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An Empirical Investigation of the Scope of a Firm's Enterprise Strategy

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This article investigates the scope of a firm's enterprise strategy which is defined as the range of stakeholder satisfaction realized by a firm at a particular point in time. We found that prior profitability and several of the firm's grand strategies were correlated with enterprise strategy scope. Furthermore, environmental munificence was found to have a curvilinear relationship with enterprise strategy. Overall, this study refined and extended our understanding of enterprise strategy and stakeholder management.

Over the last two decades, the focus of American management has shifted from a relatively narrow emphasis on maximizing shareholder wealth to broader concepts of organizational performance (Andrews, 1987; Ryan, 1990). Recognizing this trend, Schendel and Hofer (1979) argued for the need to investigate a new level of strategy, one that they identified as the *enterprise strategy*, which relates the organization to the overall society. Furthermore, these researchers theorized that the enterprise strategy can and should guide the corporate-level strategy which, in turn, influences organizational performance. Clearly, the organization has always been a member of the larger society; however, these researchers argued that the firm's societal relationship be made explicit.

Freeman (1984) further refined the concept of enterprise strategy by linking it to stakeholder analysis. He flatly stated, "Major changes in direction cannot be accomplished without an understanding of the impact

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on stakeholders" (p. 90). He goes on to say that enterprise strategy does not necessitate a particular set of values, nor does it require that a corporation be socially responsive in a certain way to a particular set of stakeholders. It does examine the need, however, for an explicit attempt to respond to the broad and sometimes conflicting demands placed on the firm by its stakeholder groups. Thus enterprise strategy represents the firm's approach to managing its stakeholders.

Meznar, Chrisman, and Carroll (1990) built on Freeman's work by classifying enterprise strategies along two dimensions: scope of stakeholder satisfaction (e.g., narrow or broad) and type of benefits provided (e.g., lowering of social costs or increasing social benefits or both). These dimensions were drawn from the corporate social performance literature (e.g., Cochran & Wood, 1984; Ullman, 1985; Wood, 1991a, 1991b) and they were reconciled with strategic management concepts.

Although these conceptual arguments have advanced our understanding, there has been little, if any, systematic empirical study of the concept of enterprise strategy. Perhaps one reason for this is that the concept is deceptively complex. For example, stakeholder demands often conflict (Ryan, 1990). The management of multiple stakeholder demands does not involve maximization along a single dimension as is so often assumed in most organizational research, but involves satisfying multiple constituencies (Gilbert, 1986). Thus the multidimensional nature of enterprise strategy makes it unusually complex to conceptualize as well as operationalize.

A second potential reason for the lack of empirical study of enterprise strategy is more methodological in nature. Enterprise strategy is argued to be shaped at the highest level of the organization (Freeman & Gilbert, 1988). Because these individuals are relatively inaccessible to organizational researchers, it is difficult to collect data from them to learn what their enterprise strategy is. Furthermore, the construct is inherently value laden, and such constructs are often avoided in the organizational sciences (Wokutch, 1979).

In light of the growing interest in enterprise strategy and the paucity of empirical research, this article attempts to make two contributions to the literature on enterprise strategy. First, it tries to refine the enterprise strategy concept by empirically operationalizing it for the first time. Because the conceptual literature is much clearer about the *scope* rather than *type* of enterprise strategy, this article focuses on the scope dimension. For example, Meznar et al. (1990) argue that characterizing the enterprise strategy type poses at least two problems for those interested in re-

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searching this concept. First, it is quite likely that there will be conflicting values among the top management team and so characterizing an overarching enterprise strategy will be difficult. Second, the normative issues raised in comparing firms' values would subject this research to the ethical judgments of the researchers, making it difficult to compare one researcher's findings to another's using traditional logical positivist methods. In contrast, the scope dimension is much more empirically tractable. For example, Ryan (1990) observed that the concept of satisfying a broad range or scope of stakeholder groups is increasingly common in business practice. Similarly, Preston and Sapienza (1990) noted that characterization of the scope of stakeholder satisfaction is more descriptive and analytical than prescriptive.

Second, this study seeks to extend the literature by investigating some potential correlates of enterprise strategy scope using insights from the strategic management literature. The approach is consistent with Ullmann's (1985) argument that corporate social performance is strategic in nature. Furthermore, enterprise strategy represents the conceptual link between social issues management and strategic management (Freeman, 1984). By so doing, we hope to refine and extend our understanding of the increased complexities facing today's strategic managers as they attempt to address multiple stakeholder demands.

Theoretical Framework

ENTERPRISE STRATEGY SCOPE

Following Meznar et al. (1990), we define *enterprise strategy scope* as the range of stakeholder satisfaction realized by a firm at a particular point in time. By focusing on the realized range of stakeholder satisfaction rather than the intended range, this study makes the same distinction between realized and intended strategies as that made in other strategic management literature (Mintzberg & Waters, 1985). As such, this conceptualization recognizes that strategic intentions and outcomes sometimes differ.

Although stakeholder demands often conflict (Freeman & Gilbert, 1988), some firms are finding ways to reconcile these conflicts. For example, "excellent" firms are often seen as being able to satisfy a broad array of constituencies ranging from owners to local communities (Peters & Waterman, 1982). Similarly, firms pursuing sustainable growth not only try to satisfy their economically oriented stakeholders, but seek to please their socially oriented stakeholders as well (Schmidheiny, 1992).

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Clearly, not all organizations realize broad stakeholder satisfaction. Meznar et al. (1990) note that "enterprise strategies can vary widely in scope" (p. 334). For example, some firms attempt to satisfy only their economic stakeholders despite the growing pressures to serve a broader range of stakeholder groups (Cornell & Shapiro, 1987). Furthermore, some firms are only interested in the satisfaction of the top management team, a situation described as a *managerial prerogatives* enterprise strategy (Freeman & Gilbert, 1988).

Seeking to satisfy multiple constituencies is clearly a much more complex task for management than focusing on just one stakeholder group. Nevertheless, those top management teams that are able to recognize and reconcile the varied stakeholder pressures placed on the firm will be the ones that survive and prosper (Business Roundtable, 1988). There is a growing recognition that the firm can no longer focus on its short-term economic interests (Gilbert, 1986; Neilson & Rao, 1987).

On the other hand, some firms are finding that it is simply not possible to satisfy all stakeholder demands, particularly when the stakeholders are unreasonable in their expectations (Freeman & Gilbert, 1988). For example, if employees demand high wages, excellent benefits, job security, and meaningful work while the firm is struggling to maintain a dividend to stockholders and meet rising quality expectations of customers in a shrinking industry, it simply may not be feasible to meet all of the employees' expectations. In sum, addressing multiple stakeholder demands is a complex phenomenon that confronts top management teams and is central to the effectiveness of the overall enterprise (Freeman, 1984).

POTENTIAL CORRELATES OF ENTERPRISE STRATEGY SCOPE

This study draws on the systems perspective and the strategic management literature for guidance in the selection of potential correlates of enterprise strategy scope. Several researchers (e.g., Strand, 1983; Wood, 1991a, 1991b) recommend a systems perspective for investigation of corporate social performance issues, such as enterprise strategy. Furthermore, recent research has shown the systems approach to be useful for exploring the organizational context of corporate social performance (Judge, 1993).

The systems perspective suggests that correlates of enterprise strategy scope can be found at multiple levels of analysis. For example, Wood (1991a, 1991b) argued that one of the primary drivers of corporate social

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performance is at the institutional, or business, level of analysis. This implies that industry-level phenomena may influence enterprise strategy scope.

Industry-level correlate. The environment provides the organization's resources and creates certain contingencies with which the organization must deal (Thompson, 1967). Although environments can be characterized in numerous ways, it is their resource availability or munificence that is presumed to be of central importance in explaining strategic behavior (Castrogiovanni, 1991). Environmental munificence can be defined as the "availability of critical resources" (Pfeffer & Salancik, 1978, p. 68). When environments have an abundance of critical resources, they are said to be munificent. When environments lack critical resources, they are said to be scarce.

Dess and Origer (1987) argued that when organizations compete in munificent environments, they have fewer resource constraints and are able to pursue divergent goals. Supporting this view, Staw and Swajkowski (1975) found that organizations confronted by scarce environments were more likely to commit illegal acts. Similarly, Miles (1982) found that the declining munificence in the U.S. tobacco market was associated with more self-interested organizational behavior. Also, Miles (1987) found that increasing scarcity in the insurance environment was often associated with increasingly adversarial relationships with society. Consequently, more munificent environments may permit top managers to address a broader range of stakeholders.

Hypothesis 1: Environmental munificence is positively related to the scope of the enterprise strategy.

Organizational-level correlates. Wood (1991a, 1991b) also suggested that organizational-level variables can determine corporate social performance. This implies that the organizational context may be associated with the enterprise strategy scope. Perhaps the most prominent organizational-level variable which has been found to be associated with a wide range of organizational behavior is organizational size (Kimberly, 1976). There are several potential explanations for a relationship between size and enterprise strategy scope. First, it is widely recognized that larger organizations are held to higher societal standards and their actions get greater media attention (Dalton & Kesner, 1988). Second, large organizations often have more slack resources than smaller ones to address multiple stakeholder groups (Dalton & Kesner, 1985).

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Because of the two reasons identified above, larger organizations usually need to and can spend more resources to influence their multiple stakeholder groups than smaller organizations. Illustrating this point, Stoltz and Torobin (1991) reported that large firms often invest much more heavily in public relations campaigns and that these companies often have a favorable impact on multiple stakeholder groups.

Several additional studies support the notion that large organizations must seek to satisfy a broader range of stakeholders. For example, Parket and Eilbert (1975) found that company size was positively associated with the range of stakeholder satisfaction. Also, Spicer (1978) found that larger firms in the pulp and paper industries invested more in pollution control thereby serving both their investors in the form of avoiding costly environmental clean-ups *and* their local communities by damaging the environment less severely than smaller firms. He reasoned that larger firms simply had more resources to invest in pollution control devices than smaller firms.

Studying Fortune 500 firms, Preston and Sapienza (1990) found that organization size was positively related to owner, employee, and community satisfaction. Most recently, Murphy, Smith, and Daley (1992) found that larger carriers in the motor freight industry often had a broader range of stakeholder concerns or pressures than did smaller carriers. In sum, it appears that organizational size may be associated with the scope of the enterprise strategy.

Hypothesis 2: Organizational size is positively related to the scope of the enterprise strategy.

A second potential organizational-level correlate of enterprise strategy scope is prior economic performance. Recent interest in interpretive views of organizational strategy has suggested that top management selects its strategy based on prior financial performance (Smircich & Stubbart, 1985). Current theory and research suggests that prior financial performance may influence top managers' perceptions of managerial discretion (Hambrick & Finkelstein, 1987). When prior financial performance is poor, managers may feel like they have very little discretion and they must focus on satisfying the owners of the firm. In contrast, when prior financial performance meets or exceeds expectations, top management may feel like they have more discretion to serve a broader range of stakeholders (McGuire, Sundgren, & Schneeweis, 1988).

Supporting these views, McGuire, Schneeweis, and Branch (1990) found that the higher the prior profitability, the higher the ratings of service to multiple stakeholder groups. Similarly, Sturdivant and Ginter (1977)

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found that prior profitability was positively related to the subsequent breadth of top management's social responsiveness. Also, Parket and Eilbert (1975) found that 80 firms in the Fortune 500 widely perceived to serve a broader range of stakeholders all had higher levels of prior profitability than the rest of the Fortune 500. In sum, it appears that the greater the firm's prior financial performance, the broader the scope of the enterprise strategy.

> Hypothesis 3: The firm's prior financial performance is positively related to the scope of the enterprise strategy.

A third potential organizational-level correlate of enterprise strategy scope is corporate strategy. Schendel and Hofer (1979) argued that the better managed firms have a hierarchical approach to strategic management whereby enterprise strategy guides and constrains the corporate-level strategy, which, in turn, guides the business-level strategy(s). If this is true, there should be a direct relationship between the corporate-level strategy and the enterprise strategy's scope.

One useful way of conceptualizing corporate-level strategy is known as the *grand strategy* (Hitt, Ireland, & Palia, 1982). Grand strategy reflects the predominant corporate-level strategy for achieving a firm's major objectives in terms of overall sales and earnings goals. The focus here is on the entire firm's actions rather than those of a single division or unit. This strategic typology indicates general options available to those managing the firm's parts and provides some indications as to the means used to influence the environment. The four grand strategy types are stability, internal growth, external acquisitive growth, and retrenchment (Glueck, 1980).

The *stability* strategy is defined as one in which the firm continues to serve customers in the same or similar product/market domain, has its main strategic decision focus on incremental improvement of functional performance where it continues to pursue the same or similar objectives, and adjusts the level of improvement approximately the same each year. Because there is no empirical evidence or theoretical logic to suggest a relationship between the stability strategy and enterprise strategy scope, it will be treated as a "base case" and no hypothesis is advanced.

However, there is logic and evidence to hypothesize relationships between the remaining three grand strategies and enterprise strategy scope. *Internal growth* strategies emphasize an increase in the level and/or scope of product market objectives predominantly through new product development within the company (Hitt et al., 1982). Previous research has shown that firms pursuing an internal growth strategy often operate in

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socially sensitive product markets. For example, Hitt et al. (1982) argued that internal growth firms often get business through government contracts and/or highly regulated industries. Similarly, Miles (1987) found that firms that were most aggressive in developing new products or markets in the insurance industry were most comprehensive and sophisticated with their attention to social performance.

Because the internal growth strategy often is pursued in more socially sensitive product markets, these firms may take a broader approach to their businesses. For example, Hitt et al. (1982) found that there was more emphasis on public relations for firms pursuing internal development. Miles (1987) found that reward systems were based on both economic and social criteria for these firms. And Ackerman (1975) found that social reporting increased in conjunction with an internal development strategy amidst rising social demands. Consequently, firms pursuing an internal development strategy may concurrently seek to broaden their enterprise strategy scope because they operate in socially sensitive product markets.

Hypothesis 4: The internal growth strategy is positively related to the scope of the enterprise strategy.

When the firm emphasizes growth through acquisition, merger, or joint venture with other firms, they are said to be pursuing an *external acquisitive growth* strategy. Shanley and Correa (1992) observe that this strategy is perhaps the most stressful one for both managers and employees. As a result, employee satisfaction may be harder to achieve with this approach. Also, Jemison and Sitkin (1986) note that in the rush to make acquisitions work, management sometimes neglects existing customers in the process. Furthermore, Kesner and Johnson (1990) observe that this strategy is the most likely one for investors to sue the corporation. All these insights suggest that this grand strategy is more likely to be associated with a relatively narrow enterprise strategy.

Hypothesis 5: The external acquisitive growth strategy is negatively related to the scope of the enterprise strategy.

Finally, the *retrenchment* strategy describes the situation in which a firm tries to improve performance by scaling down the level and/or scope of its product/market objectives via cost cutting and/or by reduction in the scale of operations through divestment of some units or divisions (Bowman & Singh, 1993). Typically, this strategy is initiated due to discontent by the owners of the firm (Bethel & Liebeskind, 1993). Furthermore, Robbins and Pearce (1992) argue that there typically is

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organizational resistance to deep cuts in budgets and employment. As a result, employee morale is often very low and local communities suffer (Brockner, Grover, O'Malley, Reed, & Glynn, 1993). In sum, this strategy is most likely to be associated with relatively narrow enterprise strategies.

Hypothesis 6: The retrenchment strategy is negatively related to the scope of the enterprise strategy.

Managerial-level correlate. In addition to environmental and organizational variables, Wood (1991a, 1991b) also suggested that individual- and group-level variables may be associated with corporate social performance. In the strategy literature, top management team characteristics have been suggested to have a major influence on strategic perceptions and behavior (Hambrick & Mason, 1984). One prominent characteristic, the heterogeneity of the tenures of the top management team, may limit cohesion among the top management team.

As Michel and Hambrick (1992) note, tenure heterogeneity defines a cohort, the presence of which has been shown to influence organizational actions. When the top management team has a relatively homogeneous set of tenures, insular thinking is more likely due to a relatively common set of experiences. In contrast, a relatively heterogeneous group of management tenures may mean that top managers bring a more diverse set of values and experiences to the decision-making process (Bantel & Jackson, 1989). One way that this range of tenures may influence the organization is through the selection of broader enterprise strategies. Consequently, the tenure heterogeneity of the top management team may be associated with the scope of the enterprise strategy.

Hypothesis 7: The tenure heterogeneity of the top management team is positively related to the scope of the enterprise strategy.

Methods

SAMPLE

Data for testing the hypotheses were taken from published accounts in the business press that described strategy making within a company. Several strategy studies (e.g., Miller & Friesen, 1984; Shrivastava & Nachman, 1989) have demonstrated creative uses of published studies on strategic management as sources of data for studying complex strategic situations.

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The sample was selected from the Corporate Strategies section in *Business Week*, an ongoing series of published accounts on current strategic decisions in individual firms. The articles are typically one or two pages long, and they reveal broad and timely descriptions of strategy-making efforts in a wide variety of organizations. The biggest disadvantage of this data source is the lack of detail relative to in-depth case studies or field surveys.

There are several compensating advantages to this source of data, however. First, raw data collection was clearly made without any concern for the intent of this study, hence it may be less biased than a case study or survey where the researcher both collects and analyzes the data. Second, this database enabled analysis of a relatively large pool of strategic management situations over a common time period. Third, the organizations studied include a wide variety of industries which may expand the generalizability of the results. Finally, the articles routinely discussed strategic decisions made and stakeholders' reactions to the firm's strategic behavior. Therefore, this database represented a unique opportunity to study the relationship between range of stakeholder satisfaction, grand strategy, and financial performance.

The sample was restricted to articles published between 1984 and 1986 because this time period represented a nonrecessionary period in the domestic economy where the effects of the macroenvironment were relatively similar over this 3-year period. For example, gross domestic product fluctuated over a rather narrow range, from $664.8 billion in 1984 to $643.1 billion in 1985 to $665.9 billion in 1986 (Council of Economic Advisors, 1989). Also, the unemployment rate was fairly constant, ranging from a high of 7.4% to a low of 6.9% (Council of Economic Advisors, 1989). Furthermore, the consumer price index was fairly steady, going from 3.8% in 1984 to 3.9% in 1985 to 3.8% in 1986 (Council of Economic Advisors, 1989). In sum, the firms described in 1986 faced a similar macroeconomy to those firms described in 1984 and 1985.

Overall, there were 142 articles on corporate strategy written in *Business Week* over those 3 years. Because of our interest in analyzing domestic, publicly held corporations, we eliminated all privately held and foreign-based corporations. This reduced our sample to 112 organizations. Due to missing data, our final sample was 78 firms. Our sample contained somewhat larger organizations ($3.62 billion in assets) than the average Fortune 500 firm during our study period ($1.52 billion in assets). However, the level of profitability was roughly the same between the two groups; the average ROA for our sample was 5.4% whereas the average ROA in the Fortune 500 was 5.3%.

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DATA CODING

Each case was read carefully by two graduate students in management. Both readers were naive to the purpose of the study, but were well trained in coding several pilot cases (six 1983 cases). Each reader conducted a structured content analysis, using the case survey approach advocated by Yin and Heald (1975). Individual articles were coded on the five variables—demonstrated satisfaction by the owners, customers, employees, and community as well as the grand strategy pursued. The coding involved making a judgment as to whether or not the article exhibited a variable reflected in the coding definition (Jauch, Osborn, & Martin, 1980).

In this manner, a data profile on how each of the four stakeholder groups was valued and the nature of overall grand strategy was created for each of the sampled firms. Although this nominal coding technique was relatively easy to conduct and produces reliable data, it also limits the range of variation that can be captured for each variable (Shrivastava & Nachman, 1989).

MEASURES

Enterprise strategy scope. Previous research has repeatedly shown that value-laden constructs, such as enterprise strategy, are not accurately represented through self-report measures (England, 1967; Hambrick & Mason, 1984; Weiner, 1988). As a result, we attempted to measure the realized scope, rather than the announced or intended scope, of stakeholder satisfaction. Furthermore, field research has identified four primary stakeholder groups for every organization: owners, customers, employees, and local communities (Brenner & Molander, 1977; Gandz & McDonald, 1990). Consequently, this study focuses on these four stakeholder groups.

For each of the case studies, the two raters studied the cases for statements of how satisfied each of the stakeholder groups was with the firm. If a stakeholder group was pleased with the firm in some clear-cut fashion, the rater was instructed to award a 1 to that stakeholder group. If there was no mention of that group's evaluation of the firm, they were instructed to give a 0 to that group for that case. If the group clearly was frustrated or disappointed with the firm, a –1 was assigned to that stakeholder group for the firm. The actual coding instructions are included in the appendix.

The interrater reliabilities between the two raters for the four stakeholder groups were .922 for the owners, .803 for the customers, .748 for

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Table 1
Distribution of Enterprise Strategy Scope

Enterprise Strategy Scope	*n*	Frequency (%)
–3	2	2.5
–2	11	14.1
–1	18	23.1
0	13	16.7
+1	13	16.7
+2	15	19.2
+3	6	7.7
Total	78	100.0

the employees, and .857 for the community. Because there was such a high interrater reliability, the ratings were averaged between the two raters on each of the four stakeholder groups to yield a multirater assessment of stakeholder satisfaction. To determine the scope of the enterprise strategy, a new measure was computed by summing the four stakeholder satisfaction scores. Theoretically, this variable could range from –4 to +4, but in this study, the actual range was from –3 (–1–1–1) to +3 (+1+1+1). Table 1 lists the complete distribution of data for enterprise strategy scope.

To assure the construct validity of this coding scheme, 20% of the firms were randomly selected from the overall sample and annual reports were collected for this subsample. The annual reports were then read by a third rater who independently profiled the four stakeholder groups. Interestingly, the stakeholder profile done by the third rater using the annual reports was quite similar to the stakeholder profile developed by the first two raters using the *Business Week* data. Specifically, identical classifications were made 87.9% of the owner satisfaction ratings, 70.0% of the customer satisfaction ratings, 82.6% of the employee satisfaction ratings, and 87.0% of the community satisfaction ratings by the third rater using annual reports for a subset of the sample. In sum, it appears that the stakeholder satisfaction ratings were reliable and valid (Nunnally, 1978).

Independent variables. Following Boyd (1990), we operationalized environmental munificence as the growth in industry sales over a 5-year period. Specifically, it was measured as the regression slope coefficient, divided by its mean value. Coefficients are based on regression of time against value of shipments from 1982 to 1987 using four-digit SIC codes. We operationalized organizational size as the average assets of the firm

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Table 2
Grand Strategy Types

Grand Strategy	*n*	Frequency (%)
Stability	9	11.5
Internal development	36	46.2
External acquisitive growth	21	26.9
Retrenchment	12	15.4
Total	78	100.0

during the year in which the enterprise strategy was described. This approach is similar to one taken by McGuire et al. (1988).

The two raters also coded the grand strategy described in the *Business Week* article. The definition of each grand strategy used for the coding is also listed in the appendix. For most of the cases, the coding was a clear choice among the four types of grand strategies; however, in a few situations (particularly large, multidivisional organizations), the articles described multiple grand strategy types. When this happened, the coders were instructed to look for the largest resource allocation to establish the primary grand strategy.

These two decision rules yielded identical coding of grand strategies in all but one of the cases. To maintain consistency in the classifications and maintain grand strategy as a categorical variable, a third rater read the single discrepant case and resolved the discrepancy. In this fashion, each of the 78 cases was classified as one of the four grand strategy types. Similar to the stakeholder ratings, the grand strategy rating was also independently classified by a third rater using annual reports on a subsample of firms. Table 2 shows the final distribution of grand strategies pursued by our sample.

Because identical classifications were made 86.1% of the time between the two databases, we feel that there is acceptable reliability to this measure as well. After classifying the grand strategy types, we dummy coded the variables representing the internal development, external development, and retrenchment strategies as 0 if the strategy was not the dominant grand strategy pursued or as 1 if it was the dominant strategy. This approach is similar to that taken by Hitt et al. (1982).

Following McGuire et al. (1988), we operationalized prior performance as the average ROA, 3 years prior to the enterprise strategy description. We chose an accounting-based measure as opposed to a market-based measure because this indicator is more likely to be used by managers

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Table 3
Means, Standard Deviations, and Intercorrelations

Variable	Mean	*SD*	1	2	3	4
Enterprise strategy scope	.19	1.63				
Environmental munificence	.04	.07	.17			
Organization size[a]	3.62	4.84	–.03	.13		
Prior profitability	5.46	4.23	.25*	.19	–.14	
Tenure heterogeneity	.52	.32	–.05	.04	.19	–.02

Note. $N = 78$.
a. Billions of dollars of total assets.
*$p < .05$.

to guide their decisions (Bromiley, 1986; Harrison, Hitt, Hoskisson, & Ireland, 1991).

Finally, we measured tenure heterogeneity as the coefficient of variation of organizational tenures by the top management team members. The top management team was defined as any corporate officer who also sat on the board of directors during the year in which the enterprise strategy was described. This approach is identical to that taken by Bantel and Jackson (1989) and others. These data were obtained from proxy statements. Descriptive statistics for the continuous measures are listed in Table 3.

DATA ANALYSIS

Generally speaking, the correlations in Table 3 are moderately small, suggesting that multicollinearity should not be a serious problem in this study. To verify this observation, we calculated variance inflation factors and condition numbers for the independent variables (Myers, 1990). In all cases, the variance inflation factor was well below 10 and the condition number was well below 30. Hence multicollinearity should not be a problem in the present study.

We used regression analysis to provide information on the overall strength and direction of the relationship between the seven independent variables and enterprise strategy scope. Because the grand strategy variables were dummy coded in a multichotomous fashion, we made the stability strategy our benchmark to which all the other strategies were compared (Neter, Wasserman, & Kutner, 1983). In other words, the four grand strategy types were operationalized with three dummy variables relative to our base case, the stability strategy.

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Table 4
Regression Analysis on Enterprise Strategy Scope

Variable	Estimate	t
Intercept	0.64	0.99
Environmental munificence	2.75	1.05
Organization size	0.00	0.18
Prior profitability	0.08	1.80*
Grand strategies		
Stability		
Internal development	–0.57	–0.91
External growth	–1.33	–2.09*
Retrenchment	–2.00	–2.98**
Tenure heterogeneity	–0.16	–0.28
R^2	0.22	
Adjusted R^2	0.15	
F	2.89**	

Note. $N = 78$.
*$p < .05$; **$p < .01$.

Results

The first hypothesis concerned the relationship between environmental munificence and the scope of enterprise strategy. Table 4 reveals that munificence was positively related to enterprise strategy as hypothesized, but it was not significant. Consequently, this hypothesis was not empirically supported.

The second hypothesis focused on the relationship between organizational size and enterprise strategy. Once again, we found no support for this relationship. Regarding the relationship between prior profitability and enterprise strategy, we found a positive relationship lending support for our third hypothesis, $t = 1.80$, $p < .05$. This suggests that the prior financial performance influences the ability of top management to pursue a certain enterprise strategy scope.

Hypothesis 4 was concerned with the relationship between internal growth strategies and enterprise strategy scope. As can be seen in Table 4, this hypothesis was not supported by our data. However, we found both the external acquisitive growth, $t = -2.09$, $p < .05$, and retrenchment strategies, $t = -2.98$, $p < .01$, to be negatively related to the enterprise strategy scope. These results support Hypotheses 5 and 6.

Finally, we investigated the relationship between tenure heterogeneity and enterprise strategy for our seventh hypothesis. Interestingly, there was

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Table 5
Regression Analysis Using Transformed Munificence Variable

Variable	Estimate		t
Intercept	0.45		0.69
Environmental munificence	0.44		0.14
Environmental munificence^2	40.00		1.51*
Organization size	–0.00		–0.12
Prior profitability	0.08		1.76**
Grand strategies			
Stability			
Internal development	–0.52		–0.84
External growth	–1.24		–1.94**
Retrenchment	–2.01		–3.02***
Tenure heterogeneity	–0.13		–0.22
R^2		0.25	
Adjusted R^2		0.17	
F		2.86***	

Note. $N = 78$.
*$p < .10$; **$p < .05$; ***$p < .01$.

no relationship between these two constructs. Overall, these seven independent variables explained over 22% of the variance in enterprise strategy and the regression equation was significant, $F = 2.89$, $p < .01$.

To further explore these relationships, scatter plots were generated to study the nature of each independent variable's relationship with enterprise strategy scope. Based on this graphical analysis, we found no systematic relationships other than an apparent curvilinear relationship between environmental munificence and enterprise strategy scope. Consequently, we squared the munificence measure and entered it into the original regression analysis in addition to the original munificence measure (refer to Table 5). Interestingly, we found that the same relationships held for this revised analysis, but the squared term was now related to enterprise strategy scope, $t = 1.51$, $p < .10$. Furthermore, the explanatory power of the antecedent variables increased to 25%, and the overall equation was once again significant, $F = 2.86$, $p < .01$.

Discussion

The empirical results presented in this study suggest several conclusions. First, the primary correlate of enterprise strategy scope appears to be the corporate-level strategy chosen. We found that when managers

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pursued corporate strategies with relatively short time horizons, such as external acquisitive growth or retrenchment, these grand strategies were associated with relatively narrow enterprise strategies. This finding is consistent with Pearce's (1982) observation that grand strategies with relatively short time horizons such as acquisitive growth and retrenchment often produce lower financial returns to stockholders. Evidently, this insight also extends to other stakeholder groups. In sum, it appears that managers who pursue relatively short time horizon grand strategies also limit their scope of attention to relatively few stakeholder groups.

Despite our failure to demonstrate a relationship between the internal development strategy and enterprise strategy scope, our results expand our understanding of the hierarchical nature of strategic management. As Schendel and Hofer (1979) suggest, enterprise strategy and corporate-level strategy appear to be interdependent. Just as corporate-level and business-level strategies are intertwined (Beard & Dess, 1981), it appears that enterprise strategy scope is also related to corporate-level strategies. In sum, this study provides some additional evidence for the interrelated nature of various levels of strategy.

A second major correlate of enterprise strategy scope was found to be prior profitability. As hypothesized, it appears that the greater the prior profitability, the broader the enterprise strategy. Although causality cannot be assumed, this finding suggests that prior financial success gives management the confidence and resources to address the diverse and often conflicting demands of multiple stakeholder groups (Tuzzolino & Armandi, 1981). Also, it supports the notion that social concerns are more a consequence of prior financial performance in American firms (McGuire et al., 1988). Although the merit of this approach is debatable, managers apparently see social goals as luxuries, not necessities. In sum, it appears that there may be an organizational hierarchy of needs whereby the firm first satisfies certain financial goals and then focuses attention on higher order goals such as service to local communities (Donaldson & Lorsch, 1983).

A third finding was that environmental munificence was not linearly related, but curvilinearly related to enterprise strategy scope. This is a new finding not previously suggested in the literature. It appears that in relatively low munificence conditions and in relatively high munificence conditions, firms pursue relatively narrow enterprise strategies. In contrast, moderate levels of munificence appear to be related to relatively broad enterprise strategies. Although we anticipated the relatively narrow enterprise strategy to be associated with low munificence conditions, the

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narrow enterprise strategies in highly munificent conditions was a somewhat surprising and unique finding.

One possible explanation for this result is that when an industry is growing too fast, there may be too much change for the firm to try to address multiple stakeholder demands. This view is consistent with Eisenhardt and Zbaracki (1992) who point out that rationality is not a unidimensional concept, especially in fast-paced settings. In other words, managers may choose to focus on fewer stakeholder groups in fast-paced, munificent environments to reduce the cognitive complexity of these environments. Conversely, in moderately munificent environments, the cognitive complexity is lower and managers may be able to address multiple stakeholder demands. Clearly, we need more research to verify and better understand this relationship between munificence and enterprise strategy scope.

In addition to these three theoretical insights, this article has also made a methodological contribution by offering a new way to study the pursuit of corporate social performance. By using content analysis, we were able to avoid the social desirability bias of using traditional data collection methods such as mail surveys. Much more research, however, is needed to test these relationships as well as to begin to study various types of enterprise strategies and their contexts. By using archival sources, researchers may be able to statistically examine relatively large data sets while improving the reliability and validity of the measures employed.

Despite these new insights, several limitations should be noted. First, the firms sampled were roughly twice the size of the average firm in the Fortune 500. Consequently, our findings may be more generalizable to the Fortune 200 than the more common focus of the 500 largest industrial firms. Second, our measure of enterprise strategy scope did not distinguish between levels of stakeholder satisfaction. Therefore, our constant weighting of plus or minus 1 of each stakeholder group is a good first step in theory development, but future research should differentiate between mild satisfaction and extreme satisfaction, as well as its converse. Finally, this study only investigates one dimension of enterprise strategy, namely, its scope. Future research is needed into its other dimension, namely, its type. In other words, empirical investigations into which stakeholder groups are satisfied and which are ignored need to be conducted.

Overall, these results support Arlow and Gannon's (1982) assertion that a multilevel contingency perspective must be taken to understand social issues constructs such as enterprise strategy scope. Although this study did not find correlates at the managerial level, it is our belief that correlates exist at the industrial, organizational, and managerial levels of analysis.

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As Neilson and Rao (1987) argued, there appears to be a growing "nexus" between corporate strategy and social legitimacy. This article has made a modest attempt to investigate the determinants of enterprise strategy scope. In our study, we were able to support previous conceptual arguments as well as uncover some new ones. Future research could build on this study by examining various types of enterprise strategies as well as explore the interrelationships between various business- and corporate-level strategies with enterprise strategy. Clearly, enterprise strategy represents a fertile area of study for future management research.

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Appendix

Variable definitions used for coding

Stakeholder satisfaction

1. *Owners*—Increasing stock price/Improving bond rating/Growing dividend payments
   - 0 = No data on actual owner reactions
   - 1 = Owners are pleased with stock's performance or bond's safety
   - –1 = Owners are displeased with stock/bond performance
2. Customers—High quality products/Growing market share/Strong brand loyalty
   - 0 = No data on actual customer reactions
   - 1 = Customers are pleased with products/services
   - –1 = Customers are displeased with products/services
3. *Employees*—Good job security/Low turnover/High morale/No strikes/ High productivity
   - 0 = No data on employee reactions
   - 1 = Employees are pleased with firm's activities
   - –1 = Employees are displeased with firm's activities
4. *Community*—No government inquiries; legal suits/Generous philanthropy/ Environmental protection
   - 0 = No data on community reactions
   - 1 = Community is pleased with firm's activities
   - –1 = Community is displeased with firm's activities

Grand strategy

1. *Stability strategy*—firm continues to serve customers in the same or similar product/market domain, has its main strategic decision focus on incremental improvement of functional performance, continuing to pursue the same or similar objectives, and adjusting the level of improvement approximately the same each year. (Growth strategies aim at increasing the level and/or scope of product/market objectives by a significant increment upward. Growth comes not only from the current product line, but also from the addition of new product lines.)
2. *Internal growth strategy*—firm emphasizes growth predominantly through internal development from within the company.
3. *External acquisitive growth strategy*—firm emphasizes growth predominantly from acquisition of, merger, or joint venture with other firms.
4. *Retrenchment strategy*—firm tries to improve performance by scaling down the level and/or scope of its product/market objectives by cutting back in costs and by reduction in the scale of operations through divestment of some units or divisions.

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