THE IMPACT OF STRATEGIC ORIENTATION DIMENSIONS ON BUSINESS PERFORMANCE: A Case Study based on an International Organisation

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Abstract

This paper examines the different combinations of the dimensions of strategic orientation at the business unit manager's level of analysis. It is argued that some of these dimensions are dominant and that certain patterns of these dimensions associate closely with strong business performance. Furthermore, these combinations or patterns vary significantly across business units of the same organisation located in different regions of the world. The findings of this study of managers from a large multi-national corporation that has more than four thousand employees spread over forty subsidiaries around the world appear to support the study's hypotheses. These results are expected to provide management with valuable practical insights into the relationship between different patterns of strategic orientation and business performance.

Stream
14. Strategic Management

Keywords
Strategic orientation, organisational performance, .multi-national corporation, STROBE, business level strategy, organisational change

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1.0 BACKGROUND

The significance and importance of the relationship between market orientation and strategy is clearly embedded in the existant literature. Market oriented activities and behaviours must somehow be articulated by the firm through strategic means that can lever business performance (Morgan and Strong, 1998). Since business strategy can explain the varying strength of the relationship between business performance and its market orientation (Matsuno and Mentzer, 2000), these strategic activities of market oriented businesses, underpinned by the different dimensions of strategic orientation, should be carefully studied to enhance the understanding of how such businesses turn their culture into competitive weapons (Slater and Narver, 1996).

Strategy implies choice and the notion of strategic choice recognises that given the same environment, similar firms may employ different competitive methods or strategies to address the environment (Dess and Davis, 1984; Lado, Boyd, and Wright, 1992). Competitive strategy is synonymous with the term strategic orientation (Morgan and Strong, 1998) and the concept of strategy is central to the effectiveness of an organisation (Evered, 1983). In other words, strategic orientation refers to *how organisations use strategy* “to adapt and/or change aspects of its environment for a more favourable alignment” (Manu and Sriram, 1996, p.79) or how firms strategically position themselves to achieve and sustain competitive advantage (Teece, Pisano, and Shuen, 1997). It also refers to how strategy is used to improve the organisation’s chances of success (Miller and Camp, 1985). An organisation’s “strategic orientation as a market-driven company is a significant indicator of its performance” (Gatignon and Xuereb, 1997, p.77).

Although information is generally equally available to all organisations, these organisations differ in their abilities to implement a response or formulate a strategy on account of their inherent distinctive competences (Hambrick, 1982). Does this suggest that strategic orientation varies between SBUs of the same organisation located in different parts of the world? Is there an association between this variation and business performance? Are there dimensions of strategic orientation that are dominant? And finally, do different patterns of strategic orientation relationship impact business performance? These research questions form the basis of this study which was carried out on managers’ perceptions of the organisation’s strategic orientation in the subsidiaries of a multi-national corporation that has more than four thousand employees spread over forty subsidiaries around the world. These subsidiaries were grouped into four regions which were designated as R1 to R4 for reasons of confidentiality. The findings of the study were then analysed against business performance levels of subsidiaries located in these four quite different regions.

2.0 LITERATURE REVIEW

2.1 Strategic Orientation

Strategy is multi-dimensional and situational, and encompasses the adaptation and positioning of a firm’s internal resources, capabilities and activities, and combinations thereof, both in response to threats and in exploiting opportunities present in the firm’s external environment. In addressing how the strategy construct can be measured, Venkatraman (1989) posited that there are three approaches to strategy measurement; the narrative, the classificatory and the comparative approach. The comparative approach is relevant to this study and is aimed at identifying and measuring the key traits or dimensions of the strategy construct. The focus is on “measuring the differences along a set of characteristics that collectively describe the strategy construct” (Venkatraman, 1989, p.944). This approach identified six traits of competitive strategy, namely aggressiveness, analysis, defensiveness, futurity, proactiveness and riskiness. The study developed an operational measure of strategic orientation aptly labelled ‘STROBE’.

Aggressiveness trait in a firm is reflected in its propensity to face up to and challenge its rivals directly and intensely and to outperform them in the marketplace. These include the use of strategies such as low price, differentiation, targeting a competitor’s weaknesses (Lumpkin and Dess, 1996), or in outspending competitors on marketing, product service and quality, sales promotion, advertising or manufacturing capacity (MacMillan and Day, 1987). Furthermore, organisations, in their pursuit for aggressive growth, exhibit a clear and pronounced strategic focus of ‘beating the competition’. The ‘push’ strategy of these sales oriented firms are seldom successful and in fact impede market success in the long run (Wong and Saunders, 1993).

Analysis refers to the overall problem solving posture of an organisation, the extent of tendency to search deeper for the roots of problems and, from an understanding of the organisation’s internal and external environment, to generate the best possible solution alternatives (Miller and Friesen, 1984) and allocate the resources for the chosen objectives (Grant and King, 1982). It also refers to the comprehensiveness trait proposed by Fredrickson (1984, p.446) “as an important construct in the strategic management process”. The analysis dimension is associated with Mintzberg’s (1973) *planning mode* and with the *planning firm* in Miller’s (1983) study on different types of firms.

Defensiveness refers to the defensive behaviour of an organisation (Miles and Snow, 1978), characterised by an emphasis on efficiency, productivity and cost reduction in operations (Snow and Hrebiniak, 1980). Defensive organisations focus on a product and market domain that is narrow and relatively stable, tending to defend their products, markets and core technology rather than develop new products or markets (Miles and Cameron, 1982). In this domain they maintain their prominence, concentrating all their efforts on cost-efficient production, to the exclusion of business opportunities and other developments external to their environment (Miles and Snow, 1978), in effect deliberately reducing its adaptive capability (Oktemgil and Greenley, 1997).

Futurity dimension relates to the future; to temporal considerations or time orientation in decision making. It is reflected in key strategic decisions, where a balance is kept between effectiveness or longer-term considerations versus efficiency or shorter-term considerations. Futurity is also reflected in deliberate engagement by firms in long-term relationships with suppliers or other strategic business partners to cultivate sustainable competitive advantage that impacts favourably on business performance (Ganesan, 1994).

Proactiveness may be defined as a “forward-looking perspective characteristic of a marketplace leader“ that uses its foresight to anticipate future demand and shape the environment (Lumpkin and Dess, 2001, p.433). It reflects how an organisation reacts to market opportunities, acting with initiative and opportunistically to influence market trends, expectations and demand (Lumpkin and Dess, 1996). A proactive firm is differentiated from a reactive firm by being the first to act (Miller and Friesen, 1983).

Riskiness is defined in various ways depending on the context, such as ‘venturing into the unknown’ and ‘heavy borrowing’ (Baird and Thomas, 1985, p.230). The first of these context, relevant to the discussion, gives a sense of the uncertainty associated with the commitment of resources in an organisation (Bowman, 1982). Risk taking and the way it impacts on the economic performance of the organisation represent critical issues in strategic management (Bromiley, 1991).

2.2 Business performance

Business performance as a model examines indicators such as profitability and growth in sales, earnings per share and so forth (Venkatraman and Ramanujam, 1986). In this study, the two key business performance measures employed include those of percentage annual sales growth and profitability or operating profit ratio in the last five years extracted from the organisation’s financial records.

3.0 METHODOLOGY

Data Collection and Analysis

An electronic survey employing the STROBE instrument was conducted. The web-survey was designed to ensure complete anonymity. The name and password to the survey site and the questionnaire have no identifiers. In total, out of 300 survey invitations, 201 or about 67% survey returns were received from the four different geographical locations, reflective of the global diversity of business units within a multi-national organisation (they were designated as locations R1 to R4 for reasons of confidentiality. R1 is Americas, R2 Asia Pacific, while R3 and R4 are both located in Europe). Out of the 201 returns, the bulk of the managers (94.5%) were more or less evenly spread between the age of 30 and 59. Of the 201 respondents, 39.3% were business development and marketing managers, 34.3% were sales managers with the remaining 26.4% in ‘other’ areas.

Aggregate scales for the various strategic orientation (SO) dimensions (Table 1) were derived from factor scores and scales reliability evaluated as recommended by Hair, Black, Babin, Anderson, and Tatham (2006). Data analysis included the One-way ANOVA technique and Principal Component Analysis.

Table 1 Scale Statistics for Strategic Orientation (SO) and its Dimensions

Strategic Orientation (SO) and its Dimensions	Reliability Index/ factor loading[a]	Eigen value	% of variance explained/ cumulative %	Scale mean[b] /(std dev)
Aggressiveness (AG)	**0.84**	**2.84**	**16.67**	**2.63 / (3.24)**
Often sacrifice profitability to gain market share	0.80			
Often cut prices to increase market share	0.88			
Often set prices below competition	0.74			
Often seek market share position at the expense of cash flow and profitability	0.82			
Analysis (AN)	**0.65**	**2.10**	**12.36/29.03**	**3.32 / (2.08)**
Emphasise effective coordination among different functional areas	0.77			
Our information systems provide support for decision making	0.69			
When confronted with a major decision, we usually try to develop it through analysis	0.64			
Defensiveness (DF)	**0.61**	**1.65**	**9.68/38.71**	**3.29 / (1.80)**
Occasionally conduct significant modifications to manufacturing technology	0.85			
Often use cost control systems for monitoring performance	0.56			
Often use production management techniques	*0.70*			
Futurity (FT)	**0.73**	**1.94**	**11.43/50.14**	**3.38 / (2.06)**
Forecasting *key* indicators of operations is common	0.85			
Formal tracking of significant general trends is common	0.84			
Often conduct "what if" analyses of critical issues	0.54			
Proactiveness (PR)	**0.40**	**1.34**	**7.89/58.03**	**3.52 / (1.46)**
Usually the first ones to introduce new brands or products on the market	0.71			
Constantly on the look out for businesses that can be acquired	0.72			
Riskiness (RK)	**0.55**	**1.45**	**8.54/66.57**	**2.42 / (1.19)**
Have a tendency to support projects where the expected returns are certain [R]	0.82			
Operations have generally followed the "tried and true" paths [R]	0.82			

[a] Principal component analysis was used to assess the underlying relationships within each dimension. A single factor was extracted in each case, based upon the Kaiser normalisation criterion, suggesting homogeneity within each factor

[b] Extent to which respondents agreed/disagreed with statements about overall SO in the firm: (1) 'strongly disagree' to (5) 'strongly agree'

[R] Reverse scored for analysis purposes

Business Performance

Table 2 gives the five year long run performance for the different business units. SG% represents the annual sales growth for the unit and OPR% is the operating profit ratio or the net return on sales. Corresponding average figures are also computed for each business unit.

Table 2 Five-year Long Run Business Performance across Locations

Year	R1		R2		R3		R4		Group	
	SG %	OPR %	SG %	OPR %	SG %	OPR %	SG %	OPR %	SG %	ORP %
Year 1		19.1		2.7		4.9		7.2		**14.7**
Year 2	10.7	12.5	2.0	2.2	4.3	5.3	3.4	7.3	**7.0**	**15.6**
Year 3	8.8	14.6	16.1	7.4	-1.7	4.9	2.4	7.0	**6.6**	**14.3**
Year 4	11.9	15.5	6.3	9.3	8.1	6.9	3.3	7.6	**6.4**	**13.5**
Year 5	13.2	14.6	28.2	13.2	8.5	10.3	6.9	7.2	**9.1**	**15.6**
Average	**13.2**	**15.2**	**15.3**	**7.7**	**5.1**	**6.6**	**4.2**	**7.3**	**8.1**	**14.8**

4.0 FINDINGS

Strategic orientation and its dimensions

The six dimensions of strategic orientation (SO) accounted for 66.6% of the variance in SO, which was more than satisfactory in the field of social science research (Hair *et al.*, 2006). The aggressiveness (AG) dimension led the other dimensions with a 16.7% influence, with proactiveness (7.9%) the least (Table 1). Note however that the reliability indices for proactiveness (0.40) and riskiness (0.55) were lower than the 0.70 prescribed by Nunnally (1978).

Furthermore, six of the seven hypotheses (SO and its six dimensions) which posited that individual business units located in different regions differed significantly in SO and its dimensions, were fully supported (Table 3). Only one hypothesis failed to be supported. There were no significant variances between business units where riskiness (RK) was concerned.

Table 3 Variance Analysis of SO Dimensions across Locations - (Factor Scores)

SO Variables	Eta SQ %	*F Statistic*	R1	Group Means	R2	Group Means	R3	Group Means	R4	Group Means
H1* – SO	3.9	2.659	R3	0.944	-	0.461	R1	-0.495	-	-0.179
***H2* - AG**	17.6	13.988	R4	-0.214	R3	0.281	R2,R4	-0.573	R1,R3	0.381
***H3* - AN**	5.7	4.006	-	0.221	R3	0.257	R2	-0.336	-	0.049
***H4* - DF**	12.2	9.087	-	-0.051	R3	-0.097	R2,R4	0.491	R3	-0.361
***H5* - FT**	5.5	3.818	R3	0.361	R3	0.163	R1,R2	-0.327	-	0.067
***H6* - PR**	7.5	5.309	R4	0.387	R4	0.152	R4	0.151	R1,R2,R3	-0.369
***H7* - RK**	-		-		-		-		-	

Eta Square (%) is the variance explained by the factor (location) and the error component
* Variances in SO between locations was only just significant at 0.049. The most significant difference in Post Hoc analysis is between R1 and R3 ($p = 0.089$)

Business Performance (BP) – Data from Financial Records

When comparing the different regions (Table 2), R1 was clearly the best performer, strong in sales growth (SG) and particularly strong in operating profit ratio (OPR). R2 was the strongest region in SG and OPR in the last three years had increased significantly. R3 and R4 had similar performances, which were less impressive when compared to R1 and R2. In short, R1 and R2 may be categorised as high performers relative to R3 and R4.

5.0 ANALYSIS

An examination of the business performance results of the company (Table 2) immediately established it as a high performance organisation. The sales growth figures recorded consecutive significant annual increases in turnover (average annual increases of 8.1%) for five years. More importantly, the growth in business was accompanied by an equally impressive performance in operating profit ratio (average annual ratio of 14.8%), dispelling any concerns that increases in sales might have been achieved at the expense of profit. From Table 1, it can also be seen that the organisation is likewise strong in SO where all SO dimensions except AG and RK were strong.

Strategic Orientation Dimensions

According to Venkatraman (1989) aggressiveness is significantly related to riskiness. In his study, he found aggressiveness has no significant impact on growth and has a significant negative impact on profitability. Riskiness, on the other hand is negative and insignificant with growth, but negative and significant with profit. Both dimensions are manifest in companies striving for growth and greater market share, where pushing an aggressive growth agenda would entail a certain degree of risk. The organisation in this study was both risk averse and low in aggression, yet strong in business performance.

The four dimensions of AN, FT, DF and PR account for 41.4% out of 66.6% of the explanation in variance in SO (Table 1). In Venkatraman's (1989) study, proactiveness was recorded as having a positive and significant impact on both growth and profitability. Defensiveness was found to have a significant and positive link to profitability, and a positive but not significant relationship with growth.

Futurity's relationship with both profitability and growth was not significant. In this study, all four SO dimensions of analysis (AN), defensiveness (DF), futurity (FT) and proactiveness (PR) were prominent with high scale means. Except for proactiveness (PR), all had high reliability indices.

Strategic Orientation Variances in Different BUs

R3 is markedly different from the other three regions. This is most likely due to the fact that it is the headquarters and manufacturing centre of the organisation. It is essentially responsible for overall management and strategy formulation, R&D, product development, marketing and business development. As such the region is dominated by marketing and business development managers, accounting for 53% of all managers in R3. All other regions, R1, R2 and R4, are sales BUs. This explains the striking difference between R3 and these sales units which in turn implies a conspicuous lack of connectedness between the managers in R3 and 'the world of competitive sales'. It may thus account for R3's lack of aggressiveness and their defensive posture. However the very fact that the centre had the lowest scores in the areas of strategic orientation and in the dimensions of analysis and futurity should be of grave concern to senior management.

Regions R1 and R2 were more closely aligned in strategic orientation. Both regions were identified with high business performance and were in turn associated with the core strategic dimensions of futurity and analysis, and the market orientation dimension of intelligence dissemination (Table 4). R4, on the other hand was identified as the most aggressive, and the least defensive and proactive of the regions.

Table 4 Business Performance and Dimensions of Strategic Orientation Relationships of Business Units in different Locations

BP and SO Dimensions	R1	R2	R3	R4
SG	►	▲	-	□
OPR	▲	-	□	-
Strategic Orientation (SO)	▲	-	□	-
AG	-	-	□	▲
AN	►	▲	□	-
DF	-	-	▲	□
FT	▲	-	□	-
PR	▲	-	-	□
RK	-	-	-	-

▲ Highest Score □ Lowest Score ► Next Highest (within 15%)

Strategic orientation patterns and business performance

High performing businesses such as the one in this study are said to be "distinctly cautious, prudent, and make judicious use of their defensive skills, analytical capabilities, and future-oriented management" (Morgan and Strong, 2003, p.171). Yet within the same organisation, the strategic orientation of its business units in different geographical locations was significantly different from each other. This 'differentiation' in strategic orientation or competitive strategy is very much related to the different geographical market environments in the different regions and according to Porter (1980) driven by the five forces of industry competition.

In addressing the correlations between dimensions of strategic orientation, and their associations with business performance, it can be said that the success of the organisation was largely underpinned by two core strategic dimensions. The organisation's strategic orientation, which invariably determined the nature of its strategic plans, was very much planted on analysis and futurity as core values. This alludes to meticulous and careful analysis in business planning, far sighted actions and long term vision and in the organisation's response to the market.

R1 had the most outstanding overall business performance (BP). It was the best performer in operating profit ratio (OPR) and a close second to R2 in sales growth (SG). This performance appeared to be closely associated with its SO pattern, where it had the highest group means for SO and the SO dimensions of futurity (FT) and proactiveness (PR) (Table 4). R2 had the best performance in SG and led the others in the SO dimension of analysis (AN). Where AN dimensions are concerned, both R1 and R2 had close results (within 15%).

In contrast, R3 and R4 had relatively lower business performances. Their low performances appeared to be associated with SO patterns clearly different from those of R1 and R2. R3 had the lowest group means for SO and was the least aggressive, least analytical, least futuristic and most defensive of the regions. R4, on the other hand, was the most aggressive and the least defensive and least proactive.

Defensiveness and aggressiveness with high group means were clearly associated with lower business performances in R3 and R4. This may be explained by Venkatraman's (1989, p.957) observation that organisations imbued with strong analytical predisposition are "neither too risky nor too aggressive" in the way they pursue growth and market share.

Analysis (AN) and futurity (FT) - The most dominant SO dimensions

From the findings, one can clearly conclude that AN and FT were dominant strategic orientation (SO) dimensions, with PR also playing a significant role. As intimated earlier, these three SO dimensions were strongly identified with high performers R1 and R2.

6.0 CONCLUSIONS

These findings have significant implications for management practitioners and theorists. They are expected to provide management with valuable practical insights into the relationship and inter-play between different dimensions of strategy and business performance. Interestingly examination of these relationships with business performance data from the company's archive confirms the strong correlation between strategic orientation and business performance. A deeper understanding of this important association will serve to greatly facilitate the strategy formulation and implementation process which can only further enhance business performance. Such insights can also be helpful in providing feedback to management as to whether strategy as espoused by the organisation equates to strategy as practiced.

Similarly, analysis (AN) was singled out as the most dominant strategic orientation (SO) dimension, with the futurity (FT) dimension as a close second. Top management should carefully study the implications of these significant SO/BP relationship patterns and should ensure that there is sufficient appreciation of the benefits of problem solving analytical capabilities and long term future-oriented planning in the formulation of appropriate responses. Region R4 should seek insights into the successful market orientation/strategic orientation patterns of regions R1 and R2 to improve performance. More importantly, managers at headquarters (R3) have the most to gain from studying and emulating the strategic orientation patterns in regions where their counterparts, with futuristic, analytical and proactive mindsets are spearheading the way towards a more sustainable and superior business performance. Conversely, it is a serious management concern that the strategic posture of the managers at headquarters is *lagging rather than leading* in strategic orientation dimensions such as analysis, futurity and proactiveness, and is significantly characterised as defensive. Such a situation can perhaps be mitigated through a selective exchange of managers between headquarters and its subsidiaries in the different regions. Top management should also leverage on the findings of the study to promote a stronger market orientation/strategic orientation culture.

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