

The effect of strategic complexity on marketing strategy and organizational performance

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Abstract

While researchers have examined many antecedents of marketing strategy, there is scant research assessing the effect of organizational cognition. In this study, organizational cognition is examined in terms of the firm's strategic complexity, which is its capacity to integrate multiple environmental dimensions during marketing strategy making. The results from a sample of wholesale distributors reveal four strategic groups that differ based upon their degree of strategic complexity. Results support the proposition that strategic complexity is an organizational capability that enables more effective strategy making and produces superior firm performance.

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1. Introduction

Organizational competencies such as innovation, flexibility, and responsiveness result from collective cognition or sensemaking. A sustainable competitive advantage derives from the firm's capacity to successfully assimilate, negotiate, and capitalize on complexities in its environment. Marketing performs a key role in an organization's sensemaking efforts through gathering, disseminating, interpreting, and storing activities that seek to understand and act upon the environment (Sinkula, 1994). In this role, marketing potentially shapes and directs the lens through which the organization perceives its strategic situation, and by extension, the actions taken in response.

A fundamental issue for researchers is to understand and explain organizational behavior as pertaining to the deployment of marketing resources for competitive advantage. To address this issue, this study assumes a cognitive perspective by examining an organization's *strategic complexity*, or ability to simultaneously integrate multiple environmental

domains. Organizations can seek to either *absorb* variety in interpreting their environment by holding multiple and possibly conflicting interpretations or *reduce* understanding to a single representation (Boisot and Child, 1999).

Effective organizational sensemaking requires tapping into multiple domains and synthesizing the demands of each of these domains in response to changes in the environment. Not only must the organization attend to the market (its customers and competitors), but it also must attend to its internal capabilities (such as its value creation and delivery capabilities) and to changes in its macro-environment (such as changes in the social, technological, economic, and legal forces that impact the organization). Strategically complex organizations construe their environment in a multidimensional way, relating each dimension to the achievement of organizational outcomes (Streffert and Swezey, 1986). This study seeks to relate this capability to effective marketing strategy making and superior firm performance.

2. The effects of strategic complexity

To adapt to an environment, a system's internal variety must match or exceed that of its environment (Ashby, 1956).

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Whether the unit of analysis is the individual, group, or organization, the greater the variety and integration of information (e.g., ideas, roles, skills, knowledge), the more environmental stimuli is processed and the greater the variety of decisions and behaviors (Driver and Streufert, 1969). Those organizations that are able to maintain a broad cognitive framework for interpreting their environment are capable of forming a more accurate and complete representation of the situation (Weick and Draft, 1983; Milliken and Martins, 1996).

Research utilizing the cognitive perspective seeks to uncover how organizations come to understand and act upon their environments (Schwenk, 1988), particularly through the use of schema theory (Lyles and Schwenk, 1992; Walsh, 1988, 1995). Schemas influence interpretation by acting as information-seeking structures that accept information and guide action (Neisser et al., 1976). The link between strategy and cognition is based upon the schemas decision-makers hold (e.g., Barr, 1998; Daft and Weick, 1984; Prahalad and Bettis, 1986); and an organization's strategic orientation is an indicator of which environmental aspects an organization believes can provide a competitive advantage (Day and Nedungadi, 1994). Thus, a strategic orientation acts as a schema that selectively and actively modifies experience, enabling organizations to navigate and make sense of the environment.

Strategically complex organizations will consider multiple environmental domains. A complex strategic orientation should enhance decision-making (Boisot and Child, 1999; Weick, 1995), while strategic orientations that are dominated by a single dimension are incomplete (Day and Nedungadi, 1994). For instance, several authors have argued that overemphasis on competition can lead to shortsighted, maladaptive behavior and underperformance (Deshpande and Gatignon, 1994; Urbany and Montgomery, 1998).

By examining the marketing strategy processes and performance of organizations that vary in their degree of strategic complexity, this study investigates the relationship between an organization's strategic complexity, the consid-

eration of multiple perspectives in its decision-making, and its capacity to spontaneously make decisions and attain superior performance. Fig. 1 provides an overview of the specific strategic processes and performance variables examined in this study. The basic premise is that an organization's strategic complexity acts as the cognitive framework upon which behaviors are shaped and outcomes are determined.

3. Marketing strategy processes

Marketing strategy making includes processes involving both strategy formation and execution (Menon et al., 1999). This study investigates two aspects of marketing strategy: multiple perspective consideration and improvisation. Multiple perspective consideration is defined as the ability to simultaneously incorporate multiple problem-definitions, alternatives, and selection criteria when developing a marketing strategy. Strategic complexity (a focus on multiple dimensions in the environment) provides the foundation for engaging in multiple perspective consideration (examining diverse information and considering multiple alternatives) when making decisions. Although the two are closely related, strategic complexity examines the overall orientation or focus of the firm, while multiple perspective consideration examines the process by which a firm develops its marketing strategy. Past research has argued that as an organization gains the capacity to interpret its environment in a multidimensional way, the breadth of its decision-making processes become more elaborate (Lyles and Schwenk, 1992; Miller et al., 1998; Streufert and Swezey, 1986). That is, strategically complex organizations hold multiple goal orientations and should consider multiple perspectives in their decision-making. Strategically simple organizations, in contrast, should focus on fewer relevant dimensions and apply simple rules in decision-making.

Attending to multiple environmental dimensions, however, does not necessarily correspond to an inability to act.

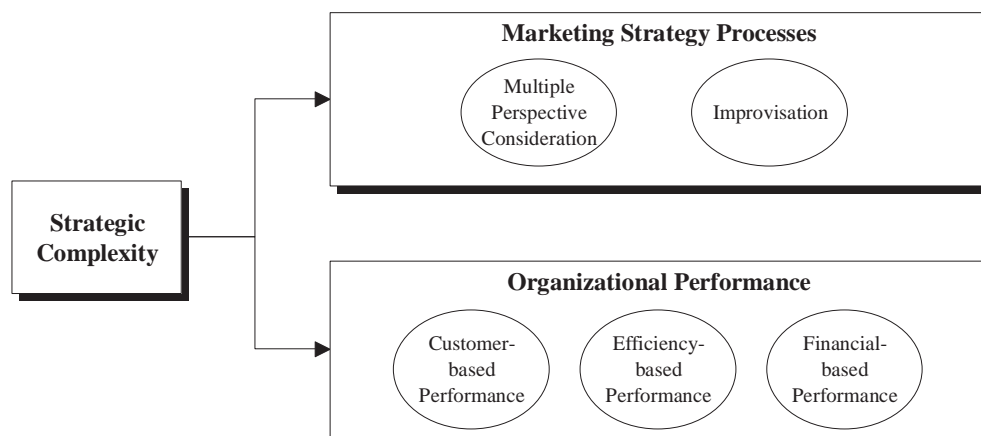


Fig. 1. The effects of strategic complexity on marketing strategy processes and organizational performance.

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