

## CHAPTER 4

### FACTORS MODERATING THE CHOICE OF STRATEGY-MAKING APPROACH

*“Hence, strategic management constitutes a normative outline for rational strategy formulation but provides little explicit consideration of the potential management roles in the strategy formation process. Conversely, strategic emergence has often been ascribed to decision patterns evolving over time as relatively autonomous managers within the organization engage in resource committing activities”*

Andersen, 2004:265

#### 4.1 INTRODUCTION

Brews and Hunt (1999:889) suggest that certain circumstances warrant a specific approach to strategy-making to be followed. They report on a study investigating whether environmental conditions and organisational size moderate the type of planning firms employ in their strategy formation activities.

In this chapter the focus is on so-called “moderating factors” as being those conditions that influence the type of strategy employed. Much of what has been said in the previous two chapters hinted at the tension present when a strategy-making approach comes into question.

Chapter 2 outlined the debate in its extremities and Chapter 3 progressed with the explanation of the opposing ends. The first part of this chapter contextualises the battle ground between proponents on both ends of the strategy-making spectrum. The purpose of sketching the conversational pinnacles and academic contentions at the onset of this chapter is to highlight the above-mentioned additional and very critical aspect of the

academic discourse on strategy-making approach, namely the consideration of *factors that influence the strategic decision of selecting a strategy-making approach*. These factors are commonly referred to as moderating factors. In other words, the selection of a mode of strategy-making cannot be done without first considering certain aspects in the decision sphere of the organisation – such as industry environment, organisational size, etc. This chapter draws attention to the most prominent of these frequently researched and debated moderating factors, specifically organisational size, industry environment and the influence of the CEO in setting strategic direction.

## **4.2 DEBATING THE ADVANTAGES AND DISADVANTAGES OF TWO OPPOSING STRATEGY-MAKING APPROACHES**

The selection of a mode of strategy-making advances from the perceived advantages that come from following a specific mode of strategy-making. These advantages are also sometimes linked to company-specific factors, known as the moderating factors. These influence how strategy is made in an organisation either directly or indirectly.

### ***4.2.1 Strategy-making mode and performance***

Brews and Hunt (1999:889) are of the opinion that few issues attracted more attention in strategy research than the relationships between the mode of strategic planning adopted by the firm and the economic performance of the firm. They notice that it is regrettable that “...decades of planning/performance research have yielded inconsistent findings” (Brews and Hunt, 1999:889). Their study reviewed 18 empirical studies testing the effect of formal strategic planning on economic performance and concluded the link was ‘tenuous’ (Pearce, Freeman and Robinson, 1987 *in* Brews and

Hunt, 1999:889). A meta-analysis of 21 studies found that the formal strategic planning/performance link was weak, with a correlation of 0.1507 (Boyd, 1991 *in* Brews and Hunt, 1999:890). A similar meta-analysis of 26 studies concluded that strategic planning positively influenced firm performance (Brews and Hunt, 1999:890). While similar analysis of 14 studies investigating the effects of planning on small firm financial performance concluded that the relationship, though small, was significant and positive (Schwenk and Schrader, 1993 *in* Brews and Hunt, 1999:890).

Brews and Hunt (1999:890) suggest some explanations for the research inconsistencies pertaining to the linkage between performance and mode of strategy-making, including:

- Cognisance not taken of the impact of environment on the type of planning employed. Some studies found that formal strategy-making processes or planning are positively associated with performance in unstable, turbulent or dynamic environments. Other studies concluded formal strategic planning is best suited to stable environments (Brews and Hunt, 1999:890)
- The 'crude' dichotomous or trichotomous classifications of planning behaviours employed: comparing formal, long range planners with non-formal, long range planners or comparing non planners with incomplete planners and complete planners (Kudla, 1980:5).

The inconsistencies in research findings, and the weak planning/performance relationships observed in the past have been key in the rejection of formal planning as the 'one' best way to plan (Mintzberg, 1994a).

Of special interest in the above realisation of research inconsistencies, is firstly the prominence given to environmental and other factors influencing

the choice of strategy-making approach, and secondly the hint at the inappropriateness of discarding one approach in favour of another. The latter has been addressed in the previous chapter where mention was made of several authors suggesting synthesis of strategy-making approaches. The inherent warning to not crudely dichotomise approaches also bears significance in a discussion of environmental factors that make one approach more attractive and preferable in one scenario and another in a different scenario.

#### *4.2.2 Other advantages or disadvantages associated with strategy-making modes*

The “bitter” debate (Brews & Hunt, 1999:889) detailed in the preceding chapters, hinges on the question vital to the theory and practice of strategy: what types of planning should firms utilise in their strategy formation behaviours?

Arguments in favour of the formal approach to strategy planning include Ansoff (1991, 1994) flying the ‘planning school’ flag. He contends that formal planning is beneficial in both stable and unstable environments. Brown and Eisenhardt (1998:158) provide a case study example that illustrates how formalised strategic planning takes place: “...study the industry, select a strategy, and build tactics around it.” They (Brown and Eisenhardt 1998:158) submit that such strategic planning has several strengths, such as:

- “It serves a useful, symbolic role. At Pulsar, it provided a rallying point for employees. It generated excitement and a relentless work ethic at the firm. At other companies, such planning can usefully signal

discipline and sophistication to constituents like lenders and stockholders”.

- Strategic planning also serves a useful purpose in coordinating a complex set of efforts among many people. It is a way to organize tasks and lay out a resources roadmap for people to follow.
- “Without any type of planning, there is chaos”.

Brown and Eisenhardt (1998:158) limit to a certain extent instances where this advantage comes to the fore, when they state that “[s]trategic planning can even be effective as the primary strategy for managing the future of slow-moving industries.” This implies that “slow-moving industries” benefit more from strategic planning than industries where change is fierce, to the extent that the planning *per se* becomes the strategy. However, in more dynamic industries, the advantage of planning becomes less due to inherent characteristics such as inflexibility. This is because strategic planning is not about the future, “in reality, strategic planning gives managers almost no help in gaining insight about the future. It is a passive approach that does not actively engage the future, it can even be detrimental to managing the future when the plans are too rigid”, as such strategic planning should be treated as a “rough roadmap, budgetary guideline, and rallying point, not as a straitjacket that [limits] managers from adapting to the real future (Brown and Eisenhardt 1998:158)”. They furthermore suggest that strategic planning should be complemented by actually engaging the future through experimentation and building strategy based on insights from such experiments.

Farjoun (2002:563) contends that the mechanistic view with its ensuing planning models based on shared assumptions and concepts, have mutually

reinforced one another, and facilitated better communication, generation and exchange of ideas.

Notwithstanding the above arguments for the use of the formal mode of strategy-making, the latter is still being increasingly questioned. Its simple assumptions, better suited to a relatively stable and predictable world (Brews and Hunt, 1999; Harrington *et al*, 2004) and to the early stages of the field's development, seem to be at odds with the more complex and constantly changing observed behaviour of individuals, firms and markets. Critics have described it as 'static' (Pettigrew, 1992), linear (Henderson and Mitchell, 1997) and fragmented (Schendel, 1994).

Mintzberg (1994b:13) highlights the following 'pitfalls' of planning in his argument against the planning approach to strategy:

- The commitment pitfall, where management's commitment to planning is questioned as much as "(a) whether planning is committed to management, (b) whether commitment to planning engenders commitment to strategies and to the process of strategy making, and (c) whether the very nature of planning actually fosters managerial commitment to itself". This pitfall is explained in the following way, "What is sometimes not appreciated is that there is no such thing as an 'optimal' strategy, calculated via some formal process. Intended strategies have no value in and of themselves; ...they take on value only as committed people infuse them with energy."
- The change pitfall, where planning "...impedes more than promotes..." organisational change. "The purpose of a plan is to render things inflexible, that is, to set the organization on a course of action".
- The politics pitfall, where planner bias (in stead of objectivity) influences the strategic plan.

In support of these pitfalls and negative view on planning, Heracleous (1998:482) outlines the fallacies that strategic planning, as “...programmatically, analytical thought process...” is based on:

- Firstly, the fallacy of prediction, the belief that planners can predict what will happen in the market place. (This is called by Mintzberg (1994b:15) the ‘Fallacy of predetermination’);
- Secondly, the fallacy of detachment, the premise that effective strategies can be produced through formalised processes by planners who are detached from the business operations and market context.
- Lastly, the fallacy of formalisation, the questionable idea that formalised procedures can in fact produce strategies, whereas their proper function is to operationalise already existing strategies.

Mintzberg (1994b:19) epitomises all the above fallacies, when he suggests that the ‘grand fallacy of ‘strategic planning’ comes into being. He (Mintzberg, 1994b:19) contends that:

because analysis is not synthesis, strategic planning has never been strategy making. Analysis may precede and support synthesis, by defining the parts that can be combined into wholes. Analysis may follow and elaborate synthesis, by decomposing and formalizing its consequences. But analysis cannot substitute for synthesis. No amount of elaboration will ever enable formal procedures to forecast discontinuities, to inform detached managers, to create novel strategies. Thus planning, far from providing strategies, could not proceed without their prior existence.

There has been widespread critique of the planning approach in similar vein in various strategy and management literature (Peters, 2003; Kinni, 1994;

Albrecht, 1994). Some have even gone to the extent of criticising the existence of a strategy (Altier, 1991; Harari, 1995, Inkpen and Choudhury, 1995; Mintzberg, 1994a; Mintzberg *et al*, 2005; Peters, 2003).

Mintzberg *et al*. (1998:19) say about the portrayal of strategic management as the discrete phases of formulation, implementation and control: "This bias is heavily reflected in practice, particularly in the work of corporate and governmental planning departments as well as many consulting firms. ..."

Peters (2003:23) portrays strategic planning and systematic planning 'rituals' as a "losing bet":

In response [to the once 'invincible' United States being economically humbled by, in particular Japan, the best minds in business offered their best ideas on how to survive in the new competitive environment. These were the big strategic "bets" of the late 20<sup>th</sup> century. First, there was The Strategic Planning Bet. People believed in five-year plans. Ten-year plans. A strategy "guru", completely cowed by Japan's industrial success, claimed that one Japanese company (I think it was Canon) actually has a 500-year plan. Those of us enslaved by Wall Street's crazy quarterly-earnings requirements wept openly. Imagine, we intoned as one... a 500-year perspective! Ah, those were the days. Meg Whitman has seen the faith in long-term strategy come and go. She's CEO of the insanely successful e-Bay...and survivor of the dot-com conniptions. In the old days, she says, enterprise "strategy meetings" were held "once or twice a year." Now, in eBay World, "strategy sessions" are "needed several times a week." Forget the 500-year plan: You're lucky if you can write a five-week plan that makes any sense...yes...after five weeks.



On the other side, in critique of the incremental (or emergent approach) Andrews (1980:55) has referred to Lindblom's (1959:79) "muddling through" organisation as 'purposeless' and "anti-strategic".

Arguing for synthesis (as was discussed in Chapter 3) Brock and Barry (2003:556) emphasise that strategy and planning should not be separated. They argue for ways in which these can be incorporated (specifically how planning can be derived from and support strategy formation in a multinational organisation). They show through empirical evidence the importance of selecting a specific 'mode of planning'. These modes facilitate selection/formation of different types of strategies for environments characterised by 'continuous change' versus 'stable, concentrated' environments. Brock and Barry (2003:555) conclude that provided planning as an organisational process "is used in a manner consistent with an organization's strategic orientation, planning can assist information gathering, public relations, group therapy, direction and control and facilitate intra-organizational communication, cooperation, and sustained strategy implementation". Their findings show that internally consistent organizational configurations are associated with superior performance.

Neither intentions nor emergence are useful tools with which to analyse strategy since neither as a pure form is likely to be observable. Instead there is a continuum on which different 'blends' can be seen. McGee *et al* (2005:11) views "realised strategy" as "a blend of intentions and emergence which can be interpreted by reference to the strengths of pressure from the external environment – a kind of environmental determinism" (2005:11).

The above summary of arguments all relay some reason why a specific strategy-making approach would be better suited to an organisation. The

demand for any of the two extreme approaches (rational versus emergent) can therefore be seen to be influenced by specific moderating factors as is explained in the following sections.

#### ***4.2.3 The demand for deliberate or emergent strategy***

The advantages of the two opposing approaches are best summarised by De Wit and Meyer (2004:112). The demand for any of the two approaches can indirectly or directly be linked to the environment in which the organisation operates or certain organisational factors that influence a choice of strategy-making approach. The advantages are outlined below followed by an in depth discussion of the moderating factors at play when each of these approaches are preferable.

The demand for rational planning and deliberate strategising are based on the following promised advantages that strongly pressure organisations to engage in deliberate strategising:

- The need for unified direction;
- The need for commitment to a course of action;
- The need to coordinate all strategic initiatives within an organisation into a single cohesive pattern;
- The need to optimise resource allocation;
- The need for programming all organisational activities in advance (Wit and Meyer, 2004:112).

The approach of letting strategy advance, in other words, emergent strategy, on the other hand has a number of advantages that organisations need to consider:

- Opportunism – the ability to ‘play the field’ is an important factor in effective strategy formation (Quinn 2002);

- Flexibility;
- Learning;
- Entrepreneurship;
- Organisational wide support (Wit and Meyer, 2004:112).

It can be seen from the above discussion that different needs dictate different strategy-making approaches. This is because each approach promises certain advantages which if they are realised, address these needs.

### **4.3 MODERATING FACTORS**

Parnell and Lester (2003:294) suggest certain reasons why organisations would choose to follow a certain approach to strategy-making. These reasons in turn inform the moderating factor discussion. In other words, certain organisational factors (such as environment and organisational size) would necessitate a specific perspective on strategy-making and this would result in a specific approach to strategy-making being followed in an organisation. Table 4.1 below summarises the central questions and thinking associated with each approach to strategy-making following the particular question posed by Parnell and Lester (2003:293):

**Table 4.1 'Critical dilemmas' in strategy-making informing type of approach selected**

<i>Essential question (dilemma)</i>	<b>Approach: Rational planning</b>	<b>Approach: Emergent</b>
<i>Should strategy be approached as an art or a science?</i>	Science (follow a process of comprehensive analysis)	Art (creativity and intuition are central to strategic decision-making)
<i>Should strategies be openly disseminated or hidden?</i>	<p>Evidence of the existence of a strategy can be seen in accounting data, company reports, executive perceptions etc.</p> <p>"In an environment where managers frequently move from one company to another, forthright strategic discussions with employees may ultimately result in sharing confidential strategic intentions with competitors" (2003:293)</p> <p>A more certain environment allows more free communication of strategies.</p>	
<i>Is strategic consistence more important than flexibility?</i>	<p><i>Strategy stability is required</i> because</p> <ul style="list-style-type: none"> <li>▪ strategic inaction may minimize uncertainty in an already uncertain environment;</li> <li>▪ strategy change may necessitate substantial capital outlays;</li> <li>▪ consumer confusion may result from</li> </ul>	<ul style="list-style-type: none"> <li>▪ "A strategy tends to yield superior performance when it 'fits' with the organization's environment. Without strategic flexibility, an organization cannot adapt to its changing external environment."</li> <li>▪ Flexibility is critical when first-mover advantage is</li> </ul>

	<p>strategy changes and hamper long term success</p>	<p>required.</p> <ul style="list-style-type: none"> <li>▪ Changes in human, physical, capital and informational resources necessitate strategy change.</li> <li>▪ Strategy change is needed when desired organisational performance levels are not attained.</li> </ul>
<p><i>What degree of risk is inherent in strategy formulation?</i></p>	<p>It is argued that risk reduction is the main responsibility of top management and risk should be avoided or minimised.</p> <p>Analytical and qualitative techniques should be used to “transform environment in the direction of certainty” (2003:296)</p>	<p>It is argued that “strategy formulation is inherently risky and top managers should not forego attractive opportunities because of lack of certainty” (2003:296).</p>
<p><i>Should top-down or bottom-up approaches to strategy formulation be employed?</i></p>	<p>Trends towards bottom-up approaches to decision-making is a recent phenomenon, but executives have a better view of the whole organisation and strategic decision making skills. However, a strict top-down approach may not yield the best approach (2003:296).</p>	

(Source: Adapted from Parnell & Lester, 2003)

The above summary highlights the following important moderating factors when it comes to selecting strategy-making approaches. These are:

- Organisational environment with specific reference to environmental stability and certainty. Environment necessitates varying degrees of

dissemination of strategy, flexibility (i.e. time horizon of planning), strategy stability and consistency.

- The direction of strategic decision-making in organisations. This refers to the way in which decisions are made as being either from the CEO downwards or from the bottom-up.

Other frequently mentioned influencing factors or moderating factors are discussed in the subsequent sections, namely the environment, size of the organisation and the role of the CEO.

Some other moderating factors are also mentioned in literature (Harrington *et al*, 2004:16), although not as widely as the above-mentioned moderating factors. As such they need to be mentioned but are not be discussed in detail:

- Timeframe of planning – Rational planning is associated with fixed cycles of strategy formulation and update. The association with environment and timeframe is discussed in sub-section 4.3.1 below.
- Munificence of resources – The comprehensiveness of a rational planning approach to strategy-making requires human resources as well as financial resources. The abundance and availability of resources (referred to as munificence of resources) therefore influences the time and organisational effort which in turn determines if an organisation will embark on a rational planning exercise (Baum & Wally, 2003).
- Market orientation of organisations - This refers back to the positioning approach to strategy, where firm strategy is based on market factors. Market orientation is implied in the environmental factor as moderator to strategy-making approach discussed in sub-section 4.3.1;
- Organisational life cycle. The organisational life cycle is said to influence not only the type but also the way strategies are developed

in organisations, with each stage in the life cycle making different demands on the organisation (McGahan and Porter, 1997:20).

#### ***4.3.1 Environment as a moderating factor***

Harrington *et al* (2004:15) is in agreement with the views as expressed in research by Brews and Hunt (1999), Miller and Cardinal (1994) and Boyd (1991) and Mueller, Mone and Barker (2000) when they argue that an effective strategy process depends in large on the nature of the environment in which the organisation operates. This contingency approach followed is in line with previous strategy research (Ansoff, 1987.; Hart, 1992. and Mintzberg and Waters, 1985) as well as with the notion that 'fit' with the environment improves firm performance. Harrington *et al* define 'fit' as 'matching' (2004:15).

##### ***4.3.1.1 Defining environment as moderating factor***

Some of the factors that can be used to determine environmental stability include:

- Maturity of industry; speed of change; stability of technology and possibility to forecast changes in technology; availability of information for decision making in the industry (Brews and Hunt, 1999:894);
- Frequency of new competitors entering into the market; rules of competition and current competitors either changing or well defined (Porter, 1991:98).

Richter and Schmidt (2005:333) distinguish between two sets of context factors: External environmental factors in terms of uncertainty, complexity, and munificence and internal organisational factors such as administrative

context, decision-making level and power distribution. The latter organisational factors are associated with the influence of the CEO as is discussed in more detail in sub-section 4.3.3.

Some of the key assumptions in traditional strategy analysis and research, as extracted from academic literature by Prahalad and Hamel (1994:10), share a high association with the notion of the environment as influencing or moderating factor:

- *Strategy is about positioning a business in a given industry structure* (Porter, 1980, 1985). This view of strategy, according to Prahalad and Hamel (1994), dominated the academic, consulting and to a lesser extent managerial thinking. This view of strategy is predicated on industry structures that are stable and identifiable.
- *The focus of strategy tools and analysis is existing industries.* A general preoccupation with structural analysis forced concern with existing and stable industries. The broad sweep of academic attention was seldom focused on industries in transition, or emerging industries. Questions that should have been asked, include "...How does one identify drivers of industry transition? How does one develop industry foresight? How does one bet on (and allocate resources to) evolving opportunities such as multimedia? Is the future knowable or just different? Can firms compete to create a new industry? Or create standards that influence the direction of a new industry? (Hariharan, 1990 *in* Prahalad and Hamel, 1994:10 ).

As far as traditional strategy design and analysis perspectives are concerned, McGahan and Porter (1997:30) concludes based on their empirical study that it would be misguided to disconnect the influence of



organisation from the industry and competitive contexts in which firm operate. This includes the strategy-making and strategy content that cannot be separated from the environment.

#### ***4.3.1.2 Measuring the specific influence of environment on strategy***

In conducting research to establish whether the industry environment really matters, McGahan and Porter (1997:20) used Analysis of Variance methods to evaluate the influence on the organisation in general. This influence can therefore be extrapolated to the strategy that the organisation develops. Their study provides strong support that industry really matters in the following ways:

- Industry directly accounts for variation in business-specific profits.
- The absolute and relative influence of industry differs substantially across broad economic sectors;
- Industry effects on organisations are more persistent over time, which is consistent with the view that industry structure changes relatively slowly.

Bringing the environmental influence closer the strategy-making, Brews and Hunt (1999:891) decomposed the deliberate strategy construct into specificity of strategic ends (e.g. objectives) and means (e.g. resource allocation). The types of ends and means, the number of ends and means, and how specific they were, measured the level of specificity. The specificity score for ends and means was summed total of the types, number, and level of specificity. They made the important discovery based on analysis of 656 firms that led them to reject the environment as a moderator of the planning/performance relationship. Rather than being amenable to formal rational planning (as has been argued above) stable environments may, according to their study, require less planning. This is because the "routines

to operate” in the stable environment has been refined and planning may not be needed until the environment changes again. Brews and Hunt (1999:905) found the following with regard to stable environments:

- Lower ends and means specificity scores were recorded for firms in stable environments;
- Lower planning flexibility (relating to planning time frame) exhibited by firms operating in stable environments;

This suggested to them that the environment neither moderated the need for formal planning, nor the direction of the planning-performance relationship. But, they noted that the environment did moderate planning capabilities and planning flexibility (which related to time frame of planning). They maintain that by demanding more sophisticated planning, unstable environments may force the development of planning capabilities. The study of Brews and Hunt (1999:906) furthermore found that as environmental stability grows, so does flexibility.

As far as capability to plan is concerned Iaquinto and Fredrickson (1997:63) investigated top management agreement on planning comprehensiveness. They found that this was negatively correlated with industry stability. Better planners (operating in unstable environments) should display closer agreement about comprehensiveness than poor planners (in stable environments).

Kukalis (1991) conducted a study researching the moderating effects of environmental complexity, organisational size and market growth on planning extensiveness. Planning extensiveness can, for the purposes of this study, be related to the comprehensive, rational planning approach. Kukalis (1991:155) found that:

- Plans are reviewed more frequently and strategic plans should have shorter time horizons in complex environments. In other words, a more flexible planning system is likely to be found in companies operating in such environments;
- Corporate planning staff has a higher level of involvement in the planning process when the environment is relatively simple. Conversely, top management assumes more responsibility for strategic planning when the environment is more complex.
- Environmental complexity seems to increase planning extensiveness.

In summary, situations favouring formal planning according to Kukalis (1991:144) include: inefficient markets, large internal and external changes, high uncertainty and high complexity. Kukalis' findings contradict what Bresser and Bishop (1983:588) found that in complex and uncertain environments more intra-organisational contradictions can be caused by rational planning since it tends to suppress creativity and spontaneity and instead encourages rigidity that is often dysfunctional. Kukalis' (1991) research furthermore stands in stark contrast with Fredrickson and Mitchell (1984:420) and Fredrickson (1984) who focused on the environment and planning comprehensiveness in the context of firm performance. They found that planning comprehensiveness was positively related to performance in a stable environment and negatively related to performance in an unstable environment.

Salmador and Bueno (2005:280) found in their research in the banking environment where certain banks are trying to reinvent the industry through the Internet, that they combine the following processes: "action, reflection-on-action, accumulation of actions and reflections-on-action, imagination;

and the use of simple guiding principles”. This emergent process ties in with what Grant (2003:494) calls the process of “planned emergence” in complex environments where the landscape changes frequently and there is constant exploration.

Grant (2003:493) believes that the challenge of strategy-making in “unknowable futures” encouraged rethinking strategy process and the nature of strategy. Attempts to reconcile systematic strategic planning with turbulent, unpredictable business environments included scenario planning, strategic intent, and strategic innovation. *Strategic intent*, according to Grant (2003:493) explains why uncertainty makes organisations turn away from detailed planning and rather focus on obtaining clarity of direction within which short-term flexibility can be reconciled with overall coordination of strategy. Strategic intent (Prahalad and Hamel, 1989) refers to committing to long term direction and strategic goals, not just articulating these through organisational vision and mission. *Innovation* in turn implies that organisations that wish to prosper in new external environments require new strategies and ways of making strategy.

To investigate the influence of environment of the mode of strategy-formation Grant (2003:495) posed the following research questions:

1. What has been the impact of increased volatility and unpredictability of the business environment upon companies’ strategic planning processes?
2. To what extent do companies’ systems of strategic planning correspond to the rational, analytic, formalized, staff-driven processes associated with the ‘design school’ of strategic management, and to

what extent are they consistent with the emergent strategies associated with the 'process school'?

Grant's (2003:509) case study design research conducted in a turbulent environment discovered the following common trends:

- Shortening of strategy-making time horizons;
- A shift from detailed planning to strategic direction (e.g. plans were specified in terms of 'strategic themes');
- These strategies and themes in turn included financial and cost targets;
- Increased emphasis on performance planning with elements such as financial targets, operating targets, safety and environmental objectives, strategic mileposts, and capital expenditure limits;
- Provision of channels and forums for communication and knowledge sharing;
- Use of tools and methodologies for strategic planning (e.g. some widely used tools included 'Porter type analysis', shareholder value analysis, PIMS analysis, game theory, appraisal of competencies and capabilities).

This argument relating to environmental stability can be concluded by Wiltbank *et al's* (2006:983) opinion that organisations that wish to succeed in changing environments should either

*try harder to predict better* (rational strategies advocated by the planning school) or *move faster to adapt better* (adaptive strategies espoused by the learning school). Which prescription a firm is to follow depends upon how confident the firm is in its ability to predict changes in its environment.

In the same way studies of fast decision-making show on the one side that in dynamic situations decision makers actually can arrive at faster decisions by pursuing a strategy-making process with many of the hallmarks of rationality (Bourgeois & Eisenhardt, 1988:820). On the other side it is also seen that fast decision making also allows for quick reactions to changing environments, central to adaptation (related to the emergent approach), while retaining many of the rational strategy-making processes: more alternatives, more information, and more integration.

#### ***4.3.1.3 Conclusion***

It can be seen from the above discussion that there is considerable inconsistencies between views on the influence of the environment on planning. Arguments are sometimes double-barreled in the sense that, like Wiltbank (2006), they argue that unstable environments can influence planning to either way of the continuum. Or as in the case with Brews and Hunt (1999) research did not show a direct influence between strategy-making mode and environment, although it did account for time frame of planning (i.e. flexibility).

#### ***4.3.2 Organisational size as moderating factor***

An important internal consideration in the strategy-making process is the size of the organisation (Harrington, 2006:374). Empirical evidence presented in various studies has reported differing results when organisational size comes into play.

#### ***4.3.2.1 Measuring the specific influence of organisational size on strategy***

Some research points to the coexistence of formal and informal strategic planning processes in large organisations (Grant, 2003:494). Most large companies maintain some form of formal strategic planning (Rigby, 1999 *in* Grant, 2003:494). However, in analysing 1087 decisions by 127 *Fortune 500* companies Sinha (1990:489) concludes that “the overall contributions of formal strategic planning systems are modest”. Strategic decisions appear to be made outside the formal strategic planning system”.

In contrast to the above view that suggests something of the emergent nature of strategy evident alongside rational strategy in large organisations, Idenburg (1993:134) believes that most large companies have formal planning processes which are based on the rational planning view.

#### ***4.3.2.2 The role of complexity***

The above research suggests that organisational size moderates the type of planning, Kukalis (1991:156) found that organisational size has no effect on planning extensiveness (associated with the rational planning approach in this study) and that size differentials among large companies had little effect on the design of their formal planning system. Complexity, however, was found to determine strategy-making approaches. Complexity refers to numbers of divisions, diversity and independence among divisions. Organisations might be complex, even though they are relatively small.

Proponents of strategic management in the small firm have suggested that the type of planning employed will be contingent upon its stage of development and that this activity will evolve and become more formal and over the life cycle of the business (Berry, 1998:456). Complexity of business activities will force organisations to become more pro-active in its approach

to strategy, predicting future outcomes of strategic decisions, says Berry (1998:456). Strategy will therefore lose its emergent character and become more formalised and “sophisticated”, according to Berry. As such planning will move away from simple financial plans and budgets in reaction to market place changes and demands, through to forecast-based, externally-oriented planning of a pro-active and strategic nature. Berry’s (1998:458) research also found that there is a significant correlation between the perceived importance of business strategy formulation (varying during different life cycle stages), accompanying planning formality, and company size (as measured by company turnover, and number of employees) and this is, in her opinion, consistent with the notion that different levels of strategic planning formality can be observed at different stages of growth in the small business.

In large, complex organisations, on the other hand, the strategic process consists of the strategic activities of managers from different levels in the organisation. Most strategic activities in large organisations are induced by the organisation’s current concept of corporate strategy, but also emerging are some autonomous strategic activities, that is, activities that fall outside the scope of the current concept of strategy (Burgelman, 1983:61). Autonomous strategic behaviour, explained by Burgelman (1983:68) to be the major source of strategic renewal, is likely to encounter “nonrational obstacles in its efforts to convince top management that changes in corporate strategy are necessary.”

Kinnunen (1976:8) links organisational size and complexity as a moderator to the involvement of the CEO as strategy-maker. Organisational size in this relationship determines how CEO’s make or ratify strategy. His research also corroborates hypotheses related to how larger organisations moderate CEO



involvement and consequently influence how other levels of management get involved in strategy. This leads to a strategy he describes in a way that is consistent with a more emergent strategy, where organisational direction gets determined on ground level.

#### ***4.3.2.3 Conclusion***

There is (as is the case with environment as moderating factor) some inconsistencies present in the academic consideration of size as moderating factor. Some (Sinha, 1990 and Grant, 2003) believe in the coexistence of both formal and emergent approaches. In support of a specific approach to strategy-making, Idenburg (1993) associates the formal planning approach with large organisations. Another important consideration coupled with organisational size is that of complexity in terms of diversity, number of divisions, hierarchical structure, involvement of CEO as strategy-maker and stage in business life cycle (Berry, 1998 and Kukalis, 1991). Kinnunen (1976) shows how organisational influences the CEO's role as strategy-maker which in turn influences the strategy-making approach.

#### ***4.3.3 The CEO as moderating factor***

Parnell and Lester (2003:291) contend that there is increasing evidence that strategy formulation is linked to the top executive's personal philosophy and personality. Management's self interest, their personalities, interpretations and influences on strategy have been linked to the strategy formulation process and ultimately performance.

#### ***4.3.3.1 Measuring the specific influence of the CEO on strategy***

Westphal and Fredrickson (2001:1113) also add the determining influence of the Board of Directors based on empirical research done on a sample of 406 firms. They especially exert influence in the way the CEO is selected as portraying similar views on strategy-making.

Top-down perspectives on strategy-making according to Andrews (1971), Prahalad and Bettis (1986) and Hamel and Prahalad (1989) focus on how top management influence the strategy of the organisation. Top management is illustrated to shape the organisation's agenda, focus and priorities.

Although the CEO is seen to be playing an important role in setting the organisational agenda and the direction, Christensen *et al* (1987:105) caution against CEO's using only 'intuition' to shape organisational direction (Mintzberg (1990:176) describes 'intuition' as "non-conscious thought"). Christensen *et al* (1987:105) note that:

If [strategy] is implicit in the intuition of a strong leader, the organization is likely to be weak and the demands the strategy makes upon it are likely to remain unmet.

#### ***4.3.3.2 The role of other managers in the strategy-making***

The importance of the role of the CEO is further highlighted but also a new perspective offered on the involvement of other managers in the integrative framework developed by Hart (1992). The framework is based on the contrasting roles top managers and organisational members play in the strategy-making process. This integrative framework illustrates the roles and

describes the interaction among them and is composed of five modes/perspectives of strategy-making processes: command, symbolic, rational, transactive, and generative (Hart, 1992:327). The implication of these perspectives is that strategic decisions are influenced by managers located throughout the organization and that strategy can emerge over time as a consequence of actions taken by these decentralized decision-makers.

Anderson (2004:264) introduces the notion of “decentralized strategic emergence” as “resource-committing decisions made by lower level managers that subsequently can influence the strategic direction of the firm”. Andersen believes that by providing managers with authority to take decisions in key areas when competitive conditions change, firms should become more responsive and reach better outcomes particularly in rapidly changing environments.

Kinnunen (1976:8) proves through case study research that organisational size is a complementary determinant or predictor in the involvement of management levels other than top management in strategy-making. He believes that it is impossible in large, divisionalised organisations to only depend on top management for strategy-making and supports this with case study evidence. He states that larger organisations see CEO’s doing less formulating and more ratification of strategy. The inverse is evident in smaller organisations where CEO’s formulate more and ratify less. Because CEO’s articulate less strategy, other levels of management (executives heading operating units) choose the direction they feel is best for the unit they govern.

In line with this inclusion of lower level management in strategy-making, Hamel (1996:74) blames top management for the rut of organisational routine that is enemy to innovation and industry revolution.

The Bottleneck is at the top of the bottle. In most companies, strategic orthodoxy has some very powerful defenders: senior managers. ...Where are you likely to find people with the least diversity of experience, the largest investment in the past, and the greatest reverence for industrial dogma? At the top. And where will you find people responsible for creating strategy? Again, at the top....Unless the strategy-making process is freed from the tyranny of experience, there is little chance of industry revolution.

Hamel (1996:76) believes that larger organisations in more stable environments where change does not happen frequently tend to a strict top-down approach to strategy. However, Hamel expresses the opinion that to help revolutionary strategies emerge, senior managers must “supplement the hierarchy of experience with the hierarchy of imagination”. This is done by extending the strategy-making “franchise” by introducing traditionally underrepresented constituencies to the process, i.e. young people (more or less age 25), people in an organisation’s geographic periphery, newcomers (people who have not yet been co-opted by an industry’s dogma). In general expanding the influence of employees in the lower levels of the organisational hierarchy will lead to more emergent strategy and will have industry change as consequence.

#### ***4.3.3.3 The specific role of middle management in strategy-making***

Taking the middle-management level into account when explaining how strategy-making takes place, Floyd and Wooldridge (1994:47) explain the role of middle management as the following:

- Middle management champion strategic alternatives by bringing entrepreneurial and innovative proposals to top management's attention, "living in the organizational space between strategy and operations (1994:50). Middle managers often provide the impetus for new initiatives (Floyd & Wooldridge, 1992:153; Burgelman, 1983:61).
- Middle management saturate information brought to top management with meaning through personal evaluation and explicit advice.
- Middle management facilitate change by being a buffer between top and lower level management.
- Middle management play a role in realizing deliberate strategy by implementing top management's intentions (Floyd & Wooldridge, 1994:51).

In this last mentioned role middle management is perceived to translate strategies into action plans and carry these out. However, Floyd and Wooldridge (1994:51) argue that middle management carry out emergent strategy, because strategy is "only partly anticipated in top management plans" and these need to be adjusted by middle management to suit emergent events. Issues at play here are the gap between senior management's perceptions of how to implement strategy and what middle management know to be the best way of implementing the priorities. This is called "strategic consensus" and is linked to middle management's strategic role of implementation. Not having a middle management level could

therefore influence the effectiveness of following an emergent strategy approach.

#### ***4.3.3.4 Decision consistency and performance consensus***

Parnell (2000:49) is of the opinion that if consensus is linked to performance, then one may argue that some competitive strategies lend themselves to greater agreement among managers. For this reason, future studies may consider the perceptions of multiple top and functional managers. For example, consensus may be high among segment controllers where everyone seems to understand the niche being targeted by the business, but be low among first movers where the essence of the strategy is not always well understood (Wooldridge & Floyd, 1992:153). "Strategy coherence" (the consistency of strategic choices across business and functional levels) says Parnell (2000:49), has also been linked to performance.

Research conducted by Richter and Schmidt's (2005:344) refute a hypothesis that decision consistency is positively related to the hierarchical level at which decision are taken. Decision consistency, referring to the extent to which firm behaviour is aligned with the firm's intended course of action, is critical in the perception of performance (or performance consensus). Their data appear to challenge the assumption of superior decision-making power at higher hierarchical levels. Their research shows furthermore that decisions attributed to managers at the operational levels of the hierarchy have a higher likelihood of consistency than decisions made higher up in the hierarchy.

The focus on strategic intent has also had a number of effects, according to Liedtka and Rosenblum (1996:142). First, it has changed the conception of who has a role in formulating strategy – “Strategy is now becoming everybody’s business”. As such there needs to be consistency in strategic decisions and tactics and consensus on the strategic intent of the organisation. Strategic intent has also brought about organisational learning in the decentralized organisational environment where more managers are involved in making strategy of an emergent kind.

Bringing the different layers of management into the strategy-making approach could be a matter of creating the correct organisational (including governance and operational) channels and communication avenues. This can also be seen to improve performance consensus or decision consistency. Ocasio and Joseph (2005:40) propose that strategy emerges from a “pattern of organizational attention embedded in the interacting network of concrete operational and governance channels at both the corporate and business unit level”. These channels might be formal decision-making channels such as board of directors meetings, strategic planning reviews or employee evaluations. They could also include ad hoc channels such as channels for changes in organisational structure or informal interactions. The organisational strategy then originates from the pattern of initiatives that emerges from a network of tightly and loosely coupled decision-making channels. Ocasio and Joseph (2005:49) explain that:

Variations in corporate strategy arise from the fact that decision-making processes and the channels through which they flow may be tightly coupled, but just as often they have only occasional, negligible and indirect effects on one another... Often, directives from top management begin with the exhortation of their benefits but because organizational members are preoccupied with other efforts, they are

quickly forgotten throughout the organization... Sometimes initiatives generated deep inside the organization bubble up and subsequently become meaningful and enduring activity in the firm.

Existing research on top-down planning fails to account for the mechanisms responsible for enforcing some ideas to gain altitude and not others. Likewise, in the case of bottom-up emergent strategy it is not known how top management is enabled to enact on key initiatives and get the organisation moving in more or less the same direction (Ocasio & Joseph, 2005:49). It is believed that linkages between operational and governance channels at different levels of the organisation and between different functions are critical for feedback from operations to enable the accurate identification of strategic issues. Another important issue is the coupling of strategic issues and initiatives, since overlapping issues can result in stronger ties between channels (Ocasio and Joseph, 2005:57).

Since tightly coupled channels share issues, they provide a coherence of priorities from the top to the bottom and across units of a hierarchical structure.

#### ***4.3.3.5 Conclusion***

There is general consensus that the CEO plays an important role in the strategy-making process. This notion formed part of cornerstone thinking associated with the Design School (Ansoff, 1984 and Porter, 1991). The role of other managers lower down in the organisational hierarchy is also emphasized (Hart, 1992 and Anderson, 2004). Some authors relate organisational size and CEO involvement (Kinnunen, 1976). The specific role of middle managers as translating strategies is stressed (Floyd & Wooldridge, 1994). Another important issue is that of performance



consensus or decision consistency, which is said to be influenced by different levels of management's involvement in strategy-making (Parnell, 2000 and Richter & Schmidt, 2005) and is also a result of the organisational channels of communication used (Ocasio & Joseph, 2005).

#### **4.4 CHAPTER SUMMARY**

This chapter commenced with an explanation of advantages and disadvantages associated with each of the two extreme approaches to strategy-making fleshed out in Chapter 3. These disadvantages and advantages hinge on certain conditions influencing the choice of a specific strategy-making mode. Factors moderating this decision were subsequently discussed, including environment as moderator, organisational size as moderator and the role of the CEO as moderator. Chapter 4 concludes the literature review of this study.

Chapter 5 outlines and describes the research methodology to be followed for the empirical part of this research study.



## CHAPTER 5 RESEARCH DESIGN AND METHODOLOGY

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##### 5.5.1.1 Unit of analysis

##### 5.5.1.2 Sample frame

##### 5.5.1.3 Sample selection and sample size

#### 5.5.2 Method of data collection

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##### 5.5.2.2 Semi-structured interviews

### 5.6 Analysis

#### 5.6.1 Factor analysis

#### 5.6.2 Descriptive statistics

#### 5.6.3 Inferential statistics

##### 5.6.3.1 Mann-Whitney test

##### 5.6.3.2 Multivariate techniques for the analysis of dependence

### 5.7 Chapter summary