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Business performance and dimensions of strategic orientation

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Abstract

Despite the conceptual, empirical, and theoretical advances in strategy–performance research, there is little consensus regarding the nature and form of this association. As a result, several critical reviews and meta-analyses have been reported which highlight notable limitations in extant studies. In addressing certain of these, this study presents an empirical investigation of medium and large, high technology, industrial manufacturing firms. Business strategy is conceptualized as a comparative construct with six dimensions and an attempt is made to relate these characteristics of strategic orientation with firms' business performance. The results indicate that firms' emphasis upon analysis, defensiveness, and futurity in strategic orientation are related to business performance. Discussion is given to these findings and implications are drawn for business executives and future research.

Keywords: Business performance; Strategic orientation; Competitive advantage; Business strategy; Entrepreneurship; First-mover firms; Late-mover firms

1. Introduction

The management literature is replete with conceptual propositions grounded in empirical accounts of studies that have investigated the relationship between strategy and aspects of firm performance. However, it is ironic that despite this volume of research attention, consensus concerning this relationship at the business level has been slow to develop (Parnell, 1997). The principal reasons underlying this relate to: conflicting theoretical perspectives; anomalies in empirical context; contrasting bases for operationalization, measurement, and associated methodological considerations; and, differing modes of explanation. Beyond the intrinsic nature of debate underlying the strategy–performance relationship, the issue remains an area of fertile interest for both academic and executive communities. Nonetheless, a review of the extant literature reveals three notable limitations. First, the vast majority of studies have adopted a classificatory approach in their conceptualization and measurement of business strategy and pursued either: the Porter (1980) low cost, differentiation, or focus typology (e.g., Parker and Helms, 1992; Schul et al., 1995); the Miles and Snow (1978) prospector, analyzer, reactor, or defender typology (e.g., Golden, 1992; James and Hatten, 1994; Ramaswamy et al., 1994); or, derived classifications such as those of Hurst et al. (1984) and Wright et al. (1995). An inherent limitation in this type of approach is the assumption of mutual exclusivity (Speed, 1993). Any effort to capture the complexity of strategy content requires a more sophisticated calibration that gages the properties of strategy rather than attempts to generate a unitary indicant for each type of strategy.

Second, firm performance has traditionally been considered purely in accounting terms (Conant et al., 1990; Jennings and Seaman, 1994). Although accounting performance can be considered a theoretical construct in its own right (Capon et al., 1990), the business performance construct is truly multifaceted which might explain the increased interest in frameworks such as: the "balanced scorecard" (Kaplan and Norton, 1992, p. 71) approach to performance assessment; the evolving market-based assets paradigm (Srivastava et al., 1998); and, emerging approaches from the accounting literature that

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question the "reliance on accounting performance measures (RAPM)" (Otley and Fakiolas, 2000, p. 497) in favor of approaches that shift the focus away from strictly accounting considerations to the more generic issues of business performance evaluation.

Third, most studies have tended to investigate firms specifically in mature and stable industries which is likely to explain departures in research findings from a small number of studies that have considered deregulated (Reger et al., 1992), transition (Golden et al., 1995), and volatile (Tan and Litschert, 1994) contexts.

In attempting to address these limitations, this paper presents an empirical investigation of medium and large, high technology, industrial manufacturing firms. The specific interests of the study were to examine the relationships between business performance and six dimensions of firms' strategic orientation (aggressiveness, analysis, defensiveness, futurity, proactiveness, and riskiness). The paper is organized respectively with a review of the strategic orientation and business performance literature, which is followed by an account of the theoretical premises and conceptual framework underlying the study. An explanation of the research method is then specified which precedes a description of the analytical approach and empirical findings. These results are then interpreted in the light of existing knowledge where a number of conclusions and implications are derived for executive audiences and future research directions.

2. Literature review

2.1. Strategic orientation

Business strategy has been characterized as the manner in which a firm decides to compete (Walker and Ruekert, 1987), which encompasses the pursuit, achievement, and maintenance of competitive advantage in an industry (Varadarajan and Clark, 1994). Given its position as a focal issue in organizational decision making, it is not surprising that the concept of strategy has been linked to performance outcomes. Indeed, it is a key postulate that many management researchers devote attention toward, in at least some respect, because without doubt "the notion that superior performance requires a business to gain and hold an advantage over competitors is central to contemporary strategic thinking" (Day and Wensley, 1988, p. 1).

Normative theory in strategy has tended to adopt process, content, or context perspectives (Ketchen et al., 1996). While process-research examines the management and administrative activities resulting in strategic decisions (Mintzberg and Lampel, 1998), content-research addresses the properties of the strategic decision and the business strategy per se (Veliyath and Shortell, 1993), and context-research focuses upon the conditions under which each of these takes place (Hartman et al., 1995).

The latter research stream is considered, at least to some extent, in most strategy studies by way of internal and external phenomena that are either controlled for or measured as explicit influences upon performance (Rajagopalan, 1996). However, an established literature base has been documented which is devoted to both understanding the nature of strategy processes (Van de Ven, 1992) and the assessment of the process–performance relationship (Hart and Banbury, 1994). Many aspects of this relationship have been examined from individual, group, and organizational viewpoints with no clear or consistent evidence having been reached (Rogers et al., 1999). A consequence of this lack of consensus has been that strategy content research has more recently played a greater role in explaining variations in business performance both when considered in combination with strategy process issues (Ketchen et al., 1996) as well as a construct in its own right (Voss and Voss, 2000).

Strategy content primarily focuses upon the outcome of strategic decisions and the manner in which business strategy content is manifest in a firm has been variously described as strategic fit, strategic predisposition, strategic thrust, strategic choice, and more commonly strategic orientation (Manu and Sriram, 1996). The literature has considered strategic orientation from three viewpoints: the narrative approach, the classificatory approach, and the comparative approach. The narrative approach endeavors to describe verbally the holistic nature of strategy which is unique to the event, situation, and organization (Czarniawska, 1998). The emphasis tends to be placed on qualitative methodologies where the aim is to pursue fine-grained research using case study analyses. Although notable in organizational research, this approach is constrained in its use for theory testing purposes on the basis that the conversation of narrative descriptions does not sufficiently measure variables that can be assessed using finely calibrated scales (Ginsberg and Venkatraman, 1985) and comparison is restricted across units of analysis because of the uniqueness of strategy to the organization, environment, and temporal circumstance (Harrigan, 1983).

An alternative, the classificatory approach, overcomes many of the constraints inherent in the narrative stance and has been regarded as the convention when attempting to investigate business strategy (Rajagopalan, 1996). This approach attempts to classify firms' strategy according to either ex ante conceptual arguments or ex post empirically derived groupings. These classifications are respectively known as typologies (Miles and Snow, 1978; Porter, 1980) and taxonomies (Wright et al., 1995). This form of methodology is well grounded in the management literature but it must be acknowledged that schemata such as these are restricted solely to intergroup comparison, which prevents any investigation of intragroup analysis (Speed, 1993). Therefore, to suggest, for example, that a firm may be pursuing either a prospector, defender, analyzer, or reactor strategy (Miles and Snow, 1978) is interesting but, nevertheless, crude because important dimensions