



# Firm performance and complementary strategy development processes

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## Abstract

**Purpose** – This paper sets out to continue exploration of the process-performance linkage by positing several relationships between a multidimensional operationalization of the strategy development process and firm performance, specifically identifying a strategy process configuration that is complementary to constrained environmental conditions.

**Design/methodology/approach** – Hypotheses and empirical results from a survey of practicing senior managers are presented.

**Findings** – The results infer that, in conjunction, the enforced choice and political strategy development process modes are superior to other strategy-making archetypes in generating return on assets within constrained environments in for-profit firms. No significant differences in firm performance were found for not-for-profit firms or for firms employing four other strategy development process modes prevalent in the current strategy process literature.

**Practical implications** – When assessing their strategic management process, organizations must give consideration to its qualitative nature. Senior managerial perception of the strategic management process has influence during strategy formulation and implementation and eventually on firm performance.

**Originality/value** – The paper builds on previous work, but highlights two new findings. Namely, a multidimensional operationalization of the strategy development process generates greater ROA than a one-dimensional process and organizational performance in this configuration varies by firm profit status in some constrained organizational environments.

**Keywords** Strategic management, Environmental management

**Paper type** Research paper

## Introduction

Long central to strategy process research has been the attempt to generate sound knowledge not only linking outcomes with process, but in understanding how and why the outcomes are differentially shaped by the processes themselves (Pettigrew, 1992). This important implication for organizations, that the strategy process is most central in the process-content-context linkage in explaining variations in organizational performance, has generated much empirical work with widely varying results. This analysis aims to augment and extend this implication and its usefulness to practicing firms by examining the multiple, simultaneous strategy development processes undertaken by managers. The subsequent organizational performance after these multidimensional strategic efforts is then used to validate a specific knowledge-based claim from prior research – that firms with high strategy-making process capabilities outperform single mode or less process capable organizations (Hart and Banbury, 1994). Additionally, this effort endeavors to spur further analyses that attempts to explain how and why multidimensional operationalizations of strategy development



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processes actually amplify, act in concert or diminish organizational performance. This exploratory examination of the process-performance linkage utilizes two of six strategy development processes from the current literature on integrative and multidimensional strategy process frameworks.

### Background

Research efforts addressing the planning-performance relationship have been numerous and provided varying conclusions. The implications from the subset of seminal and current articles linking performance to the characteristics or type of strategy process indicate that there is a consensus that strategic planning is positively related to organizational performance across a wide range of sectors: food, household and computer (Andersen, 2000), manufacturing (Capon *et al.*, 1994), banking (Hopkins and Hopkins, 1997), multiple industry meta-analysis (Miller and Cardinal, 1994) and several early, seminal conceptual developments (Andrews, 1971; Ansoff, 1965; Child, 1972). Conflicting evidence that the effect of strategic planning was minimal, non-significant or positive but moderated by significant environmental or contextual variables were also extensively prevalent in the literature (Andersen, 2004; Atuahene-Gima and Li, 2004; Baum and Wally, 2003; Brews and Hunt, 1999; Capon *et al.*, 1994; Covin *et al.*, 1994; Dobni and Luffman, 2003; Floyd and Woodridge, 1997; Goll and Rasheed, 1997; Iaquinto and Fredrickson, 1997; Judge and Douglas, 1998; Lumpkin and Dess, 1995; Priem *et al.*, 1995; Rogers *et al.*, 1999; Slevin and Covin, 1997; Veliyath and Shortell, 1993). The majority of these studies included operationalizations of the strategy process that were one-dimensional.

The individual strategy processes that make up the current multidimensional configurations began with the field's early developmental models (Andrews, 1971; Ansoff, 1965; Hofer and Schendel, 1979; Allison, 1971) which are based on principles of rational decision making and assume that purpose and integration are essential for a firm's long term success (Fredrickson, 1983). A group of "incremental" models (Lindblom, 1959; Quinn, 1980; Mintzberg, 1973) presented other depictions of how firms actually make strategic decisions and these became the foundation of strategy development processes. The richness provided by these and other integrative frameworks endeavored to provide an enhanced representation of organizations compared to what could be produced by single or binary theoretical frameworks. These enhanced views showed promise in identifying more specific managerial and operational implications. From these views, strategic managers could possibly derive prescriptive strategy development processes deemed more effective and efficient within given organizational contexts.

From these initial characterizations of the strategy process, multidimensional strategy process archetypes and many unique typologies have been developed endeavoring to contribute to the understanding of how individual or combination strategy processes affect outcomes in an interactive or synergistic manner. Seminal examples of integrative, multidimensional frameworks included (Miller and Friesen, 1977; Miles and Snow, 1978; Shrivastava and Grant, 1985) while later work included conceptual extensions (Hart, 1992; Hart and Banbury, 1994; Bailey and Johnson, 1995) and attempts at scale validations (Bailey *et al.*, 2000). However, the empirical and propositional claims from the seminal studies withstanding, little recent empirical proof (Elbanna and Younies, 2008; Brews and Purohit, 2007; Gunby, 2004) exists that

specific combinations of strategy development processes have significant impact on organizational performance. This study attempts to address the deficit of research on multidimensional strategy development processes and represents an opportunity to add depth and new understanding to the potential organizational effects when strategy processes are: under conceptualized, differentially viewed by an organization's strategic actors, and inappropriately juxtaposed with environmental and organizational characteristics.

A review of the strategic management literature identified six dimensions of strategy development processes (see Table I, adapted from Bailey *et al.* (2000)). Each "type" of strategy development process listed has a description that characterizes who, where or what is the primary catalyst for the strategy initiation. Table I also includes the seminal conceptual and key supplementary citations that established and/or support each strategy development process.

### Hypotheses

Of the six dimensions included in Table I, this analysis will only develop the background on the strategy development process modes that are hypothesized to have positive effects on organizational performance within constrained environments. The process-performance linkage utilizing four of the strategy development processes from Table I (commanding, planning, cultural and incremental) were also tested and were insignificant. The foundational literature for these four strategy processes is available in Table I and the detailed results are available from the author.

Strategy development process type	Description	Seminal reference(s)	Key supplementary references(s)
Command	Strategy driven by top executives	Bourgeois and Brodwin (1984)	Drucker (1970); Kotter (1990); Westley (1989)
Planning	Strategy driven by intentional and deliberate procedural methods	Ansoff (1965)	Ansoff (1965); Argenti (1980); Mintzberg (1978); Steiner (1969)
Cultural	Strategy driven by organizational mission, vision and values	Johnson (1987)	Chrisman <i>et al.</i> (1988); Deal and Kennedy (1982); Gioia and Poole (1984); Johnson (1987); Schon (1983); Trice and Beyer (1985); Weick (1979)
Political	Strategy driven by coalition and stakeholder objectives	Pfeffer and Salancik (1978), resource dependence	Cyert and March (1963); Feldman (1986); Pettigrew (1973); Pfeffer <i>et al.</i> (1978); Wilson (1982)
Incremental	Strategy driven by bargaining, negotiation and compromise	Lindblom (1959), incrementalism – "muddling through"	Johnson (1988); Lindblom (1959); Quinn (1980, 1982)
Enforced choice	Strategy driven by environmental constraints	Hannan and Freeman (1989), population ecology	Deephouse (1996); Hannan <i>et al.</i> (1989)

**Table I.**  
Six dimensions of strategy development processes

*Enforced choice strategy development process*

Strategic management research has been classified as belonging to three broad categories: antecedents to the strategy process, the processes themselves and the outcomes (Hutzschenreuter and Kleindienst, 2006). One of the more prevalent antecedent variables addressed in the strategic management literature is the environmental context. The seminal literature heretofore with implication for strategy development processes has produced propositional claims regarding organizational performance within these constrained environmental contexts (Miles *et al.*, 1978; Hart, 1992; Fredrickson, 1983; Bourgeois, 1980). Additionally, numerous studies have examined the process-performance linkage and utilized the environment as both a moderating and mediating variable and found varying effects on organizational performance (Baum and Wally, 2003; Dean and Sharfman, 1993; Hillman and Hitt, 1999; Khatri and Ng, 2000; Peel and Bridge, 1998; Schoemaker, 1993; Mason, 2007).

As somewhat of an amalgamation of the antecedent environmental context and the planning strategy process, the enforced choice strategy development process is one that is “forced” upon firms that operate in dynamic, less munificent and more uncertain environments. It is the readily evident and sometime obvious managerial conclusion that there are very limited strategic choices. The enforced choice strategy development process is derived from the organization theory of population ecology which states that in each distinguishable environmental configuration one finds, in equilibrium, only (. . . one) organizational form (. . . that is) optimally adapted to the demands of (. . . that particular) environment (Hannan and Freeman, 1977). This study utilizes healthcare firms as the unit of analysis as the healthcare industry is often characterized as one of the more chaotic sectors in which to conduct business (Shortell and Kaluzny, 2000; Arndt and Bigelow, 2000). The turbulence, dynamism and uncertainty that exist within the sector create an operational environment where minimal organizational forms are more apt to be optimally adapted. These optimal forms continue to be “selected” by the environment as firms engage in processes that complement their environmental configuration. Hence, the enforced choice strategy development process should be optimal for firms in the healthcare sector.

*Political strategy development process*

The political strategy development process asserts that strategy forms from within the social processes of organizations (Pfeffer and Salancik, 1978). As organizations are viewed as coalitions of stakeholders, a constant bargaining and negotiation is required to arrive at strategic decisions. These decisions are formulated to achieve organizational goals and objectives that are facilitated via the provision of scarce resources from organizational stakeholders. Within a constrained environment, if few or only one organizational form is optimally adapted, capability in bargaining and negotiating is essential in developing, maintaining and navigating the systemic linkages between various organizational stakeholders. These “political” abilities are necessary during normal environmental conditions, but essential during more turbulent periods.

Healthcare firms characteristically operate in an environment where the confluence of the political, legal and financial environments create extremely complex and pluralistic (. . . organizational challenges that require) the development and maintenance of complicated intra- and inter-system linkages. This systemic

maintenance intensifies the inherent complexity of a healthcare firm's operational and strategic aspects and is widely acknowledged (Ashmos *et al.*, 1996). The management of these systemic linkages within a highly regulated sector like healthcare should require the firm to be adept in the political strategy development process.

Prior literature has suggested that the enforced choice and political strategy development processes should be complementary (Bailey *et al.*, 2000) hence within healthcare organizations, their simultaneous usage could be synergistic and thus:

- H1. Capability in the enforced choice strategy development process is positively related to capability in the political strategy development process.

An organization utilizing a joint strategy development process combining the enforced choice and the political types could exhibit appreciable performance differences than firms that do not employ this strategy development process archetype. While resource based logic suggests that the combination could possibly lead to a competitive advantage (Barney, 1991), if the business processes are not valuable or rare, they may be substituted with similar but not identical processes. The characteristics that have been proven to create competitive advantages, path dependency, causal ambiguity and social complexity are somewhat present in a combination of the political and enforced choice strategy development processes. With elements of these characteristics, this combination might be difficult to imitate and could at the least be a source of competitive parity (Barney, 1991). Hence this political/enforced choice strategy development process archetype represents one of the many intangible assets a firm could possess. It would be reasonable to expect that if an intangible business process is exploited, it is more likely to be a source of competitive advantage than a business process that exploits tangible firm resources (Ray *et al.*, 2004). Ultimately, creating and sustaining competitive advantages endeavors to enhance some measure of firm performance; thus:

- H2. Capability in the enforced choice strategy development process is positively associated with firm performance in a constrained environment.
- H3. In conjunction with the enforced choice strategy development process, capability in the political strategy development processes is positively associated with firm performance in a constrained environment.

## Methodology

### *Sample and data*

The research population consisted of senior long-term care administrators serving in skilled nursing facilities. The sample for this study was a subset of 4,500 members of a major association representing practitioners in the long-term care continuum. The members were contacted via e-mail where the association maintains approximately 1,700 valid email addresses for its 4,500 members. From prior contact with the association, the anticipated response rate by this population was expected to range between 3-7 percent, thus providing from 51 to 119 responses. The respondents to the survey reflected a fairly accurate representation of the national population of long-term care administrators. Descriptive statistics comparing 16,472 nursing homes in the country and this sample ( $n = 72$ ) are fairly representative. Nationally, of the nursing homes listed with the Centers for Medicare and Medicaid Services, 65.5 percent of the

homes were not-for-profit. The sample group had a 10.3 percent higher percentage of the responding organizations that were for profit. The responding firms had approximately 30 percent fewer certified beds than the national average, but their service intensities, measured as use of nursing hours per resident day, were approximately 12 percent higher on all measures. The average size of the organizations was 103 certified beds with an average occupancy of 86.0 percent. 56 percent of the survey respondents were administrators in skilled nursing facilities, while 40 percent were CEO, COO or a VP within their respective organizations. The remaining 4 percent served in other capacities within the long-term care continuum. The average tenure of the respondents was 20.9 years in the long-term care industry and 6.5 years in their current position. The highest educational level attained for the respondents was as follows:

- High school: 3.8 percent;
- Associate's degree: 6.3 percent;
- Bachelor's degree: 35.4 percent;
- Master's degree: 53.2 percent; and
- Doctorate degree: 1.3 percent.

Additionally, the average respondent reported being 2.2 levels below the CEO of their respective organization.

### *Measures*

The survey instrument used had been validated in a prior study of 5,332 respondents (Bailey *et al.*, 2000). The preponderance of the firms from the survey validation was for profit firms and it is expected that the utilization of the instrument will only be valid and generalizable to for profit firms. From the original instrument, a 39 item, non-factor analyzed instrument was subjected to an exploratory factor analysis using the maximum likelihood extraction technique with a Varimax rotation and Kaiser normalization. The Kaiser-Meyer-Olkin measure of sampling adequacy was 0.581. The Bartlett's test of sphericity was rejected as the significance level of 0.000 suggests that there could be significant relationships among the variables. Although the scree plot indicated that there were more than six factors with eigen values greater than one, with the a priori knowledge that the survey was developed with six dimensions, the exploratory factor analysis was constrained to generate six factors and retain those with factor loadings greater than 0.55. Marker variables with loadings at 0.55 are considered to be good interpretable factors as they explain 30 percent of the overlapping variance (Comrey and Lee, 1992).

The rotated factor matrix suggests that the six factors are made up of 23 marker variables. The breakdown of which dimensions these marker variables loaded on and the number of items that were initially hypothesized to load on that dimension are in Table II. The 23 marker variables were used in the analysis of the strategy development processes of the responding firms in the long-term care continuum. The score for each firm on the particular dimension was the sum of the scores on the individual items that loaded greater than 0.55. The measure of performance, archival ROA, was regressed onto the scale scores of the two relevant strategy development processes dimension variables and three control variables (two firm level

(organizational size and self-reported growth in revenue) and one individual level (tenure in the long term care industry)) to determine which had a significant relationships and explained suitable proportions of the variance in organizational performance. The control variables chosen represent characteristics of the organization and its strategic actors that would likely affect the strategic management process and the relevant environmental context. Prior literature suggests that organizational size and growth should be included as larger organizations and those experiencing growth are more likely to have more sophisticated strategic processes and a greater understanding of those processes (Ashmos *et al.*, 1996; Marginson, 2002; Papadakis *et al.*, 1998). The primary strategist's experience, operationalized as their industry tenure, is also included in models of the strategy process as top management team characteristics have been widely shown to affect the strategic management process (Amason and Sapienza, 1997; Carpenter and Westphal, 2001; Isabella and Waddock, 1994).

**Results**

The means and standard deviations for all models are presented in Table III. The dependent variable, ROA, and one of the control variables, firm size, were moderately kurtotic while all other variables appeared to be normally distributed. The kurtosis in the two variables did not lend itself to a transformation that improved the overall fit of the models evaluated, so the variables were utilized as recorded. All models were evaluated in a weighted linear regression with the dependent variable, organizational performance, operationalized as the return on assets. The weighting variable, firm wage index is a market basket index produced by the Centers for Medicare and Medicaid that captures the relative differences in wages between different geographic

**Table II.**  
The breakdown of which dimensions

Factors	Number hypothesized	Number loaded
Command	5	3
Planning	8	8
Cultural	6	3
Political	6	4
Incremental	6	1
Enforced choice	7	4

**Table III.**  
All variables: means, standard deviations, and correlations

Variable	Mean	SD	1	2	3	4	5
1. Firm performance (ROA)	-1.81	20.83					
2. Firm size (bed days)	58,091	46,133	-0.29				
3. Growth	5.01	1.47	0.201	-0.013			
4. Administrator industry tenure	21.00	7.75	-0.001	0.226*	-0.150		
5. Political strategy	14.04	4.84	-0.019	0.175	0.119	0.042	
6. Enforced choice strategy	16.57	5.74	0.102	0.136	-0.143	0.040	0.289**

Notes:  $n = 70$ ; \* $p < 0.10$ ; \*\* $p < 0.05$

locations of all healthcare firms that receive funding from this governmental agency. The weighting variable is used because the dependent variable has an error term that theoretically varies in a pure heteroskedastic fashion. This heteroskedasticity is a known and inherent problem in cross-sectional datasets, particularly in the field of economics where wage indices are introduced as appropriate means of correcting cross-sectional heteroskedasticity (Studenmund, 2001). The national average is indexed at one.

The independent predictors were introduced into the regression equation in two blocks. The first block contained the control variables where organizational size is operationalized as the total number of bed days, organizational growth as the self-reported growth in revenue when compared with the prior year and the industry tenure of the administrator in years. The survey instrument was validated using predominantly for profit firms and necessarily deemed generalizable for only FP firms. The sample population consisted of 33 NFP and 39 FP firms. Before analyzing the specific model allowing the hypotheses to be tested, four models were evaluated to discern the inapplicability of the proposed models to NFP firms and to the inclusion of all six recognized strategy development processes modes. Two models containing all six strategy development processes with all firms ( $n = 72$ ) and NFP firms only ( $n = 33$ ) were evaluated. Additionally, two models containing the enforced choice and political strategy development processes with all firms ( $n = 72$ ) and NFP firms only ( $n = 33$ ) were evaluated. All four models were insignificant and explained minimal variation with adjusted  $R^2$ s of 0.067, 0.017, 0.029, and 0.001.

The results of the weighted linear regression are in Table IV. The overall model fits the data very well with an adjusted  $R^2$  of 0.447 and a significance of 0.000. *H1* posits that there is a positive relationship between the enforced choice and political strategy development processes. The Pearson correlation between the two variables is 0.289 and is significant at the 0.05 level supporting *H1*. *H2* posits that there is a significant difference in firm performance between FP firms utilizing the enforced choice strategy development process while *H3* examines the relationship between the political strategy development process and firm performance. The standardized coefficients for enforced choice and political strategy development processes are 0.385 and 0.217 and are significant at the 0.01 and 0.10 levels. Firms with the enforced choice strategy development process have returns on assets that are 38.5 percent higher while firms with the political strategy development process are 21.7 percent higher.

	Variables	$\beta^a$
Controls	Organizational size	-0.155
	Organizational growth	0.401 ***
	Industry tenure	-0.466 ***
Predictors	Enforced choice	0.385 ***
	Political	0.217 *
	$R^2$ for total equation	0.526
	Adjusted $R^2$ for total equation	0.447
	$F$ for total equation	6.652
	Significance of model	0.000

Notes:  $n = 33$ ; <sup>a</sup>Standardized coefficients; \* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$

**Table IV.**  
Results of WLS  
regression analysis – FP  
firms



**Discussion**

These findings lead to several implications for strategic management researchers and practitioners. From the empirical validation of *HI*, managers could be advised that upon assessment of their strategy development processes, the enforced choice and political modes should be present in conjunction. Capability in these strategy processes represents the perception of the strategic actors of their organization's strategy process. Appropriately characterized processes and consistency across the strategic actors should be a goal of the strategic management process and evaluated during strategy evaluation. When a constrained environment is perceived; one that necessarily is less munificent, more dynamic and more competitive, a strategy development process archetype utilizing these two modes should be superior in generating higher returns to assets than firms that do not use these modes. A synergistic effect between the two is evident not only from the positive correlation between the strategy development process modes, but from the appreciable effects on firm performance. A return on assets with a potential 38 percent difference represents a substantial addition to net income for the average skilled nursing facility where mere expenditures of cents per resident per day can represent lifestyle and healthcare options that improve the daily living of thousands of vulnerable nursing home residents.

Translating this finding to other fields, strategic management researchers and practitioners should recognize that ultimately, the enforced choice strategy development process is recognition that an accurate assessment of the external environment is essential and the strategic alternatives that follow are apt to produce higher performance when they are perceived consistently by the organization's strategic actors. Via the assessment, scanning and monitoring of the external environment, recognizing that there is a superior choice of business processes and tactics that should lead to competitive advantage is what management teams endeavor to do. The choice of the most appropriate strategic direction that will lead to enhanced organizational performance, whether the choice be enforced or not, should be the preference of any FP entity. Additionally, the requisite ability to bargain and negotiate inherent in the political strategy development process, when juxtaposed with a constrained environment, is a superior complement to the enforced choice strategy development process where the goal is to maximize firm performance in a FP firm.

Moreover for researchers, these implications begin to highlight the promise of continued work on multidimensional strategy development processes. The application of a well-developed scale to a different business sector from which it was validated intimates that it can necessarily be generalized to other organizational contexts but only in FP firms. Conceptual studies have long advocated for process-performance linkages that extend beyond one dimensional strategic process and these results suggest usage of a strategy development processes archetype not prevalent in the current literature. Lastly, as this analysis only surveyed one senior manager per organization, it beckons further research into the potential benefit of additional studies analyzing the process-performance linkage within firms by assessing the perceptions of multiple strategic actors and linking the consistency of these perceptions to organizational performance.

## Limitations

This study is a pilot study conducted in a single industry and posits linkages between strategy development processes and firm performance within a constrained industry. Due to the exploratory nature ( $n = 70$ ) and the uniqueness of the healthcare industry, and even in spite of the overwhelmingly significant model and amount of variation explained, generalizability to other industries should be approached guardedly. Also, self-report data was used to assess growth and industry tenure. While there is evidence that senior managers' self-reports can correlate strongly with financial and economic indicators (Venkatraman and Ramanujam, 1987; Dess and Robinson, 1984), more accurate, archival measures of performance in long-term care facilities are available and should be incorporated into further investigations. Lastly, the surveys were conducted via a web-based portal and may have captured the responses of more computer literate respondents than not. This could have feasibly skewed the sample toward managers with higher technical skills derived from more formal education. This formal education, while captured to some degree in the industry tenure variable, could also correspond to more training in specific strategic management theory or content and manifest operationally in a better planning and decision making skill set.

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