A methodology to define strategic processes in organizations

An exploration study in managerial holding companies

Payam Hanafizadeh
Department of Industrial Management, School of Management and Accountancy, Allame Tabataba’ee University, Tehran, Iran, and
Sorousha Moayer
Division of Science & Computing, School of Electrical, Energy and Process Engineering, Murdoch University, Australia

Abstract

Purpose – To elaborate a methodology enabling organizations to define their strategic processes among other processes.

Design/methodology/approach – A case study approach has been chosen due to the nature of this research. Case study research method is qualitative method but it can be positivist. The mix of techniques is appropriate and some degree of quantification is necessary. Three high-level steps are designed and these steps are developed in the managerial holding companies (research case study).

Findings – Because of limitations on budget and time, organizations are able to define the processes which are critical to achieve organizations’ goals. This methodology has a holistic view in organizations by using balanced scorecard framework.

Research limitations/implications – This research is based on a single case. Generalization based on this case should be interpreted cautiously and a limitation of the case study should be kept in mind. Furthermore, the strategy of the research case is a competitive strategy and the strategic processes are chosen according to this strategy. They may be changed based on other strategies. In interpreting the result, these limitations should be kept in mind.

Originality/value – Defining the strategic processes helps organizations to use their resources based on their objectives. This paper presents a methodology that improves the ability of organizations in managing and directing their resources efficiently.

Keywords Strategic planning, Holding companies, Balanced scorecard

Paper type Research paper

1. Introduction

Based on Porter and Millar’s (1985) value chain model, the processes, in many organizations, can be divided into two parts: primary and supportive processes. Five primary processes are inbound logistics, operations, outbound logistics, sales and services. These processes would be backed by supportive processes. They are infrastructure processes (accounting, finance, and management), human resource management, technology development, and procurement. This paper presents a methodology to highlight the strategic processes among other ones. These processes help an organization to achieve their objectives. However, all of them are vital for the organization. Furthermore, with the proposed methodology, organizations are able to
focus on processes and create their own competency. Acquiring competitive advantage would be hard and sustaining it would be even harder (Porter, 1996, 2001). Many authors developed frameworks and concepts to achieve the sustainable competency (Davenport, 1993; Guimaraes and Armstrong, 1997; Desouza, 2001).

This paper identifies the detail of methodology which has the ability to create competency for an organization. In this methodology, balanced scorecard (BSC) framework is used. The BSC identifies the information required to measure performance against the business objectives (Kaplan and Norton, 2000). The BSC provides a framework, a language to communicate mission and strategy. The four perspectives of the BSC permit a balance between short and long-term objectives. The BSC retains the financial perspective since financial measures are valuable in summarizing the readily measurable economic consequences of actions already taken. In the customer perspective, companies identify the customer and market segment in which the business units will compete and the measures of the business unit’s performance in these targeted segments. In internal process perspective, companies identify the critical internal processes in which the organization must excel (Niven, 2002). The fourth perspective of the BSC, learning and growth, identifies the infrastructure that the organization must build to create long-term growth and improvement. In this paper, an overview of the methodology is described in Section 2. Section 3 is dedicated to case study. Discussion and conclusion are elaborated in Sections 4 and 5, respectively.

2. An overview of strategic processes definition methodology
As mentioned, the limitation of resources is the main motivation of this research. This methodology helps the organization to focus on processes which have more impact on the organization’s goals. In order to achieve this objective, three steps were designed. The high-level steps in the proposed methodology. The details of steps are mentioned in the Case study section are shown in Figure 1.

2.1 Determining the processes
In this section, the processes of the organization are depicted. They are defined based on studying famous companies which are in the field of our business activity.

2.2 Categorizing the processes by the BSC framework
Organization’s processes are categorized in the BSC perspectives. As mentioned, the BSC framework not only focuses on financial perspective but also measures organization’s objectives based on three other perspectives (customer, internal process, learning and innovation).

Figure 1.
The high-level steps

- Determining the processes
- Categorizing the processes by the BSC framework
- Ranking the categorized processes using statistical analysis on the questionnaires
2.3 Ranking processes using managers’ points of view
In this section, experts’ viewpoints and also managers’ standpoints are used to define strategic processes among other ones. It is completely based on the strategy. Competitive strategy is considered and can be changed from one company to another.

3. Case study: implementation of strategic processes definition methodology in managerial holding companies
3.1 First step: processes of managerial holding companies

Holding companies are established to control other corporations by the ownership of their voting capital stock. In other words, a holding company is applied to any company which in fact controls other companies referred to as subsidiaries. There are two general forms of holding companies: the first is one which derives its profits solely from the investments in the securities of its subsidiaries. This is called an investment holding company. The second type, which may derive profits from investment securities, also intervenes in the subsidiaries’ transactions and is called a managerial holding company (US Department of Energy, 1993).

This research focuses on managerial holding companies so that the main processes of this kind of organization can be defined. The processes of HCs are rather different when compared by other types of companies. In a business company, there are core and supportive processes (Porter and Millar, 1985). Based on the literature review, it seems that supportive processes in HCs play key roles. In this section, we identify the processes of holding companies according to literature review.

3.1.1 Portfolio management. Portfolio management identifies which products and services are useful and beneficial for HCs and their subsidiaries. The products and services put in the portfolio of HCs will be more beneficial and also need less time and resources compared with other products and services (Gold et al., 1994).

3.1.2 Licensing strategy. Identifying key company intellectual assets and industry information in establishing the brands, patents and technologies appropriate for licensing to others (Kaplan and Norton, 2000).

3.1.3 Negotiation support. Preparing the team for negotiations through development of financial models that identify valuable driving for HCs (Gold et al., 1994).

3.1.4 Financial management. Monitoring a company’s portfolio of agreements, recovering unpaid royalties, evaluating the tax benefits of intellectual property-holding companies and developing shareholder reporting methodologies (Kaplan and Norton, 2000).

3.1.5 Dispute resolution. Developing strategies to prevent infringement charges escalating into litigation (Gold et al., 1994).

3.1.6 Standards adoption. Emphasizing the adoption of standards favorable to a company’s product strategies and the avoidance of unintended patent grants (Gold et al., 1994).

3.1.7 Subsidiaries performance appraisal. One of the most important processes of HCs is subsidiaries performance appraisal. They should be carried out regularly. The BSC methodology can help us to evaluate better and accurately (Gold et al., 1994).

3.1.8 Subsidiaries capacity planning. HCs should have the ability to identify the capacities of subsidiaries and plan to use them effectively (Kaplan and Norton, 2000).

3.1.9 Common-service presentation. There are a lot of parallel activities which subsidiaries do by themselves (Gold et al., 1994). They are more effectively done by HCs.
3.1.10 **Common projects execution.** Owing to the presence of different experts in the body of HCs, they can contribute to projects done by some subsidiaries. Therefore, HCs need the ability to manage and control these kinds of projects (Gold *et al.*, 1994).

3.1.11 **Crises management.** Crises in the market are transferred to HCs. Technologies and needs of customers always change in the market so in some situations, subsidiaries may encounter crises. HCs should have the ability to help subsidiaries in such situations (Gold *et al.*, 1994).

3.1.12 **Export development.** Subsidiaries always tend to expand their markets to foreign countries. In this issue, HCs should study the expansion then help and support the subsidiaries to enter the new foreign markets correctly (Gold *et al.*, 1994).

3.1.13 **Innovation in holding companies.** With innovation, we can assure the success of HCs (Gold *et al.*, 1994). The innovation in the body of HCs causes the competitive advantages for them.

3.2 **Second step: categorizing the processes into the BSC framework**

As mentioned, the processes should be categorized in the BSC framework. To categorize the processes, the successful international case studies have been used (Kaplan and Norton, 2000). In this part of research, these case studies are examined and then adapted to the processes of HCs. For instance, Mobil Nam& R Company is one of the best companies using the BSC framework effectively. This company has considered a measurement criterion about effective branding system in customer perspective. We used this and put the licensing strategy in customer perspective. The summary of this study is shown in Table I.

Figure 2 shows the processes of HCs according to what we have in Table I. Financial management lies within financial perspective because the main focus of this process is to indicate readily measurable consequences. Two processes, negotiation support and licensing strategy, are very customer oriented and are in customer perspective. Based on the study, subsidiaries performance appraisal, portfolio management, export development, common project execution, common-service presentation, dispute resolution, crises management are all internal processes. Innovation in an HC and standards adoption identify the infrastructure which can build long-term growth and improvement so they are in learning and innovation perspective.

3.3 **Third step: determining the strategic processes according to holding company's strategy**

As stated, the strategy affects selecting the strategic processes. Since, one process may be strategic for one strategy but not for another one. The strategy of our case is competitive. The type of strategy considered here is based on the company strategic plan. This can be different from one company to another. We sent a questionnaire to business and academic experts. Only 23 out of 80 questionnaires were duly filled out. Because of the lack of experts in managerial holding companies compared with business companies, the number of responses is one of the research limitations. Data capturing process lasted from July to October 2005. The combination of respondents is shown in Table II.

In this section, the steps of defining strategic processes based on competitive strategy in HCs will be described. This section analyzes the data taken from questionnaire to identify and rank the strategic processes in HCs in order of strategy. The questionnaire used Likert indicator and Friedman test to rank the processes.
<table>
<thead>
<tr>
<th>Company name</th>
<th>Financial Management</th>
<th>Licensing strategy</th>
<th>Negotiation support</th>
<th>Subsidiaries performance appraisal</th>
<th>Subsidiaries capacity planning</th>
<th>Common-project execution</th>
<th>Common-service presentation</th>
<th>Dispute resolution</th>
<th>Portfolio management</th>
<th>Crises management</th>
<th>Export development</th>
<th>Innovation in holding company</th>
<th>Standard adoption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobil NAM&amp;R</td>
<td>FP</td>
<td>CP</td>
<td>CP</td>
<td>IPP</td>
<td>IPP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>IPP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>On-Line National Bank</td>
<td>FP</td>
<td>CP</td>
<td></td>
<td>IPP</td>
<td></td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
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<td></td>
<td>LIP</td>
</tr>
<tr>
<td>AgroChem</td>
<td>FP</td>
<td>CP</td>
<td>IPP</td>
<td>IPP</td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>New Profit Investment Co</td>
<td>FP</td>
<td></td>
<td></td>
<td></td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>Company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
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<td>LIP</td>
</tr>
<tr>
<td>Johansson</td>
<td>FP</td>
<td>CP</td>
<td>IPP</td>
<td>IPP</td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>Brown &amp; Root</td>
<td>FP</td>
<td>CP</td>
<td></td>
<td>IPP</td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>Sharlot</td>
<td>FP</td>
<td></td>
<td></td>
<td></td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>Transportation</td>
<td>FP</td>
<td></td>
<td></td>
<td></td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>Fingo – IT</td>
<td>FP</td>
<td>CP</td>
<td></td>
<td></td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>Nova – Skatia</td>
<td>FP</td>
<td>CP</td>
<td></td>
<td></td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
<tr>
<td>Winter International</td>
<td>FP</td>
<td>CP</td>
<td></td>
<td></td>
<td>IIP</td>
<td></td>
<td></td>
<td>IPP</td>
<td>LIP</td>
<td></td>
<td></td>
<td></td>
<td>LIP</td>
</tr>
</tbody>
</table>

Notes: FP, financial perspective; CP, customer perspective; IPP, internal process perspective; LIP, learning and innovation perspective
Non-parametric statistical tests are used because of the amount of data and also data do not follow any statistical distribution. Friedman test is used to rank the processes. In Table III, there are the mean ranks of managerial holding companies’ processes. Based on this test, there is a significant difference among the processes. Statistical reliability is 84.55 percent according to a test.

Based on the analysis data with Friedman test, the processes of HCs with competitive strategy are ranked in Table V.

![Figure 2.](image)

**Figure 2.**
Classification of the managerial holding companies' processes based on case studies.

<table>
<thead>
<tr>
<th>Process</th>
<th>Mean rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio management</td>
<td>9.83</td>
</tr>
<tr>
<td>Licensing strategy</td>
<td>9.52</td>
</tr>
<tr>
<td>Negotiation support</td>
<td>2.57</td>
</tr>
<tr>
<td>Financial management</td>
<td>3.30</td>
</tr>
<tr>
<td>Dispute resolution</td>
<td>5.70</td>
</tr>
<tr>
<td>Standards adoption</td>
<td>5.54</td>
</tr>
<tr>
<td>Subsidiaries performance appraisal</td>
<td>10.39</td>
</tr>
<tr>
<td>Subsidiaries capacity planning</td>
<td>9.22</td>
</tr>
<tr>
<td>Common-service presentation</td>
<td>5.74</td>
</tr>
<tr>
<td>Common project execution</td>
<td>5.93</td>
</tr>
<tr>
<td>Crisis management</td>
<td>3.50</td>
</tr>
<tr>
<td>Export development</td>
<td>9.78</td>
</tr>
<tr>
<td>Innovation holding company</td>
<td>9.98</td>
</tr>
</tbody>
</table>

**Table II.**
The combination of respondents to determine strategic processes of holding companies

<table>
<thead>
<tr>
<th>Organization name</th>
<th>No. of the respondents</th>
<th>Bachelor</th>
<th>Master</th>
<th>PhD</th>
<th>Top management</th>
<th>Senior expert</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business experts</td>
<td>9</td>
<td>2</td>
<td>5</td>
<td>2</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Academic Experts</td>
<td>14</td>
<td>3</td>
<td>11</td>
<td>12</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

**Table III.**
The mean ranks of Friedman test to determine strategic processes of managerial holding companies with competitive strategy.
4. Discussion
In this research, because of the BSC holistic viewpoints, one process was chosen from each perspective as strategic processes. It means that, may be, there are some processes with better rank in Friedman test but not more than one process in one perspective were chosen. For example, although export development and portfolio management rank higher in Friedman test compared with licensing strategy, since only one process has to be chosen from each perspective, licensing strategy was selected. As a result, financial management, licensing strategy, subsidiaries performance appraisal and innovation in HC were chosen as strategic processes in HCs with competitive strategy. These processes are highlighted in Figure 3.

5. Conclusion
Defining the strategic processes or processes with strategic nature is the main goal of this research. Based on this methodology, these processes do not exceed 4 or 5 processes so that organizations with their limited budget and time are able to focus on them.

<table>
<thead>
<tr>
<th>Process name</th>
<th>Perspective in BSC</th>
<th>Mean rank in Friedman test</th>
<th>Rank in perspective</th>
<th>Total rank</th>
<th>Mean</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial management</td>
<td>Financial</td>
<td>3.30</td>
<td>1</td>
<td>12</td>
<td>2.34</td>
<td>0.9</td>
</tr>
<tr>
<td>Negotiation support</td>
<td>Customer</td>
<td>2.57</td>
<td>2</td>
<td>13</td>
<td>2.08</td>
<td>1.03</td>
</tr>
<tr>
<td>Licensing strategy</td>
<td>Customer</td>
<td>9.52</td>
<td>1</td>
<td>6</td>
<td>4.3</td>
<td>1.16</td>
</tr>
<tr>
<td>Subsidiaries performance appraisal</td>
<td>Internal process</td>
<td>10.39</td>
<td>1</td>
<td>1</td>
<td>4.6</td>
<td>0.48</td>
</tr>
<tr>
<td>Portfolio management</td>
<td>Internal process</td>
<td>9.83</td>
<td>2</td>
<td>3</td>
<td>4.56</td>
<td>0.51</td>
</tr>
<tr>
<td>Export development</td>
<td>Internal process</td>
<td>9.87</td>
<td>3</td>
<td>4</td>
<td>4.43</td>
<td>1.04</td>
</tr>
<tr>
<td>Subsidiaries capacity planning</td>
<td>Internal process</td>
<td>9.22</td>
<td>4</td>
<td>5</td>
<td>4.3</td>
<td>1.01</td>
</tr>
<tr>
<td>Common project execution</td>
<td>Internal process</td>
<td>5.93</td>
<td>5</td>
<td>7</td>
<td>3.3</td>
<td>0.98</td>
</tr>
<tr>
<td>Common-service presentation</td>
<td>Internal process</td>
<td>5.74</td>
<td>6</td>
<td>8</td>
<td>3.39</td>
<td>0.74</td>
</tr>
<tr>
<td>Dispute resolution</td>
<td>Internal process</td>
<td>5.70</td>
<td>7</td>
<td>9</td>
<td>3.39</td>
<td>0.81</td>
</tr>
<tr>
<td>Crises management</td>
<td>Internal process</td>
<td>3.50</td>
<td>8</td>
<td>11</td>
<td>2.21</td>
<td>1.5</td>
</tr>
<tr>
<td>Innovation in HCs</td>
<td>Innovation and</td>
<td>9.98</td>
<td>1</td>
<td>2</td>
<td>4.47</td>
<td>1.05</td>
</tr>
<tr>
<td>Standards adoption</td>
<td>Innovation and</td>
<td>5.54</td>
<td>2</td>
<td>10</td>
<td>3.30</td>
<td>0.73</td>
</tr>
</tbody>
</table>

Table IV. The result summary of Friedman test to determine strategic processes of managerial holding companies with competitive strategy.
By using this methodology, organizations determine strategic processes which are critical in achieving their objectives.

Combining the statistical analysis and the BSC framework is another achievement of this research. Statistical analysis presents the ranking of managers and experts' viewpoints. On the other hand, the BSC framework creates a holistic view in the organization.

The case study of this research supports the steps of its methodology. Managerial holding companies are able to save their time and budget in achieving their goals by using this methodology. There are many processes in managerial holding companies. This methodology selected a process in each BSC perspective. These strategic processes play key roles to attain managerial holding companies' objectives.

This research is based on a single case. Generalization based on this case would be interpreted cautiously and a limitation of the case study should be kept in mind. Furthermore, the strategy of research case is a competitive one and the strategic processes are chosen according to this strategy. For further research, it is recommended that this framework is reviewed by other kinds of strategies and also more practical case studies.

References


Further reading


Corresponding author
Payam Hanafizadeh can be contacted at: hanafizadeh@gmail.com

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