidating measures were initiated. These were to continue into 1995, and included large staff cuts within the sales force. These cuts culminated in the decision to cease distribution of long term products via a direct sales force.

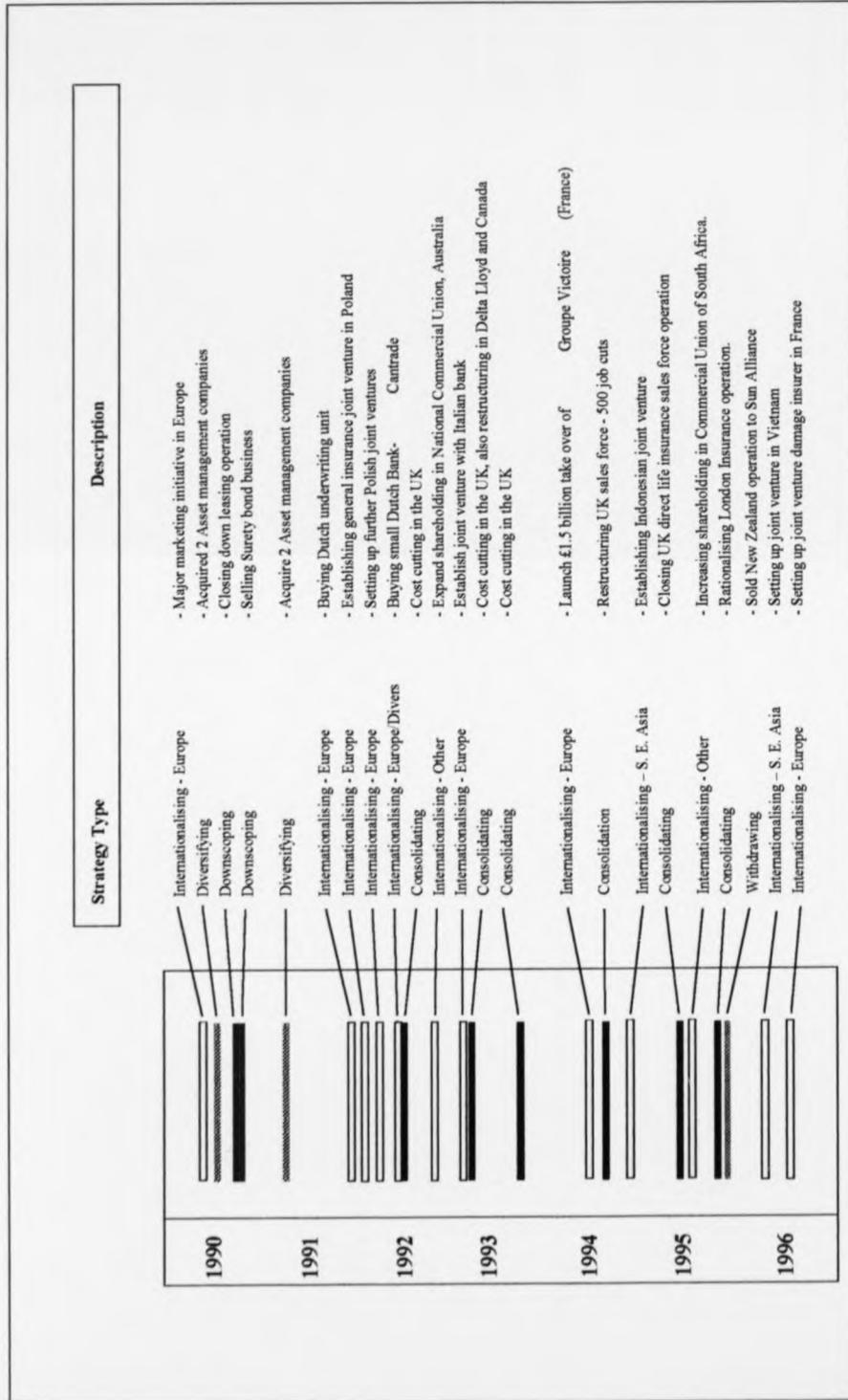


Figure 5.10 – Summary of Strategic Initiatives 1990 to 1996 – Commercial Union

In addition, 1994 saw the company forge a five year joint venture with the bank, Abbey National, to sell household insurance. Commercial Union became the sole supplier of buildings and content insurance through Abbey's high street branches. Other expansionary activity included the setting up of a joint venture with a local financial services company in Indonesia to sell general insurance.

In 1995 Commercial Union increased its presence in the South African market and sold its New Zealand general insurance operation to Sun Alliance. In 1996, the group established an insurance company in Vietnam. However, the year also saw the ending of Commercial Union's life insurance joint venture with Midland, the bank buying Commercial Union's shareholding.

Patterns of 'In-Firm' Strategic Behaviour

Our mapping and overview of the main strategic initiatives undertaken by the nine firms in our study would suggest that strategy is highly dynamic. All the firms in our study pursued multiple streams of strategic activity, each in a constant state of flux as advances and retreats occurred (see Figure 5.11).

The level of strategic activity in each firm appeared reasonably consistent across the study period and episodes of stability or increased frequency of change were notably absent. This pattern closely matches that predicted by the continuous change model implicit in the work of Knights and Morgan (1995) and Pettigrew and Whipp (1991). The punctuated equilibrium model, with its assumptions of stability interrupted by

radical change, gains little support from our observations, unless the entire study period was part of a transition period. However, given that Romanelli and Tushman (1994) suggest that transition periods within a company tend to last less than two years, it would seem unlikely that all nine firms in our sample would see such periods lasting over 6 years all at the same time.

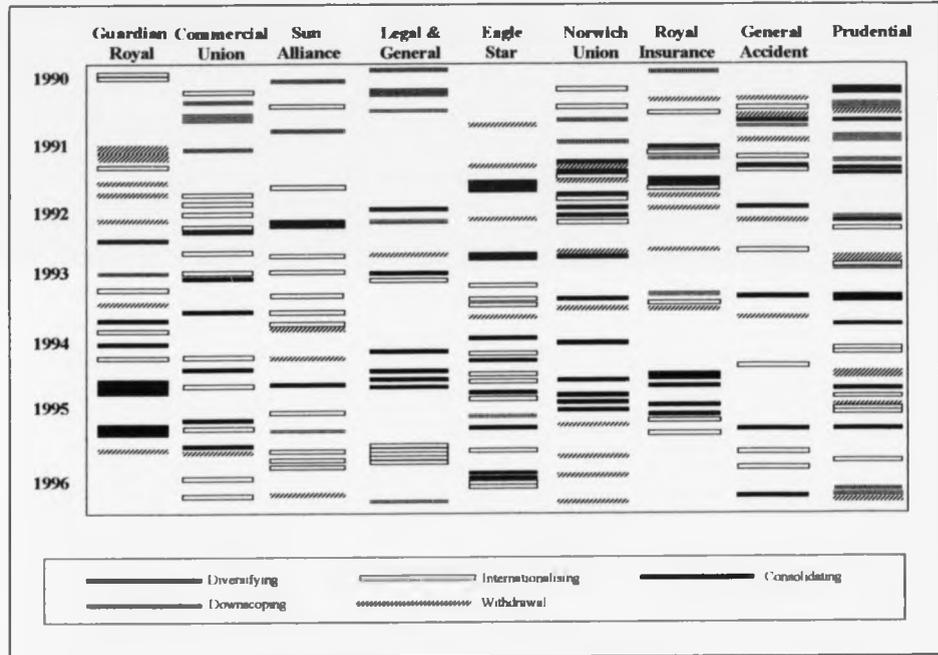


Figure 5.11 – Map of Strategy Initiatives.

The underlying sequence of change was generally consistent across our sample. The 1990s started with a period of growth, with an emphasis on European expansion. This was followed by a period of consolidation in the UK, and then a mixed pattern of continued consolidation in the UK and international expansion, particularly in South East Asia.

At a more detailed level, it is clear that in the 1990s some firms reversed strategic moves made in the 1980s. Prudential clearly demonstrates a significant change in direction in the early 1990s. An extensive programme of downscoping resulted in the withdrawal from expansion targets of the past, including estate agency and general insurance in the UK. However, the change over from one pattern of activity to another does not occur in one sudden jump, but rather there is gradual withdrawal from one and the incremental building of another. This process occurs over a period of several years. The data for General Accident, Norwich Union and Royal Insurance also show similar patterns of change.

These observations closely match Weick and Quinn's (1999) account of continuous change. Change is described as an 'ongoing mixture of reactive and proactive modifications' resulting from 'improvisation, translation and learning' rather than intermittent planned interruptions of periods of convergence (ibid). Intervention in this flow of change is seen as 'rebalancing' during which the pattern of change is 'reinterpreted, relabelled and resequenced'.

Weick and Quinn (1999) contrast Lewin's (1951) classic model of change – unfreeze, transition and refreeze – with a sequence of freeze, rebalance and unfreeze. The freeze stage is described as cognitively capturing the current pattern of change. However, this does not imply that the organisation itself is frozen and the current pattern of change halted. Rebalancing occurs as the organisation identifies and is 'attracted to and inspired by' a new direction. Finally, unfreezing is the resumption of improvisation, translation and learning but along the new path.

This model of freeze, rebalance and unfreeze provides a view of how an organisation will shift from one pattern of continuous change to another. One pattern will die away while the other is in ascendance. This process would explain the shifting patterns of strategy observed in the insurance companies.

Although the pattern of strategic change in our sample challenges Fiegenbaum and Thomas' (1993) view of episodic change, the sequence of change does support the notion of common strategies among a group of companies. It is clear that the UK insurers pursued highly similar sequences of strategy.

As we argued in Chapter 2, the presence of common strategies within an industry group raises important questions regarding the emergence and diffusion of such strategies. We therefore need to look more closely at the cross group temporal patterns.

Patterns of Strategy Types across the Sample Group

Closer analysis of the patterns of strategic initiatives for each of the nine companies suggests that two specific strategies diffused through the group – consolidation in the UK and internationalisation in South East Asia.

A marked trend is observed in the initial adoption of consolidating activity between the beginning of 1990 and 1992 (see Figure 5.12). The study indicates that Prudential was the first of the nine firms to adopt a strategy of consolidation, followed by General Accident, then Royal Insurance, Norwich Union, Eagle Star, Legal &

General, Sun Alliance, Commercial Union and lastly Guardian Royal Exchange. In each firm, consolidating activity continued through to 1995.

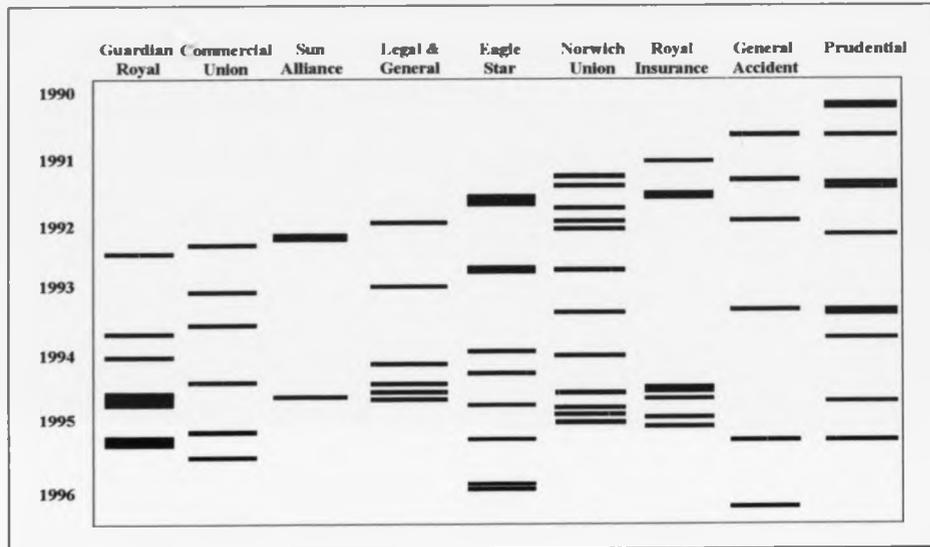


Figure 5.12 - Realised Strategy - Consolidating Actions

The second strategy type to emerge as common across the group was an increase in internationalising activity in South East Asia (see Figure 5.13). South East Asia, with its rapid economic growth and poorly developed insurance market, was a new target for international growth. During the 1980s and early 1990s Europe and to a lesser extent the USA had been the focus for overseas growth. The adoption of expansionary strategies in South East Asia was again led by Prudential, with initiatives in early 1993. The sequence in which the other firms followed differs from that observed for the adoption of consolidating strategies. Guardian Royal Exchange appears as the second mover, followed by Sun Alliance, Eagle Star, General Accident, Commercial Union, Royal Insurance and finally, at the end of 1995, Legal and General. Norwich Union does not join this push for increased representation in South East Asia.

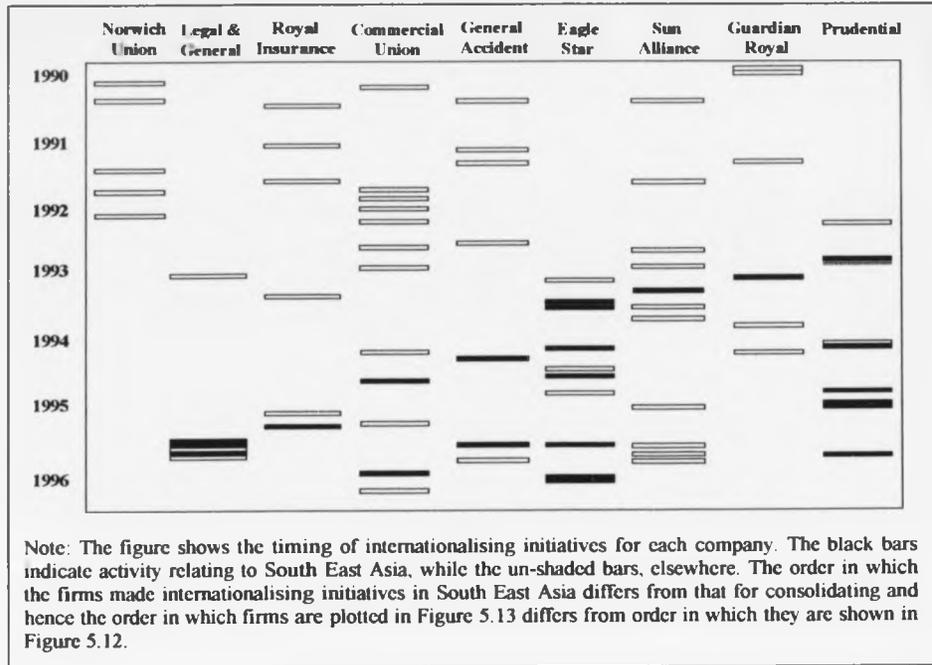


Figure 5.13 - Realised Strategy - Internationalising Actions

Cross-Correlation Time Series Analysis

The visual patterns of strategy described above suggest that in terms of consolidation and internationalisation Prudential was an early adopter. This position is also reflected in the results obtained from the cross-correlation analysis. Figure 5.14 shows the results for Prudential superimposed on those for Guardian Royal Exchange. In each case, the distribution obtained reflects the speed at which the company adopted strategic initiatives relative to the other eight companies in our sample. Prudential was significant (at a 99% confidence level) in that it was early in adopting strategies that were also adopted by other companies in the group. Also significant (at the 95%

level), Guardian Royal Exchange and Eagle Star were revealed as typically late adopters in comparison to the rest of the group.

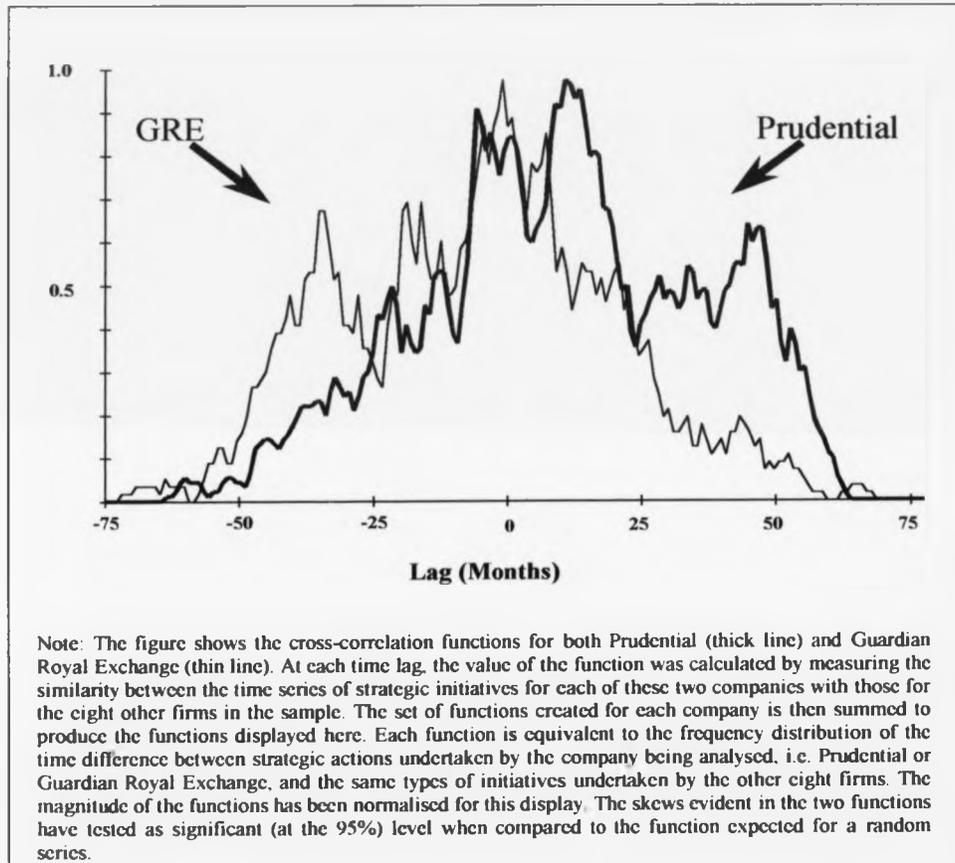


Figure 5.14 - Delay Distributions of Realised Strategy - Prudential and GRE

The cross-correlation analysis for General Accident produces a distribution of delays that suggests the company was also an early adopter (see Figure 5.15). As with Prudential the cross-correlation function produced for this company was significantly different (99% confidence level) from that expected for a random series. The other five companies are positioned by the analysis between Prudential and Guardian Royal

Exchange, although the delay distributions obtained are again not sufficiently different from those that would be expected for random sequences to test as significant.

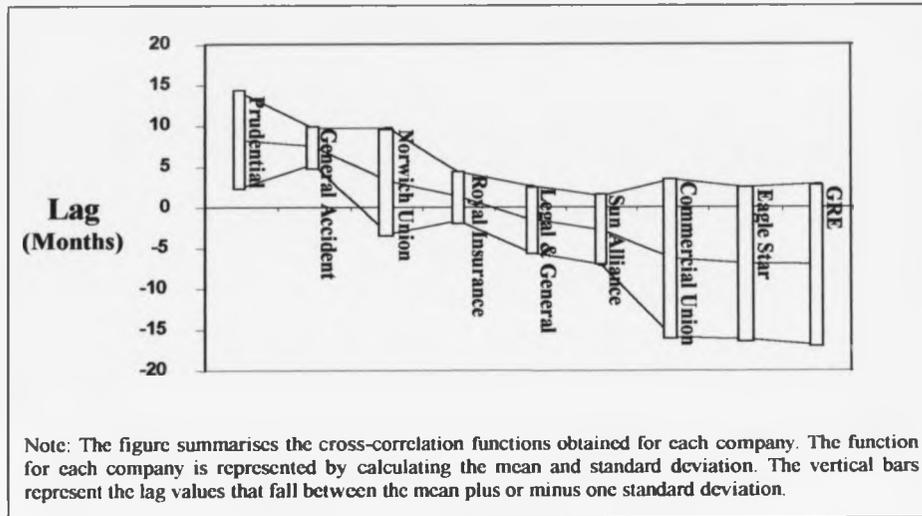


Figure 5.15 – Summary of Lag Distributions for Sample (Mean \pm 1 sd)

Our interview data confirms the patterns found in our statistical analysis. General Accident and Prudential were reported to be on average faster in responding to the environment and adopting new strategies. General Accident was highlighted as a high performer by 50% of our interviewees while 40%⁴ identified Prudential as an industry leader. Guardian Royal Exchange was seen as more cautious, particularly prior to the appointment of the new CEO in 1994. GRE was even described by some of its own senior executives as being a laggard before 1994. When discussing the other significant late adopter, Eagle Star, one interviewee suggested that the confusion caused by the piecemeal amalgamation of Eagle Star and Allied Dunbar had led to problems. Another interviewee expressed his relief that his company had lost out to

⁴ Including one of our interviewees who had been a manager in both Prudential and GRE.

Zurich in acquiring Eagle Star in 1998. Interviewees opinions vary on the ranking of the other companies, which would seem to concur with the lack of significant skew detected in their cross correlation functions.

In addition to providing support for our identification of early and late adopters, the interview results also suggested that the strategic agility of a firm would vary over time. This leads us to consider the results of our time varying cross correlation analysis.

Time Varying Analysis

The results of the time varying cross-correlation analysis of Prudential and Guardian Royal Exchange are shown in Figure 5.16. The senior managers interviewed in both companies commented on the accuracy with which this figure described what was happening within their organisation over this period. An initially high level of strategic agility for Prudential relative to the other firms in our analysis fell away during the middle period before rising strongly towards the end. Our interview data suggests two reasons for this change. Firstly, the dip relates to a hold put on new strategic initiatives during a major strategy review conducted during 1992. Secondly, our interviewees suggest that the increased level of formal analysis and control stifled the emergence of ideas and slowed decision-making. One interview subject even used the phrase 'paralysis by analysis'. It was suggested that the subsequent increase resulted from an easing of this formality.

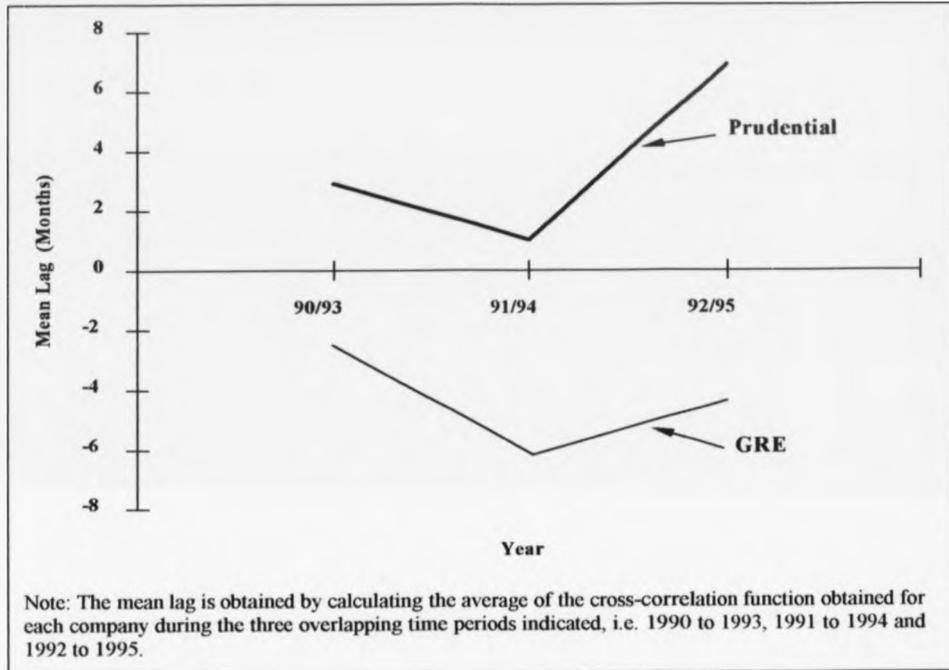


Figure 5.16 – Variations in Speed of Strategy Adoption

In Guardian Royal Exchange, the initial fall in relative strategic agility was thought to be due to advances made by the other members of the sample. Many of our interviewees attributed the improvements that began to occur towards the end of the study period to change initiated in the early 1990s which was then accelerated by the arrival of a new CEO from outside the industry.

Analysis of the Observed Patterns

In Chapter 2 we argued that the literature on strategy rarely addresses the issue of how patterns of strategy emerge and develop across an industry. Three other streams of

literature – innovation, institutional and contextual – were identified as providing insight in this area.

These three literatures identify a number of factors that determine the pattern of diffusion of strategy across an industry. These factors can be split between those that relate to the strategic initiative, those referring to measures or dimensions of the firm (e.g. size) and those that concern the internal processes and character of the organisation and its members (e.g. structure and diversity). This division of factors is particularly notable in the innovation diffusion literature.

The identification of Prudential as a consistent early adopter across a range of strategy types suggests that for strategic innovations the attributes of the firm have a greater effect than the type of strategy involved.

The innovation literature suggests two contrasting relationships between organisational size and strategic agility. Firstly, when innovativeness is measured in terms of the number of innovations, research shows that larger firms are more innovative due to their greater resources (Kimberley and Evanisko 1981). Some authors (e.g. Rogers 1983) indicate that this effect of size is moderated by the degree to which the firm's resources are uncommitted or 'slack'. However, there is also evidence that this relationship does not hold for low cost innovations (Brown 1981). This may suggest that a Probit model of innovation diffusion may be more appropriate with firm size acting as a threshold to adoption (Nasbeth and Ray 1974), i.e. once the firm is larger than a given threshold it can afford to implement the innovation.

The second relationship proposed in the literature relates to innovativeness when it is measured in terms of speed of adoption. Contrary to popular belief that small firms are more innovative, these studies fail to show a significant relationship between innovativeness and organisational size (Tidd et al 1997 and Subramanian and Nilakanta 1996).

Possible relationships between the order in which the firms implemented consolidating and internationalising initiatives and firm size and slack have been tested using Spearman rank correlation tests. These tests were conducted using net premium income and number of employees to provide alternative measures of size, and profit and profit margin as measures of slack. These tests failed to show significant (at the 95% level) relationships between the order in which the firms introduced consolidating actions or internationalised in South East Asia, and number of staff, net premium income, profit and profit margin (see Table 5.1 and 5.2).

Pearson correlation tests also failed to detect a significant (at the 95% level) relationship between firm's strategic agility derived from our cross correlation analysis, and the measures of firm size and slack (see Table 5.1 and 5.2).

The final group of factors identified by the innovation diffusion literature concerns firm's internal organisational processes and character. Our interview data suggest that factors such as CEO change and organisational structure had significant effect on the strategic agility of strategy by our nine insurers. However, because of its external focus our mapping analysis fails to illuminate their influence. Understanding the

impact of these organisational factors will therefore be addressed in the next chapter when we discuss the results of our case study work.

Chapter 2 also refers to research within the innovation and marketing literature linking strategic agility to organisational performance. Lieberman and Montgomery (1988 and 1998) and Kerin et al (1992) review this literature and particularly highlight the positive influence innovativeness has on market share. We would therefore expect Prudential and General Accident, as significant early adopters, also to demonstrate above average performance in the 1990s. As we observed in Chapter 4 this was indeed the case, with both companies increasing their market share despite the increasingly competitive market.

In Chapter 4, we also highlighted the performance of Commercial Union and, indeed, it was praised by our interviewees. However, our analysis has identified this company as a late adopter. This apparent contradiction can be understood if we look more closely at the pattern of strategic initiatives which it pursued. As we noted above Commercial Union focused heavily on expansion in Western Europe. These efforts culminated in the £1.5 billion take over of a French insurance company. The concentration of resources and management time on Europe will have delayed strategic moves elsewhere. Consequently, its pattern of strategic initiatives was markedly different to that of the other insurers and our analysis will have been unduly influenced by the company's late moves to expand in South East Asia. The high level of dispersion evident in the cross correlation function obtained for the company (see Figure 5.15) and the lack of significance of these results clearly demonstrate this lack of comparability.

	Average Net Premium Income (£m)	Average Profit (1990 – 95) (£m)	Average Profit Margin (1990 – 95)	No. Employees (1993)
Prudential	7519	518.8	6.9%	29757
Commercial Union	6071	210.2	2.1%	9312
General Accident	4808	172.7	2.6%	15354
Royal Insurance	4788	100	3.5%	17532
Sun Alliance	4244	37.7	3.6%	19858
Norwich Union	4063	105.3	0.9%	13501
GRE	3308	83.5	2.5%	9233
Eagle Star	2700	-35.3	-1.3%	
Legal & General	2229	137.3	6.2%	8464

Table 5.1 – Sample Companies – Key Data

	Net Premium Income	Average Profit (1990 – 95)	Average Profit Margin	No. of Employees (1993)
<u>Spearman Rank Order Correlation Test</u> (Critical Value of r_s (95%) = 0.6)				
Order of Consolidating	0.433	0.4	0.367	0.62
Order of Internationalising – S.E. Asia	0.309	-0.048	0.075	0.393
<u>Pearson Correlation Test</u> (Significant values (95%) indicated by *)				
Mean Strategic Agility	0.521	0.632	0.553	0.667

Table 5.2 – Rank Order and Pearson Correlation Coefficients

In - Firm and Across Industry Patterns of Strategy - Summary

This chapter has described the findings of the mapping and cross correlation analysis phase of our study. It was demonstrated that during the study period the pattern of change observed within our nine insurers was one of continual change rather than one of stability. The pattern observed also casts doubt on a punctuated equilibrium model of strategy change, unless the entire 6 year study period represented a transition phase.

We also noted that the sequence of change within most of the nine insurers was broadly similar. The 1990s started with a period of growth, with an emphasis on European expansion. This was followed by a period of consolidation in the UK, and then a mixed pattern of continued consolidation in the UK and international expansion, particularly in South East Asia. Two strategies - consolidating and internationalising in South East Asia – were shown to have diffused through the nine companies, each over a period of 2 to 3 years. For both strategies, Prudential appeared as the first mover.

The cross correlation analysis also showed that relative to the other eight companies Prudential was a consistent early adopter. General Accident was also an early adopter while Guardian Royal Exchange and Eagle Star were consistently late adopters. These patterns of strategic agility were supported by the comments of our interviewees.

The detection of consistent early and late adopters suggests that it is the nature of the firm itself, rather the nature of the strategy which has the greater influence on firm

strategic agility. However, no significant correlation was found between the measure of strategic agility for the nine and measures of firm size or slack resources. This result suggests that we must now turn our attention to factors relating to the internal processes and character of an organisation to understand why companies are early or late adopters of common strategies. These issues will be taken up in the next two chapters where we detail and discuss our case studies of Prudential and Guardian Royal Exchange.

Chapter 6

Case Study Analysis - Prudential

Introduction

In Chapter 2 we introduced three 'alternative' literatures (innovation diffusion, institutionalism and contextualism) which describe mechanisms through which strategy could diffuse through a group of companies over time. As we saw in the last chapter, these three literatures suggest several of the factors that influence the strategic agility of a firm, i.e. the speed with which it adopts new strategies. These factors can be grouped into those that refer to the innovation itself, those that relate to the physical characteristics of the firm (such as its size) and those that refer to the internal character and practices of the organisation and its staff. While our mapping and cross correlation analysis provided evidence of the influence of the first two groups of factors, it was unable to give insight into the factors on the adoption of strategy.

In this chapter and in the next two we turn our attention to this third group of factors and use our case study work to explore the influence of organisational attributes on strategic agility. In this chapter we first highlight some of the of firm level attributes that may influence strategic agility, the speed with which a firm adopts new strategies. The rest of the chapter is then devoted to discussing the first of our case study companies – Prudential, a consistent early adopter. The following chapter, Chapter 7, describes the findings of our second case study. Here Guardian Royal Exchange – a

consistent late adopter – is the focus. Finally, in Chapter 8 the two case studies are compared and the factors identified as influencing strategic agility discussed.

Organisational Level Influences on Strategic Agility

There is a strong tradition within the management literature that traditional bureaucratic or segmentalist organisational structures, systems and cultures are unresponsive to external change (Burns and Stalker 1961, Toffler 1985 and Kanter 1983). Organic organisational forms are seen as being more suited to turbulent conditions. This view is taken by the growing body of literature on new organisational forms (e.g. Hedlund 1994 and Miles et al 1997). Typically the ability of managers to recognise and direct change is questioned and some form of 'self organising organisation' (Daft and Lewin 1993) is proposed.

Central to the notion of organic organisational forms is the belief that organisational conditions or the internal context of the firm determine its responsiveness or flexibility (Kanter 1988 and Volberda 1998).

In the last chapter we discussed the lack of a significant correlation between strategic agility and financial performance. However, the lack of such a relationship does not necessarily mean that we can discount the influence of financial performance. There may be a threshold above which or below which financial performance or perceived performance has an impact on strategic agility. For example, the organisation may be in crisis and this stimulates innovation in an effort to avoid failure (Grinyer et al 1988). Alternatively, the success of earlier innovations may give the organisation

confidence to make further innovative moves or experiments. March's (1991) notion of balancing exploration and exploitation is relevant here - firms that continue to experiment, while at the same time exploiting current activity, will be more successful. Lewin et al (1999) suggest that a firm with a legacy of exploration will be more likely to innovate and so over time an upward spiral of success may develop.

Central to the notion of an organic organisational form is the way in which the organisation interacts with its environment. Smith et al (1992) propose a communication processing model to describe this process and explain the speed with which a firm will respond to the moves of its competitors. It suggests that the strategic agility of a firm will depend on how that firm detects, analyses and decides to counter a change in its environment. This raises two questions, which our comparative case study needs to answer. Firstly, how do managers sense and how do they perceive the strategic moves of their competitors and secondly, how are strategic decisions made and implemented within the firm?

How effective the management of a company will be at detecting and assessing the significance of what another firm is doing will obviously depend on how closely its competitors are monitored, and this in turn will depend on how great a threat they are believed to pose. Smith et al (1992) contrast an external orientation with an internal orientation, with those firms which track competitive moves (i.e. have an external orientation) being the ones that respond most quickly. However, we would argue that this view is simplistic and ignores one of the 'alternative literatures' we introduced in Chapter 2. The institutional literature (e.g. DiMaggio and Powell 1983) suggests that managers will be normatively and cognitively bound by the traditions and values of

the industry sector and professional group of which they are a part. Particular types of strategy will, over time, and as they are adopted by a large proportion of a group of companies, become institutionalised. Subsequently, the institutional view suggests, there will be a reluctance to adopt new strategies that replace or modify existing ones. The greater the interaction between members of an industry group the greater the likelihood that the firm will be immersed within the norms and values of that group. This raises a question for our case studies – how is strategic agility affected by the level of contact between members of an industry group?

The view promoted by Smith and Grimm (1992) and by the literature on new organisational forms assumes that a firm is responding to external changes in its environment. This perspective is highly environmentally deterministic – with the survival, or at least the performance, of the firm depending on its ability to be flexible.

This is one side of the long running debate within management science between determinism and strategic choice (Child 1974). An alternative view is that managers and their firms are part of their environment and are able to influence it through their actions. The early adoption of a strategy is not necessarily about quickly reacting to the moves of others, it could equally be the result of the firm acting proactively and forcing others to react (also see Pettigrew and Whipp 1991, Kanter et al 1992 and D'Aveni 1994).

The possibility of proactive action by a firm raises another question we must seek to answer from our case study material - what role does management action and ability play in determining the strategic agility of a firm? If managerial agency has a

significant influence on strategic agility then further questions must be addressed - for example what affect does CEO succession have on agility? How does the diversity and heterogeneity of the top management team and the way in which they work together affect the strategic agility of the firm? How quickly does management action influence strategic agility?

It will be apparent from this discussion that there are two sets of issues that we must be alert to during our discussion of the case studies – those relating to the internal context of the firm and those relating to the ability and capacity of managers. This raises a further question – what mixture of contextual and managerial factors has a positive impact on the strategic agility of a firm?

With these questions in mind in the remainder of this chapter and the following two we will discuss the findings of our case studies of Prudential, a consistent early adopter, and Guardian Royal Exchange, a consistent late adopter.

Case Study Narrative and Ordering Devices

Managerial and organisational actions are influenced by the interplay of past experiences, the present situation and future expectations. This interplay creates a complexity that presents a significant challenge when describing a case study. Ordering devices that structure the case study material may oversimplify this complex pattern of interdependencies. However, some form of ordering device or structure is necessary to reveal the information contained within the case to the reader in an intelligible and engaging manner (Remenyi et al 1998 and Pettigrew 1999). Mindful of the possible dangers of oversimplification, we will follow Pettigrew (1999) in

narrating our two cases in terms of the eras delineated by the tenure of chief executive officers.

Prudential

Orientation – Strategic Activity in the 1980s and 1990s

In 1981, Brian Corby became chief executive of Prudential. Corby continued to restructure the group, a process he had been involved in during the 1970s, with the creation of a new management structure. This 'divisionalised' the corporation into five operating divisions each with an executive director.

Under Corby, in the UK, Prudential concentrated on efforts to restructure its distribution channels. In 1985 it began to acquire estate agency branches and by 1987 had established a national chain of outlets, the largest in Europe. The move into estate agency by Prudential stimulated a rush of imitative moves by other insurers, banks and other financial institutions. Prudential also began to take on the task of rationalising its UK sales force with the initiation of projects such as Scenario 3. The dramatic changes in the regulation of the UK's financial services sector and fiscal changes relating to life assurance and pensions (see Chapter 4) saw Prudential respond quickly with the introduction of new personal pension policies and unit linked life assurance products.

Internationally, the 1980s was a period of growth in Europe and saw the rationalisation of the company's many small subsidiary operations in far flung

locations, e.g. Pacific islands, which had been established to serve ex-patriot 'Brits' abroad. Significantly the company also entered the US market with the purchase of Jackson Life in 1986, a large life insurer.

Mick Newmarch succeeded Corby as CEO in 1990, with Corby staying on as the company's non-executive chairman. With the continuing downturn in the housing market (see Chapter 4), the company sold its estate agency chain during 1990 and 1991. Also in the UK, Prudential continued its moves to restructure its distribution channels, with further rationalisations of its field sales force and the establishment of a direct telephone sales operation in 1993. These efforts culminated in the company's withdrawal in 1995 from industrial life insurance, the service that had made the company the largest insurance company in the UK during the first half of the 20th Century. During the early 1990s, Prudential reduced its exposure to general insurance, although it continued to sell household and personal motor insurance. This downscoping included the closing of its UK brokerage business and the disposal of its commercial lines operation.

Internationally, under Newmarch, Prudential began to reduce its presence in European markets. Instead, it began to expand its operation in South East Asia with the establishment of new companies in China, Vietnam and other countries in the region.

Newmarch's tenure as CEO ended amid disagreement with the industry regulator and claims of improper share dealing. He was succeeded in 1995 by Peter Davis. At the same time Brian Corby retired as Chairman and was replaced by Sir Martin Jacomb. Davis's period as CEO extended beyond our study period, however the early years of

his tenure show considerable continuity with the Newmarch era in terms of the strategies pursued. In particular, he continued to address the issue of distribution channels and the focusing of the company on medium and long-term savings products. To this end in 1996 Prudential sold its reinsurance operation and shortly after the end of our study acquired Scottish Amicable, a life insurer that concentrated on sales through independent financial advisors. However, under Davis, Prudential also took steps to diversify into other financial services. In 1996, it established a direct telephone banking operation, a move that has recently led to the successful establishment of Egg, an Internet banking service.

The Company before 1980 – In the Vanguard of Change

Prudential was formed in 1848 to provide life insurance, loan and investment products. The firm was one of many new insurers formed during the mid 19th Century in response to the growing market for ordinary life insurance. However, despite initial optimism, the period up to 1854 was extremely difficult for the fledgling company. With slow growth in sales and financial irregularities on the part of one of its founding officers, early closure was only narrowly avoided.

In 1854, after being approached by workers groups Prudential started to write industrial life insurance (see Chapter 4). This highly innovative move had been under contemplation since 1852 and quickly followed a similar initiative by British Industry Life Assurance Company. A nation-wide chain of company agents, who sold policies and collected premiums by going from door to door, quickly supplemented an initial reliance on branch offices to distribute industrial policies. The combination of

providing life insurance to lower income households and distribution through an army of salesmen or 'men from the Pru', proved highly successful.

Prudential grew rapidly in the second half of the 19th Century. This growth was aided by the acquisition in 1860 of the British Industry Life Assurance Company, Prudential's only major industrial life insurance competitor. Between 1860 and 1890, industrial life insurance premiums grew from £84,000 per annum to around £4.5 million while the sales force grew to over 16,000 agents. The impressive growth in industrial business was complemented by a growing presence in the ordinary business market - by 1890, premium income per annum had reached over £2 million. This growth in ordinary business was aided by the acquisition of a number of other insurers¹. By 1870, Prudential was the largest UK life insurer and by 1900 was widely seen as a 'national institution' with one person in three being insured by the company (Dennett 1998).

As well as being notable for rapid growth, this period was also one of continuing innovation - a statistical department was established in 1864 and the company was one of the first UK firms to employ women as clerical workers. It was also an early adopter of office machinery such as typewriters, internal communication devices and calculating machines (Dennett 1998 and Barnard 1948).

¹ Consolidated Investment and Assurance Company (1865), British Mutual Life Association Society (1868) and the troubled Hercules Insurance Company (1869) which had recently acquired International Life Assurance Society.

Growth continued throughout the early decades of the 20th Century and was further stimulated by moves into general insurance in 1915 and pensions in the 1920s. Again, and in contrast to most other insurers, the period was marked by innovation. The company's continued efforts to mechanise its back office operations are notable - many writers (and several of our interviewees) refer to the adoption of Powers Samas punch card machines to highlight Prudential's innovativeness (see Dennett 1998 and Barnard 1948). A.C. Thompson, general manager² and then chairman of the Prudential between 1907 and 1928, commented that Prudential always attempted "to pre-empt change: to be in its vanguard rather than the rear" (Thompson 1921/Dennett 1998).

Dennett (1998) suggests that the willingness of the company to pursue innovative approaches was combined with a conservative approach to the use of policyholders funds and stemmed from a concentration on perfecting its own activities. She argues that this was due to a degree of insularity that resulted from the composition of its board and its location. In the 19th Century and early 20th Century, the board of Prudential was mainly composed of 'self made men' rather than 'eminent city names'; while the location of Prudential's head office in Holborn meant that it was slightly removed from the other insurers and financial institutions of the City. However, this argument is somewhat countered by the extensive involvement that senior managers of Prudential had in insurance industry associations and professional bodies³. A practice which continued into the 1980s.

² Until recently, the title of an insurance company's chief executive officer was general manager or group general manager.

³ For example, during the pre war and post war periods general managers of Prudential were often elected presidents of the Institute of Actuaries

The inter-war period saw Prudential expand internationally. In the 1920s, this growth was in general insurance and then, from the 1930s, through ordinary life and pensions business with the focus on the British dominions and commonwealth countries.

The growing prosperity of the UK in the 1950s and 1960s and the growing demand for pensions and other savings products were of mixed benefit to Prudential. Sales of ordinary life insurance, pensions and general insurance grew quickly. However, the increasing wealth of the working class and the provision of pensions and benefits by the state meant that growth in industrial business was curtailed. In 1956, ordinary business exceeded industrial business for the first time since the 1850s. By the end of the 1970s industrial business premiums were half of those for ordinary business and only accounted for 15% of the company's profits.

The relative growth in demand for ordinary business in comparison to industrial business and the growth of new competitors, such as unit trust companies, resulted in Prudential losing market share. Nonetheless, Prudential has remained the largest UK insurer.

Recognising the increased importance of ordinary business and the threat of new competition, Prudential began to look to broaden its distribution channels. The company realised that its large sales force was less suited to selling products to higher income customers and it therefore started to try to increase sales through independent financial advisors. These moves continued into the 1970s with the rescue of the Vavasour Life Assurance Company, which was renamed Vanbrugh Life. Distribution

through independent financial advisors was then routed through this new subsidiary to avoid conflict with the field sales force (Bennett 1998 and interviews with three ex-executive directors).

Opportunities to broaden its product range were also pursued. For example in 1968, Prudential acquired the Mercantile and General Reinsurance Company (Dennett 1998).

Prudential introduced its own investment linked pensions in 1970 in response to the growing market share of unit trust companies (Pettigrew and Whipp 1991 and Bennett 1998). This placed an increased emphasis on the investment management skills of the company, as opposed to the more traditional requirements of actuarial and sales force management expertise.

The growing diversity of products and distribution channels led to the establishment of a holding company, the Prudential Corporation, in 1978. This new arrangement increased the financial flexibility of the organisation and provided access to both debt and equity markets (Pettigrew and Whipp 1991). This was to prove valuable over the course of the next decade in funding acquisitions and increasing the company's solvency⁴. Within the new structure, Geoffrey Haslem, group general manager since 1974, became group chief executive.

During this post war period, Prudential continued to be innovative. It was one of the earliest insurers to set up an organisation and methods department and to employ

⁴ Interview with an ex-CEO.

outside management consultants. In 1951, it was one of the first companies to offer 'with profits' pension policies, an innovation that contributed directly to it becoming a market leader in the provision of group pensions plans in the 1960s (Pettigrew and Whipp 1991 and Dennett 1998).

The Corby Era

Brian Corby took over from Haslem as group chief executive in 1981. Corby, an actuary by training, had spent his entire career within Prudential. Returning from a period in South Africa, Corby had progressed rapidly up the organisation and had been heavily involved in creating the Prudential Corporation in 1978. Within Prudential, Corby was seen as an agent of change⁵ who in the words of one executive director, and the head of investment at the time, "recognised that the pace of change had to increase". Several of our interviewees suggested that his desire to stimulate change was not a result of external pressure, but more a desire to improve proactively and a recognition of potential long-term threats⁶.

Like many of Prudential's senior management in the 1970s, Corby had recognised that the company's industrial business was in slow decline and the company had to build alternative distribution channels and markets⁷. Despite this recognition, there was a reluctance to act, partly due to resistance to change within the company's sales force. Corby, however, was willing to act and many of the initiatives pursued during his

⁵ Interviews with two executive directors at that time

⁶ Interviews with three executive directors

⁷ Interviews with two executive directors

tenure were driven by this underlying logic⁸. These moves were to culminate in the company's withdrawal from industrial insurance in the early 1990s.

Most of our interviewees who were then with Prudential, highlight two steps as being pivotal in increasing the pace of change and to the success of the company in the 1980s and 1990s – the external appointment of senior personnel and divisionalisation.

Prior to the late 1970s, Prudential had traditionally promoted staff from within or as many of our interviewees put it, 'grown its own timber'. Staff would join the company as salesmen or actuaries and then spend their entire careers within the company. The company's size and prominence allowed it to attract the better actuarial students, often those holding Oxbridge double first degrees, and it was from these ranks that the majority of the company's senior managers emerged⁹.

In the 1970s, the new demands of information technology had led to the appointment of specialist staff from outside. In 1977 a significant appointment was made with the selection of Tony Freeman as chief accountant. Freeman was the first chartered accountant and non-actuary to hold that position. Freeman had previously spent his career with Peat Marwick and the National Freight Corporation and was the first senior manager to be appointed from outside the company. Our interviewees suggest that his appointment, partly pushed through by Corby, then deputy general manager, was "firmly made on the grounds that they didn't want to import the same insurance traditions that they'd always had".

⁸ Interviews with four executive directors

⁹ Interview with two executive directors

Other senior management appointments from outside continued in the 1980s. In 1984, Geoff Keeys joined from Massey Ferguson as personnel director and in 1987, Michael Lawrence became the company's first finance director. Keeys described how this pattern was replicated further down the organisations with "whole coteries of non-insurance people coming in to Prudential". He also claims that, as a result, Corby's successors "did not have cultural problems" when they began to introduce their change programs in the 1990s.

Corby saw that although the creation of the Prudential Corporation had increased the financial flexibility of the organisation, the bulk of its activities were still grouped together within the Prudential Assurance Company. This part of the company dominated management time and attention and meant that little time was spent exploring diversification into other financial services¹⁰. In 1984 a new structure was put in place which organised the group into five operating divisions – UK Individual (split into the UK Individual Life and General Insurance divisions and Vanbrugh Life), UK Group Pensions, International, M&G Reinsurance and Prudential Portfolio Managers (PPM). This restructuring stimulated competition for resources among the new divisions. With each division being responsible for developing its own plans, the number and diversity of new initiatives being proposed increased¹¹.

Corby's choice of managers to head up each of the new divisions also demonstrates his wish to promote change¹². Of the five divisional heads, only two were actuaries¹³,

¹⁰ Interviews with an ex-CEO and an executive director

¹¹ Interviews with two executive directors

¹² Interview with an executive director

¹³ Derek Fellows and Brian Medhurst

although one of these, Brian Medhurst, had spent much of his career within Prudential's investment operation. Notably, after only 7 years with Prudential, Tony Freeman was made head of the UK division. In 1985, four of these divisional heads – Freeman (UK), Medhurst (International), Fellows (Group Pensions and Chief Actuary), and Artus (PPM)¹⁴ – joined Corby on Prudential's main board.

Although Artus was the senior executive within PPM, the day to day operations were the responsibility of Mick Newmarch. Newmarch complained bitterly that he had not also been put on the board, and with the support of Artus, was duly appointed a few months later¹⁵.

Derek Fellows retired in 1988. His replacement as chief actuary was not appointed at executive director level, but reported to the finance director. This move reflected Corby's belief that actuaries were "product designers and not necessarily managers"¹⁶. It also marked the first time in Prudential's history that the chief actuary was not a member of the senior executive.

Leadership and Management

Following the 1984 restructuring, the heads of each division met weekly as the executive committee. There was also considerable communication on a daily basis both verbally and through memos. In addition, Corby had regular weekly or bi-weekly individual meetings with each divisional head. Our interviews with the members of

¹⁴John Lock the managing director of M&G Reinsurance became a main board director in 1988. His predecessor as head of M&G, Peter Howell, had not been a main board director.

¹⁵Interviews with five executive directors.

¹⁶Interview with an executive director

this executive committee suggest that meetings and communication were relaxed and informal. People “tended to sense what issues needed to go to Corby or the executive” - what needed to be put in a memo or what required an “informal chat” with another member of the executive.

One executive director also pointed out that the long history of working together resulted in a high degree of trust between Corby and his direct reports. Corby was therefore willing to let the executive run things without a great deal of interference¹⁷. In the case of large initiatives, Corby would tend to agree the direction to take with the individual manager concerned, possibly following a debate within the executive committee¹⁸.

Many of our interviewees suggest that Corby’s willingness to delegate allowed him to become heavily involved with the ABI (see Chapter 4). Indeed, during his tenure as chief executive, Corby served as president of the ABI. He was keen to develop close links with the chief executives of other insurers, particularly through the ‘Usual Friends’ (see Chapter 4). Some of our interviewees commented that these external activities limited the time that Corby could spend with his direct reports¹⁹. Encouraged by Corby, other Prudential executives also met with their peers in other insurers. However, as the 1980s progressed many felt that there was less and less common ground with other insurance companies.

¹⁷ Interview with an executive director

¹⁸ Interviews with three executive directors. Another, however, paints a different picture, one of “cabinet consensus” and collective decision making.

¹⁹ Interviews with two executive directors

The atmosphere of informality and trust was complemented by a willingness to challenge and be challenged among most of the executive²⁰. However, such challenge usually lacked personal rancour, tending to be “gentlemanly and intellectual”²¹. One executive director contrasts Prudential’s executive with the senior management of other firms that he observed while managing their pension funds. He argued that although there was challenge there was not the same level of aggressiveness, individual competition and even rudeness among the senior ranks of Prudential.

Another executive director suggested that this informality extended down through the ranks of senior and middle management. The senior levels of the company were likened to an “academic common room or club”. He suggested that there was “freedom for an individual to have an idea, persuade a few colleagues and just do it”²². A further director agreed, commenting that in the 1980s “there were a lot of bright people around and if they wanted to do something they could just do it”. However, this informality coexisted with a strict system of rules and procedures regarding operational issues.

The lack of formality, particularly within strategic decision making was the subject of criticism among some executives, most notably Mick Newmarch. Newmarch was openly hostile to Corby over what he saw as a lack of rigour or procedure²³. Many of our interviewees indicate that the arguments between Corby and Newmarch were at times very heated. Newmarch himself believes he “must have been impossible to Corby as [he] spent his entire life telling him he was getting it wrong”. However,

²⁰ Interviews with three executive directors

²¹ Interviews with two executive directors

²² This view was supported by three executive directors

²³ Interviews with three executive directors

Corby was willing to accept the presence of different views among the senior executive, and was willing to act without consensus²⁴, a situation that one senior executive believes Newmarch would never have accepted during his tenure as CEO. He remembers only two occasions when Corby insisted that all the executives towed a consistent line - one was during the negotiation with the trade unions over the introduction of a new pay structure and the other was the re-branding of the company in 1986.

While Newmarch continued to criticise Corby's lack of commitment to substantive strategic planning²⁵, some moves in this area were made during Corby's tenure. Following divisionalisation, the divisions were in competition for the resources to fund expansion. With this competition came the need to demonstrate the benefits of the projects proposed and to articulate the reasons for doing them. An executive director suggested that as a result the divisions started to introduce corporate plans and budgeting, in an "amateur way", from the mid 1980s. The arrival of Michael Lawrence in 1988 as finance director accelerated this process by introducing proper budgeting procedures and review and standardised capital expenditure appraisal.

The informality and flexibility of the strategic decision process operating in Prudential at this time is best illustrated by the two largest strategic initiatives undertaken in the 1980s – the acquisition of a US subsidiary (Jackson Life) and the establishment of an estate agency chain.

²⁴ Although executive directors were expected to provide support at main board level when a decision had been made.

²⁵ Interview with an ex-CEO and a senior executive

The Acquisition of Jackson Life

Until the 1980s, Prudential's overseas operations were concentrated in countries that were either part of the British Commonwealth or were former colonies. Subsidiaries existed in countries that ranged in size from Australia and Canada to small island groups. On his appointment as head of the international division, Brian Medhurst began to rationalise this "hotchpotch" of operations and look for areas where expansion could be justified. Medhurst and Corby believed that the main gaps in the company's geographic spread were in Europe²⁶ and the USA, the largest insurance market in the world²⁷.

Medhurst believed that only practicable route for entering the US market in a significant way was through a large acquisition. He established a set of criteria for the type of target required – a life insurance company with nation-wide coverage and good management. These criteria were agreed with Corby and passed by the executive committee²⁸ and main board. Armed with this approval, Medhurst and his assistant, Jim Sutcliffe, made contact with the investment banks in the USA. Finding that Jackson Life, a family owned insurer was available and met their criteria, Medhurst went back to Corby and the board to gain approval to start negotiation. Final approval of the acquisition price was sought from the board before the deal was completed in November 1986.

²⁶ In Europe, driven by widespread hype regarding the creation of a single market in 1992, Prudential began to acquire small insurance firms in several of the European Union's member countries, which it intended to grow organically.

²⁷ Interviews with three executive directors

²⁸ Newmarch, who felt that the company should buy an investment operation in the USA, provided some criticism.

Our interviewees stressed that the acquisition followed a series of logical steps with approval being obtained at each stage. However, it did not follow any formally established set of procedures. Instead, it was a case of “making it up” as the acquisition developed, as were the criteria and financial hurdles to be met. He believes that the flexibility afforded by this lack of formal process was crucial in completing the purchase of what is now a highly successful part of Prudential²⁹.

Prudential Property Services

Like Prudential’s acquisition in the US, its move into the estate agency market sprang from a general view of the direction in which it wished to advance and its ability to take advantage of an opportunity when it presented itself. However, with estate agency, Prudential failed to control implementation.

Prudential had recognised that it was highly dependent on its sales force, and was actively seeking ways to diversify its distribution. One option that had been widely discussed among the executive was the development of a “high street presence”³⁰. During the 1980s, Prudential looked at the banks, building societies and various retail stores, including Marks & Spencer³¹. Of particular interest was the sale of insurance products allied to the sale and purchase of residential property. At this stage, however, building societies, the main providers of mortgages, were unavailable for acquisition, and the company therefore looked for other ways in which it could target potential

²⁹ In 1995 Jackson Life accounted for 24% of Prudential’s premium income and 30% of operating profits.

³⁰ Interview with two executive directors.

³¹ A series of discussions were held with Marks & Spencer, although ultimately they decided to enter financial services on their own.

customers who were buying a house. Estate agents were seen as one of the potential alternatives.

Against the background of these internal discussions and a booming property market, a firm of estate agents in Huntingdon approached Tony Freeman with a similar idea. Freeman took the suggestion to Brian Corby and Ron Artus, who decided it was an opportunity to experiment³². After approval from the board, Prudential acquired the Huntingdon estate agency in the summer of 1985. Many of our interviewees felt that the decision to experiment was correct, particularly as the sum paid was negligible for a firm of the size of Prudential³³. Newmarch, however, was highly critical of the decision, arguing that the underlying logic was flawed and that no real analysis had been undertaken. He was less convinced that estate agencies would provide a significant distribution channel and felt that the problems of managing their core business of selling houses had been overlooked.

The building societies and other insurers took note of Prudential's initiative, and several responded by purchasing their own estate agencies. This response was seen by many in Prudential as confirmation of the value of estate agencies. To make a significant contribution to sales the company believed it would have to build a nationwide chain of agents. The moves of others brought concern that if it did not move quickly it would miss the opportunity to buy good agencies and Prudential began to rapidly acquire estate agents throughout the country. As a result, lessons that could

³² Interview with an executive director.

³³ Interviews with five executive directors.

have been learnt from the purchase and operation of the Huntingdon group of agents were not given time to materialise³⁴.

Other financial services companies responded similarly and by mid 1986 the rush to acquire agents had become frenzied. Many of our interviewees admit that there was panic and described how the company set “silly yardsticks like a quarter of a million pounds a branch”. Two executive directors suggest that this expansion was out of control – they point out that there was no overall budget and that the only monitoring was a tally of new branches acquired. The estate agents saw the panic and became aware of the yardsticks. They began to open new branches just to increase the price an insurer or building society would pay for their firms.

By the end of 1987, Prudential had built a chain of over 600 branches, the largest in the UK and had announced its intention to increase this number to over 1000 by the end of 1989.

In early 1986, the estate agency business was established as a separate division – Prudential Property Services. Ron Artus headed the new division as chairman. Joe Bradley, previously with a building society, was appointed as managing director. Bradley was keen to exploit the national coverage of the new chain to develop its core estate agency activities as well as the sales of Prudential’s insurance and savings products. In an attempt to mimic building societies, he introduced national pricing and commission rates, terms and conditions for employees and company uniforms.

³⁴ Interview with four executive directors.

Development started on a property IT system, which would allow buyers to go into any Prudential estate agency and access properties in any other part of the country.

Given the volume of data involved the development of an effective IT system proved problematic. One interviewee suggested that this would have become a major headache, if the property market had not slumped so dramatically in 1989. The slump, however, brought its own problems. In the past small independent chains would respond to market fluctuations by quickly “paying off staff and running the business on a shoe string until the market picked up”³⁵. Prudential chose to maintain staff levels and was saddled with the additional overhead costs of a large centralised organisation.

The underlying logic of a centralised national chain was also being brought into question. Significant variation in market conditions between different parts of the country challenged the logic of nation-wide pricing and rates of commission. Further, the sales of financial service products via estate agents, the reason Prudential had chosen to enter the market, were proving disappointing³⁶.

Many of our interviewees suggest that the executive were initially unaware of these problems due to the lack of effective control and monitoring of the division's operations. However, by 1989, the property market slump meant that they could no longer be concealed and “it was becoming clear that the whole thing was failing and failing badly”³⁷. Corby and Lawrence decided to appoint Coopers Lybrand to conduct

³⁵ Interview with an executive director

³⁶ Interviews with two executive directors

³⁷ Interview with an executive director

a review of the operation and the prospects for the property market in the 1990s³⁸. Lawrence indicates that Corby knew that the results of the study would leave Prudential with no option other than to withdraw. However, he retired as CEO, to become chairman, before the Coopers Lybrand report was completed and it was left to his successor Newmarch to take Prudential out of estate agency.

After the appointment of his successor as head of PPM, Newmarch had spent a brief period as managing director of Prudential Property Services³⁹ before taking over from Corby. This period convinced him that Prudential should get out of estate agency. The Cooper Lybrand report confirmed Newmarch's view of the business and indicated that the housing market would not improve until the mid 1990s at the earliest. Armed with these findings, Newmarch obtained board approval to exit the estate agency business. Medhurst was given the responsibility of managing the withdrawal. In July 1990, 175 branches were closed and over the next 12 months, very much to Newmarch's surprise, Prudential managed to sell the remaining 500 branches.

Prudential's decision to withdraw was heavily criticised in the press and by other financial services companies with estate agency chains. However, within 12 months of Prudential's withdrawal others were being forced to close branches or exit the market – including some of the companies that had bought branches from Prudential. There was speculation that Newmarch or Corby should resign over the issue. However, as Newmarch had not been CEO when Prudential had built the chain and Corby was able

³⁸ On executive contradicts this view claiming that it was Newmarch who instructed Coopers Lybrand when he became CEO.

³⁹ Joe Bradley left Prudential at this time – One interviewee believed this was a result of Corby's decision to bring in Coopers Lybrand. Others suggest that Newmarch sacked Bradley during his 6 weeks as head of PPS.

to claim that changed market conditions had led to the about turn, this was never a serious consideration⁴⁰.

The move into estate agency was ultimately an expensive failure, however it is instructive as an example of strategic decision making during the Corby era. In the initial decision, we can see the company's recognition that it needed to change and its willingness to act quickly and flexibly when an opportunity presented itself. The informality of the strategic decision making process and the presence of challenge among the top management team are also apparent. However, the episode does raise questions regarding the Prudential's ability to implement and control initiatives.

The Continuing Rise of Investment – What Market are We In?

In the previous sections we described the role played by Mick Newmarch in challenging the strategic decision making process within Prudential. However, despite their disagreements, Corby privately expressed admiration for what Newmarch achieved within PPM and was ultimately to recommend Newmarch as his successor⁴¹. One executive stated that the selection of chief executive was formally the responsibility of the board. However, he suggested that Corby's control of the board was such that Newmarch was "undoubtedly Corby's appointment"⁴².

Newmarch had joined Prudential directly from school in 1955, initially, in the economics intelligence unit. Although not an Oxbridge graduate like many of his

⁴⁰ Interviews with two executive directors

⁴¹ Interview with an executive director

⁴² A view also held by two executives including one who championed Newmarch as Corby's successor.

colleagues, Newmarch was gradually absorbed into the mainstream of the investment operation. During this time, he took an economics degree by distance learning. During the 1960s and 1970s he progressed up through the investment area and by 1980 was heading up the international investment operation. In 1984, he became chief executive of PPM, the investment division created by Corby. Newmarch was appointed to the main board in 1985.

One interviewee indicated that Newmarch was particularly successful in running PPM stating that he “had done a good job, he took the investment side by the scruff of the neck and adapted it to the new world where the competition wasn’t the insurance companies anymore”⁴³.

The success of PPM while Newmarch was its managing director is highlighted by several of our interviewees. They referred to a number of initiatives to demonstrate how Newmarch had driven the division forward during this time – the successful and early introduction of unit trusts in 1985 and personal equity plans in 1987; an increasing involvement in the management of other company’s investment funds⁴⁴; and the restructuring of PPM into global units based on investment type⁴⁵.

The success of Prudential’s investment operation had increased in importance following the withdrawal of tax relief on life insurance premiums in 1984. This change removed the ‘fiscal advantage’ of life insurance in comparison to other savings products⁴⁶. Consequently, there was increased emphasis on the performance of life

⁴³ Two other executive directors also commented on Newmarch’s success as head as PPM

⁴⁴ For example British Rail and Unilever’s pension funds

⁴⁵ Prior to 1985 the investment operation was split into to areas – UK and foreign

⁴⁶ Interview with an executive director

policies, and therefore on investment returns. Within Prudential, it was recognised that the investment operation was central to its other activities and was leading the company into a wider range of financial service products. Increasingly senior managers in Prudential began to see the company as an investment and savings company rather than an insurance firm⁴⁷.

One of our interviewees feels that the recognition that the company was no longer an insurance company but a financial services company was an important factor in Newmarch's appointment as chief executive in 1990. He felt that Newmarch "fitted this broadening financial services field".

The Newmarch Era

Newmarch, like Corby, recognised that Prudential had to continue to change if it was to compete within the wider financial services market. Consequently, the Newmarch era showed considerable continuity with the previous five years - e.g. a continuing inflow of outside personnel, a shifting focus from life insurance to personal savings and the development of alternative distribution channels. The period also saw the continued rationalisation of the UK sales force leading in 1994 to the company ceasing to sell industrial life insurance. However, there were significant differences between the two eras, most notably the differing management styles and approaches to decision making.

⁴⁷ Interviews with four executive directors

Changes in Senior Management

Following Newmarch's promotion, Hugh Jenkins was appointed as head of PPM and as an executive director. Jenkins had formerly been head of investment at Allied Dunbar.

Newmarch created a new division in 1991 – Prudential Financial Services (PFS). PFS focused on all UK distribution other than that through Prudential's sales force and was formed from the merger of the Prudential Holborn (previously Vanbrugh Life) and Prudential Corporate Pensions. Keith Bedell-Pearce, previously head of operations and marketing in the UK division, was appointed as its managing director. Bedell-Pearce also became a main board director in 1992.

Michael Lawrence, Prudential's finance director, left in 1993 to join the Stock Exchange. However, his replacement, Jonathon Bloomer, was not appointed until January 1995, the same month that Newmarch resigned as chief executive. Bloomer, an accountant, joined Prudential after a 20 year career with Arthur Anderson.

In 1994 Tony Freeman, executive director of the UK division retired. Jim Sutcliffe, who had recently returned from Jackson Life, replaced him. Brian Medhurst also retired in 1994. At the beginning of 1995, the international division was placed under John Maxwell who joined Prudential from outside the financial services industry. Maxwell had joined Prudential in March 1994 as corporate development director, a role he retained in addition to his international responsibilities. However, the

American and Asian businesses were split off as separate divisions, under Bob Saltzman and Mark Tucker respectively.

Management and Leadership

Newmarch had long believed that analysis and decision making at a strategic level lacked structure and rigour. He saw the failure of the estate agency venture as ample proof of this weakness. Newmarch's wish to address this issue became a central theme of his tenure⁴⁸. With Michael Lawrence he introduced a wide range of formal controls and procedures, e.g. quality systems, key performance indicators and management development and succession plans⁴⁹. A formal appraisal system was also established whereby strategic proposals or requests for resources were scrutinised by the finance department. Newmarch would then be briefed on their analysis before he discussed the proposal with its originator.

A significant proportion of our interviewees felt that this increased formality was overdone⁵⁰. One interviewee argued that while the new approach was more rigorous, it slowed decision making and delayed change. Another suggested that the increased bureaucracy stifled innovation and initiative. He believed that if this regime had been in place in the 1980s then Prudential would have never been able to buy Jackson Life. Indeed, several large strategic initiatives were rejected during Newmarch's tenure – e.g. acquisitions of the Skipton and Cheltenham & Gloucester Building Societies⁵¹, and the French insurer, Groupe Victoire (later acquired by Commercial Union – see

⁴⁸ Interviews with four executive directors.

⁴⁹ Interview with an executive director.

⁵⁰ Interviews with four executive directors.

⁵¹ Despite acquisition of a building society being publicly stated as a key aim of Prudential.

Chapter 5)⁵². However, two interviewees suggest that the rejection of such opportunities was more due to Newmarch's unwillingness to take risks.

Newmarch's management style differed markedly from Corby's. All our Prudential interviewees describe Newmarch as being far more confrontational and argumentative than his predecessor. One senior manager believes that Newmarch liked having "people around him who said let's do this and he would challenge it and then you argued like hell and out came a proposition". An executive director described the interaction among the senior management team as a rugby match. He describes Newmarch as a second row forward in a ruck and "the ball is there to win, you go in for it and you bash around, you thump the other guy if the [referee] is not looking ... but it is not personal and at the end of the day you all go to the club house and have a beer together". This interviewee explained that Newmarch wanted people to argue with him and if his argument won, he expected you to accept it, but if yours won, he respected it. However, he was not willing to act unless he had his senior management team behind him. He would rather "shout and argue with [people] for another few days"⁵³ until they were convinced.

For many of the senior management team, this approach was highly inspirational⁵⁴. One interviewee describes how Newmarch "had a very strong personality but left people with a lot of dignity by arguing with and listening to people". He then went on to suggest that Newmarch "only put down people with the vehemence of his argument and the directness with which he said you were wrong".

⁵² Interviews with three executive directors.

⁵³ Interview with an executive director

⁵⁴ Interview with two senior executives.

However, some of the senior management team disliked this aggressive approach to challenge and argument, preferring “the cold calm logical discussions that characterised the Corby era”⁵⁵. One interviewee suggested that those people “not able to cope with the rugby match might have had good ideas but were unable to argue loudly enough”. Consequently a less diverse range of people contributed to the debate and hence fewer opinions or options were put forward.

Many of our interviewees indicate that the senior management of the UK division were the least comfortable with the new approach. Although hampered by the strength of the company's sales force, change within the UK operation had been initiated during the 1980s. However, Newmarch believed that it had been far too slow and was openly critical. One executive director believed that the problem was a cultural one. He explains that the UK team would interpret what Newmarch said as instructions rather than as the starting point for argument.

Several of our interviewees also indicate that the combination of Newmarch's style and the formal procedures began to change the relationship between the executive and other senior managers. They suggest that the atmosphere of trust that had been present under Corby was replaced by one of interrogation and confrontation. Our interviewees indicate that this breakdown in working relationships came to a head over the strategic review that ran between 1991 and 1992 (see below). In the wake of this “blow up”, Newmarch realised the need to get the senior management team to work together better and a substantial amount of time was spent building on how it worked together

⁵⁵ Interview with an executive director

and setting up some rules of behaviour towards each other”⁵⁶. One executive suggested that, in the wake of this exercise, relationships improved.

*In Search of Strategy – “Boiling the Ocean”*⁵⁷

Throughout Corby’s tenure, Newmarch had expressed concern over the lack of a formal corporate strategy, a feeling shared by others in the senior management group (e.g. Lawrence and Keeyes). However, while he had persuaded Corby to bring in consultants to advise on developing such a strategy, Corby had never been convinced of the benefits.

On becoming CEO, Newmarch was keen to correct what in his view was a failing and quickly appointed Laurel Powers-Freeling as head of strategy. Powers-Freeling was appointed in 1990 from Morgan Stanley where she had spent a couple of years as an investment banker. Previously she had spent 9 years with McKinsey as a strategy consultant in their insurance group.

Newmarch instructed Powers-Freeling to “build a capability to think about how Prudential should look in the future” and develop a strategy for the company “based on fact based analysis”⁵⁸. They agreed that Powers-Freeling should build an internal consulting group and initiate a substantial strategic review of the organisation.

⁵⁶ Interview with an executive director

⁵⁷ Interview with and executive director

⁵⁸ Interview with a senior manager

With Newmarch pushing for the review to be conducted quickly, the strategy team pushed on with their own studies and presented their findings to all the Prudential's senior management at a three day conference towards the end of 1991. However, the review was "torn apart by the businesses who felt completely alienated having not been asked for their input"⁵⁹. One interviewee admits the strategy team made some mistakes at this time, however he also suggests that there was some ill feeling because the strategy review had been "foisted on the other managers", who were by no means convinced that it was needed. Others suggest that most of the executive believed that a high level strategy was required and that it was the approach taken during this initial review that invoked the aggressive response. It was the conflict generated by the strategy review that led to the attempts to re-establish good relationships among the senior management team (see above).

The strategy team was forced to redo the analysis, this time invoking the help of the businesses. One senior manager believes that in the end, not much of the review had to change, but Powers-Freeling "had to work through it with each of the businesses until they were happy with it".

However, some were still unhappy about the process. One executive director commented that "people were left totally frustrated by the whole experience, it was such a time consuming and bureaucratic affair". Another suggests that internally it was referred to as "boiling the ocean". While a third suggests "that in the end [even] Newmarch became very scathing about it".

⁵⁹ Interview with an executive director.

The output of this second round of analysis was presented to Prudential's board towards the end of 1992. There is, however, considerable scepticism among our interviewees as to the value of what emerged. A current executive director believes that the strategy that emerged "stood [the company] in good stead". He suggests that the strategic initiatives that took place between 1993 and 1997 were "the result of the implementation of the strategy". Others, including Mick Newmarch, are less certain, feeling that the strategy was just a formalisation of what Newmarch had intended to do anyway⁶⁰. One executive director is more critical suggesting that "not a single thing came out of it" and indeed our interviewees did find it difficult to detail the strategy that emerged.

One executive felt that the review led to a number of strategic priorities being established. Prudential was to expand in the UK, USA and South East Asia, particularly China and withdraw from Canada and Europe. In the UK the review confirmed the need to develop alternative distribution channels, and proposed the acquisition of a building society, and the establishment a banking subsidiary. Withdrawal from general insurance in the UK and from reinsurance, by selling M&G⁶¹ were also recommended. However, the majority of our interviewees suggest that these initiatives were either in progress or were obvious⁶².

The recommendation to pull out of general insurance was resisted by the UK division⁶³. They believed that sales of household insurance enabled the sales force to earn reasonable commission levels which otherwise would have to be generated

⁶⁰ Interviews with four executive directors

⁶¹ One executive stated that M&G were never told of the decision. It was eventually sold in 1996.

⁶² Interviews with four executive directors

⁶³ Including three executive directors

purely by long term product sales. This part of the strategy was therefore dropped. Prudential did pull out of commercial general insurance in mid 1993, although according to one executive director this was not as the result of the strategic review but due to large losses. Another senior executive's comments support this view. He indicated that discussions about pulling out of commercial general insurance had been going on since the late 1980s and continuing poor performance forced them to act.

The decision to exit Europe was a reversal in policy. Under Corby, and driven by expectations of the creation of a single market in 1992, Prudential had bought a number of small insurance operations in EU countries. The intention had been to grow these businesses through the distribution of products already sold in the UK. However, the arrival of the single market did little to remove cross border barriers in the form of legislation, cultural preferences and access to distribution channels⁶⁴. These barriers were particularly marked in the long term insurance and savings markets. With little prospect of change in the near future, it was unlikely that the small operations that had been acquired would attain critical mass or exploit synergies with the UK operation⁶⁵. Hence, in the strategic review it was concluded that Prudential should dispose of its European subsidiaries, although one executive director suggests this had already been Newmarch's intention⁶⁶.

One interviewee indicated that once Europe was discounted as a target for expansion, they looked for other attractive geographic areas. He argues that "any objective view

⁶⁴ One executive, using a football analogy, described it as being like 'Chelsea playing Real Madrid in Madrid, with a Spanish referee and linesmen'.

⁶⁵ Interviews with two executive directors.

⁶⁶ One executive argues that Newmarch had been critical of the moves to buy small European companies in the 1980s.

[would have] led to the conclusion that the great growth area for savings markets was going to be South East Asia". Another executive agreed, commenting that South East Asia was "virgin territory where [Prudential] could establish its [own] models [of distribution]". Having made the decision to expand in this area, it was suggested that as local suppliers were "practically non-existent, the only real [entry] choice was organic [growth]". Prudential amalgamated its existing operations in Singapore and Hong Kong into a new division, and actively began to seek expansion in the area. Newmarch was particularly interested in the potential of the Chinese market and spent a considerable amount of time visiting China promoting Prudential personally.

Several of our interviewees are sceptical of the suggestion that the decision to expand in South East Asia had its origins in the strategic review. Three executive directors suggest that Newmarch already saw potential in China and "pushed very hard" for the strategic review to reflect that interest.

Once the new corporate strategy had been agreed, the top 100 managers in Prudential were briefed at a series of 2 and 3 day seminars and each manager was asked to sign up to it. Responsibility for achieving it was devolved to the divisions and the Powers-Freeling team was disbanded. An interviewee explained that the actual "strategy was pretty simple at the corporate level and didn't require a huge amount of review". Another executive, however, believes that Newmarch had become disenchanted with the highly regimented approach to decision-making and wanted to curtail the level of bureaucracy that had developed. Powers-Freeling moved briefly to a position within the UK division, before leaving Prudential.

Several of our interviewees suggest there were two reasons for the softening of Newmarch's views. Firstly, Michael Lawrence, who had with Newmarch championed a more formal approach to decision-making, had left. Secondly, Newmarch had become embroiled in a fight with the industry regulators (see below) and hence had less time available.

Contact with Other Insurers

Newmarch was highly dismissive of the value of insurance industry trade bodies such as the ABI and the 'Usual Friends'. He saw these groupings as having limited value to Prudential as it increasingly saw itself as a financial services company rather than an insurer. In addition, he was also concerned that some of the issues discussed at such industry bodies could be construed as rate fixing, possibly prompting allegations of anti competitive behaviour.

Newmarch was also highly critical of the performance of the other UK insurers. He was more concerned with monitoring the activities of the banks, building societies and foreign insurers such as AXA.

These strong views were shared by many of the senior management team, who also distanced themselves from contact with other insurers and nominated junior managers to industry committees. This led to claims of arrogance by the other insurers and even among the press⁶⁷.

⁶⁷ Interview with an executive director

Trouble with the Regulator

The last two years of Newmarch's tenure as chief executive were characterised by continuing disagreement between the company and the industry regulators. The origins of this conflict are found in the changes in regulation introduced by the Financial Services Act 1986. Prudential, while endorsing the aims of the act, had argued that there should only be one regulator rather than a range of self-regulating organisations, such as LAUTRO – the life assurance and unit trust regulatory organisation – under the umbrella of the Securities and Investment Board (SIB). The company felt the approach was overly bureaucratic and legalistic. Newmarch was highly critical of the system, claiming that the regulators acted as consumer champions rather than as industry regulators (Dennett 1998).

In 1993, a new body, the Personal Investment Authority (PIA) took over the functions of LAUTRO. Newmarch believed that the new authority would not overcome the problems inherent in self-regulation. In March 1994, Prudential opted for direct regulation under the SIB rather than the new PIA. This move put it at odds with the other insurers and met with considerable resistance from the regulators. Several of our interviewees suggest that the conflict with the regulator led Newmarch to resign as chief executive. One executive believes that while Newmarch's argument was correct, at that point, he really needed to be more conciliatory over this issue, but, despite counsel from Artus and Lawrence, he was unwilling to be so. The pressure to conform increased throughout 1994, and was compounded by allegations that Prudential had miss sold pensions and of financial impropriety on the behalf of Newmarch himself.

By January 1995, Newmarch felt that his relationship with the regulators had become untenable and resigned⁶⁸.

Peter Davis, Newmarch's successor, adopted a more conciliatory approach to the regulator⁶⁹. However, the allegations of mis-selling and claims for compensation have continued to haunt Prudential to the present day.

The Davis Era

After a 3 months period during which Brian Corby stepped in as chief executive, Peter Davis was appointed as Newmarch's replacement. Davis, although a non-executive board member since 1994, was the first chief executive (or equivalent) to come from outside the company in Prudential's history. On Davis' appointment Brian Corby retired as chairman and was replaced by Sir Martin Jacomb.

At the time of writing, Davis has been chief executive for five years⁷⁰, however only the first two years of his tenure fall within the period covered by our study. In terms of strategy content, these two years show considerable continuity with Newmarch's tenure. Shortly after his appointment, Davis confirmed that Prudential would continue to concentrate on the UK, USA and South East Asia. However, he also expressed a desire to look again at Europe and an interest in acquiring a building society and other UK life insurance companies. Plans to develop a banking subsidiary were brought

⁶⁸ Interviews with three executive directors. Also see Dennett (1998) and Prudential annual report 1995.

⁶⁹ Interviews with two executive directors

⁷⁰ Davis recently announced his intention to retire in 2000 and that his successor would be Jonathon Bloomer, Prudential's finance director.

forward, leading to the launch of a direct operation in 1996. Mike Harris, who had previously set up First Direct⁷¹, was appointed as head of the new banking operation.

Shortly after Davis' appointment, the UK division and Prudential Financial Services were combined. Jim Sutcliffe⁷² became chief executive of the new division while Keith Bedell-Pearce became its managing director.

In 1996 Hugh Jenkins retired as head of PPM and was replaced by Derek Higgs. Higgs had previously been with SBC Warburg. Geoff Keays also left in 1996.

Management Style and Leadership

While the content of Prudential's strategy showed continuity with the Newmarch era, there was a substantial change in the management approach and decision-making style adopted by Davis. One executive director suggests that Davis was far more willing to listen to the views of others and strive for consensus than Newmarch. He also indicates there was a greater willingness to take decisions based on intuition. However, once a decision is taken Davis did not expect it to be challenged. Our interviewee contrasts this with the quest for rigorous analysis and argument during Newmarch's tenure⁷³. Davis himself is reported as expressing a preference for taking decisions forward on an iterative basis by "involving people several times and taking account of their opinions"⁷⁴.

⁷¹ Midland Bank's telephone banking service

⁷² Sutcliffe left Prudential in 1997 to join Liberty International

⁷³ One interviewee indicates that while he believes this approach was effective he preferred the analytical approach and this was one of the reasons he left Prudential.

Davis' approach is replicated in his relationship with the company's non-executive directors. Newmarch had been keen to modernise Prudential's board and with Corby had been instrumental in introducing reform – reducing the size of the board and bringing on CEOs and other senior executives from other industries. However, he had been unwilling to involve the board in discussions on operational or strategic issues⁷⁵. Davis, having seen the frustration of many of the non-executives in the year prior to his appointment as CEO, adopted a more open approach.

The £2.9 billion purchase of Scottish Amicable, a large UK mutual life insurer, at the beginning of 1997 is indicative of the approach taken to strategic decision-making during Davis' tenure. It was also similar in many ways to the purchase of Jackson Life during the Corby era. In 1996, Davis had expressed concern that by relying on organic growth in the UK, Prudential was not developing quickly enough given the increasing rate of consolidation within the financial services industry. Following internal discussions both among the executive and with the board, Davis announced the Prudential's intention to seek growth in the UK through acquisition and expressed interest in buying other life insurance companies. A list of possible targets was drawn up and approval of the principle obtained from the board⁷⁶. As a result, when Scottish Amicable expressed its intention to seek a buyer Prudential was able to move quickly and without further recourse to the board in making a bid.

⁷⁴ Interview with executive director of Prudential.

⁷⁵ Interviews with two executive directors, also interviews conducted by Andrew Pettigrew with three Prudential executive directors.

⁷⁶ Interviews with two Prudential executive directors.

Summary

Our discussion of the key strategic issues has highlighted a number of strong themes in the Prudential case study material. Some of these themes showed continuity throughout our study period while others exhibit marked variation. Four of these themes showed continuity during the 1980s and 1990s – a continuing history of innovation and experimentation, the appointment of new senior managers from outside the insurance industry, a willingness to question and abandon the status quo and the increasing distancing of the company from its industry peers.

Prudential has a long history of innovative behaviour. Since its formation in 1848, the company has been in the 'vanguard of change' in the industry (Dennett 1998 and Barnard 1948). This readiness to adopt new practices and abandon old and established behaviour, even to abandon a cherished operation before its useful life has ended, continued into the 1990s. It is most clearly demonstrated by the company's willingness to first question and then abandon industrial life insurance, the product that until the 1960s had been the main factor in Prudential's growth. Indeed it was industrial life insurance that had made Prudential the largest insurer in the UK.

The large number of new senior managers brought into Prudential from outside the industry during the 1980s and 1990s is notable. This process had started in 1977 with the appointment of Tony Freeman as chief accountant and had two effects. Firstly, it brought new methods and ways of thinking into the top management team and secondly, in combination with the growing presence of executives with a background

in investment, it overturned the previous dominance of senior managers from the actuarial profession.

Among both the senior managers arriving from outside the industry and those who had spent their careers with Prudential there was a willingness to question current interpretations of the environment and of the firm. It is clear that in the 1980s the top management team was questioning the appropriateness of its traditional distribution channels and even its identity as an insurer. Concerned about the long-term future of the company, rather than driven by crisis, a vision of the company as a medium to long term savings company emerged. This vision was the logic behind most of the strategic moves undertaken in the 1980s and 1990s.

To achieve their goal, Prudential's managers were generally prepared to take action and try things⁷⁷. As the failed move into estate agency shows they were also willing to act quickly to correct errors, despite any embarrassment this might cause.

During the 1980s and 1990s the top management team became progressively more convinced of the lack of similarity between Prudential and the other UK insurers. By the 1990s the level of contact between senior managers and their peers in other insurers had been drastically cut and there was a reduced involvement of senior managers in insurance industry trade and professional bodies - subordinates were usually sent to industry committees and the like. In addition, the senior management had become openly critical of the financial performance of most other UK insurers.

⁷⁷ There is some evidence that during the early 1990s this willingness was tempered slightly, although any hesitancy was limited to large acquisitions.

While there was continuity in these issues throughout the study period, other aspects saw considerable change during the 1980s and 1990s. In particular, there were significant differences in the management style and approaches to decision making between the Newmarch era and those of Corby and Davis.

Under Corby there were, according to our interviewees, parallel management systems, which ran side by side. Within the operating divisions and the sales force, activities were closely controlled through formal rules and procedures. However, among the top management team, decision making was informal and devolved. Managers were able to float ideas among their colleagues freely and if they were supported, pursue them.

The expansion in the USA is indicative of the lack of procedure. The head of the international division believed that the company needed to be in the USA in a substantive manner and gained support from the CEO. His pursuit of this belief led to the acquisition of Jackson Life. While he sought approval at each stage of the acquisition, the process that was followed was 'made up by him' as he went along. The build up of the estate agency chain showed a similar lack of formal procedure with the result that the company lost control of its expansion.

Under Newmarch the strategic decision-making process changed dramatically. Formal systems and procedures were put in place in order to generate and analyse strategic proposals. Divisional executives prepared strategic plans that were then appraised by the finance department before being passed to the CEO. The CEO, armed with the finance department's comments, would then "interrogate the plan's originator". These

new systems cut back the freedom of senior managers to take decisions and increased the centralisation of strategic decision-making.

The pursuit of formality and rigour in decision making changed the nature of the interaction between the members of the top management team. Under Corby, a “collegiate” or “common room” style existed, where open discussion and challenge was the norm. However, challenge lacked personal rancour and was often “more akin to academic debate”. Corby was willing to listen to debate, even when his decisions were being attacked.

Under Newmarch, discussion among the top management team became far more aggressive. While debate and challenge continued, several of the senior executives were uncomfortable with the manner in which it was conducted. Consequently, they began to contribute less to discussion. Relationships between the top management team members began to deteriorate. This culminated in angry exchanges over the preparation of the strategic plan during 1992/93 and the taking of steps to rebuild working relationships through team building exercises.

During the Davis era a less confrontational style reasserted itself. Davis was keen to seek the opinions of other senior managers, although he was perhaps less receptive to his own decisions being challenged than was Corby.

Earlier in this chapter, we highlighted a number of factors that we suspected would influence strategic agility. These factors referred both to the ability of managers to act and to the internal context of the organisation. We suggested that a legacy of

innovative behaviour, the way in which strategic decisions are made and the level of contact between members of an industry group were factors at a contextual level that would affect agility. The characteristics of managers individually or as part of the top management team, and the way in which they work together were suggested as managerial factors. It is clear that these factors were significant components of the themes identified in the Prudential case study material.

We will now turn our attention to Guardian Royal Exchange and see if the same type of issues are apparent in our case study material for this company.

Chapter 7

Case Study Analysis - Guardian Royal Exchange

Introduction

In the last chapter, we discussed the first of our two case study companies – Prudential. We described the managerial and contextual developments within this consistent early adopter of strategy during the 1980s and 1990s. We will now turn our attention to a company identified by our cross correlation analysis as a consistent late adopter – Guardian Royal Exchange (GRE). As in the discussion of the Prudential case study, we will first summarise the key strategic moves made during the 1980s and 1990s and then discuss the managerial and contextual issues that relate to GRE's adoption of new strategies.

Guardian Royal Exchange

Orientation – Strategic Activity in the 1980s and 1990s

Peter Dugdale became chief executive of GRE in 1978 and remained in that position throughout the 1980s. In terms of strategic activity, this period was particularly quiet with the company focusing on organic growth despite its fairly strong financial performance. Notably, during the early 1980s, GRE entered an arrangement with Nationwide Building Society, whereby the building society was 'tied' to provide only GRE's life assurance products in association with its mortgages. This agreement meant that the long term business of GRE was heavily exposed to mortgage related

business. This became a problem when the housing market slumped at the end of the 1980s (see Chapter 4).

Towards the end of the 1980s, GRE sought to increase its speed of growth. In the UK it cut its premium rates and quickly grew its share of the general insurance market. Overseas, it began looking for acquisition opportunities and in 1989, bought an Irish motor insurer and three Italian insurers. However, two of the Italian purchases proved disastrous and GRE was forced to sell them in 1991.

In 1990, Peter Dugdale retired and Sid Hopkins became chief executive. Initially under Hopkins, GRE sought to continue its “dash for growth” and negotiations were begun to acquire further overseas operations. However, towards the end of 1990 it was becoming apparent that the general insurance market had deteriorated dramatically (see Chapter 4). Consequently, during 1990, 1991 and 1992 the strategic focus of the company changed from one of growth to one of survival. In 1991, it sold its business units in Barbados, Kenya, Trinidad and Tobago and New Zealand. In 1992, it took the major step of selling its Australian subsidiary to Zurich Insurance in exchange for shares in Zurich’s Australian operation (these were later sold back to Zurich in 1995).

Towards the end of 1992, the general insurance market began to recover and GRE began to contemplate growth again. In 1993, it bought Orion a small healthcare and personal lines insurer. It also bought a specialist motor insurer in the USA – American Ambassador.

In 1994, a direct telephone sales operation, Guardian Direct, was established and a further specialist motor insurer in the USA – National Insurance Corporation - acquired. 1994 also saw Sid Hopkins retire as chief executive. He was replaced by John Robins, who joined GRE from Willis Corroon, the insurance broker.

Robins initiated substantial staff reductions and the rationalisation of the company's distribution channels, which continued into 1995. In addition, the company was restructured to a divisional form based on geographic areas. During 1996, it purchased the RAC's direct insurance business and Legal & General's commercial lines business.

Since the end of our study period, GRE has acquired PPP, a large UK health insurer, which was merged with GRE's existing healthcare operation, established after the acquisition of Orion. In 1998, it was targeted for takeover by a number of firms and towards the end of the year was forced to put itself up for sale. GRE was eventually acquired by AXA in 1999.

The Company before 1980 – Tradition and Co-operation¹

Guardian Royal Exchange was a relatively new entity, being the result of the merger of Royal Exchange Assurance and Guardian Assurance in 1968. However, both companies had a long history, particularly the larger Royal Exchange Assurance (REA)².

¹ This section draws on a company history of REA written by Barry Supple and published in 1970. It should be noted that it was commissioned by the company and the forward is by Lord Kindersley, the then chairman of Guardian Royal Exchange.

² Royal Exchange was the fifth largest insurer in the UK in 1968.

REA and London Assurance were created in 1720 by Royal Charter to write marine insurance. The charter prevented other companies or partnerships from selling marine insurance, and so gave the two new companies a virtual monopoly. Individual brokers were however still able to operate through Lloyds and other coffee-houses (see Chapter 4). The charter also gave REA permission to enter the fire and life assurance markets. It entered the fire insurance market quickly in 1721, prompted by growing debts and the slump in the stock market following the collapse of the South Sea Company. Life assurance was not written until the 1790s.

By the mid 1750s REA along with the Sun Fire Office and the Phoenix dominated the fire insurance market. While competition was initially fierce between these firms, after 1775 co-operation became the norm as the firms acted together to set rates and drive new and smaller firms out of the market. Competition increased in the early 19th Century as a wave of new insurers emerged. This new group included Guardian Assurance (1821).

REA was dismissive of the innovations made by these new entrants. The introduction of more aggressive marketing, including the use of advertising was even seen as being distasteful (Supple 1970). New product types were also initially rejected, for example 'with profits' life insurance policies were not adopted until 1841, some 20 years after their adoption by firms such as Norwich Union. This pattern of caution and conservatism is a feature of REA's history since the beginning of the 19th Century. In 1890 the Post Magazine described REA as being "unconscious of its strength, or un-

ambitious to the extent that caution and timidity have been the ruling principles of its actions” (Post Magazine 1890/Supple 1970).

Despite the re-emergence of close co-operation among insurers and the establishment of the tariff system (see Chapter 4), by the 1890s it had become impossible to ignore the degree to which the company was lagging behind its competitors. For instance, its lack of commitment to overseas business meant that even “the veritable Sun Fire Office” (Supple 1970) had moved ahead. Changes in management in the 1890s brought a more enterprising period. It moved aggressively into overseas markets and saw rapid growth, particularly with the advent of accident insurance. Supple (1970) suggests that while the period 1890 to 1914 was characterised by change and modernisation, in the context of the industry these changes merely made up for lost ground.

While late to join the wave of amalgamations in the early 20th Century, REA did acquire National Provincial, a plate glass insurer, in 1909 and through its acquisition of Car and General (1917) and Motor Union (1928) built a strong position in motor insurance. However, there was little integration of these new acquisitions, or indeed co-ordination of the existing marine, general and life departments. In 1929 REA finally appointed a general manager, one of the last insurers to do so. However, the first general manager died within 20 months of his appointment and his successor ‘lacked the character and expertise’ (Supple 1970) to provide strong leadership. Even after the creation of the role of general manager, final authority remained with the ‘court of directors’. Supple (1970) suggests that REA had to wait until after the Second World War before powerful management authority was exerted.

Throughout the inter-war period, the company continued to emphasise stability and continuity and resist innovation (Supple 1970). For example, it was not until 1936 that REA began to mechanise its accounting system.

The post Second World War boom brought growth but also recognition that REA had again fallen behind its competitors. The appointments of Phelps as general manager in 1946 and of Walters (1954 – 1960) as his successor were significant during this time as they drove through the introduction of much needed co-ordination and control mechanisms. However, while their efforts created the pre-requisites for change, the company had yet to change significantly (Supple 1970).

In an attempt to regain lost ground, the Atlas was acquired in 1959. However, while this merger made REA the sixth largest insurer in the UK, the gap between it and the largest five continued to widen during the 1960s. The Atlas acquisition increased the pressure for change and Roberts (general manager from 1961 to 1966) was able to implement a greater degree of modernisation. Supple (1970) is, however, critical of the innovativeness of the company in this period, suggesting that the change that occurred was a reaction to external pressures rather than the result of being proactive.

The amalgamation with Guardian Assurance in 1968 was a significant departure from the past for REA. Although REA was the larger party, Guardian Royal Exchange was seen more as the merger of equals than as an acquisition. Supple (1970) suggests that while the merger was the most significant structural change in the history of REA it did not immediately produce far reaching change. However, the influx of Guardian

managers and staff, with different traditions and practices did trigger a more enterprising culture in the merged group.

The history of Guardian contrasts sharply with that of REA. Formed in 1821, it was one of many new insurers to challenge the dominance of the older firms such as REA and the Sun Fire Office, with innovations such as ‘with profits’ life insurance policies. This greater innovativeness and flexibility - in comparison to REA - continued through into the 20th Century - Guardian was one of the first non-specialist insurers to enter the accident insurance market (1897) and was an early mover in the amalgamations of the early 1900s and 1950s.

The difference in cultures between REA and Guardian did cause problems for their integration. Even in 1999, immediately prior to AXA taking over the combined group one of our GRE interviewees stated that many staff still saw themselves as “either REA or Guardian people”. However, under the strong leadership of Wilkinson, the combined group’s first managing director³, and his successor Bigland, integration was achieved and conflict suppressed⁴.

During the decade following the merger GRE saw a significant improvement in its performance and in the 1970s it ranked alongside Willis Faber as the UK stock market’s favourite insurance share (ABN AMRO Hoare Govett 1997). In 1978, Bigland retired as managing director although remained on the board. Peter Dugdale succeeded him as managing director.

³ The position of general manager was re-titled managing director and for the first time, a current executive joined the “court of directors”.

⁴ One of our GRE interviewees who joined the company during Bigland’s tenure described him as a highly successful autocrat who controlled everything that went on in the company.

The Dugdale Era

The 1980s for GRE was a period of stability and, in the opinion of several of our interviewees, stagnation. The stock market's opinion of the company plummeted such that by 1990 GRE was seen as the weakest of the UK's composite insurers. There developed a 'lingering suspicion' within the city that the company's fall was due to poor management (ABN AMRO Hoare Govett 1997). This view was also held by many of our interviewees, who expressed considerable annoyance that its poor image continued to persist in the 1990s, despite the presence of a new senior management team.

Our interviewees are critical of the lack of strategic change that occurred in the 1980s. One executive director, then a senior manager in the investment division and from 1990 investment director, believes that this lack of change and initiative ultimately led to GRE being taken over in 1999. He suggests that throughout the 1990s GRE was constantly trying to make up for the lack of progress in the 1980s. Another interviewee, then a senior manager within the UK division and from 1990 an executive director, agrees believing that the "group did not do enough in the 1980s".

The majority of the 1980s was characterised by organic growth as the individual divisions attempted to expand their businesses. For example, GRE's life operation focused its attention on the sale of life insurance policies to back endowment mortgages. Through low premium rates and a tie up with the Nationwide Building Society, this business rapidly expanded. However, the slump in the UK property

market and rising interest rates had a highly detrimental impact - significantly reducing the demand for mortgage related life insurance and increasing the default rate on existing policies. The focus on mortgage related business also meant that GRE missed the opportunities presented by the boom in demand for personal pension policies after 1986⁵.

One of our interviewees suggests that the reliance on organic growth was not a deliberate strategy. He suggests that within GRE it was widely believed that the “company could not get big enough by organic growth” alone and the only way it would achieve the size required was through acquisition. However, he indicates that while the chief executive accepted this need “he turned down any deal that came up”. This interviewee suggests that this unwillingness to pursue acquisitions was also present lower down the organisation. Potential opportunities would “just be knocked on the head within the corporate finance department” and never came to the attention of the executive.

Another executive director also suggests GRE did not pursue acquisitions to the extent that it should have done and consequently “opportunities were missed”. He suggests this was due to a reluctance “to do anything that would be unfriendly towards another player”. Hence, “a hostile acquisition was not on the agenda”. He describes his frustration at having worked on several possible acquisitions only to see them dropped.

⁵ Interview with an executive director

Another executive, who joined GRE at the end of this period, argues that the company “lost an awful lot of momentum in the 1980s”. He suggests that the organisation “had some very difficult decisions to make in the late 80s and failed to confront them”.

The passive environment of the 1970s and early 1980s coupled with the unwillingness to make acquisitions had allowed GRE to acquire a substantial level of surplus capital⁶. By the late 1980s, the company was coming under considerable pressure from institutional shareholders to make use of this surplus. It responded by initiating a series of overseas purchases. In 1989, it bought PMPA, the largest motor insurer in Ireland and three small life and non-life insurance companies in Italy. The Italian purchases were conducted in association with Italy’s second largest bank, Banco de San Paolo di Torino. The company also started to put in place an acquisition in Spain⁷. However, in 1990 this initiative was dropped.

The availability of surplus funds also persuaded the company to build its share of the UK motor insurance market by dropping premium rates. In 1989, total premiums for motor insurance grew although claims levels also increased substantially⁸. A few of our GRE interviewees believe that this “dash for growth” was unintentional. They suggest that the company failed to control the rates its sales agents were quoting. Premium levels were lower than they should have been and this attracted a lot of new business that was high risk. The severe slump in general insurance underwriting results in 1990/91 as the insurance cycle bottomed out meant that the initiative, whether deliberate or not was ill timed⁹.

⁶ Interview with an executive director

⁷ Interviews with two senior managers

⁸ GRE Annual Review 1989

⁹ Interviews with two executive directors

Management and Leadership

During most of the 1980s GRE was structured into 3 divisions – UK, International and Investment. The UK division was responsible for UK general insurance and life insurance worldwide. A general manager who was also a main board director headed each of these divisions – Sid Hopkins, UK; Michael Harris, International; and Norman Shepherd, Investment and Finance. These three executive directors and Peter Dugdale, the chief executive, had spent their entire careers with the company or prior to 1968, REA or Guardian. According to one executive director, who until the AXA take-over had also spent his career with GRE, this was common throughout the company, particularly at senior levels as “promotions tended to come from within”. Several of our interviewees suggest that staff were also unlikely to move outside their division¹⁰.

Several of our interviewees suggest that the divisions were highly autonomous. One suggested that this was not a deliberate policy, but the result of competition between the staff in each business. He also suggested that this was due to absence of challenge between managers, commenting that the attitude was one of “this is my area and it is nothing to do with you – so go away”. He went on to say that “if you did find or thought something wasn’t right, raising it wasn’t welcomed and could be career limiting”. Consequently, issues were “not pushed as hard as they should have been”¹¹.

¹⁰ Interviews with three executive directors

¹¹ A point also made by another executive director

One of our interviewees believed that the independence of the businesses was more political in origin. He likens the senior executive to “feuding barons” whom the chief executive was unable to control. He argues that “as a result, there was a complete power vacuum”. Yet as the principle of non-interference was institutionalised, there was very little open conflict within the organisation. Indeed, all our interviewees remarked on the friendly almost family or paternalistic atmosphere in the company.

The culture of non-interference was enhanced by the hierarchical nature of the organisation¹². One director suggested that communication within the company was dominated by vertical channels and hence the only way to influence what was happening in another division would be via your executive director and then through the board. Consequently, “there were no cross routes that were easily accessible”.

Despite the presence of a highly formal hierarchical structure, there were very few formal control processes¹³. Management control relied on direct supervision. It was suggested this was a throw back to the Bigland era and was not addressed until the arrival of James Morley, as finance director, in 1990. “Everything went up to Bigland and he made all the decisions, so there actually were no systems”. One senior executive commented on his surprise at the lack of financial systems when he joined GRE. He commented that “it was a considerable shock, I mean one of the interesting things about coming [to GRE] was that I would learn and expand my skills base, but it was rather the opposite”. He goes on to state that “when [he] walked through the door [he] went back 15 years in management science”.

¹² Separate dining rooms for staff, managers and senior executive were not abandoned until the arrival of John Robin as CEO in 1994.

¹³ Interviews with three senior executives

Contact with Other Insurers

Close contact with other UK insurers continued during the 1980s both via personal contact and through the ABI, the Usual Friends and other industry associations (see Chapter 4). GRE managers closely monitored the activities of other composite insurers, particularly Commercial Union, Sun Alliance, Royal Insurance and by 1990 General Accident. The main focus of this interest was on competing products and pricing and it was not unusual for a senior executive to complain to his opposite number in one of the other firms about premium levels offered to a specific customer.

The management of GRE at the time saw the company as being on a par with the other insurers. They did not believe they could learn anything from them¹⁴. Many “genuinely believed that everything GRE did was done in the best possible way and that there was nothing that could be learnt from anyone else”¹⁵. One of our interviewees suggests that this feeling also extended to specialist areas. It was indicated that the mistakes made during the acquisition of the Italian insurers during 1989 would not have occurred if GRE had not been so arrogant and had brought in outside investment bankers.

Strategic Planning

Until the end of the 1980s, GRE's strategy had been “fairly adhoc”¹⁶. Although the business continued to remain profitable, some of the company's managers were

¹⁴ Interviews with four senior executives

¹⁵ Interview with an executive director

¹⁶ Interview with a senior manager

concerned about the overall lack of strategic activity during the 1980s. They felt the company was not maximising its opportunities and was falling behind its competitors.

In 1988, Sid Hopkins was made deputy chief executive and it was announced that he would be Peter Dugdale's successor as chief executive. Hopkins was sceptical of the value added by some of the overseas operations and of GRE's head office¹⁷. He commissioned Spicer and Oppenheim, an external consulting firm, to undertake a review of the direction the company was going in and the structures currently in place. A joint GRE/Spicer and Oppenheim team was created which then set about reviewing the strategies and operation of the UK and overseas businesses. Against a background of continued financial strength, the team presented a set of general recommendations to a group conference at the end of 1989 - to expand the life insurance business and to "grow [its general insurance operations] in the UK, North America and Europe"¹⁸. Financial targets for each operation were also proposed. In addition, as a result of the review, a permanent centralised strategy team was created.

Two of our interviewees were part of this strategy team. They both expressed concern over the review. One suggested that the "process that was gone through [in the review] was simplistic and did not work in practice. It was typical consulting type stuff based on two by two Boston matrices". However, he believed some value was gained - "we didn't have a history of being strong in that area so for most people it was revolutionary. So it was a good start just to get you thinking about the issues". The other was more critical of the "reluctance to consider disposals or to be sufficiently ruthless about prioritisation".

¹⁷ Interview with a senior manager

¹⁸ Interviews with two senior managers

Events overtook further development of the strategy as in 1990 GRE's performance crashed and thoughts of growth were shelved.

The Hopkins Era

1990 was a year of change among GRE's executive directors. In May, Sid Hopkins replaced Peter Dugdale as chief executive. Dugdale, however, stayed on the board as a non-executive director. The two other executive directors, Michael Harris and Norman Shepherd, both retired. Caroline Burton replaced Norman Shepherd as head of investment. Jim McDonough became head of international and John Sinclair took over the UK division. Although, these new executive directors had spent their entire careers with GRE, indeed within their own divisions, they felt frustration over the lack of change that had occurred in the 1980s¹⁹.

Earlier in the year, James Morley joined the company as its first finance director. The disastrous Italian acquisitions²⁰ and the strategic review had prompted concerns over the lack of financial control systems. This led to an insistence by the board that the finance function be split off from the investment division and that an external finance director be brought in²¹. Morley had previously been finance director of Avis Europe and before that with Arthur Anderson.

¹⁹ Interviews with two executive directors

²⁰ One interviewee indicated that GRE lost a million pounds for every month that it owned its Italian subsidiaries. He described the Italian acquisitions as a spectacular folly which GRE tried to run with a charming man but who didn't speak a word of Italian.

²¹ Interview with three executive directors

Industry performance dramatically dipped with the insurance cycle in 1990 (see Chapter 4), however, because of its drive for growth in the late 1980s, GRE was in a poor position to weather this slump. After a record performance in 1989, the company suddenly reported its first ever loss in 1990. Some of our interviewees indicate that the seriousness of the company's financial position was a surprise to many senior managers. One interviewee suggested that it was only through the changes that James Morley had implemented in the finance function that the true extent of the situation was realised. Morley discovered a "£60 to £100 million hole in the reserves"²² and "was able to demonstrate to the board that unless things were done GRE was technically in deep trouble"²³. It was no longer a question of where to grow but one of survival.

Management and Leadership

As we have seen, the Hopkins era was characterised by the emergence of a new group of senior managers. Driven by their frustration at the lack of progress made in the 1980s they tried to make the firm more strategically active. These efforts were hampered by considerable inertia among other senior managers and within the organisation as a whole. The freedom to take initiatives was also restricted by the dire position of the company in the early 1990s. However, these financial problems were also a factor in forcing through unpopular decisions and in gaining acceptance that change was required.

²² Interview with an executive director

²³ Interview with an executive director

Our interviewees indicate that some of the executive directors - John Sinclair, Caroline Burton and especially James Morley - believed that change was over due. Other senior managers, while accepting that change was needed were less inclined to initiate that change. Several of our interviewees suggest that these conflicting views slowed decision-making. One of our interviewees went further suggesting that if there was conflict on an issue it would not be raised or would be put off indefinitely. One executive commented that within his “previous company decisions would take hours but at GRE they would take weeks even months”. Others indicate that attempts to reach compromise meant that an overall strategic direction did not emerge. Instead, the focus was on individual strategic initiatives in reaction to external pressures²⁴.

Another director was “surprised at the quality of the people” within GRE when he arrived, commenting that he “found a lot of very able people particularly in their technical expertise”. He suggested, however, that while many of the people were willing to embrace change “they lacked a vision of where the company wanted to go”. A second interviewee agreed suggesting that there was no vision of where the business was going or [of what] things to change”. While a third director saw the lack of an overarching vision as a big problem. He likened it to skipping a sailing boat in a strong wind where if you have a goal, “you can make sure you are always tacking towards it [but] if you haven’t you will end up being swept off the map”

Following Morley’s appointment, the number of people being appointed from outside the company and the insurance industry began to increase. Within the finance department, this inflow reached significant proportions. However, with the exception

²⁴ Interviews with four senior executives.

of the new direct operation, this flow was not dramatic elsewhere in the company. One director believed that these new appointments had less influence than many of his colleagues' claim. He argued that the "organisation is brilliant at neutralising change agents" and indicated that he "saw four or five people recruited in from outside [to stimulate change] go native within a month – change agents would be turned round into people who felt they had to protect the existing organisation". Three of our interviewees suggested that this ability to neutralise change agents was a result of the "family culture" that existed within GRE at the time. They suggested that agents of change "came in and found the good parts of that culture extremely attractive but were unable to sort out the good parts from the weaknesses and [hence end up] defending the whole thing"²⁵.

One of these interviewees also suggested that change was "stifled by a bureaucratic way of doing business". While a senior manager argued that the level of formal bureaucracy increased dramatically during the first half of the 1990s. This increase was partly due to implementation of new financial control systems. In addition, the UK head office wished to increase the level of centralised control. To this end it increased reporting requirements and began to set financial targets for each business centrally. Two senior executives suggested that this move to increase centralisation caused some tension between the UK headquarters and a number of the overseas subsidiaries. The "overseas managers saw themselves as chief executives of their businesses and did not welcome interference from London"²⁶.

²⁵ Interview with an executive director

²⁶ Interview with a senior manager

Contact with other insurers

The high level of contact between GRE's managers and those of the other UK insurers continued into the early 1990s. GRE also continued to "encourage its staff to partake in industry trade and professional bodies and to represent the business". The company saw itself "as a major player in the industry and felt it should take its fair share of working for the industry".

One interviewee who joined GRE during this period described the contacts with other insurers as "endless, it just goes on and on – numerous meetings and technical committees". Others suggested that while the contact with other insurers remained high the increasing competitiveness of the market meant that people were becoming more guarded about what information they passed on to their opposite numbers.

The company continued to view the other UK composites as its main competitors, i.e. General Accident, Commercial Union, Sun Alliance and Royal Insurance. These four insurers would be watched closely although there was no formal competitor monitoring and appraisal system.

Strategic Action

GRE extricated itself from the problematic Italian subsidiaries in 1991 and withdrew from a range of overseas markets including Barbados, Kenya, Trinidad and Tobago and New Zealand. Several of our interviewees indicated that James Morley drove

through these moves. One commented that “anything that Morley found that wasn’t nailed down was sold”.

With poor financial performance continuing in 1991²⁷, Sid Hopkins instructed the Strategy unit, now led by John King, to review the options available to the company. King produced a report at the end of 1991 detailing a ‘Survival and Recovery Strategy’. This appraisal was an attempt to identify core businesses and assess the minimum required size of overseas subsidiaries. The review cast doubts on the long term viability of the Canadian, New Zealand and Australian businesses. Disposal of the company’s Swiss reinsurance subsidiary was also recommended as it was felt it was too high a risk for a company of GRE’s size²⁸.

Two of our interviewees suggested the sequence of withdrawals in 1991 caused some tension among the executive. One of these executives recalls that while there was a general acceptance of the survival and recovery report, there was opposition to actually carrying it out. There was particularly strong resistance to the recommendation that the Australian subsidiary be sold.

Sid Hopkins was keen to find consensus among the executive over Australia and John King was sent out to investigate the subsidiary’s low profitability²⁹. He discovered that despite high sales, policies were being under priced. This apparent lack of management control convinced the executive that they should get out of Australia. One director indicated “it was a case that [the company] was hurting everywhere and

²⁷ If the company’s performance had not improved in 1993 GRE would have dropped below the statutory minimum solvency required for an insurer.

²⁸ It is unclear if the sale of the New Zealand subsidiary was the result of this review or James Morley’s urging.

²⁹ James Morley also visited the Australian subsidiary at this time to investigate the same issue

simply the management distraction of trying to sort out Australia would have probably killed the group”.

All of our interviewees, including those who had not at that stage joined the company, commented on the shock that this decision caused. One director explained that Australia had been in the group for over 150 years and was the first big divestment GRE had ever made, and hence no one thought it would actually be done. Another interviewee agreed, suggesting that most people thought “Australia was part of GRE culture” and “well yes they have produced all these documents and say they are going to do these things but none of it actually happens”.

Disagreement among the executive was not limited to the decision to pull out of Australia. One executive director indicated there was a fair amount of debate about the disposal process. He explained that despite the lessons of the Italian venture “[He] and James [Morley] had to bang the table and say this time it has to be done properly and with proper advisors”. He continued that “it was only because the two of us together insisted, a mixture of an outsider and a trusted insider who could together be deemed technical experts in this area, that things were done differently”.

In 1992, the Australian subsidiary was sold to Zurich Insurance, for a stake in their Australian operation. In 1995, GRE completed its withdrawal by selling this stake back to Zurich.

The performance of the industry began to improve in 1992 with the upturn in the insurance cycle (see Chapter 4). With this revival in fortunes, the board began to push

the executive to agree a new direction for the company and John King was detailed to develop a new strategic plan. During 1993, King arranged a series of “away days” for the executive directors in the company flat in West London³⁰. An executive described each of these meetings as a “full and open discussion, which continued until agreement was reached on each stage”.

The strategy that emerged was to “build on our core markets in the UK, Germany and the USA by building a wider range of products”³¹. At the same time it was the intention to maximise the profits stemming from Ireland and South Africa in both of which GRE had a high market share although in comparatively small markets. The company’s Canadian operation was again targeted for disposal. Some of our interviewees were critical of this review, seeing the result more as an eclectic list of proposed initiatives than a corporate strategy³².

An attendee at these reviews was critical of the speed at which the group acted to implement the new strategy. He suggested that there was a lack of “strong will to drive through [initiatives], especially disposals”. Despite pressure from John Sinclair and James Morley to move quickly there was considerable resistance from other senior managers.

³⁰ An executive suggests in total between 6 and 8 meetings were held

³¹ Interview with a senior manager

³² Interviews with three executive directors.

Two of our interviewees doubt that there was a clear strategy behind the moves that GRE made between 1992 and 1994. They suggested that the setting up of Guardian Direct (a telephone sales operation) in 1994 had been inevitable since 1990, but it had been delayed by the company's poor performance, and that the acquisition of Orion, a personal lines and healthcare insurer, in 1993 was "opportunistic". Two other interviewees, however, suggest that the UK division had been intending to move into healthcare ever since 1990. On his appointment as head of UK, Sinclair had instigated a review of the UK market and this had identified healthcare as a growth area. Concerned that it would take 3 years to develop its own capability, GRE approached PPP and BUPA³³ to distribute their products. Neither was interested in this arrangement and GRE had switched its attention to Orion. However, with negotiations well advanced, Orion was put up for sale by ING, its Dutch parent company. After initial approaches to acquire only Orion's healthcare operation were rejected, GRE acquired both the healthcare and personal lines businesses.

One executive director indicated that despite a very low price being agreed, clearing the Orion deal through GRE's executive and board required a "disproportionate amount of work". He suggested this was a result of the problems encountered in Italy.

³³ The two largest UK healthcare insurance providers in the UK

Guardian Direct

GRE's decision to launch Guardian Direct had its origins in the 1980s. Direct Line had launched its innovative telephone sales operation in 1985 (see Chapter 4). Initially, the UK's largest insurers, including GRE, did not take the new entrant seriously. Whilst "it was seen to be an interesting experiment" there was a feeling of "you wait till they have to deal with all the claims [then they will run into problems] - until people really get involved with insurance they really do not realise how difficult it is"³⁴. A senior manager explained that the insurers could not see "how they could service claims without a branch network – you had to have face to face contact". Although Direct Line began to thrive in the late 1980s, the traditional insurers were still unwilling to accept the new approach could be successful and began to suggest that the company was not managing its reserves properly³⁵. They also claimed that Direct Line was "cherry picking" low risk policyholders. GRE and the other traditional insurers were also afraid that if they followed Direct Line they would alienate their brokers, who at the time they saw as their main customers³⁶.

Within GRE, the strategic planning group first suggested that the company should establish its own direct operation in 1989/1990. However, this proposal met considerable resistance from the UK division who were "afraid of upsetting their existing business"³⁷. One executive commented that "it was another case of good intentions and slow execution".

³⁴ Interview with a Prudential executive director. A senior GRE manager made a similar comment concerning GRE's initial response.

³⁵ Interviews with three senior executives

³⁶ Interviews with four senior executives

³⁷ Interview with a senior manager

By the early 1990s, the viability of direct telephone distribution was incontrovertible. A number of GRE's traditional competitors such as General Accident and Royal Insurance were beginning to set up their own direct operations. In 1991/1992, John Sinclair, recognising both that the move into direct was inevitable and that there would be considerable opposition to such a move, began to plan the establishment of a "green field direct operation"³⁸. Eventually, GRE "built up the courage" to launch the direct operation. The move was sanctioned during the series of executive away days and put to the board in 1993. In 1994 GRE became one of the "last of the major UK insurers to put in place a direct operation"³⁹.

While GRE was one of the last large UK insurers to set up a direct operation, when it eventually made its move it was by all accounts well planned. John Sinclair had seen the problems experienced by others in their use of existing staff, working practices and systems. He believed the "key to success was a different culture". Consequently, a new location was chosen and a non-insurance senior executive recruited to head the new venture. This new executive, Ray Pearce, had come from marketing in American Express before being involved in setting up the Mortgage Corporation, a direct telephone mortgage provider.

With Sinclair's encouragement, Pearce was able to ignore existing GRE rules and procedures and establish a highly independent operation. New management and staff were recruited and a new set of working practices and customer service terms

³⁸ Interviews with three senior executives.

³⁹ Interview with two senior managers.

established. The start up was highly successful and by the end of 1998 GRE was the third largest direct insurer in the UK⁴⁰.

The Succession of John Robins

Sid Hopkins retired in June 1994 after 46 years of service with GRE and Royal Exchange. His successor was John Robins who joined from Willis Corroon, the insurance broker, where he had been since 1984. Previously, Robins had worked in a diverse range of industries having been group finance director of Fitch Lovell, chief executive of Bally (UK) and managing director of SNS Communications.

One executive director suggested that both James Morley and John Sinclair saw themselves as serious candidates to take over from Hopkins. However, according to other executive directors there was concern over their age. Both were in their mid to late forties and there was the prospect that if either became CEO they would be in the position for at least 10 years. Mindful of the lack of progress made in the 1980s, the board felt this was too long a period. It was therefore decided to “get someone in who was in their mid fifties for a five year slog and then give a chance to an internal candidate”. Another interviewee, however, suggested that the general belief around the company was that “the board would not decide between the two [internal candidates] because they didn’t want to offend either and so the easiest [route] was to get an external replacement”. He went on to add that “knowing [the board] that is probably the most likely explanation”.

⁴⁰ Recently doubt was cast on the risk profile of this business suggesting that the success was the result of under-pricing of premium prices rather than the quality of the operation.

An executive director suggested that the board's decision to go outside the company to appoint a new CEO was also the result of seeing the positive impact other outsiders, such as James Morley, had had in stimulating change.

The Robins Era

The Robins era was one of considerable change particularly in leadership style and among the company's top management. At the end of 1994 John King, the head of strategy left and in May 1995 Jim McDonough retired as head of international and as a director. McDonough had been with the company for 40 years.

In 1995, the group was restructured into six strategic business units: UK and Ireland, Americas, South Africa, Asia, Continental Europe and Investment. The heads of each of these divisions all reported to John Robins. John Sinclair remained head of the UK division and Caroline Burton head of investment. Volker Bremkamp, previously managing director of GRE's German subsidiary became head of the European division and Victor Yerrill, previously managing director of GRE – USA, became head of the Americas division. Both Yerrill and Bremkamp were also appointed to GRE's main board. The heads of the Asia and South African divisions were not made main board directors.

This new structure gave the operating divisions more autonomy and meant that the way in which the corporate centre worked with the operating units had to be reconsidered. The increased autonomy reduced the requirement for head office functions and staff at the centre were cut by a third.

One of our interviewees suggested that the restructuring, together with both the changes in management style and an increase in the external recruitment of staff had a radical affect on staff. He suggested that this “quickly changed the culture within the corporate centre” although in the process John Robins gained an “enormously bad reputation within the organisation”.

The changes implemented by Robins cut through many of the traditional norms and procedures. However, while reporting systems were made more concise the level of formality increased. The annual budgeting process was supplemented by quarterly reviews – business management reviews (BMRs). Standardised packs were provided to each business unit that forced them to report progress in a uniform manner. These packs would then be reviewed at meetings between the unit’s management and the corporate centre, which Robins would attend. One interviewee who attended some of these meetings indicated that “the management teams were put through a pretty hard time and told that they were not doing enough”.

Management Style and Leadership

All of our interviewees indicated that the appointment of John Robins as chief executive had a significant influence on GRE. Many saw him as being a catalyst for change. One executive director suggested that “change was needed, more than we had realised and [Robins] set about doing it... it was like a breath of fresh air, he was looking at things and driving them through”. Three other interviewees all agreed that

one of the main effects Robins had on the organisation was to dramatically speed up decision making and change.

An executive director indicated that unlike some previous chief executives “who preferred not to know bad news, [Robins] would never pretend a problem didn’t exist”. He was also prepared to drive through unpopular decisions. While another admired the way Robins drove through the overseas disposals he had been suggesting since 1991 against considerable opposition and inertia⁴¹. A third highlighted how Robins would “very publicly nail stakes in the ground say that we would do this by then, and having told the board we are going to do it, it had to be done”. He suggested that this would “keep the pace [of change] up and was a way to prevent decisions being deferred”.

Robins is described as a more aggressive and domineering character than his predecessors - one who expected others to follow his direction once he has made a decision. It was suggested that public challenge to his ideas was discouraged. However, most of our interviews revealed that privately he is open to persuasion and willing to change his mind.

Contact with Other Insurers

The close contacts between GRE and the other UK insurers continued under Robins. In fact, with his recent background in insurance broking Robins already had close relationships with many of the other firms. However, the new chief executive was

⁴¹ Despite Robins being the reason that this executive left GRE at the end of 1994.

“keen to make sure that GRE was not over supportive and putting up more than their fair share”⁴² of resources.

The influx of new people from outside the industry did reduce the degree to which the company was involved in the traditional industry and professional bodies. Many of these people preferred to develop contacts with their opposite numbers in the wider financial services field or the City.

Reviewing Group Strategy

On his appointment as CEO, Robins instigated a six month review of the company’s strategy. The review looked at both the geographic spread of the business and at its product lines and made recommendations as to which areas should be targeted (e.g. the USA) and which should be exited (e.g. Canada). In addition, an attempt was made to introduce more focus into the strategy. This focus was achieved by establishing a set of objectives which were then used to assess existing businesses and guide future initiatives⁴³. A senior manager suggested that this “radically changed the way they looked at things, such that instead of trying to do everything for everybody it became we will only do things that are sensible to do - this is what we are and this is what we are going to do”.

One executive director who was part of the review team described the three basic goals that were established. “Objective number one, the overriding objective, was to produce a return to the shareholders superior to that of the UK

⁴² Interview with an executive director

⁴³ Interview with an executive director

market”. “Secondly GRE is a decentralised operation, not a global business, and it was the responsibility of each business unit to manage its own affairs” and reflect different local circumstances and business needs⁴⁴. However, the group was to operate with one capital base with the centre allocating or withholding funds depending on profitability⁴⁵. According to this interviewee “the third objective was [that GRE] will only participate in markets where [it] can have an impact on that market”. It was believed that to have an impact GRE needed to be one of the top three in that market⁴⁶. However, there was considerable debate as to how the market or segment of a market should be defined. Another executive director commented that they “wished to be in regional niches where [they] could be in the first three [but] never defined what was actually meant by niche”. In his view the company was never able to clearly express its goals because a definition was never agreed.

A third executive director had a similar opinion, suggesting that there was not a “clearly articulated strategy that was understood by everybody – the manager in the pub was not able to explain what it was”. While a fourth was more critical commenting that “it was all very lovely on paper, but it was garbage when you looked at it”.

Two of our interviewees were less concerned about the lack of definition, believing that the setting of objectives helped to make the company far more proactive than it had been in the past. Tony Wyatt identified a number of strategic initiatives which were guided by the three objectives. The company sold its Canadian subsidiary in

⁴⁴ Internal report on GRE’s strategy produced following the 1994 review

⁴⁵ Internal report on GRE’s strategy produced following the 1994 review and GRE strategy statement published on GRE’s internet site. Also interview with another senior manager.

⁴⁶ Interview with a senior manager

1996 because of its small share of the market and despite being profitable. It adopted a policy of niche expansion in the USA⁴⁷. More recently, and after the end of our study period, GRE also bought PPP, the healthcare insurance provider, to become number two in the UK healthcare market.

One executive director was less convinced that GRE's actions were so deliberate. He suggested that what the strategic review did was to "eliminate what [GRE] was not going to do" and then allow enough flexibility so that "you can take advantage of opportunities as they present themselves". He pointed to the acquisition of Legal & General's commercial lines business and the RAC's direct insurance business as examples of this flexibility.

The biggest criticism made of the strategy developed during 1994 was that it assumed that GRE would be able to survive as an independent entity. Several of our interviewees believed that the company should have started looking for an alliance with an international partner at that time. The merger of Royal Insurance and Sun Alliance in 1996 forced GRE to look at the implications of consolidation within the industry. James Morley set up a study, Project Simon, to look at the options available. The merger of Commercial Union and General Accident in 1998 confirmed to many that the company could not remain independent. Although talks with a number of insurers were initiated, they came to nothing - partly reflecting GRE's poor image among institutional investors. In 1998 GRE essentially put itself up for sale⁴⁸ and was acquired by AXA. Several of our interviewees suggested that the take over of GRE was unavoidable. They believe that the lack of progress that occurred in the 1980s

⁴⁷ Our mapping study suggests that this policy actually started during the last year of Sid Hopkins'

combined with delays resulting from the slump in performance in the early 1990s meant there was just too much ground to be made up during Robins' tenure.

Summary

As in the Prudential case study there were varying degrees of continuity and change in the managerial and contextual aspects of GRE throughout the 1980s and 1990s. Like the Prudential case material there were a number of strong themes that ran through our interviews with GRE managers. Three of these themes showed little change during much of the study period – a history of conservatism and co-operation, a lack of questioning of what the firm did or how it did things and a low level of challenge and debate among the company's senior staff. A fourth theme saw considerable change over our study period – the locus and manner of strategic decision-making

As our discussion shows, GRE had a long history of conservatism. Change was generally only instigated when its management realised that the company was being left behind by its competitors. This continued into the 1980s and 1990s.

The company also had a long history of close co-operation with the other UK insurers. Its managers continued to have close relationships with their industry peers and had a strong presence in the various trade and professional associations and groupings within the industry throughout the 1980s and 1990s⁴⁹.

tenure as CEO.

⁴⁸ The Sunday Times 29th November 1998

⁴⁹ Our interviews suggest that John Robins even felt that the company was committing more than its fair share of personnel time to such groupings.

Throughout the 1980s and 1990s, GRE clearly saw itself as a composite insurance company, with a performance on a par with most of the UK's other large insurers. Certainly during the 1980s, many of its managers believed the it was at least as good as its competitors. However, during the 1990s the senior management began to admire the performance of General Accident and Commercial Union, and began to realise the company had fallen behind.

In the 1980s, many of the senior managers believed strongly that GRE's practices and processes were impeccable, even when (as the rejection of the use of investment bankers on the failed Italian acquisition showed) it came to expertise that not usually associated with insurers. The new cadre of managers who succeeded to senior positions in 1990, particularly the finance director, newly appointed from outside the industry, were more critical of the company's capabilities and more willing to question the way in which it did business. However, their attempts to initiate change were frustrated by the slump in the insurance market in the early 1990s, by the unwillingness among other senior managers to make substantive changes and by the high level of inertia throughout the organisation as a whole. The barriers to change began to breakdown as the flow of outsiders into senior management positions increased, particularly after 1994, and with the arrival of a new and forceful chief executive.

However, the concept of the company as an independent composite insurer was not seriously questioned⁵⁰ until the mergers of Royal Insurance and Sun Alliance in 1996 and Commercial Union and General Accident in 1998 (see Chapter 4 and 5). As a result, our interviewees suggested that the company succumbed to an unwelcome takeover and did not have having time to find a friendlier partner. This failure to question 'what the company was' and 'what it should be', was also behind the lack of a coherent and guiding vision for the company. While sporadic efforts were made to develop long term goals and guidelines, particularly during the Robins era, these efforts were still on going at the time of the AXA takeover.

Our case material indicates that during the 1980s GRE was highly segmented (Kanter 1985). Each division was highly autonomous and there was a culture, among senior managers, of non- interference in another's territory. One division rarely challenged the strategic proposals or activities of another. This lack of challenge was exacerbated by the hierarchical nature of the organisation, which meant there were few channels for communication between divisions. The only way to influence another division was at executive director level.

Things began to change following the arrival of a finance director from outside the industry in 1990 and the promotion of a new group of executive directors. However, there was still some resistance in some quarters, most notably within some of the overseas subsidiaries. There was also a tendency among some of the executive to defer discussion of controversial issues. Under John Robins, any opposition to

⁵⁰ In the early 1990s James Morley did at one point question the retention of GRE's life insurance operation however he received little support from other senior managers.

challenge or unwillingness to “grasp the nettle” was largely pushed aside - although some of interviewees suggest that challenging the ideas and decisions of the new CEO could be difficult.

There were significant variations during the 1980s and 1990s in the way decision-making processes operated in the company. Prior to 1980, the hierarchical nature of the firm meant that decisions were passed up the organisation for consideration or were avoided. Under Dugdale’s predecessor, this often meant to the CEO. During the 1980s the point of decision tended to be the divisional directors. While there were formal procedures in place for obtaining approvals, the company lacked centralised strategic planning and appraisal systems. After 1990, the new finance director began to put in place annual reviews of plans and budgets and a capital investment appraisal system. These new systems ran alongside existing controls and had the effect of significantly increasing the level of bureaucracy. Over the course of the 1990s, the older systems were rationalised, hence reducing the level of formality of strategic decision-making.

The changes in strategic control systems also had an effect on the degree to which decisions were centralised. After 1990, the involvement of the corporate centre in the decisions of the divisions and especially the overseas subsidiaries increased. Formal plans had to be submitted to the corporate centre, which were then analysed and assessed. The effect was to reduce the autonomy of the company’s business units, which in some cases caused considerable conflict. However, the restructuring of the company in 1995 into divisional form based on geographic regions resulted in fewer

decisions being taken by the corporate centre, although formal strategic control systems remained in place.

Like Prudential, our case study material for GRE indicates a range of themes that relate to the initiation and implementation of new strategies by the firm. Again these themes involve both the ability and capacity of managers and the context in which they operate. In Chapter 6 we identified a range of factors we suspected would influence strategic agility – a legacy of innovative behaviour, the way in which strategic decisions are made, the contact between members of an industry group and the characteristics of managers. From our discussion of the GRE case study, it is again clear that these factors were significant components of the themes we identified. However, in order to determine the relevance of these factors to the strategic agility of the two firms we must take two further steps. Firstly, we need to explore what existing literature has had to say on the influence of such factors and secondly we need to directly compare the findings of our two cases and focus more clearly on which factors influence strategic agility. These steps will be the focus of our next chapter.

Chapter 8

Strategic Agility and Receptive Contexts

Introduction

In the last two chapters, we have described the findings of our case studies of consistent early and late adopters of strategy. In both cases, a number of themes were apparent in our data which highlighted a range of managerial and contextual factors related to the adoption of new strategies. These themes included the effect of new managers coming in from outside the industry, the firms relationship with its industry peers, the nature of the strategic decision-making process and the characteristics and interaction of the top management team.

In this chapter, we will first review the innovation, institutional and contextual literatures to see the range of factors which may help to explain the strategic agility of firms. We will then describe the findings of the comparative analysis of the two case studies and identify the extent to which factors identified in these literatures explain the relative strategic agility of Prudential and GRE.

This chapter contains five sections. After this introduction, we will review the innovation, institutional and contextual literatures and show how these literatures may be used in the understanding of strategic agility. Section three describes the findings of the comparative case analysis. We detail four main factors that show significant differences between our two case study companies and were identified as having a influence on strategic agility. We also discuss the interdependence of these four

factors. In section four we argue that these four factors present dilemmas to managers in their efforts to increase strategic agility. The final section offers a short summary of Chapter 8.

Organisational Influences on Strategic Agility

Research on the Adoption of Innovations

The dominant perspective in the innovation literature proposes that firms will make a rational and independent choice as to which innovations to adopt, guided by a clear and certain view of the situation faced and the advantages provided by the innovation (Rogers 1983 and Abrahamson 1991). Abrahamson (1991) describes this approach as the efficiency choice model of innovation. He argues that an innovation may be adopted or discarded across a group of companies when the innovation addresses a similar performance gap in each company. The innovation will diffuse through a group rather than being adopted simultaneously (Rogers 1983).

The speed at which a company will adopt an innovation will be determined by the characteristics of the innovation and a number of contextual factors (see Mohr 1969, Zaltman et al 1973, Brown 1981 and Kimberley and Evanisko 1981). The internal contextual factors can be grouped into those that refer to the characteristics of the individual members of the organisation and those that refer to the character of the organisation.

The Influence of the Characteristics of Individuals on Innovativeness

Much of the innovation literature argues for the impact of the characteristics or traits of individual senior managers on an organisation's innovativeness (Mohr 1969, Kimberley and Evanisko 1981 and Wolfe 1994). This view of innovation assumes that certain individuals have personal qualities that predispose them to innovative behaviour (Slappendel 1996). Similar assumptions are found in the wider body of literature that addresses the influence of senior managers on firm performance (Finkelstein and Hambrick 1996, Smith et al 1994, Glick et al 1993 and Pfeffer 1983).

Hambrick and Mason (1984) argue that an individual's values and cognitive frameworks will determine their innovativeness and receptivity to change. Values are defined as an individual's broad tendencies to prefer certain states over others (Hofstede 1980). Personal values are conceptions of what the individual aspires to, while social values relate to what he or she finds desirable in others or in a social system, e.g. a company. Cognitive frameworks or maps refer to the cognitive limits and biases that influence decision-making. An individual's cognitive framework will determine whether and how new stimuli will be noticed, encoded and acted upon (Finkelstein and Hambrick 1996). The concepts of values and cognitive frameworks are closely linked - an individual will cognitively screen and interpret information to suit their values.

Hambrick and Mason (1984) suggest that an individual's values and cognitive framework are shaped by personal and professional experiences and highlight a range of 'observable experiences' such as age, tenure and formal education. The

'cosmopolitanism' of individual senior managers - the degree to which managers have contact with people outside the firm or industry or the diversity of a manager's experiences - is also widely highlighted by the innovation literature (Mohr 1969, Kimberley and Evanisko 1981, Rogers 1983 and Robertson and Wind 1983). The level of education attained and cosmopolitanism are consistently referred to as having a positive influence on innovativeness. However, the findings for the influence of job tenure are mixed. Some writers assert that longevity in a job or company increases the individual's legitimacy within the organisation and knowledge of how to influence the internal systems and politics in order to achieve a desired outcome (Rogers 1983 and Rogers and Shoemaker 1971). Others argue that new senior managers will bring fresh perspectives and views and are hence more receptive to innovation and change (Kimberley and Evanisko 1981 and Damanpour 1991).

Organisational sociologists warn of the dangers of reductionism inherent in identifying personality traits as determining organisational behaviour (Perrow 1970 and Kimberley 1981). In addition, as Balbridge and Burnham (1975) show, a person's organisational role and position may overshadow their individual traits (Slappendel 1996). However, the research findings consistency indicate that individual attributes such education, age and cosmopolitanism cannot be ignored (Kimberley and Evanisko 1981).

March and Simon (1958) and Weick (1995) argue that the effect of these cognitive limits and biases is to limit or bound rationality in decision-making. They indicate that these limits influence both what information is comprehended and how it is acted on. However, where the innovation literature has adopted the concept of bounded

rationality, it relates only to information search and sensemaking among individuals. Hence, the literature recognises that the innovations considered for adoption will be restricted due to the limited scope of information search activities and the cognitively bound nature of the interpretation of that information. However, the decision to adopt an innovation and the implementation of that innovation are then seen as being highly rational (Van de Ven 1986 and Slappendel 1996).

March and Simon (1958) argue that cognitive limits and biases exist at several levels of analysis – individual, political and organisational. However, the innovation literature has tended to concentrate on the influence that the traits of individual leaders have upon the innovativeness of an organisation. Slappendel (1996) indicates that this has been overdone and that innovation researchers should pay more attention to the beliefs and values of the senior management team as a whole rather than those of individuals. Hage and Dewer (1973) and Bantel and Jackson (1989) show that the values and composition of the dominant coalition or elite management group within an organisation have more influence upon its innovativeness than the values of individual executive directors or members of staff.

As Slappendel (1996) implies, research that focuses on the influence of the firm's top management team upon innovation is limited. However, a more extensive body of findings is provided by research on the influence that top management teams have upon organisational performance (e.g. Hambrick and Mason 1984, Hamel and Prahalad 1994, Finkelstein and Hambrick 1996 and O'Reilly et al 1993). As with the work on the innovativeness of individuals, researchers have concentrated on the traits

and characteristics of senior managers, although it is the aggregate and degree of heterogeneity of those characteristics that is the focus.

Personal traits such as age, company and industry tenure, education and functional background are considered (see Bantel and Jackson 1989, Simons 1995). Low average ages, short periods of tenure and high educational levels are found to correspond to a high receptivity to innovation and change within the organisation and a willingness to take risks (Wiersema and Bantel 1992).

The small group of studies that relates directly to innovation indicate that heterogeneity or diversity of personal traits positively influences innovation and creativity (Bantel and Jackson 1989). However, within the wider performance literature the findings are mixed (Smith et al 1994 and Miller et al 1998). Glick et al (1993) and O'Reilly et al (1993) argue that such inconsistency is not surprising as diversity within the top management team can generate contradictory effects. On the one hand it can increase conflict and inhibit the emergence of a strong culture, good communication and cohesion. On the other hand, it can stimulate change and creativity, improve environmental scanning and generate more informed decision-making.

Several researchers have attempted to resolve this contradiction. Priem (1990) advances a curvilinear relationship between diversity and performance, with extremes of homogeneity or heterogeneity being detrimental to performance. Eisenhardt and Schoonhoven (1990) and Glick et al (1993) propose a contingency model where the degree of turbulence in the firm's environment determines the appropriate level of

diversity. They find empirically that in a turbulent environment a higher level of diversity among the top management team has a positive influence on firm performance. Other writers (Finkelstein and Hambrick 1996, Simons 1995 and Smith et al 1994) have highlighted the importance of group dynamics and processes in enabling the positive effects of top management team diversity, an issue we will return to later in this chapter.

The Influence of the Characteristics of Organisations on Innovativeness

The influence of organisational variables on the innovativeness of an organisation has received considerable attention. Mohr (1969) suggests that the emphasis of this work has been subtly different from the emphasis of the research that addresses the influence of individual members of the organisation. The research on the influence of the individual member of an organisation has tended to concentrate on their creativity or inventiveness. Studies on the influence of organisational variables tend to exclude creativity and focus instead on the firm's adoptiveness of something 'non-traditional' whether it was invented within the firm or elsewhere. However, it is unclear where individual creativity ends and adoption begins, or when the modification and adoption of an idea or innovation originating elsewhere becomes an invention in itself.

The most frequently investigated organisational determinants of innovativeness include the degrees of centralisation and formalisation of the organisation's decision-making processes (Mohr 1969, Kimberley and Evanisko 1981 and Damanpour 1991). The impact of these attributes on the speed of adoption of an innovation is however determined by a number of moderating variables – type of organisation, type of

innovation and stage of innovation. Damanpour (1991) in a meta analysis of previous innovation studies demonstrates that organisational form is the primary contingent variable, with type and stage of innovation as the intermediate variables

Bringing together earlier empirical work that takes an organisational level view, Damanpour (1991) indicates negative relationships between innovativeness and the degrees of formalisation and centralisation, a finding that supports Roger's (1983) classic work on innovation diffusion. However, Damanpour's research also shows that the implementation stage of the innovation process requires a higher degree of formalisation and centralisation than the initiation phase. Indeed a considerable body of literature (e.g. Zaltman et al 1973) indicates that increased formalisation and centralisation enhance innovation implementation.

Van de Ven (1993) and Eisenhardt and Tabrizi (1995) point out that at any point in time an organisation is likely to be in the process of adopting several innovations, each at a different stage of initiation and implementation. The organisation's innovativeness will depend on its ability to address the different requirements of each phase of adoption simultaneously. Thus, while decreases in formalisation and centralisation may increase innovativeness in the initiation phase, there will be a point at which this relaxation of control will disrupt implementation. This suggests that both high levels of formalisation and centralisation and excessive levels of decentralisation and adhocracy will reduce innovativeness.

Summary

The innovation literature thus provides a number of predictions about the emergence and diffusion of common business strategies. Common strategies will occur when there is an obvious opportunity or threat to which there is an equally obvious response. Each company's strategic agility will be determined by a variety of organisational and individual factors, which include the characteristics and diversity of the firm's top management team and the degree of centralisation and formalisation of decision making. Early adopters will be those firms that are able to balance the competing demands of strategy initiation and implementation.

Diffusion models of innovation have their detractors. Pettigrew et al (1992) argue that diffusion models tend to assume that the benefits and methods of implementing the innovation are clear and non-contentious. While such situations may occur with technical innovations, in the majority of cases of strategy innovation the pay off matrix is unlikely to be so clear cut (see Spender 1993). Increasing levels of uncertainty will emphasise the effect of institutional influences (DiMaggio and Powell 1983 and Abrahamson 1991). If an innovation has no clear advantages or disadvantages an organisation will seek to legitimise its actions by adopting or retaining practices that fit prevailing social norms.

The Institutional and Contextual Perspectives

Institutionalism provides a less rational picture of how strategy types appear and are diffused within an industry. This body of literature emphasises the role of mimetic

behaviour in explaining patterns of innovation in an industry (DiMaggio and Powell 1983). The institutional perspective provides a mechanism by which an innovation can diffuse through an industry group when there is no clear necessity or obvious advantage for its adoption. Opinion leaders are envisaged adopting or abandoning a particular initiative that is then consciously or unconsciously copied by others (Abrahamson 1991, Haveman 1993 and Greve 1995). As increasing numbers of organisations which are 'structurally equivalent', i.e. undertake similar activities and approaches, adopt the initiative it becomes increasingly institutionalised (Burt 1987 and Djelic and Ainamo 1999). This increases the pressure to conform, leading additional firms to adopt the initiative.

In assessing the speed with which a firm adopts a new initiative, two issues must be addressed. Firstly, what determines the threshold level at which old institutional pressures are overcome and a new approach adopted? Secondly, which organisations will act as opinion leaders within an industry group?

The threshold level will reflect the degree to which an organisation is embedded within the dominant macroculture or institutional field operating in its environment. Strang and Meyer (1994), Abrahamson and Fombrun (1994) and DiMaggio and Powell (1983) argue that embeddedness is determined by a number of interrelated factors. These include the degree to which the organisation is connected within its institutional field, its perceived similarity to other members of this field and the diversity/complexity of its activities. Drivers of these factors will include similarity of education and career background of key decision-makers and the degree to which they participate in trade and professional associations (DiMaggio and Powell 1983).

Greenwood and Hinings's (1996) discussion of the interplay of intra-organisational dynamics allows a deeper insight into factors explaining the embeddedness of a firm in its industry. They state that change initiatives are more likely to be adopted where there are internally competing patterns of values and a fluctuating balance of power between sets of actors within the dominant coalition. A variety of interpretative mind-sets, whether stemming from different professional or career backgrounds, will disrupt the influence of a single institution field. A changing balance of power between value sets, perhaps arising from the appointment of a new chief executive, will allow new ideas and approaches to gain favour.

Greenwood and Hinings' (1996) model provides a way in which new types of initiatives can overcome resistive normative and cognitive pressures. However, for the initiative then to diffuse through an industry, the first mover must also be an 'opinion leader or fashion setter' (Haveman 1993 and Abrahamson 1991).

Haveman's (1993) empirical study of savings and loans companies in the US is one of the few to address this issue. In attempting to isolate which organisations are the leaders, she finds that 'large organisations are especially strong role models for other large organisations'. She also contends that those organisations perceived as being profitable serve as role models for all organisations. These findings imply that the most profitable organisations within a group will appear to be the early adopters, no matter what the nature of the strategy being adopted. The above average performance of Prudential and General Accident and their identification as early adopters in Chapter 5 provides some support for this notion. However, what is not clear is

whether they are early adopters because of their performance, or whether their performance was the result of being early adopters – the innovation literature (Damanpour 1991) and the work of Lieberman and Montgomery (1988 and 1999) and Kerin et al (1992) would suggest the latter.

At its core, the institutional perspective provides a model of adoption that is socially deterministic. However, more recent literature in this area has begun to recognise a role for managerial action. Oliver (1991) puts forward a number of strategies that management can pursue in response to institutional pressures. Greenwood and Hinings (1996) argue that in addition to the dynamics of the dominant coalition, the adopting organisation must also possess a capacity to implement the change. This view, for which there is growing support, signals a role for both management agency and structuralism, a duality that is at the heart of the work of Giddens (1979) and of contextualism (Pettigrew 1985, 1990).

The focus of the contextualists is on the interplay between internal and external factors on the birth, evolution and development of strategies within firms (Pettigrew and Whipp 1991). In this view of innovation, managers are seen as being capable of mobilising aspects of the inner and outer context in order to reconfigure the pattern of attachment to different strategic alternatives. Such dynamics are revealed through an exploration of the links between the context, content and process of strategy over long periods of time (Pettigrew 1985). Strategies will be adopted as a result of key individuals recognising opportunities or threats in the company's environment and convincing others in the controlling dominant coalition of the accuracy of the interpretation and appropriateness of the proposed response. Implementation of the

strategy rests with the ability of the dominant coalition to mobilise the required resources.

The ability of the firm to adopt a new strategy will be bounded by the context of the firm including the external environment, and the quality of internal attributes such as leadership skills and human resources (Pettigrew and Whipp 1991). In the event of a change in the environment, the organisation which first perceives and interprets this change, and then mobilises the appropriate resource will be the quickest to respond.

A similar contextual perspective is provided by a co-evolutionary view of organisations (Baum 1996, McKelvey 1997 and Lewin et al 1999). This view describes organisations, their populations and their contexts as co-evolving as a result of the interplay of managerial actions, institutional influences and environmental phenomena (Van den Bosch et al 1999).

Lewin et al (1999) use March's (1991 and 1995) idea of organisational adaptation to link their co-evolutionary view to innovation and organisational learning. March (1991) describes organisational adaptation in terms of a dichotomy between exploration of new possibilities and the exploitation of old certainties. Exploration is associated with innovation and experimentation, while exploitation involves the refinement and elaboration of existing ideas. Levinthal and March (1993) argue that the long term survival of an organisation depends upon it 'engaging in enough exploitation to ensure the organisation's current viability and in enough exploration to ensure its future viability'. They argue that there must be a balance between exploration and exploitation to ensure its survival.

Lewin et al (1999) argue that firms tend to favour exploitation, as it will produce short term improvements in performance. However, over time the advantages provided by a history of such over-emphasis will decay. In contrast, they assert that firms that have a legacy of higher rates of exploration will continue to be more innovative and be more likely to generate above average returns.

While the concept of exploration and exploitation is intuitively attractive, it is not without its problems. In particular, it raises questions concerning the identification of innovation, i.e. to what extent must a new practice be new and to whom must it be new before it is an innovation and therefore an explorative move. As Schumpeter (1934) pointed out innovations are always some combination of the new and the old.

Pettigrew (1999) argues that the concepts of exploration and exploitation have failed to address key questions regarding the 'micro processes of choice and change as firms struggle to exploit and forget their histories and invent their futures'. Researchers adopting the co-evolutionary view have also tended to ignore these issues, concentrating instead on populations of firms and the relationship between exploration/exploitation and firm performance (see Frese and Theuvsen 1997 and Hunter et al 1996)

An exception is provided by Van den Bosch et al (1999) where co-evolution and the exploration/exploitation dichotomy is linked to a firm's capacity to evaluate and utilise 'outside knowledge'. Drawing on Cohen and Levinthal's (1990) concept of 'absorptive capacity', they define three dimensions of knowledge absorption –

efficiency, scope and flexibility. Efficiency refers to how firms identify, assimilate and exploit knowledge. Scope is the breadth of the knowledge the firm draws upon and flexibility refers to the extent to which the firm can access additional knowledge and reconfigure its existing knowledge. Van den Bosch et al (1999) link efficiency of knowledge absorption with exploitation and scope and flexibility in absorption with exploration. They argue that in a stable environment organisations need to concentrate on improving the efficiency of knowledge absorption, while in a turbulent environment they must increase the scope and flexibility of their absorptive capacity.

Overview of the Organisational and Individual Influences on Strategic Agility

Our review of the literature indicated that research on innovation, institutionalism and contextualism offer explanations of the development of patterns of strategy in an industry and what determines which firms are early and late adopters.

The innovation literature offers three hypothesis relevant to our study. Firstly, the efficiency choice view (Abrahamson 1991) of diffusion affirms that for a strategy to be adopted by all members of an industry group there must be a clear opportunity or threat and the benefits of that new strategy must be equally obvious. Secondly, the demographics of the top management team will partly determine the company's receptivity to new initiatives. Early adopters will be those firms with a high level of diversity in the traits and characteristics of their senior managers. Finally, the innovation literature indicates that a number of internal organisational factors will influence the strategic agility of the firm. Initiating and implementing innovations

place conflicting demands on the organisation in terms of the appropriate degree of centralisation and formality (Van de Ven 1993 and Eisenhardt and Tabrizi 1995). Early adopters will be those firms able to accommodate these conflicting requirements.

An institutional perspective also provides additional hypotheses to explain the diffusion of strategy through an industry. Haveman (1993) argues that members of an industry group will tend to imitate, either consciously or unconsciously, the actions of the largest or most profitable firms in that group. The speed at which firms will adopt new initiatives, and therefore whether they will be an early or a late adopter, will be influenced by the degree to which they are embedded within the prevailing institutional field or industry macroculture (Abrahamson and Fombrun 1994, Greenwood and Hinings 1996 and Oliver 1991). The degree to which embeddedness varies between organisations depends on a variety of factors. These include the connectedness of the organisation to other members of the industry group, the extent to which the firm perceives itself to be similar to other organisations in the industry and the homogeneity of management within the firm (Strang and Meyer 1994 and DiMaggio and Powell 1983).

Greenwood and Hinings (1996) suggest that an organisation is more likely to adopt new ideas and abandon institutionalised practices if among the firm's dominant coalition there are competing mindsets or values, a dissatisfaction with the current strategic direction and performance and fluctuations in the balance of power between interest groups in the firm. While such factors may allow new approaches to become accepted within the organisation, management must possess the ability to implement change if the firm's behaviour is to alter.

The contextual view goes further in recognising the role played by management capability. This literature (Pettigrew and Whipp 1991 and Pettigrew et al 1992) indicates that whether a firm is an early or late adopter will partly be determined by its management's ability to sense and interpret signals from the environment and then initiate an appropriate response. The ability of management to assess its environment and the range of possible actions it can take will be shaped by the environment in which it operates, including its institutional context. However, such delimiting factors on change may be overcome by managerial action directed to build more receptive contexts for change (Pettigrew et al 1992).

A contextualist perspective is also taken by researchers adopting a co-evolutionary view (Baum 1996, McKelvey 1997 and Lewin et al 1999). The focus of this work has been on March's (1991 and 1995) concept of exploration and exploitation and its link to firm performance. However, it does imply two determinants of strategic agility. Firstly, firms with a history or legacy of innovation are likely to continue to be innovative (Lewin et al 1999). Secondly, the ability of firms to absorb knowledge concerning their context will influence their adoptiveness. In a turbulent environment, those firms which have a wide knowledge base and can quickly assimilate new knowledge or reassess existing knowledge will be more responsive (Van den Bosch et al 1999).

Table 8.1 summarises some of the factors that the innovation diffusion, institutional and contextualist perspectives suggest will influence the adoption of common business strategies across an industry group

Perspective	Driver of Common Strategy	Determinants of Adoptiveness	Identity of Early Adopter
Innovation Adoption	Obvious opportunity or threat to which there is an equally obvious response.	Organisational and individual attributes, including TMT demographics and diversity, and degree of formalisation and centralisation.	Diversity among top management team. Balances organisational demands of initiation and implementation.
Institutionalism	Normative and cognitive mechanisms in uncertain environments.	Degree of embeddedness in the dominant macroculture or institutional field. Connectedness and perceived similarity. Presence of competing value sets and changing balances of power.	Relatively low level of embeddedness and position as opinion leader. Opinion leader perceived as successful/ profitable.
Contextualism / Co-evolution	Options bounded by organisation's context.	Managerial ability to scan and interpret the environment and mobilise resources to enact change. History of exploration and high absorptive capacity.	Organisation most proficient in interpreting and responding to change in the environment.

Table 8.1 – Adoption of Common Strategy Content – Summary of the Literature

Cross Case Analysis

In Chapter 6 we highlighted a number of organisational level factors that we thought could be related to the strategic agility of a firm. Our analysis centred on four sets of factors – the way in which strategic decisions were made and implemented, the influence of the firm's interaction with other companies in its industry, the composition and interaction of the firm's top management team, and the impact of individual managers. It was clear from our discussion of the case studies that these factors were important components of the main themes identified in the case study material. Our review of the innovation, institutional and contextual literatures has

shown that they influenced both the speed of adoption of innovations and firm performance. We also used this literature to predict which organisational level factors would influence strategic agility. We will now begin to focus on particular factors and, by comparing the two case studies, identify those that influence strategic agility.

Our comparative analysis was an ongoing process of identifying those differences or contrasts between the two case study companies that related to strategic agility. We were helped by the fact that there were variations in agility over time in both of the two companies (see Chapter 5). This meant that by comparing the cases we were able to identify factors that influenced strategic agility. We could then check that they were significant by using them to explain the variations over time.

As our inductive analysis continued, four interlinked factors began to emerge which seemed to explain the relative strategic agility of Prudential and GRE. These four factors were well supported in the innovation, institutional and contextual literature and strongly evidenced by our interviews. As they emerged, we began to explore them with our interviewees and found that their hypothesised relationship with strategic agility received strong support. The four factors were 'degree of formalisation and centralisation of strategic decision-making', 'embeddedness within the industry macroculture', the 'internal dynamics and individual characteristics of the dominant coalition' and 'capacity for action'.

We will examine each of these four factors in depth using the contrasts between our two case studies and the variations through time in each case to show how they emerged and how they are linked to the literature.

Degree of Formalisation and Centralisation of Strategic Decision-Making

The first factor that emerged in our analysis, which showed significant variation both between our two companies and over time, was the degree of formalisation and centralisation of their strategic decision-making. From our review of the innovation literature (Damanpour 1991), we would expect that the more formal and centralised the strategic decision-making is within the organisation, the less strategically agile the firm. However, if decision-making becomes too informal or too decentralised, we would expect the implementation of strategies to suffer.

Our interviewees were highly consistent in how they described the degree of formalisation and centralisation that existed in each organisation and how it varied over time. Figures 8.1 and 8.2 demonstrate both the differences between the two companies and the differences between three time-periods. These time periods were 1981 to 1990, 1990 to 1995 and 1995 to 1996 for Prudential and 1981- 1990, 1990 to 1994 and 1994 to 1996 for GRE.

These figures were produced by coding the interview transcripts according to the answers they provided to two questions, the responses to which would indicate the degree of formalisation and centralisation. For example, one of the questions was 'Was strategic decision-making formalised?'. Four responses were possible, 'yes', 'no', 'it changed during the period/it varied across the organisation' or 'there was no relevant data for this period'. An independent inter-coder reliability check gave a reliability score of between 86% and 90%¹. Each response was then shown on the figures with shading to show if it indicates a high or low level of strategic agility –

¹ The reliability score was calculated by the independent re-coding of three interview transcripts for the sets of question relating to all four factors identified by this study as influencing strategic agility. The re-coding was then compared to the original coding and a percentage score calculated.

black shading is used to indicate an increase, hatched shading that it changed or varied across the company, no shading with text only, a reduction, and no text and no shading that there was no relevant data. Hence, if an interview indicated that decision-making was highly formalised, as the interview with ML of Prudential did, then a 'Yes' would be coded. As the predictions made by our literature review suggested that a highly formalised decision-making process would be expected to reduce strategic agility, a 'Yes' response would imply a reduced level of agility – and so when constructing Figure 8.1 the text response without shading would be entered against this question for the interview with 'ML'.

Prudential

Figure 8.1 shows how the degree of formalisation and centralisation in Prudential varied during the 1980s and 1990s. A low level is apparent for both in the 1980s during Corby's tenure as CEO. Under Newmarch, formality and centralisation increased dramatically. Although, there is less data for the period when Davis was CEO, the level of formalisation and centralisation appeared to have reduced. This pattern is strongly supported by the comments of our interviewees, which are detailed in the forthcoming paragraphs.

1981 - 1990		MN	BC	TF	ML	RA	BM	GK	JS	LP-F	KB-P	SG
Factor / Sub Factor	Question											
Degree of Formalisation and Centralisation												
Formalisation	Was strategic decision-making formalised?											
Centralisation	Were strategic decision made predominantly by the CEO?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
1990 - 1995		MN <th>BC</th> <th>TF</th> <th>ML</th> <th>RA</th> <th>BM</th> <th>GK</th> <th>JS</th> <th>LP-F</th> <th>KB-P</th> <th>SG</th>	BC	TF	ML	RA	BM	GK	JS	LP-F	KB-P	SG
Factor / Sub Factor	Question											
Degree of Formalisation and Centralisation												
Formalisation	Was strategic decision-making formalised?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Centralisation	Were strategic decision made predominantly by the CEO?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
1995 - 1996		MN	BC	TF	ML	RA	BM	GK	JS	LP-F	KB-P	SG
Factor / Sub Factor	Question											
Degree of Formalisation and Centralisation												
Formalisation	Was strategic decision-making formalised?											
Centralisation	Were strategic decision made predominantly by the CEO?											
<p>Note: Many of our Prudential interviewees had left the company prior to or in 1995</p>												

Figure 8.1 – Degree of Formalisation and Centralisation - Prudential

1981 - 1990

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Degree of Formalisation and Centralisation										
Formalisation	Was strategic decision-making formalised?	Yes						Yes	Yes	Yes
Centralisation	Were strategic decision made predominantly by the CEO?	Yes								

1990 - 1994

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Degree of Formalisation and Centralisation										
Formalisation	Was strategic decision-making formalised?	Yes								
Centralisation	Were strategic decision made predominantly by the CEO?	Yes								

1994 - 1996

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Degree of Formalisation and Centralisation										
Formalisation	Was strategic decision-making formalised?	Yes								
Centralisation	Were strategic decision made predominantly by the CEO?	Yes								

Figure 8.2 – Degree of Formalisation and Centralisation - GRE

The restructuring of the company from a functional to a divisional form in 1984 and the appointment of divisional directors were identified by several of our interviewees as having a key influence on both the number of new strategic initiatives and the speed with which they were adopted. The restructuring increased the extent to which strategic decisions were decentralised and meant that each division was in competition for resources. As one Prudential executive director commented “instead of the CEO just looking at things centrally, you then had five people each looking at their own area and so you’d get five sets of ideas being generated and being pushed through”.

The impact of the restructuring was made all the greater by the informality of the decision-making process. As another executive director commented “under Corby there was a freedom for individuals to go and decide to do something”. The lack of formalisation of strategic decision-making and control is clearly illustrated by the acquisition of Jackson Life in the USA, where the international director “made up the procedure as he went along”.

The level of formalisation was to increase dramatically however in the early 1990s following Newmarch’s appointment as CEO. As one executive explained “Newmarch wanted a control structure that would impress by its quality and not its size – but it just got bigger and bigger and it got bogged down”. Several of our interviewees shared this view and believed that the control mechanisms introduced stifled the emergence of new ideas and initiatives. One executive director said, “procedure became a nightmare” and another that it was a case of “paralysis by analysis”.

The increase in formalisation and the more rigorous analysis of proposals that came in with it also meant an increase in the level of centralisation. Strategic proposals generated by the divisions had to be submitted to the finance department for analysis and then to the CEO for approval. He also wanted to be involved in the day to day operations of the divisions. For example, one executive described how the CEO would express his opinion of lower level managers, on occasions forcing their dismissal.

Several of our interviewees indicated that the level of formalisation and centralisation began to be relaxed towards the end of Newmarch's tenure. They felt that he became increasingly disenchanted with the amount of his time he had to devote to the system. As one director commented "he eventually got tired of carrying huge bundles of papers with him to read and approve". It was also felt that the growth of the control structure began to subside with the departure of Michael Lawrence, the finance director, as Newmarch had relied on Lawrence for its delivery. Finally, Newmarch was becoming increasingly caught up in his row with the industry regulator and it became untenable for him to be deeply involved in the analysis and approval of every initiative.

During Davis' tenure as CEO the level of centralisation and formalisation decreased again. Davis was less concerned about being involved in everything and was willing to delegate more responsibility to his executive directors. In addition, decision-making became less procedural. It became more of an iterative process of taking soundings and finding consensus – as one executive commented it was a case of "talking to a lot of people in a sort of political process and doing what the majority think". The purchase of Scottish Amicable demonstrates this greater flexibility. The process

followed in this acquisition had much in common with that of Jackson Life in 1986. Board approval 'in principle' was obtained to acquire a UK life insurer with guidelines being set as to the type of company that was to be sought and the level of price to be paid. Prudential's management then had a free hand to go out, find a suitable target, and negotiate a deal.

Guardian Royal Exchange

Figure 8.2 demonstrates that the patterns of change in the degrees of formalisation and centralisation of strategic decision-making within GRE are less obvious than they were in Prudential. Our interviews showed that, prior to 1990, GRE was hierarchical and tradition bound. Issues were referred up the command chain for a decision or were ignored. In the 1970s, "everything went up to [the CEO] and he made all the decisions". His successor, who was chief executive during the 1980s, was less inclined to take decisions. Consequently, there was a degree of decentralisation in that decisions tended to be taken by the divisional heads.

During the 1980s there was a notable absence of effective strategic control systems such as budget reviews and strategy and capital expenditure appraisal. However, formal administrative procedures were extensive. One executive director likened the system to treacle, stating that "there was the big risk that you would get caught in the treacle and not be able to move", even if people wanted to do things they "just got stifled by the bureaucracy".

After 1990, the company began to adopt standard strategic control systems such as capital expenditure appraisals and annual budgeting and planning reviews. However,

the old bureaucracy remained in place. As one executive complained – “you ended up with two bureaucracies, you still had the old one, which a lot of people thought was important, and then you had the new one being put in”. The effect was to greatly increase the level of formalisation of decision-making

The moves to introduce formal strategic control systems also meant an increase in centralisation, which impacted particularly on the overseas subsidiaries. The “overseas managers saw themselves as chief executives of their own businesses” and objected strongly to the new procedures which diminished their autonomy. There was considerable tension between the subsidiaries and the corporate centre, to the extent that on one occasion, as one of our interviewees described, senior managers had to “visit” an overseas subsidiary in order to force the adoption of the new system. The overseas manager’s concern was that with more centralisation there was less flexibility to respond to local conditions.

During the period that Robins was CEO (1994 onwards) many of the new strategic control systems became more formalised, e.g. annual budgeting and planning had to be conducted on pre-prepared forms. However, the level of bureaucracy overall was cut. Summarising the level of formality over the 1990s, one senior manager described how the company “had gone through a hump, [it increased] to a quite hefty level of formality and then came back to a compromise position where there was some formality and some flexibility”. During the early 1990s “there was more paper coming into the centre than there were trees, with a 100 page document required to justify the strategy of each business unit”, while under Robins the information required could be presented in less than ten pages.

The reduced level of formality increased the authority of the business unit managers and hence increased decentralisation. In 1995, a divisional structure based on geographic areas was adopted. With regional managers reporting directly to the CEO, rather than via the international group director, their authority was further increased.

Several of our interviewees argued that with the reduction of formalisation the speed of decision-making improved. One executive director also felt that it allowed the company to be more opportunistic and react to opportunities as they occurred.

Strategic Agility and Degree of Formalisation and Centralisation

Our discussion of the variations over time of the degrees of formalisation and centralisation in our two case study companies clearly indicates that they influenced the speed and ability of each company to initiate or react to change. The individual effect of either centralisation or formalisation was difficult to establish, as in our two case studies a change in one resulted in a change in the other.

In the 1980s, the highly informal approach to decision-making in Prudential, combined with the increased level of decentralisation that followed the restructuring of 1984, both encouraged the initiation of new strategic initiatives and enabled them to be implemented quickly. Hence, strategic agility was enhanced. The dramatic increase in formalisation (and with it increased centralisation) in the early 1990s “stifled new ideas” and in some cases slowed action. This reduced strategic agility. After 1993

however, and particularly following the appointment of Davis as CEO in 1995, the relaxation in the level of formality again had a positive influence on agility.

By comparison, during the 1980s GRE was described as being highly bureaucratic and hierarchical. Decision-making was heavily formalised and centralised and as a result the entrepreneurship (Pinchot 1985) which was observable in Prudential during the same period, was suppressed. The effect was to reduce the number of initiatives that were proposed and to slow any decision to implement them. As a result, during the 1980s the level of GRE's strategic agility was far lower than Prudential's. The overlaying of an additional set of strategic controls in the early 1990s further increased the "treacle" and increased the negative influence on strategic agility.

Under Robins the reduction in formalisation and centralisation increased the autonomy of business managers and with it their freedom to act and be flexible. The speed of strategic decision-making increased partly because of the reduced formalisation and partly as the corporate centre was taking fewer decisions. Consequently strategic agility was positively influenced.

Our identification of the degree of formalisation and centralisation as a factor that influences strategic agility finds strong support in the innovation literature (Damanpour 1991 and Kimberley and Evanisko 1981). However, this literature also indicates that this contextual factor could lead to a loss of control over the implementation of a new strategic initiative.

Our Prudential case study provides evidence of this negative effect of a low level of formalisation and centralisation. In the 1980s Prudential moved rapidly to establish its estate agency chain, and was the first mover not just among the UK insurers but also among the wider financial services sector. However, the company lost control of the implementation of this new strategy and failed to consider fully the viability of a nation-wide chain of agents or the potential of cross selling insurance products.

Newmarch's enthusiasm for procedure and rigorous analysis was strongly influenced by this failure. However, it is apparent that his efforts went too far. So, while initiatives such as the exit from the estate agency business were well planned and implemented, the initiation of new ideas was stifled. We will return to the dilemma that the conflicting advantages of high and low levels of formality and centralisation pose later in this chapter.

Embeddedness in the Industry Macroculture

The second factor we identified from our cross case analysis as influencing strategic agility was the extent to which the firm is embedded in the industry macroculture. This factor reflects the influence of institutional pressures upon the organisation and upon the speed with which it can adopt new strategies. From our review of the institutional literature (DiMaggio and Powell 1983, Oliver 1992 and Abrahamson and Fombrun 1994) we would expect a high degree of embeddedness to reduce a firm's strategic agility.

Our inductive analysis indicates three factors that explain the extent of institutional embeddedness – how the firm perceives its performance relative to other firms in its industry; the perceived similarity/dissimilarity to other firms in the industry; and the degree of connectedness to other firms in the industry.

How these three factors influence the degree to which a firm is embedded within the industry macroculture and therefore the degree to which it is subject to institutional pressures is described by the institutional literature (DiMaggio and Powell 1983, Greenwood and Hinings 1996 and Haveman 1993). The degree of connectedness refers to interpersonal contact between executives within our sample of nine UK insurers. Frequent interaction reinforces industry norms and values and stimulates awareness of any new practices that have become institutionalised (Strang and Soule 1998 and DiMaggio and Powell 1983). The more managers perceive their firm to be similar or structurally equivalent to others in their industry group the more likely they are to accept the prevailing norms and values that have become institutionalised within that group (Greenwood and Hinings 1996 and Strang and Soule 1998). Similarly, if its management perceives the performance of a company to be on a par with that of others in an industry group, its membership of that group and the appropriateness of existing institutionalised practices is reinforced (Strang and Soule 1998).

Our interviewees were consistent in their descriptions of the extent to which each of these three factors was present. Figure 8.3 and 8.4 demonstrate the level of embeddedness of the two companies during the 1980s and 1990s and the consistency of the support given by our interviewees' responses. In both cases, they show a high

level of continuity in the level of embeddedness throughout the study period. The figures were generated following the same method used to construct Figures 8.1 and 8.2, i.e. by coding the transcript for each interview according to the response it provided to questions indicative of the three factors we had identified as determining the degree of embeddedness².

Prudential

Figure 8.3 and our interview data demonstrate that the level of embeddedness of Prudential in the macroculture of the insurance industry was declining in the 1980s and remained at a low level during the 1990s. As one executive explained “ten years ago (the early 1980s) we would have seen our competitors as the UK insurance firms, but increasingly it became the banks and major building societies”. In the 1980s while contact with other UK insurers remained high, the senior managers of Prudential were ceasing to perceive the company as an insurer. These managers also believed that the company was out performing its rival insurers by a considerable margin, for example a director commented “in the traditional insurance field Prudential was the leader and the others tended to follow”.

² Four responses were allowed – ‘yes’, ‘no’, ‘it changed/it was varied across the organisation’ or ‘there was no relevant data for that period’. Responses were shaded in figures 8.3 and 8.4 according to whether they related to a high level of agility (black shading), that it changed or varied across the firm (grey shading), a low level of strategic agility (no shading with text) or that there was no data (no shading or text). If the interview with one of our interviewees indicated a ‘yes’ answer that indicated a high level of agility a black bar would be shown on the figure against the appropriate question and under the interviewees initials. An inter-coder reliability check gave a reliability score between 86% and 90%.

1981 - 1990

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Embeddedness										
Perceived Similarity	Did the organisation see itself as an insurer?						Yes		Yes	Yes
Connectabness	Did the organisation see itself as similar to other insurers in the sample?	Yes								
	Was there personal contact with managers of other insurers?	Yes								
Perceived Performance	Did the organisation actively support industry and professional bodies?								Yes	Yes
	Were industry bodies seen as useful?						Yes		Yes	Yes
	Did the organisation see its performance as being on a par with its competitors?	Yes	Yes			Yes	Yes		Yes	Yes
	Did the organisation perceive any of its competitors as high performers or leaders?									CU

1990 - 1994

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Embeddedness										
Perceived Similarity	Did the organisation see itself as an insurer?	Yes		Yes						
Connectabness	Did the organisation see itself as similar to other insurers in the sample?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Was there personal contact with managers of other insurers?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Perceived Performance	Did the organisation actively support industry and professional bodies?		Yes							
	Were industry bodies seen as useful?									Yes
	Did the organisation see its performance as being on a par with its competitors?	Yes	Yes			Yes	Yes		Yes	Yes
	Did the organisation perceive any of its competitors as high performers or leaders?	CU / GA				CU			CU	CU

1994 - 1996

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Embeddedness										
Perceived Similarity	Did the organisation see itself as an insurer?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Connectabness	Did the organisation see itself as similar to other insurers in the sample?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Was there personal contact with managers of other insurers?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Perceived Performance	Did the organisation actively support industry and professional bodies?		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Were industry bodies seen as useful?		Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Did the organisation see its performance as being on a par with its competitors?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
	Did the organisation perceive any of its competitors as high performers or leaders?	CU / GA	GA		Yes	GA / Pru	CU	Yes	GA	GA

Figure 8.4 – Embeddedness in the Industry Macroculture - GRE

By the 1990s, the prevailing view was that Prudential had become a medium to long term savings company and was no longer an insurance firm. Contact with other insurers had been drastically cut or was delegated to lower level managers – “Newmarch was very much ‘keep your distance from the other insurers’ and so we tended not to involve our senior staff in ABI or other industry activities”. In addition, while the performance and management skill of General Accident and Commercial Union were applauded, many of the Prudential managers were “highly sceptical” of the performance and management of the other UK insurers. As one senior manager described “a lot of Prudential people were dismissive of what the other insurers were doing, even going back into the Corby period”.

Guardian Royal Exchange

In contrast to Prudential and as Figure 8.4 shows, GRE was highly embedded within the macroculture of the industry. Throughout the 1980s and 1990s, GRE’s managers saw the company as a composite insurer and as having a high level of similarity to the other insurers in our sample. They had considerable contact with their peers in the industry both at a personal level and through industry groupings, such as the ABI (see Chapter 4). As one GRE director commented “they spent all their time meeting [their peers] at all these rubber chicken dinners at various levels”, while another commented “there is endless contact [with the other insurers], and it still happens, numerous meetings, all kinds of committees, technical exchanges it just goes on and on!” Towards the end of our study period the high level of involvement in industry bodies

even prompted John Robins to express concern that the company was contributing more than its fair share of resources.

During the 1980s, GRE's managers believed that its performance was on a par with, if not better than that of the other UK insurers. One of our interviewees indicated that among the executive directors at the time some "absolutely and genuinely believed that everything that GRE did was done in the best possible way and there was nothing we could learn from anyone else". However, during the 1990s, this self-belief began to fade and many in the company began to admit their respect for Commercial Union and General Accident. However, despite the poor opinions of industry analysts and the press, there was still a belief among most of our interviewees that the company's performance was on a par with that of most other UK insurers.

Strategic Agility and Embeddedness within the Industry Macroculture

Our discussion has illustrated the contrast between the two case study companies in terms of three factors - the degree to which managers perceived their company to be similar to other UK insurers, the level to which they were connected to their peers in the industry and how they perceived the performance of the firm relative to that of others. Taken together these factors imply that during our study Guardian Royal Exchange was more deeply embedded in the insurance industry macroculture, whilst Prudential was increasingly rejecting it.

The institutional literature describes how the extent to which a firm is embedded in the industry macroculture will influence its strategic agility. Over time, and as more firms adopt a particular type or pattern of strategy, that type or pattern of strategy will

become increasingly institutionalised within the industry group. Normative and cognitive pressures (Scott 1995) will act against the adoption of new strategies which might replace or modify the institutionalised pattern. Consequently, to initiate or be an early adopter of a new strategy a firm must either be able to ignore the pressures to conform or be less influenced by those pressures than others in the industry. The more the managers of a firm are embedded within the macroculture of their industry the greater will be the pressure upon them to conform (Greenwood and Hinings 1996). Hence, the strategic agility of a firm will be influenced by the degree to which it is embedded in the industry macroculture.

Given the nature of the influence of embeddedness in the industry macroculture it is unlikely that individual managers would be aware of its effect. However, comments by two of our interviewees indicate that institutional pressures did indeed influence the adoption of new strategies. One executive director of GRE highlighted the “enormously blinkered thinking” stemming from executives spending their entire careers within the industry. He argued that as a result his colleagues had been unwilling to consider any radical changes to the strategies pursued by the company. One ex-chief executive believed that the frequent gatherings of senior managers promoted a “self congratulatory and self reinforcing culture” which resisted change.

These comments and our discussion indicate that because of its high level of embeddedness in the industry macroculture GRE faced considerable institutional pressure to conform. This in turn had a negative effect upon its strategic agility. In the case of Prudential, the increasing distancing of itself from the other UK insurers meant

that institutional pressures upon it to conform to the norms of the insurance industry were much weaker. As a result, they had little affect upon its strategic agility.

Dynamics and Individual Characteristics of the Dominant Coalition

The third factor that we identified as influencing strategic agility was the 'dynamics and individual characteristics of the dominant coalition'. This factor reflects the composition and internal interaction of the top management team. We will deal with it in two parts. We will first explore the differences in the demographics of our two case study firms and we will then examine the way in which each team worked together.

Demographics of the Top Management Team

To investigate the influence of senior manager characteristics, statistics were obtained from our interviews and from company reports. These statistics were then used to build profiles of the executive directors in each company at three points in time – 1991, 1993 and 1995. In order to obtain representative figures for each top management team at each point in time, the statistics for individual directors were averaged and standard deviations calculated (see Table 8.2 and Figure 8.5). Following the innovation and top management team literature, three sets of statistics were analysed – age, tenure and career background. Tenure was subdivided into tenure in current role, tenure with the company and tenure within the insurance industry. Career background was coded in terms of experience within the traditional insurance role -

e.g. actuarial and underwriting - experience in investment roles, and experience within non-traditional insurance roles - e.g. financial management, management of non insurance companies. To aid comparison the statistics for GRE were normalised to those for Prudential and those for 1993 and 1995 to 1991 (See Figure 8.6).

As Figure 8.6 shows, with the exception of the age profile of the two groups, there were notable differences between the demographics of the executive directors of Prudential and GRE. The average tenure of executive directors in that role was higher in Prudential than in GRE - however while the normalised values seemed significant, in real terms (see Figure 8.5) the difference was small. In each company, the values for average industry and company tenure were similar, indicating that executive directors either spent their entire careers with one company or joined the company from outside the insurance industry. However, as Figures 8.5 and 8.6 show there were significant differences between the two companies. The average industry and company tenure of GRE executives was over 40% higher than the average for Prudential executives.

Mean		Average	1991	1993	1995
Age	Prudential	52.8	54.0	54.7	49.7
	GRE	50.4	49.2	51.2	50.7
Role Tenure	Prudential	4.4	5.0	6.0	2.2
	GRE	2.8	1.8	3.8	2.7
Company Tenure	Prudential	15.7	18.2	20.3	8.5
	GRE	23.5	24.4	26.4	19.7
Industry Tenure	Prudential	16.5	19.0	20.5	10.0
	GRE	23.5	24.4	26.4	19.7
Years Experience (Insurance Roles) ³	Prudential	7.8	6.6	9.2	7.5
	GRE	19.7	20.8	22.4	16.0
Years Experience (Investment Roles)	Prudential	12.5	18.4	14.0	5.2
	GRE	3.8	4.0	3.7	3.8
Years Experience (Other Roles) ⁴	Prudential	10.3	8.6	8.8	13.5
	GRE	6.3	4.2	4.6	10.0

Standard Deviation		Average	1991	1993	1995
Age	Prudential	-	3.9	4.8	8.3
	GRE	-	8.5	8.5	4.5
Role Tenure	Prudential	-	2.8	3.3	2.3
	GRE	-	0	0	2.6
Company Tenure	Prudential	-	16.9	15.1	9.7
	GRE	-	16.3	16.3	13.4
Industry Tenure	Prudential	-	16.0	14.4	8.7
	GRE	-	16.4	16.4	11.3

Table 8.2 – Demographics of Executive Directors (Mean and Standard Deviation)

³ Years experience (Insurance) refers to the number of years working in a traditional insurance role e.g. actuarial, underwriting or sales.

⁴ Years experience (other roles) refers to the number of years working in roles such as financial management, management of non insurance firms.

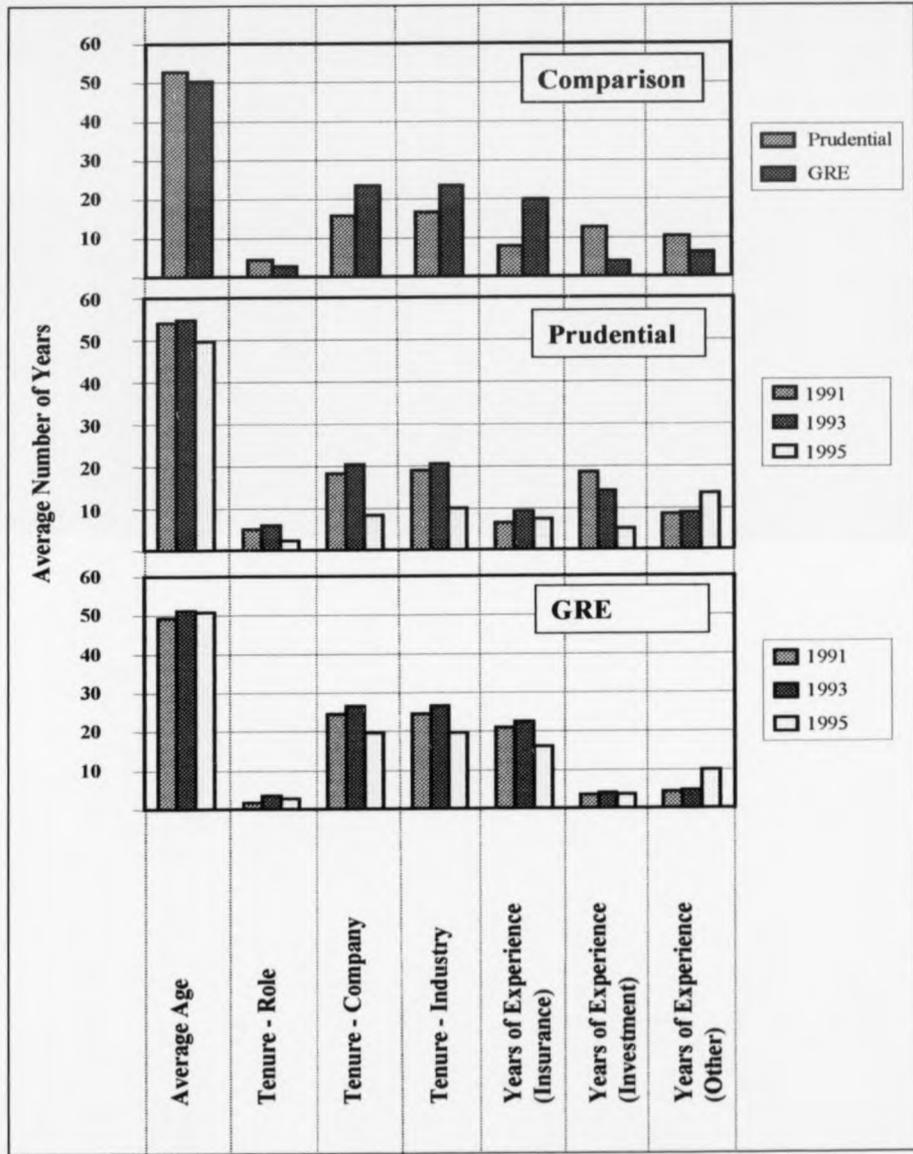


Figure 8.5 – Top Management Team Demographics – Prudential and GRE

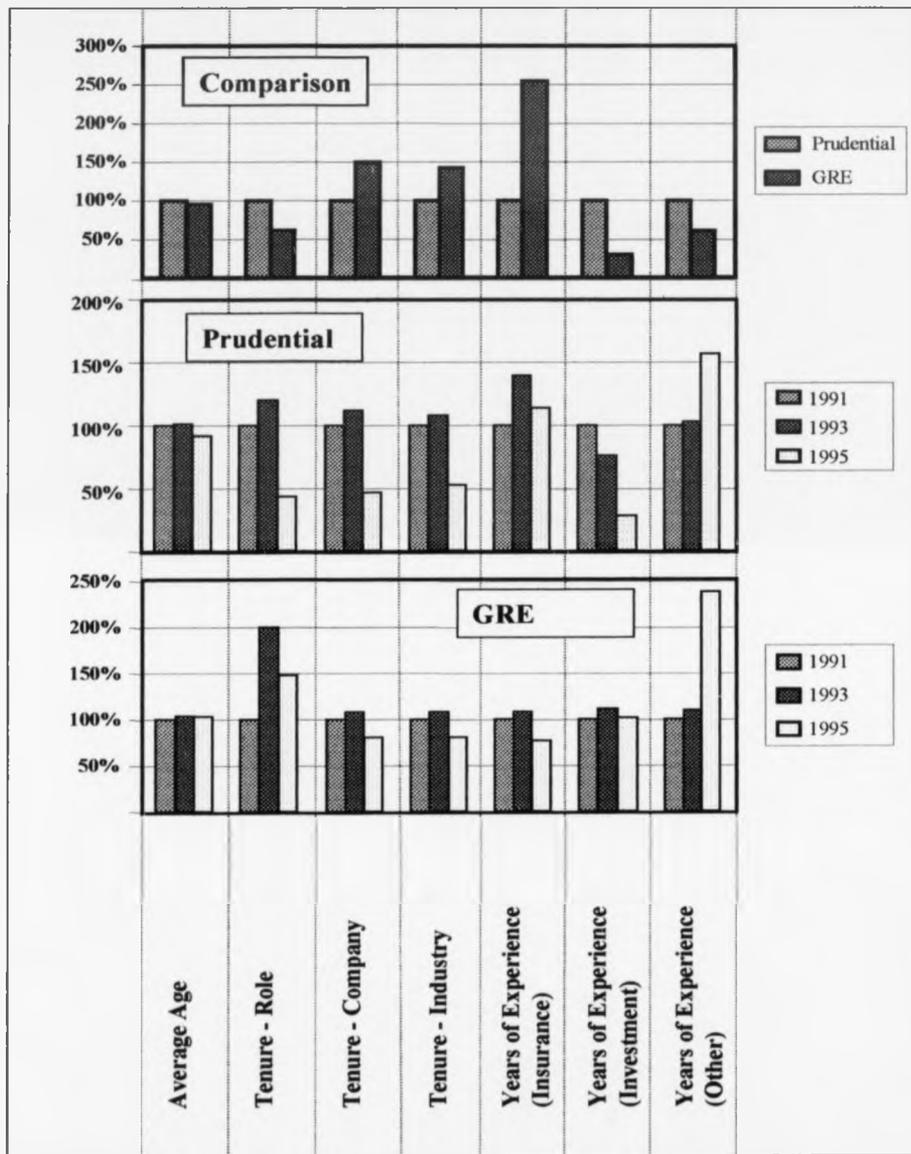


Figure 8.6 - Top Management Team Demographics – Prudential and GRE (Normalised)

³ In the first part of the figure the values for GRE are normalised to those for Prudential (i.e. Prudential = 100%). In the second and third parts of the figure the values for 1993 and 1995 are normalised to those for 1991 (i.e. 1991 = 100%)

Figures 8.5 and 8.6 demonstrate that the backgrounds of the top management teams of each company differed considerably. In GRE, the top level of management was dominated by executives with backgrounds in traditional insurance industry roles, e.g. actuarial or underwriting. In contrast, in Prudential, senior executives were fairly evenly distributed between those with traditional insurance backgrounds and those from other disciplines.

Our statistical analysis of the demographics of the top management teams also shows interesting variations over time. In Prudential, the backgrounds of the executive directors changed considerably between 1990 and 1995. In 1990, executives with backgrounds in investment management were in the majority. However, over the early 1990s this majority declined and there began to be a more even balance in backgrounds. After 1995, those with a background in non-traditional disciplines were in the ascendancy. The growing number of executives with a background from outside the industry is also shown in the reduction in the average length of company tenure between 1993 and 1995. In GRE, executive directors with backgrounds in traditional insurance roles predominate throughout the study period - although after the appointment of a new CEO in 1994 there was a marked increase in the number of outsiders.

The contrast between the demographics of Prudential's top management team and those of the GRE team was highlighted by our interviewees - as was the impact that new arrivals had in stimulating change. Prudential started to appoint senior managers from outside both the company and the industry in the late 1970s and executive

directors from the early 1980s. As one Prudential executive commented about his own appointment in 1977 “It was a conscious decision by Corby to bring people in, he was looking to stimulate change and didn’t want to import the same traditions that they always had. From that point onwards there was an increasing flow of people from outside the organisation”. GRE, on the other hand, did not seek to bring in people from outside until 1990 and it was not until 1994 that the number of appointments became significant⁶.

In Prudential, the influx of new executives from non-insurance backgrounds brought with them alternative ideas and cognitive frameworks of how organisations should operate and how they should view their environment. These views supplemented the more traditional views already present in the organisation. Consequently, there was a greater cognitive diversity influencing strategic decision-making in the company.

The diversity of backgrounds also meant that no one set of norms and values dominated and consequently pressure for conformity was reduced. Therefore, Prudential not only generated a wider range of ideas than GRE it was also more likely to pursue them.

For alternative ideas to influence decision-making and the adoption of new strategies, the organisation must first allow such ideas to be expressed and then the decision makers must be willing to modify their own views. We will therefore turn our attention to the dynamics of the dominant coalition.

⁶ Interview with a GRE executive director.

Dynamics of the Dominant Coalition

Our inductive analysis indicates that four factors characterise the dynamics of the dominant coalition or top management team – the presence of competing mental models, dissatisfaction with the status quo within the firm, the presence of power shifts within the firm; and the nature of interaction between members of the dominant coalition. Both the innovation and institutional literatures suggest that the presence of competing mental models, dissatisfaction with the status quo and power shifts within the firm will be positively related to strategic agility (Bantel and Jackson 1989 and Greenwood and Hinings 1996). In addition, we would expect openness to challenge and to modifying ones own views to have a positive effect on strategic agility.

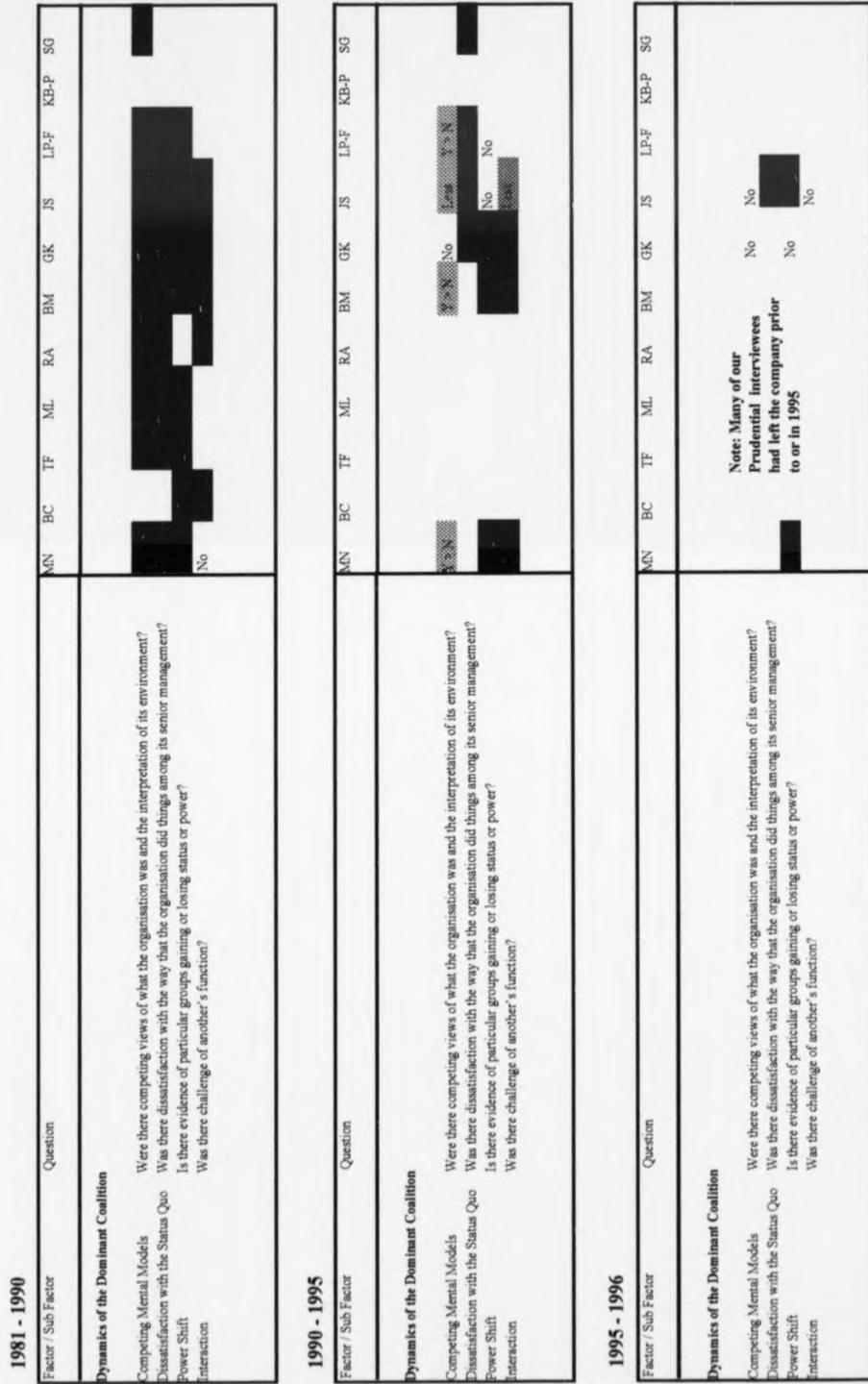
Again, our interviewees described each of these four factors with considerable consistency. Figures 8.7 and 8.8 illustrate this consistency and show how the dynamics of the dominant coalitions in Prudential and GRE differed and varied over time. As before, these figures were generated by coding the transcript for each interview according to the response it provided to questions that were indicative of the four factors that we had found characterised the dynamics of the dominant coalition⁷.

As Figure 8.7 shows, during the 1980s there were competing views of what the organisation was and interpretations of the environment it faced among Prudential's top management team. Our interviews distinguished four groupings of senior

⁷ Four responses were allowed – 'yes', 'no', 'it changed/it was varied across the organisation' or 'there was no relevant data'. Responses were shaded in figures 8.7 and 8.8 according to whether they were expected to relate to a high level of agility (black shading), that it changed or varied across the firm (grey shading), related to a low level of strategic agility (no shading with text) or no data (no shading or text). The appropriate shading and response is shown on the figure against the appropriate question and under the interviewee's initials. An inter-coder reliability check gave a reliability score between 86% and 90%.

managers who tended to hold slightly differing views – actuaries, investment staff, insurance staff and the new executives.

There is strong evidence of a power shift within Prudential during the 1980s. Historically, actuaries and other insurance professionals had populated the senior ranks of Prudential. In the 1980s, those with an investment background or who had come in from outside the industry began to predominate (also see Figures 8.5 and 8.6). This shifted power away from the actuaries. One executive director commented “it moved from being dominated by actuaries to a situation where the chief actuary [was not a director and] reported to the finance director”. Another described how “each time someone came in from outside the actuaries got pushed back further into their specialisation”. As a result, alternative views and ideas came to the fore.



Note: Many of our Prudential interviewees had left the company prior to or in 1995

Figure 8.7 – Dynamics of the Dominant Coalition - Prudential

1981 - 1990

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Dynamics of the Dominant Coalition										
Competing Mental Models	Were there competing views of what the organisation was and the interpretation of its environment?	No		No	No	No	No	No		No
Dissatisfaction with the Status Quo	Was there dissatisfaction with the way that the organisation did things among its senior management?	No		No						
Power Shift	Is there evidence of particular groups gaining or losing status or power?	No								
Interaction	Was there challenge of another's function?	No							No	No

1990 - 1994

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Dynamics of the Dominant Coalition										
Competing Mental Models	Were there competing views of what the organisation was and the interpretation of its environment?	Yes	Yes	Yes	Yes	No	No	No	No	No
Dissatisfaction with the Status Quo	Was there dissatisfaction with the way that the organisation did things among its senior management?	Yes	Yes	Yes	Yes	No	No	No	No	No
Power Shift	Is there evidence of particular groups gaining or losing status or power?	Yes	Yes	Yes	Yes	No	No	No	No	No
Interaction	Was there challenge of another's function?	No	No	No	No	No	No	No	No	No

1994 - 1996

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Dynamics of the Dominant Coalition										
Competing Mental Models	Were there competing views of what the organisation was and the interpretation of its environment?	No								
Dissatisfaction with the Status Quo	Was there dissatisfaction with the way that the organisation did things among its senior management?	No								
Power Shift	Is there evidence of particular groups gaining or losing status or power?	No								
Interaction	Was there challenge of another's function?	No								

Figure 8.8 – Dynamics of the Dominant Coalition - GRE

Our interviewees also indicated that there was dissatisfaction with the status quo (see Figure 8.7). Most apparent from our interviews was the dissatisfaction that Mick Newmarch (then head of the investment division) had with the lack of rigour in strategic decision-making. He was particularly critical of the decision to enter estate agency. As one of our interviewees commented, “Newmarch was spitting bullets as to how the process lacked rigour and how it was stupid”. He also believed that Prudential under Corby should be changing faster than it was. Interestingly, several of our interviewees stated that prior to becoming CEO, Newmarch did not trail an agenda, instead he “trailed dissatisfaction”.

However, despite the presence of competing views and open dissatisfaction there was mutual respect among the members of the top management team and this promoted an environment in which challenge was accepted. Although such challenge could get vehement, it did not get personal or political.

The willingness to debate and challenge views continued into the 1990s. However, Newmarch’s more forceful and dominating character did reduce challenge in the strategic development process. As one senior manager commented, when comparing this period to the 1980s, “the one thing that Corby was willing to do which Newmarch would never do was to tolerate someone as awkward as Newmarch”. In addition and as clearly shown by Figure 8.7, the number of competing views that were being put forward also fell. Several executives felt uneasy about raising issues in the new aggressive and confrontational environment – “with Newmarch he got the views of those people who were prepared to argue but heard nothing from those who wouldn’t”.

Several of our interviewees believed that the new aggressive style of interaction combined with the increasing inflow of new managers dissipated the atmosphere of mutual trust that had existed among the top management team and increased conflict. This conflict came to a head over the strategy review conducted between 1990 and 1992. As a result, the senior managers of Prudential took part in several team building exercises and agreed new rules of behaviour⁸. Our interviews indicate that relationships between members of the top management team improved subsequently⁹.

The pattern during Davis' tenure as CEO as shown by Figure 8.7 is less clear. However, our interview data shows that the new CEO was more willing to seek out the opinions of a wider group of senior managers and would allow himself to be influenced by these soundings.

Turning our attention to GRE, the comparison with Prudential in the 1980s is dramatic (see Figure 8.8). As our interviewees indicate, prior to 1990 the mindset of GRE's top management group was fairly homogeneous in terms of their views of the company and its environment. Executives stuck very much to their own function or division and there was little peer discussion or challenge. One group director commented that challenge was not welcome and could damage your career prospects.

As Figure 8.8 shows, a diversity of views only began to appear during the 1990s. Outside appointments and the promotion of a younger generation of managers to senior levels resulted in a greater openness to alternative views. However, as many of our interviewees remarked, there remained a "tremendous resistance to criticism" with

⁸ Interviews with three executive directors of Prudential.

⁹ Although several of our interviewees indicated that one executive was unable to follow the new rules and was forced to leave.

various executives “maintaining defensive walls around their activities”. The appointment of a new CEO in 1994, himself originally from outside the industry, shifted the balance of power to those demanding change.

Dynamics and Demographics of the Dominant Coalition and Strategic Agility

Our discussion of the demographics and dynamics of the top management teams in Prudential and GRE has revealed significant differences between the two companies and considerable variation over time. In Prudential, the appointment of senior managers from outside the firm began in the 1970s and this, together with the internal promotion of executives with investment backgrounds, increased the diversity of views and cognitive mindsets among the top management team. In addition, and again linking to our previous factor – embeddedness in the industry macroculture – the inflow of managers with non traditional backgrounds reduced the degree to which the company was influenced by institutional pressures. The inflow of senior managers from outside the industry continued throughout our study period

In contrast, in GRE the flow of outsiders into senior positions started in 1990, and only became significant after 1994. As a result, the top management team in the 1980s was highly homogeneous in its background and in how they saw the company and its environment. This homogeneity increased the degree to which the company was embedded in the industry macroculture

Our literature review indicates that turbulence within an individual's environment, and the uncertainty associated with it, will force the individual to rely on whatever heuristics for noticing and understanding (cognitive frameworks) they have used successfully in the past (Weick 1995 and Scott 1995). Such cognitive frameworks categorise data, assign understanding, hide data and fill in missing data (Starbuck and Milliken 1988). Individuals from different backgrounds and with different experiences will have differing cognitive frameworks that guide their 'sensemaking' (Weick 1995 and Hambrick and Mason 1994).

As Eisenhardt and Schoonhoven (1990) and Glick et al (1993) argue, the presence of diversity of cognitive frameworks which generate a variety of interpretations of the firm and its environment is essential in a turbulent environment. It allows both a deeper understanding of the patterns of change that are occurring and a faster realisation of the most appropriate action to take or develop. So, in the hyperturbulent environment that developed in the 1980s and 1990s in the UK insurance industry Prudential was better able to understand the new environment and act more quickly than GRE.

There is some evidence that if the interaction between managers becomes confrontational, increased diversity can be disruptive. This point is well illustrated by the situation in Prudential in the early 1990s. The combination of a breakdown in the mutual respect among senior managers and an increasingly confrontational style of interaction erupted into conflict around the strategic review. This episode suggests that a diversity of views may cause disruption and generate conflict if there is not a cohesive culture in place to ensure good relationships.

However, the presence of alternative views and mindsets will not influence the strategic agility of a firm unless the dynamics of the top management team allow those views to be expressed and to influence decision-making.

The framework proposed by Greenwood and Hinings (1996) is insightful in assessing the internal dynamics exposed by our interviews. The presence of competing sets of values, an openness to alternative views, and shifting balances of power can facilitate radical change. We would therefore expect Prudential to have been more willing to embrace change than GRE. The reduction in openness in Prudential after 1990 did lead to a reduced ability to change. The increasing presence of alternative views and the shifting balance of power in GRE was followed by an increase in strategic agility towards the end of the study period.

Capacity for Action

There were conflicting signals emerging from the environment within the UK insurance industry in the 1980s and 1990s. As many of the interviewees remarked, the insurance cycle and improving investment performance masked the underlying performance weakness of many of the firms in our sample. Given the highly protected and tradition-bound history of the industry, the twin shocks of substantive management changes and the appearance of new industry entrants with radically different business recipes were necessary to prompt the less strategically agile firms into action (Spender 1989).

With competitive pressures increasing, most of the insurance companies cut costs to improve efficiency and then looked for new markets from which to recoup their lost

revenue. Thus, the pattern observed in the mapping phase of this study was of strong industry moves for consolidating and internationalising.

Our interviewees placed considerable importance on the role of management agency in explaining why some firms were able to recognise and respond to market changes more quickly than others. This capacity of management to act is our final factor.

Three components are proposed as influencing the capacity for action of a firm. First, the willingness of the management team to question its view of the environment and the firm. Secondly, the degree to which it possesses a bias for action and thirdly the presence of a vision of the future. In each case, this study indicates a positive relationship between each of these components and strategic agility.

As with the other factors identified by this study, our interviews provided highly consistent insights into the components of a firm's capacity for action and demonstrated significant differences between the two case study firms. Figures 8.7 and 8.8 demonstrate this consistency and show how the capacity for action of Prudential and GRE differed and varied over time¹⁰.

¹⁰ Figures 8.9 and 8.10 were generated by coding the transcripts for each interview according to the response it provided to a range of questions that were indicative of the three components of capacity for action. Four responses were allowed – 'yes', 'no', 'it changed/it was varied across the organisation' or 'there was no relevant data'. Responses were shaded in figures 8.9 and 8.10 according to whether they related to a high level of agility (black shading), that it changed or varied across the firm (grey shading), related to a low level of strategic agility (no shading with text) or no data (no shading or text). The appropriate shading and response is shown on the figure against the appropriate question and under the interviewee's initials. An inter-coder reliability check gave a score of between 86% and 90%.

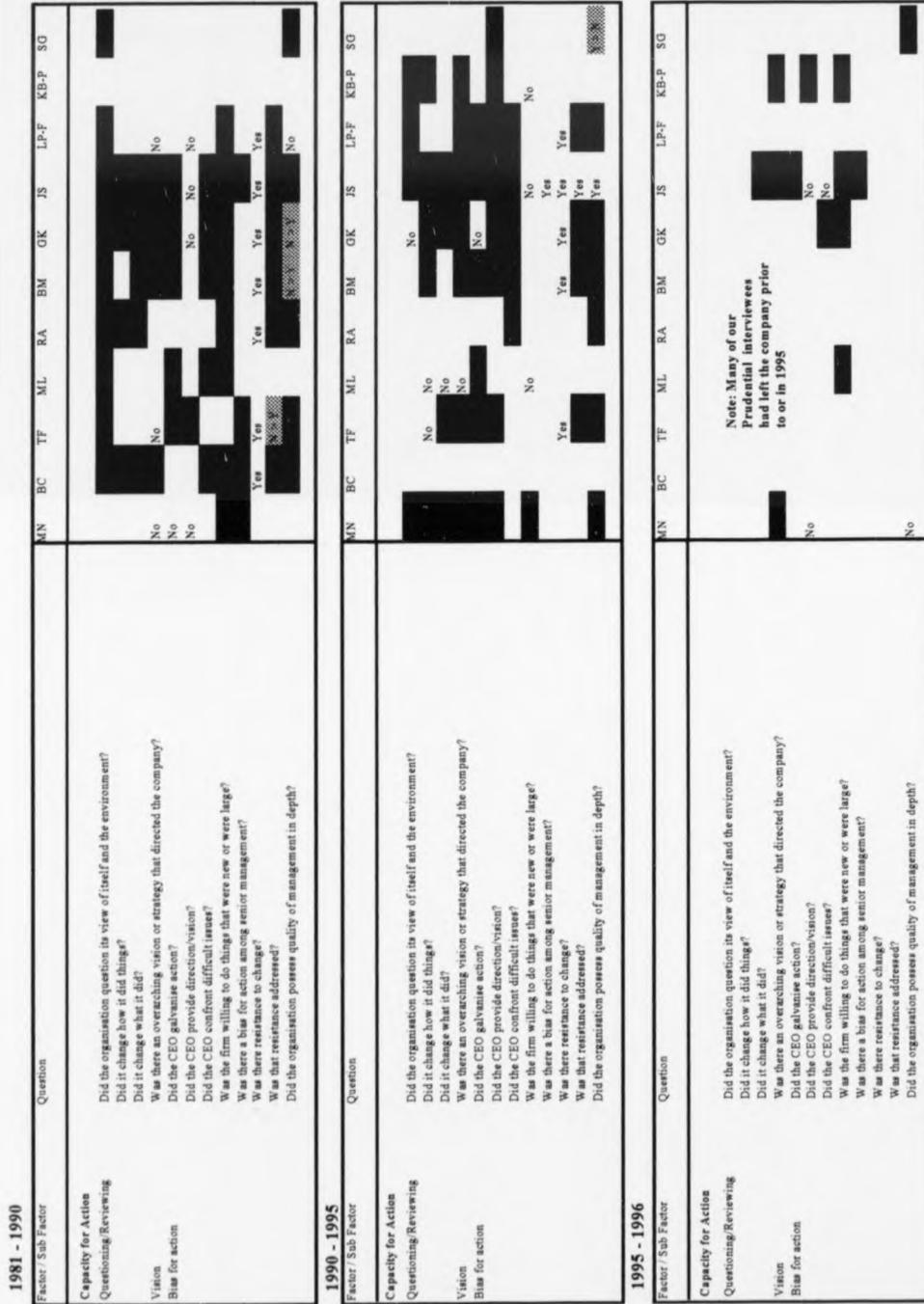


Figure 8.9 – Capacity for Action – Prudential

1981 - 1990

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Capacity for Action Questioning/Reviewing	Did the organisation question its view of itself and the environment?	No	No	No	No	No	No	No	No	No
	Did it change how it did things?	No	No	No	No	No	No	No	No	No
	Did it change what it did?	No	No	No	No	No	No	No	No	No
	Was there an overarching vision or strategy that directed the company?	No	No	No	No	No	No	No	No	No
	Did the CEO subvertise action?	No	No	No	No	No	No	No	No	No
	Did the CEO provide direction/vision?	No	No	No	No	No	No	No	No	No
	Did the CEO confront difficult issues?	No	No	No	No	No	No	No	No	No
	Was the firm willing to do things that were new or were large?	No	No	No	No	No	No	No	No	No
	Was there a bias for action among senior management?	Yes	No							
	Was that resistance addressed?	No	No	No	No	No	No	No	No	No
Did the organisation possess quality of management in depth?	No	No	No	No	No	No	No	No	No	

1990 - 1994

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Capacity for Action Questioning/Reviewing	Did the organisation question its view of itself and the environment?	No								
	Did it change how it did things?	No								
	Did it change what it did?	No								
	Was there an overarching vision or strategy that directed the company?	No								
	Did the CEO subvertise action?	No								
	Did the CEO provide direction/vision?	No								
	Did the CEO confront difficult issues?	No								
	Was the firm willing to do things that were new or were large?	No								
	Was there a bias for action among senior management?	Yes								
	Was that resistance addressed?	No								
Did the organisation possess quality of management in depth?	No	No	No	No	No	No	No	No	No	

1994 - 1996

Factor / Sub Factor	Question	CB	TW	PM	SG	MA	JM	RP	JS	JK
Capacity for Action Questioning/Reviewing	Did the organisation question its view of itself and the environment?	No								
	Did it change how it did things?	No								
	Did it change what it did?	No								
	Was there an overarching vision or strategy that directed the company?	No								
	Did the CEO subvertise action?	No								
	Did the CEO provide direction/vision?	No								
	Did the CEO confront difficult issues?	No								
	Was the firm willing to do things that were new or were large?	Yes								
	Was there a bias for action among senior management?	No								
	Was that resistance addressed?	No								
Did the organisation possess quality of management in depth?	No	No	No	No	No	No	No	No	No	

Figure 8.10 – Capacity for Action - GRE

In Prudential, there was a high level of capacity for action throughout the study period. One aspect that may have had a negative influence was the firm's hesitancy to make significant acquisitions in the early 1990s as argued by some of our interviewees. In contrast, our GRE interviewees indicate that there was a low capacity for action in the 1980s (see Figure 8.10). The level began to increase in the early 1990s and after 1994 moved more into line with that of Prudential.

Our interviews also clearly demonstrate the contrast between the two companies in the three components that we identified.

Willingness to Question the Nature of the Firm and its Sector

In the 1980s and 1990s, Prudential's executive team recognised that the environment was changing and they were willing to question not only how they did things but also what they did. Senior management were "willing to discuss the underlying problems, and although it was uncomfortable to face up to reality". As a result of this questioning, the view that Prudential was a savings company and not an insurer emerged. This willingness to "ask difficult questions" was allied to a willingness to act. The abandoning of 'door to door' premium collection, a practice that significantly contributed to Prudential becoming the UK's largest insurer, is illustrative.

The importance of a willingness to question both the nature of the firm and its environment in explaining relative firm agility is identified in the contextual (Pettigrew and Whipp 1991) and co-evolutional (McKelvey 1997 and Lewin et al 1999) literatures. Cohen and Levinthal (1990) and van den Bosch et al (1999) argue that those firms that are able to absorb signals from beyond the periphery of the firm

successfully will tend to be more proactive. Pettigrew and Whipp (1991) highlight the importance of continually re-interpreting the firm's environment. They assert that management must have the ability to mobilise the resources and the energy to deliver successful change. Volberda (1998) links such absorptive capacity with the need for higher level learning. This implies that management, having detected a change in the environment, must be prepared to question and change not only how it does things but also what it does. Our interviews show that Prudential was willing and able to do that.

Vision of the Future

A growing body of the strategic management literature (Bennis and Namus 1985, Campbell and Yeung 1991 and Hamel and Prahalad 1994) has promoted the importance of the existence of a strategic vision or intent to guide the actions of a firm. A company's vision has been variously described as the 'general direction of the organisation' (Campbell and Yeung 1991), a 'mental image of the future state of the organisation' (Bennis and Namus 1985) or 'a guiding idea or goal' (Mintzberg et al 1998). While there may be debate about the definition, most of these authors agree that a vision is critical to give a company direction and to guide the effort and build the enthusiasm of its members - although there has been criticism over the often vague and faddish way the concept has been adopted by firms.

Boisot (1995) argues that an overall vision of the future is particularly valuable during periods of environmental turbulence. He suggests that it helps provide unity and coherence to a firm's actions while still allowing initiative and flexibility. Volberda (1998) also highlights the importance of developing a vision of the future, indicating

that it allows the firm to be in a position to exploit future temporary advantages. D'Aveni (1994) has a similar view and describes how vision is developed through 'strategic sooth-saying'. He argues that a firm's vision should reflect its intentions to disrupt existing and future competitive positions through predictions of market and technological trends.

Pettigrew and Whipp (1991) also raise the concept of vision, using the term 'strategic intent'. They argue that while a realistic vision of the future of the firm and its environment are important, firms often fail to link this to action.

It is clear from our interviews that within Prudential there was a clear vision of what the company needed to become. Throughout the 1980s and 1990s, there was a definite aim to seek new distribution channels and to "de-risk the business" i.e. to focus on investment products rather than insurance. By the 1990s, the goal of Prudential was to be a savings and loan company rather than an insurer. This guiding vision directed the proactive strategic actions the firm took during this period, including its move into estate agency, its shift in focus to South East Asia, the withdrawal from commercial general insurance and its decision to enter banking.

In contrast, our GRE interviewees indicate that they never managed to develop a vision of what the company should be until the Robins era. Even then, some of the executive directors argue that a vision was still not clearly stated. They argue that as a result there was little focus to the actions that were taken and time was wasted looking at inappropriate proposals. During the 1980s and early 1990s, the lack of an agreed

strategic direction meant that the company adopted a reactive stance to change in the industry.

Our interviews signal that the presence of an agreed vision of the future stimulates a company to take a more proactive stance to new strategic initiatives. Firms lacking a coherent vision will be more reactive and will therefore tend to be slower at adopting new initiatives.

Bias for Action

All of our interviewees highlight that some senior managers were more willing than others to act, or in the terms of many 'grasp the nettle'. The 'bias for action' of the chief executive was particularly noted as having a major impact on the speed and willingness of the organisation to initiate new strategies.

During the 1980s, the senior management team of Prudential believed the company had to change. This belief was not the result of external pressure but of a general wish to improve the company. As one of our interviewees commented – "what pressure? - there wasn't any immediate pressure, you strove to improve because that was the thing to do". There was a feeling that in the long term the company would have to change and that such change should happen sooner rather than later, while it could be supported by the cash flow from existing businesses.

All but one of our interviewees indicate that this willingness to change among the senior managers was complemented by a chief executive "who was willing to see

change implemented”. Indeed, three of our interviewees who continued to be part of the senior management team into the 1990s argued that the initiatives that Corby drove through established the path of change that was then followed during the tenure of Mick Newmarch.

Many of our interviewees indicate a similar bias for action on the part of Newmarch when he became chief executive. However, several suggest a more cautious attitude to large deals or culturally significant actions. In particular one interviewee highlights an unwillingness to proceed with potential acquisitions, e.g. the acquisition of two UK building societies. Another Prudential manager describes a reluctance to abandon industrial life assurance completely, although this did finally occur. Despite these possible qualifications, Newmarch did implement a significant amount of change. In particular he drove through Prudential’s embarrassing exit from estate agency and promoted the company’s expansion in South East Asia. In both cases, Prudential was willing to take action before the other UK insurers, and in the case of the estate agency business before other financial services companies. This bias for action appears to have continued under Newmarch’s successor, as evidenced by the establishment of a novel internet banking operation and the sale of Prudential’s reinsurance operation.

Many of our interviewees, including a manager who had spent time working for both our case study companies, believed that one of the reasons why Prudential was able to take action quickly was due to the high quality of its staff. “At Prudential there were always pockets of excellence all around the place – actuaries, there were always excellent actuaries, trainers, there were always excellent trainers etc.”

The ability to drive through change was circumscribed by resistance from the company's sales force. Prior to the 1980s, Prudential had been dependent on this form of distribution and hence the sales force had considerable power. Aware of this barrier to change, the company had sought to isolate it from its ventures into new distribution channels. During the 1980s, through the introduction of new staff and legal action Prudential began to implement changes to the sales force. In the 1990s the rate of change increased dramatically such that by the time the company withdrew from industrial business in 1994, most of its field sales force had been re-tasked.

The emphasis our interviewees placed on the importance of 'doing' is seldom found within the strategic management literature. However, it is a common feature of the findings of research that has attempted to isolate the characteristics of 'excellent' companies (Peters and Waterman 1982, Grinyer et al 1988, and Collins and Porras 1995). Peters and Waterman (1982) suggest that one of the most important characteristics of excellent companies is 'an action orientation or a bias for getting things done'. They detail how such companies counter tendencies for conformity and inertia stemming from bureaucracy and institutional pressures. As such their discussion overlaps with the first and second factors identified by our study and reinforces the interdependence of all four.

Grinyer et al (1988) also highlight the importance of a 'positive bias for action' among top management in successful turnaround companies, or 'sharpbenders' as they term them. Reflecting the comment made by many of our interviewees, Grinyer et al describe managers 'energetically pursuing effective change which sometimes involved

hard decisions, or nettle-grasping'. A bias for action together with both a clear vision of the future and a strong management team will stimulate innovative behaviour throughout the organisation. However, Grinyer et al (1988) are keen to distance their concept of an action orientation from the 'cultural variety referred to within the American literature on excellence'. A bias for action is 'straightforward enthusiasm, commitment, determination to succeed and courage. Vigorous action is necessary to achieve change and is not achieved by people who flinch from the harshest decisions or at taking risks'.

It is this view of bias for action that resonates most closely with the picture presented by our interviewees. As evidenced by their entry and exit from estate agency and the abandonment of industrial life insurance, it is clear that Prudential's management were willing to take harsh decisions and take risks.

One simple lesson that Grinyer et al (1988) feel can be learnt from their study is to 'try it', and keep what works, while quickly abandoning what doesn't. Pettigrew and Whipp (1991) and Collins and Porras (1996) offer similar advice. As Collins and Porras (1996) argue, sustained financial performance is often the result of 'opportunistic experimentation and purposeful accidents'. This link between company performance and experimentation is also found in recent literature on innovation (Van de Ven 1993 and Brown and Eisenhardt 1998). Increasing the number of initiatives increases the probability of a successful innovation. Experimentation is not however at the expense of developing the existing business. In March's (1991 and 1995) terminology, companies must balance 'exploration and exploitation initiatives'.

Our case study indicates that throughout its history Prudential had been willing to experiment. Indeed, this legacy of exploration appears to have generated a culture among senior management that was open to strategic innovation, particularly in the 1980s. However, it is also clear that in doing so, it did not neglect the demands of its current activities. During the 1980s while it was exploring new distribution channels, it was still keen to enhance its industrial business operation. Between 1980 and 1987 new industrial business premiums grew by 33%. The disastrous move into estate agency is also illustrative and demonstrates the company's willingness to experiment. Its problems only emerged because Prudential did not wait for the results of the initial experiment before expanding. GRE did not have a similar willingness to take risks and experiment instead a more cautious and conservative approach was adopted. In GRE exploitative moves were the norm.

The emergence of a successful innovation is not just a matter of chance. The organisation must be capable of initiating and exploiting the innovations that arise. In other words, there must be a receptive context in which ideas can emerge and gain acceptance. Van de Ven (1993) makes this same point by quoting Louis Pasteur's famous adage – "chance favours the prepared mind". As our study clearly shows, the early adoption of strategy depends on an organisation possessing both the capacity to take action and an internal context that supports that activity. It therefore provides considerable support for the notion promoted by the contextualist literature (Giddens 1979 and Pettigrew and Whipp 1991) that successful change is the result of the interplay between context and action. We will return to this issue later in this chapter.

Comparison of Strategic Agility between Prudential and GRE

Our analysis has identified four factors that influence strategic agility - 'degree of formalisation and centralisation of strategic decision-making'; 'embeddedness within the industry macroculture'; the 'internal dynamics and individual characteristics of the dominant coalition'; and 'capacity for action'. Our discussion of these factors revealed significant differences between Prudential and GRE. In addition to revealing the contrasts thrown up by comments of our interviewees, our coding of the interview transcripts also demonstrated the consistency of our findings. We can obtain a more holistic view of the differences between the two companies by combining the figures generated by our coding (see Figure 8.11). As with the figures for each factor, black shading indicates the presence of factors positively related to the development of strategic agility in each of the two firms¹¹.

The figure clearly shows that based on these four factors, Prudential was significantly more strategically agile than GRE, particularly during the 1980s and early 1990s. The amount of black shading in the figure also shows that Prudential was slightly less agile in the early 1990s than it was in the 1980s, while the low level of data on the final two years makes comment about the final period difficult.

For GRE, the figure shows that improvements in the four factors began to occur in the early 1990s although it was not until after 1994 that these improvements had a notable influence on strategic agility.

¹¹ Hatched shading shows that the interview described the situation changing or as being different across the company. Text only shows that the response related to a low level of strategic agility and the blank areas indicate that there was no relevant data.

So how closely does the pattern of strategic agility derived from our four factors match that observed from our mapping and analysis work? Figure 8.12 displays the results of our time varying cross correlation analysis over the period 1990 to 1995 (see Chapter 5). In the diagram, the zero line on the vertical axis represents the average for the group of the nine companies in our sample. The lines for each company show the average lag in introducing a new strategy compared to the industry average (a positive value shows the company was on average ahead of the average by a certain number of months). The three values for each company represent the average across a four year window which is moved in one year steps through the data.

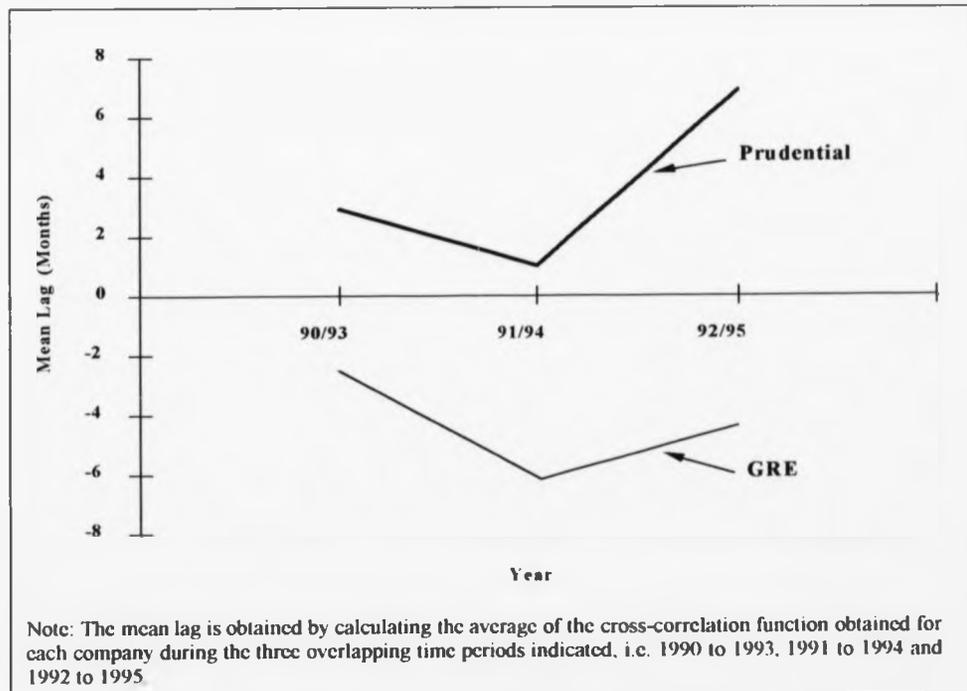


Figure 8.12 – Variations in Strategic Agility

The figure shows Prudential's strategic agility was consistently above average, but fell in the early 1990s before increasing rapidly towards the end of the study period. GRE's agility was consistently low. It fell in the early 1990s before increasing towards the end of the study period.

On the basis of our interviewees comments and our coding of the interview transcripts we can make an assessment of the strategic agility of each of our two firms at three points in time - the end of the 1980s, 1993 and the end of our study period. Although these points closely match the three points in our time varying cross correlation analysis, it is impossible to make an exact match. The data points in the cross correlation analysis represent averages over a four year time period, while the interpretations from our case study analysis are generated from characterising the different periods delineated by the tenures of various chief executives.

Figures 8.13 and 8.14 illustrate how we used our case analysis to generate hypotheses for the level of strategic agility of each company. Our analysis allows us to assess each company on each of the factors and sub-factors identified at each of the three points in time. Where this assessment would indicate a positive influence on strategic agility, it is highlighted with shading. Taken together these assessments provide an interpretation of the overall level of strategic agility for each point in time.

Factor	1989	1993	1995
Capacity for Action			
Willing to Question nature of firm/environment	Yes	Yes	Yes
Vision of the Future	Yes	Yes	Yes
Bias for Action	Yes	Slightly Less	Yes
Dynamics/Demograph. of Dominant Coalition			
Demographics of the Top Management Team	Diverse	Diverse	Diverse
Presence of Competing Mental Models	Yes	Less	?
Dissatisfaction with the Status Quo	Yes	Less	Yes
Presence of Power Shift within the Firm	Yes	Yes	?
Interaction among the Top Management Team	Open	Confrontational	Consultative
Embeddedness in the Industry Macroculture			
Perceived Similarity to other firms in Industry	Low	Low	Low
Connectedness to other firms in Industry	Medium	Low	Low
Perceived Performance Relative to Others Firms	High	High	High
Degree of Formalisation and Centralisation			
Degree of Formalisation	Low	High	Medium
Degree of Centralisation	Low	High	Medium
Expected Strategic Agility	High	Medium	High/Medium

Figure 8.13 – Summary of Factors – Prudential¹¹

Factor	1989	1993	1995
Capacity for Action			
Willing to Question nature of firm/environment	No	No	Yes/No
Vision of the Future	No	No	Emerging
Bias for Action	No	Emerging	Yes
Dynamics/Demograph. of Dominant Coalition			
Demographics of the Top Management Team	Homogeneous	Homogeneous	More Diverse
Presence of Competing Mental Models	No	Yes	Yes
Dissatisfaction with the Status Quo	No	Emerging	Emerging
Presence of Power Shift within the Firm	No	Emerging	Yes
Interaction among the Top Management Team	Little Challenge	Little Challenge	More Open
Embeddedness in the Industry Macroculture			
Perceived Similarity to other firms in Industry	High	High	High
Connectedness to other firms in Industry	High	High	High
Perceived Performance Relative to Others Firms	On a Par	On a Par	On a Par
Degree of Formalisation and Centralisation			
Degree of Formalisation	High	Higher	Medium
Degree of Centralisation	High	Higher	Medium
Expected Strategic Agility	Low	Low	Low / Medium

Figure 8.14 – Summary of Factors - GRE¹²

¹² Shaded areas indicate where the response would have a positive influence on strategic agility.

For Prudential, this interpretation indicates that the strategic agility of the company was high in 1989. It fell in the early 1990s before increasing again towards the end of our study. In GRE, strategic agility was low in 1989, remained low in the early 1990s before beginning to increase after 1994.

The relative levels of strategic agility of the two companies and the variations in agility over time show a strong correlation with the results of our time varying cross correlation analysis. In particular, the patterns from our interview data for 1993 and 1996 show a very close match to the observed levels of strategic agility from our quantitative mapping and analysis. The levels for the beginning of the 1990s, however, do show some differences. For Prudential, our case study analysis indicated a very high level of agility, higher even than that for the company at the end of the study. However, our cross correlation analysis indicates a more moderate level of agility. We can explain this difference by remembering that the first value in our time varying cross correlation analysis is actually the average of the period 1990 to 1993, and so it will be heavily influenced by the regime of the early 1990s. Hence, the value for the beginning of the study period is likely to be much higher than that shown by our quantitative analysis.

With GRE, the anomaly is the relatively high level of agility indicated by the cross correlation analysis for the period 1990 through to 1993, which is higher than the observed values for later in the period. An explanation for this mismatch can be found in the cross correlation analysis method. The values for strategic agility shown in Figure 8.12 are relative to the other firms in the sample group. Hence, while in

absolute terms the agility of GRE may have remained constant or even slightly improved, if the average agility of the sample increased more quickly, the relative level for GRE would fall. As we saw in Chapter 5, some firms were able to respond quickly to the changes in the UK insurance industry in the 1980s. However, GRE only started to look at new strategic initiatives in 1989/1990. The slump in the general insurance market between 1990 and 1993 interrupted these nascent efforts. Consequently the firms which had introduced change prior to the slump will have moved ahead, whilst others will have stood still. As a result, the average agility of the sample will have increased, and so the relative value for those that had stood still will have declined.

Strategic Agility and Receptive Contexts

Thus far, we have considered the four factors identified by our analysis independently of each other. However, these four factors are strongly interrelated. The four factors can be divided into two groups, those that refer to the ability and capability of managers and those that describe contextual features. Without a capacity to act, managers will be unable to make strategic changes. Similarly, if the context in which managers operate is incompatible with the generation and implementation of new ideas, then strategic change will be slowed or even blocked.

Both our case studies clearly demonstrate that the three contextual factors – ‘the degree of formalisation and centralisation of strategic decision-making’, ‘embeddedness within the industry macroculture’ and the ‘internal dynamics and

individual characteristics of the dominant coalition’ – are also highly interdependent and mutually reinforcing.

This notion of interrelated factors creating a context that is receptive to change is introduced by Pettigrew et al (1992) in their study of the National Health Service in the UK. They caution that the factors that contribute to such a context should not be taken as a ‘shopping list of discrete factors but are highly inter-correlated which when taken together may raise energy levels around change’.

Both our case studies provide evidence of the interdependence of our three contextual factors on influencing strategic agility. In GRE in the early 1990s, the dynamics of the dominant coalition improved considerably. In addition, the firm also saw an increasing capacity for action. However, similar changes were not seen in the other contextual factors. As we have seen, these changes had little effect, and agility continued to decline relative to the other UK insurers in our sample. It was not until the ‘bias for action’ increased further (following the arrival of a new chief executive) and the ‘degree of formalisation and centralisation’ began to be addressed that strategic agility began to increase.

In Prudential, during the early 1990s, the degree of formalisation and centralisation increased dramatically and the dynamics of the dominant coalition became more confrontational. As a result, the strategic agility of the company declined, despite the fact that the capacity of management to take action remained relatively high and the degree of embeddedness in the industry macroculture fell.

The cause of the interrelationship of these factors is clear if we consider how they influence the process of initiating and adopting new strategies. The innovation and top management team literature (Kimberly and Evanisko 1981, Glick et al 1993 and Eisenhardt and Schoonhoven 1990) indicate that the more diverse the top management team the greater the cognitive diversity. This will potentially increase the range of information that will be considered by the organisation and deepen its understanding of a particular problem or opportunity (Glick et al 1993). There will be a greater likelihood of new ideas and interpretations of the firm and its environment emerging. However, the influence of this diversity of views will be curtailed unless the internal context of the firm is receptive. A high degree of embeddedness within an industry macroculture will increase the influence of institutional pressures to conform and the likelihood that organisation will reject new ideas. A high degree of formalisation and centralisation will limit the number of managers who will be able to influence the strategic decisions of the organisation. Equally, if the dynamics of the top management team do not enable alternative views to be expressed or considered, they will not influence strategic decision-making.

Consider the situation where all three factors are unreceptive to new strategies. Changing any one of these factors (say the degree of formalisation) but not the others will not increase the strategic agility of the company – a high level of embeddedness will still restrict the range of ideas being generated and the unreceptive dynamics of the top management team will prevent team members influencing strategic decision-making. It is only when all three are aligned that the firm will be able to effectively generate new ideas and incorporate these in decision-making.

The notion that it is the interaction of bundles of factors that influences organisational change and performance has only recently begun to enter the management literature. Milgrom and Roberts (1990 and 1995) describe such factors as complementarities. They show that organisational performance depends on having all such factors aligned rather than on focusing on individual components. Whittington et al (1999) build on the concept of complementarities and apply it to organisational design. High performing firms are shown to be those which implement system wide changes rather than individual factor changes. Whittington et al (1999) highlight the importance of human resource practices, decentralisation and communication within a company, issues that match two of the factors identified by this study – ‘degree of formalisation and centralisation of strategic decision making’ and ‘dynamics and individual characteristics of the dominant coalition’.

Volberda (1998) proposes a model of the flexible organisation that includes a number of organisational design factors. His findings appear to overlap with the results of this study. Five factors are identified by Volberda (1998) – dynamic control, broad and deep knowledge base, high absorptive capacity, broad managerial mindsets and much experimentation and lastly higher level learning. All five factors are required to create flexibility. ‘Dynamic control’ is contrasted with the static controls exemplified by operating manuals, directives, policies and procedures that prescribe standardised behaviour. ‘A broad knowledge base’ is described as being the product of having a management team with varied backgrounds and the ability to exploit this variety. ‘Absorptive capacity’ refers to an ability to recognise the need for change by interpreting signals from beyond the periphery of the firm. ‘Managerial experimentation and broad managerial mindsets’ and ‘high levels of learning’ are self-

explanatory. The parallels with our study are self-evident although Volberda (1998) is less explicit about the role of management action and institutional influences.

Some Contextual Dilemmas

Our case studies provide evidence that each of the contextual factors we have identified represents a dilemma for management. As we have seen, the degree of formalisation and centralisation not only has an influence on the initiation of new strategies, it also influences their implementation. Prudential's move into estate agency in the late 1980s provides an example of an innovative strategic move that was in part facilitated by the low level of formalisation. However, the lack of formal plans and procedures was a significant cause of the failure to control its implementation. In the 1990s, the increased level of formalisation was instrumental in curtailing the number of new initiatives that were attempted. These examples indicate that management must find a degree of formalisation and centralisation that caters for the conflicting requirements of the initiation of strategy and its implementation.

We have also discussed the possible adverse effects of too much diversity among the senior management team. Without some common ground on which to build communication and cohesion (Priem 1990) conflict may result. As we saw in Prudential, conflict and ill feeling among the senior executives did increase in the early 1990s, requiring the whole team to reassess its behaviour. However, a major theme of our finding is that diversity among the top management team stimulates strategic agility. This would suggest that there is again a dilemma to be resolved.

Our third contextual factor, 'embeddedness within the industry macroculture', also presents a potential dilemma for management. As our study has shown, a low level of embeddedness stimulates strategic agility. The higher the degree of embeddedness the stronger will be the influence of institutional pressures to conform to industry norms. As we have seen, Prudential distanced itself from other insurers and industry bodies and by the 1990s had ceased to see itself as an insurer. This made the company more willing to consider and adopt new approaches. However, contact and a willingness to work with industry groupings does have its advantages. It provides the opportunity to gain competitor knowledge (Smith et al 1992), helps ensure consistency in pay negotiations with industry-wide unions and more effective lobbying of governments on common issues. Two of our interviewees argued that Prudential distanced itself too much from the other insurers. They point to the disagreements that the company had with the industry regulator - where it was only going to win if it got the support of the other insurers - as an example. Its cause may have been better served if it had used a less confrontational approach and gone through well-established industry bodies. Ultimately, this episode led to the departure of Prudential's CEO and possibly to greater publicity being given to subsequent pension mis-selling investigations than would otherwise have been the case.

The existence of management dilemmas stemming from the conflicting requirements of different parts of the strategy making process is also recognised by Brown and Eisenhardt (1998) and Volberda (1998).

In his discussion of the flexible firm, Volberda (1998) indicates that if efforts to promote autonomy and relax the control systems (whether formal or cultural) go too

far the organisation may collapse into chaos. Following Kanter (1988), Volberda argues that flexibility requires an organisational structure and culture that allows change while at the same time preserves the organisation.

On the basis of their case study investigations of a number of US computer companies, Brown and Eisenhardt (1998) propose that in hyperturbulent environments organisations need to position themselves on the edge of chaos. They assert that while there is a tendency for organisations to drift either towards a stable bureaucratic form or into chaos, there is, between these two states, a viable equilibrium position 'on the edge'. Brown and Eisenhardt (1998) argue that occupying this 'edge' position requires managers to resolve four dilemmas – adaptive innovation v.'s consistent execution; collaborative synergies v.'s individual success; exploit the old v.'s explore the new; and commit to a future v.'s being flexible for the future.

The first of these quandaries ('adaptive innovation v.'s consistent execution') shows some similarity to one of the dilemmas raised by our own study (the 'degree of centralisation and formalisation'). To resolve this dilemma, Brown and Eisenhardt (1998) propose that management should foster a culture of frequent change and improvisation in the context of a few strict rules and constant real time communication within and across the organisation. Our study provides some support for this advice – in Prudential in the 1980s there was a culture that promoted change, however the control regime was, in some cases, inadequate to address the implementation of strategy. In addition, communication between the estate agency division and the rest of the organisation was not as open as in other parts of Prudential. During the early 1990s, rules and procedures began to dominate and the

entrepreneurial culture that had existed in the 1980s was suppressed. In Brown and Eisenhardt's (1998) terms the company drifted towards the 'bureaucratic trap'.

However, Brown and Eisenhardt's (1998) assertion that there are equilibrium positions at the edge of chaos suggests that such states are stable and unchanging. We would argue that this view is flawed, and indeed the ease with which Prudential shifted from having too little control to having too much without falling into an intermediate equilibrium position suggests that the edge of chaos is far more precarious than Brown and Eisenhardt (1998) envisage. From our perspective, finding the right blend of each of our three contextual factors is an on going 'balancing act' on an edge that is continually in motion.

Recently March (1999) has made a similar point, describing the idea of balance as a cruel concept. He argues that finding the optimum mix is difficult if not impossible for two reasons. Firstly, what is perceived as the optimum balance will vary from organisations to organisations and from individual to individual and will vary over time. Secondly, actions and their outcomes will be 'distributed across space and time and will be connected to each other in intricate ways'. The outcomes of a particular action will not occur instantaneously but will be spread over time and 'fuse' with those of earlier or later actions.

Given these problems what advice does our study offer for managers attempting to resolve the contextual dilemmas we have identified? Here we must be cautious and stress the limitations of our study. Our insights into the three contextual factors are derived from our investigation of only two companies, neither of which fully achieved

the optimum degree of any of these factors – although Prudential was substantially closer to accomplishing this than GRE. However, by identifying these dilemmas the study does alert managers to the risks of attempting to increase strategic agility by adjusting any or all of the contextual factors. Any over adjustment may well frustrate the attempt. For this reason and because the appropriate balance point will be constantly changing managers should continually monitor the impact of each factor and seek to compensate for unwanted consequences.

Summary

In Chapter 5 we identified Prudential as a consistent early adopter of new strategic initiatives. Guardian Royal Exchange was shown to be consistently more cautious. This chapter has investigated the reasons for the differences in strategic agility by comparing our two case study companies.

Three streams of literature (innovation, institutional and contextual) informed our comparative analysis of the case studies providing guidance on what factors might influence strategic agility. Our inductive analysis supported by a content analysis of the interview transcripts revealed that four highly inter-related factors had had a significant effect on the speed at which the firms had adopted new strategies. Each of these determinants was well supported within the literature.

Management's ability to recognise change in the environment, question its current strategy and effectively implement new initiatives was a significant factor. In this process, a bias for action among the top management team (including the chief

executive) and a widely held vision of what the company will be in the future are essential. To be successful this ability to act must operate within a receptive context. The receptiveness of the firm's internal context is influenced by our other three factors – the degree of formalisation and centralisation in strategic decision-making, the degree of embeddedness within the industry macroculture and the dynamics and individual characteristics of the dominant coalition.

Each of these contextual factors presents a dilemma for management. Too much diversity among senior management dilutes the experience and knowledge of industry specialisms. Too much decentralisation and informality reduces the ability of the firm to implement strategic initiatives. Excessive isolation from industry peers closes off a potential source of competitive information. Finally, debate and challenge may descend into fragmentation and political strife.

Chapter 9

Conclusion

Introduction

In Chapter 2 we described our two main criticisms of the principle schools of research on strategy content – the adoption of a highly static view based on the notion of stable equilibria and the concentration on a single level of analysis. Cross sectional methods have dominated research in this area and variations in phenomena over time have been largely ignored. We argue that as a result, research on strategy content has failed to progress as fast as research which addresses the process and context of strategy. If we recognise the dynamic and multilevel character of the content of strategy then it is possible to raise a number of important questions concerning the emergence, development and demise of strategy over time and the factors that influence such patterns. This study took up the challenge to explore these dynamic issues of strategy content.

Over the course of the last five chapters we have addressed different levels of analysis – the macro and competitive environment (Chapter 4), industry level patterns of strategy content (Chapter 5) and firm level micro process and contexts (Chapters 6,7 and 8). In each chapter we have stressed the interrelated nature of these levels of analysis. In this final chapter we return to our research questions and pull together the results of our mapping study and the case study findings. We will also discuss the contributions that this research has made to the study of strategy. Finally, we describe the limitations of our work and suggest recommendations for further work, both to

address these limitations and to exploit the utility of the research method developed during this study.

Key Issues Raised in this Study

This thesis reports empirical findings into patterns of strategic development in nine companies in the UK insurance industry. In contrast to other work on strategy content (Ansoff 1987 and Porter 1980) we took a dynamic view, more akin to developments within the strategy process literature (Mintzberg 1978, Pettigrew 1985). This perspective raised a number of important issues regarding the emergence and development of strategy content within an industry group, which have not been addressed within the strategy literature. Recognition of this gap in the literature prompted the development of our three research questions:

1. Do common strategies emerge and diffuse through an industry over time?
2. Are there consistent early and late adopters of common strategies or does the order of adoption depend on the nature of the strategy?
3. Why are certain firms consistent early or late adopters of common strategies?
What factors influence a firm's strategic agility?

Before investigating these questions we had to address three critical methodological issues. Firstly the data collection had to be both longitudinal and cross sectional. Secondly, temporal information within the data collected had to be retained throughout the analysis. Thirdly, we needed to investigate phenomena at both an industry level and within the firm and therefore needed to use multiple research methods. In addition, in order to determine the character of early and late adopters rather than the nature of the strategy adopted, several strategy types had to be investigated simultaneously. A combination of the quantity and quality of our time series secondary data, the use of the cross-correlation time series analysis and the use of the comparative case study analysis method addressed these methodological issues.

In Chapter 4, we explored the macro and competitive environments within which the UK insurers operated during the 1980s and 1990s. We demonstrated how this environment had changed from being highly protective and collaborative, even munificent, to being hypercompetitive (D'Aveni 1994). However, some firms coped better than others with this new environment. Prudential, General Accident and Commercial Union improved their performance, particularly within the more valuable long term insurance segment of the market.

In hypercompetitive environments successful firms are those which are consistently ahead of their competitors in introducing new strategies and innovations (D'Aveni 1994 and Jacobson 1992). Their actions continually disrupt the competitive structure of the market forcing others to make the same types of move. It was therefore anticipated that those firms that saw performance improvements in the 1990s would be consistent early adopters of strategies.

The study showed that within our sample two types of initiative emerged as common strategies (see Chapter 5). These two types of strategy initiative involved moves to consolidate in the UK and internationalise in South East Asia. In both cases, a delay of between 2 and 3 years was detected between the first and last adopters within our sample group of companies. In both strategy types, Prudential was the first mover, although the order in which the other firms followed varied between the two strategy types. Across all the strategy types considered, seven in total, the cross-correlation analysis showed that during the study period Prudential and General Accident were consistent early adopters and Guardian Royal Exchange and Eagle Star were consistently more cautious. Commercial Union pursued a pattern of strategy initiatives that differed considerably from that for the other companies studied. Consequently, the results for this company were not statistically significant.

These patterns clearly suggest that the firms that performed best in the first half of the 1990s were those which were consistently early adopters of strategy, while those that were significant late adopters were less successful. However, significant relationships were not detected between these patterns and firm size or the availability of slack resources.

In Chapter 6, 7 and 8 we turned our attention to our third research question – why are certain firms consistent early or late adopters? In essence, what factors will determine the strategic agility of a firm, i.e. the speed with which it adopts new strategies? Our comparative case study analysis of Prudential and Guardian Royal Exchange identified four interrelated factors as influencing the strategic agility of a firm –

'degree of formalisation and centralisation of decision-making', 'embeddedness within the industry macroculture', the 'internal dynamics and individual characteristics of the dominant coalition' and 'capacity for action'. The first three of these factors reflect the internal context in which management action (our fourth theme) takes place. A high level of strategic agility requires both a management team with the ability to implement change and a receptive context in which to do it.

The degree of formalisation and centralisation of strategic decision-making refers to the extent to which the actions of the firm are governed by formal rules and procedures and the extent to which they are determined centrally at the top of the organisation. The more centrally and formally the organisation is controlled the more its actions are determined by a small number of senior managers. Consequently, the extent to which alternative ideas and interpretations of the organisation and its environment can emerge and influence decision-making is reduced. This factor is strongly supported in the literature on innovation (Damanpour 1991 and Rogers 1983).

Embeddedness in the industry macroculture refers to the extent to which the firm adheres to the institutionalised norms and values of the industry group in which it operates. Three sub-factors were shown to influence the degree of embeddedness – the extent to which the firm perceives itself to be similar to its peer companies, the degree to which it is connected to the other firms and the extent to which the managers of the firm perceives its performance to be similar to that of the other companies. Firms which are highly embedded within the industry macroculture are less inclined to reject institutionalised types of activity and pursue new strategies ahead of their peers.

However, as other firms increasingly adopt a new strategy type these companies are more likely to follow suit.

The internal dynamics and characteristics of the dominant coalition refer to the diversity of the top management team and the interaction within this group. A diversity of career background and tenure within the industry promotes a range of cognitive mindsets and values among the top management team. Whether such views will influence strategic decision-making will depend on whether there is openness to challenge and/or fluidity in the structure and balance of power at the top of the organisation. The greater the diversity of values and mindsets there is among the top management team, the wider the range there will be of alternative interpretations of the state of the company and its environment. The adoption of a new strategy requires a reassessment of the firm and its environment and the mobilisation of the resources for implementation. This process is stimulated by a willingness to accept challenge to existing views or changes in the balance of power through which alternative views can influence strategic decision-making.

Capacity for action refers to the ability of the chief executive and his management team to recognise the need or desirability of strategic change and to drive through that change. Three factors were identified by our study as contributing to this ability – a willingness to question the nature of the firm and its environment, a vision of the future and a bias for action among the management team. Managers must be willing and able to reinterpret their view of the firm's environment as they absorb new signals and to question not only how the firm does things but also what it does. In addition, they must possess a vision of what they want the company to be in the future which

acts as a general guide to the company, but does not constrain the approaches used to achieve it. One of our interviewees used the simile of steering a sailing boat in a strong wind - suggesting that if you haven't got a goal to tack towards you will be swept off the chart. Finally both the chief executive and the senior management team must possess a bias for action, or in the terms used by many of our interviewees 'be prepared to grasp the nettle'.

Our study indicates that the three contextual themes pose a series of dilemmas, and the agility of the firm will depend on managers finding appropriate solutions to these while at the same time maintaining an ability to act. First, managers must cater for the concurrent and differing needs of strategy invention and implementation in regard to the degree of centralisation and formality of decision-making adopted. The second dilemma is what is the appropriate level of embeddedness within the industry macroculture that will allow managers to be aware of professional and industry developments, but not to an extent that cognitive and normative pressures stifle innovative action?

Thirdly, the need for industry experts with wide experience in their field must be balanced with the need for the fresh insight and knowledge that outsiders bring. The dilemma here is to promote cultural and political variety whilst avoiding the negative consequences that can arise from fragmentation and political strife.

Our findings demonstrate that none of the factors identified on its own promotes strategic agility, it is the combination of management ability to take action and the presence of a receptive internal context that allows some firms to cope with

hypercompetitive environments better than others. The management literature has made much of the debate between determinism and strategic choice i.e. is it context or management choice that determines the actions of a firm (Hannan and Freeman 1984 and Child 1972)? Our study supports Pettigrew's (1990) notion that it is not a question of management action or context but the combination of context and action that leads to success.

Strategic Agility

During this study we have developed the term 'strategic agility' to refer to the speed with which firms adopt new strategies. However, in the light of our case study findings it is apparent that there is more to strategic agility than this simple definition suggests. The term 'strategic agility' has previously been applied to operations management (Roth 1996) where it refers to the capability of a firm to produce the 'right products at the right place at the right time at the right price'. Here we use the term to apply to a wider frame of reference and to reflect the ability of the firm to adjust its strategy quickly to exploit changes in its environment or in its own capabilities. Central to this concept is that management proactively introduces new strategies. The firm does not simply flex to match external change.

Reflecting our argument about context and action, we see a subtle difference between agility and flexibility, although both enable a firm to adopt new strategies quickly. Strategically agile firms do not just respond quickly to change in the environment, they also proactively influence that environment and force others to match their moves. The Oxford Dictionary demonstrates this subtle difference - flexibility is

defined as the 'ability to bend without breaking, to be pliable'. Applied to a firm this implies that change is the result of the flexing to fit the external environment. In contrast, the definition of agility – 'quick moving, nimble and active' – describes a far less passive view of the role of managers – they are influenced but also initiate change both within the firm and within their environment.

Contributions of this Research

This research makes a number of contributions to the study of strategy content and to the wider field of management research. These are mainly methodological and empirical, but this research also contributes to theoretical debate in a number of areas.

Methodological Contributions

A particular strength of this study is the longitudinal methodology we developed to investigate our research questions. The complementary strengths of our mapping and analysis technique and the comparative case study method allowed us to investigate phenomena at a range of analytical levels – macro environmental conditions, patterns at an industry level and the micro processes and contexts of the firm.

The comparative case study methodology has become increasingly accepted within management science. However, our mapping and analysis technique is a highly original contribution – especially the cross correlation analysis. Our study has shown how this valuable tool, derived from the fields of economics, signal processing and

biology, can be adapted for use with dichotomous data and applied to compare time series of strategic initiatives or other management changes. It has a particular strength in that it retains the temporal component of data.

There is considerable scope for the application of the technique in other areas of strategy and management research when two or more time series are to be compared but where there is a time lag between associated phenomena. It would provide a way of comparing time series of strategic and structural changes to determine the direction of influence or of comparing managers stated strategic intentions, i.e. intended strategy (Mintzberg 1978) with the pattern of strategy that is implemented, i.e. emergent strategy. Initially steps were undertaken to research these two issues (see Pettigrew and Webb 1996) but they were abandoned in favour of the subject of this thesis. However, these efforts demonstrated the utility of the cross correlation method.

Empirical Contributions

We have already discussed the empirical evidence this study provides for the diffusion of strategies through industry groups, the existence of consistent early and late adopters of strategy and for some of the factors that influence strategic agility. Consequently, this research has addressed recent calls by a number of researchers for empirical investigation of early and late adopters of strategy (e.g. Lieberman and Montgomery 1998, O'Neill et al 1998 and Porter 1991) (see Chapter 2). However, our research has also provided empirical evidence which can contribute to two long running debates within the strategic management literature – that of continuous

change v. stability/punctuated change and environmental determinism v. strategic choice.

The study has provided evidence that strategy content is in a state of continuous change rather than of stable equilibrium positions, punctuated by quantum and sudden change. As one of our ontological assumptions for this study was that change was ongoing it could be argued that our findings would therefore depict strategy content as constantly changing. However, one of the strengths of longitudinal research methods is that they are able to detect stability, or the absence of change, as well as change (Tuma and Hannan 1984). We would therefore argue that our approach would have been equally successful at detecting stability or punctuated change during the study period if it had been there to detect.

Our study also contributes empirical evidence about the debate between environmental determinism and strategic choice. The deterministic view assumes that environmental pressures, which can be economic, social or technological in nature, dictate the strategies of organisations. Independent management action is either impossible or ineffectual. This perspective is most clearly seen in the environmental school of strategy (Mintzberg et al 1998) and among population ecologists (Hannan and Freeman 1977). In contrast, the strategic choice view (Child 1972) assigns primacy to management agency (tempered by political processes) in selecting and implementing strategy. Our findings suggest that these polar positions are unrealistic. We would argue that reality is a fusion of management agency and the constraints and pressures imposed by the internal and external contexts in which the firm operates.

Recently Child (1997) revisited his concept of strategic choice, bringing it into line with the contextual view proposed by Pettigrew (1985) and Pettigrew and Whipp (1991). In this re-conceptualisation, he criticises the polarisation of voluntarism and determinism in organisational analysis and suggests that management action is a 'kind of bounded autonomy'. Cognitive and material structures that exist within an organisation's environment act to constrain action. However, within these constraints there are 'zones of manoeuvre' (Clark 2000) within which organisational decision-making and action can be both proactive and reactive. Over time the actions of management will modify the constraining limits.

In this contextualist conceptualisation of strategic choice, Child (1997) argues that the organisation's openness to new information and knowledge and how it is handled are critical issues. However, he suggests that organisational researchers have neglected them. Our study helps to correct this neglect by empirically demonstrating the importance of these issues to strategic agility.

Lewin and Volberda (1999) make the same point. Using the term co-evolution instead of contextualism (Pettigrew 1985) or strategic choice (Child 1997), they indicate that studies that investigate the dynamic interplay and evolution of a firm's contexts and processes and management action are rare. Lewin and Volberda (1999) state that only a small number of studies have contributed to this area, among which they include the study detailed by this thesis.

Finally, this research provides an empirical study of strategy context, content and action in the UK insurance industry. Surprisingly, this industry has received little

attention from strategy researchers, despite its size and the considerable changes that have occurred over the last 20 years. We believe that the industry offers considerable scope for research. It is a traditional and conservative industry that is being forced to adapt to the demands of hypercompetition and, with the recent moves of international insurance companies, globalisation. Consequently, it provides an opportunity to study the impact of these challenges on strategy making and organisational behaviour.

In addition, because historically firms within the industry had closed and co-operative relationships, institutional pressures were significant. It is an industry therefore which allows researchers to study the impact of new competitive pressures on industry traditions. Several institutional writers (Oliver 1991 and Greenwood and Hining 1996) have highlighted the limited attention that has been given to the process of rejecting previously institutionalised practices (de-institutionalisation). As we have seen in our study this process has been common in the UK insurance industry, and as a result the industry also offers considerable potential for studies that address this issue.

Theoretical Contributions

At a theoretical level, we have proposed a dynamic view of strategy content that is commensurate with developments within the strategy process and context literatures (Mintzberg 1978, Pettigrew 1985 and Pettigrew et al 1992). Strategy content is envisaged as a stream of initiatives, which alter a firm's size and market and geographic coverage over time. This view is in marked contrast to the notion of

strategy content as a stable market or resource position (Porter 1980 and Barney 1986) which has prevailed within the strategy content literature.

As we noted in Chapter 1, the inadequacies of static views of strategy are increasingly being recognised even by their creators. Notably, Porter (1991) calls for more dynamic theories of strategy, and indeed some of his recent work has adopted longitudinal research methods to reveal such dynamics (Porter 1990). In calling for such theories Porter (1991) identifies four areas in which research effort is required – (1) understanding the balance between environmental determinism and strategic choice, (2) understanding the degree of inertia in competitive positions, (3) 'pushing back the chain of causality' i.e. what is the ultimate origin of competitive advantage, and (4) developing and crafting empirical methods that allow the dynamic character of strategy to be explored. Our study has made a contribution to each of these areas. We have already discussed two of these issues - determinism v.'s strategic choice and the methodological development made by this study. Our concept of strategic agility offers insight into the other two issues raised by Porter (1991) in that it 'pushes back the chain of causality' of competitive advantage and it improves our understanding of the sources of inertia. The strategic agility of a firm rather than the strategy type pursued (e.g. differentiating or internationalising) is what influences firm performance and is the 'source of advantage'. In turn, strategic agility is influenced by the managerial and contextual factors identified by our study. However, the contextual factors can also be a source of inertia. As we have discussed, too much or too little of any of these factors will restrict strategic agility, thereby placing the firm at a disadvantage relative to its competitors.

This more dynamic way of thinking has allowed us to show how elements of the innovation, institutional and contextual literatures are relevant to the adoption of strategy. In relation to the issues raised by Porter (1991), these literatures provide considerable insight into the dynamic nature of strategy and the sources of competitive advantage, as well as the sources of inertia that may inhibit strategic change.

The dynamic view of strategy proposed has considerable implications for the future study of strategy content and strategic groups (Caves and Porter 1977, McGee and Thomas 1986 and Cool and Schendel 1987). Typically, such studies have used cross sectional comparisons of the strategies pursued by firms at a single point in time to identify determinants of performance. However, if strategy content is in a state of continual change such traditional methods must be treated with caution. For example, in a study of strategic groups, defining the members of the strategic group would produce different members at different times. An early or a late adopter of strategic initiatives may be erroneously excluded from a group due to the different timing of strategies rather than a difference in the type of strategy pursued.

Limitations of this Study and Recommendations for Further Research

In Chapter 3 we commented extensively on the issue of credibility and the relevance of our findings. We described the criteria proposed by Hammersley (1992) for judging the quality of post positivist research – its ability to generate formal theory; the degree to which findings can be generalised or transferred to other settings; the degree to

which the research is empirically grounded and scientifically credible; and the degree to which it is reflexive. We discussed in depth the issues of reflexivity and bias in our research and described the efforts we had taken to ensure validity. Through the course of the thesis we have seen how the findings of this research have been well supported by existing literature and well grounded within our empirical data.

However, Hammersley's criteria also highlight the main limitation of our study. Our findings are based on the mapping and analysis of nine firms within one industry and consequently there must be questions as to the extent to which they are applicable to other contexts. Because of the extent to which our findings are supported by elements of the innovation, institutional and contextual literatures, some level of generalisability can be claimed. However, the originality of this work within the strategy field does mean that further work in other industry sectors is required before we can confidently claim transferability.

Limitations may also be raised concerning the use of secondary data in our mapping and analysis to identify early and late adopters of strategy. However, in this study these data were used to identify the strategic initiatives of the firms being studied and the time at which these events occurred. No attempt was made to use these data to explain the reasoning and processes that lay behind these moves. The limited information obtained from the secondary data was carefully verified. In most cases the information was found in several national newspapers, it was checked against the companies' annual reports and, where it related to our case study companies, confirmed with our interviewees. Consequently, we believe that the reliability of this data are high. We would argue that it will have a higher level of accuracy than many

traditional primary data collection techniques, such as interviews and questionnaires, where the researcher is relying on the subject's memory and a willingness to respond let alone provide accurate data.

While our parsimonious use of the secondary data increased the validity of the mapping study findings, it has introduced a more subtle limitation to this study. The factors we have identified as influencing strategic agility are based solely on the results of our case studies of two firms. We have not used our database material to explore these themes across the other seven firms in our sample. Given the nature of this data, we believe that this would have been unwise. However, exploring the variation in these themes across the industry would provide further confidence in our findings and their transferability. This then is a second area in which we would recommend further work, with either a series of interviews or a questionnaire survey being conducted of these other seven firms. This study would be targeted to explore how the factors we identified varied across the group.

Finally, as we argued in Chapter 3, the time-period we were able to cover in our mapping and analysis study was limited to 6 years. The ongoing spate of mergers and acquisitions that have occurred within our sample since the end of our study period prohibited extension of the study forward in time. The start of our study period was determined by the coverage of the database systems then available. Since the completion of our mapping and analysis phase, online and CD-Rom data sources have evolved further. As competition grows the cost of using such systems has begun to fall and suppliers are striving to extend the data they offer. Hence, in the future researchers will be less restricted in the use of this kind of data collection. This

suggests a final area in which further research could occur – extending the mapping and analytical phase of our study back into the 1980s or even the 1970s. This would allow us to more confidently map changes in the agility of our nine firms and ease concerns over ‘left or right censoring’ of our data.

Conclusion

This study has provided empirical evidence that strategy content is in a state of constant flux. It has shown that others will imitate strategies that are introduced by one firm such that it diffuses through an industry group over time. Certain companies will be consistent early or late adopters of such strategies, with the speed of adoption being influenced by a range of interrelated organisational factors. We have shown that the ability of firms to introduce new strategies quickly and proactively depends on the capability of managers to recognise and exploit changes in their environment within a context that is receptive to such actions. The receptivity of the context in which managers operate will depend on managers finding appropriate solutions to three dilemmas. What degree of centralisation and formality of decision-making adopted should be adopted? To what extent should the organisation be embedded within the industry macroculture? And what level of diversity, openness and fluidity should there be among the firms top management team.

A strength of our research is the combination of an innovative statistical analysis and comparative case study method. The methodology developed here has considerable utility for other studies within management science. The focus on a single industry is the thesis’ main limitation. We suggest there is a need for further research of leaders

and laggards of strategy adoption in other industries to build confidence of the transferability of confirm our findings.

We introduced Chapter 2 with a quote by Francis Bacon – “All this is true if time stood still”. This statement was made in the early 15th Century as a criticism of those who scorned change. In the same essay on innovation, Bacon provides excellent advice for companies faced by hypercompetitive environments on the danger of not being agile – “he that will not apply new remedies must expect new evils”.

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