STRATEGY FORMULATION, STRATEGY CONTENT AND PERFORMANCE: EMPIRICAL EVIDENCE FROM PRIVATE SECTOR ORGANIZATIONS IN PAKISTAN

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Abstract

This study tests the effects of strategy formulation and strategy content on the organizational performance by using the framework suggested by Andrews, Boyne, Law and Walker (2009). The independent variable strategy formulation includes rational planning, logical instrumentalism and strategy process absence; whereas the independent variable strategy content, following the study of Miles and Snow (1978), includes prospecting, defending and reacting. Three hundred and twenty five questionnaires were distributed of which two hundred and seventeen were selected for inclusion in the study. The sample drawn was from organizations spread across Pakistan. The unit of analysis was departments as each department has a different strategy. Results show that rational planning affected positively while logical incrementalism and strategy absence negatively affect organizational performance. While for strategy content, prospectors, defenders and reactors were found to be positively significant with organizational performance. Implications and future recommendations are provided.

Keywords: Strategy formulation, Strategy content, Organizational performance, Pakistan.

JEL Classification: Z000

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Introduction

Organizations look to improve the service they provide and this research is an effort to identify and evaluate the mix that forms the basis for that improvement. More and more focus of recent research has been on improvement; and different variables including the formation of the organization, clarity of the goals and the associations in the system (Boyne 2003; Boyne et al., 2006) have been studied in this context. To improve the service by improving the performance of strategic factors is one of the major contributions of recent literature on strategic management (Boyne and Walker 2004; Andrews et al. 2006; Meier et al., 2007). Strategy helps an organization to sustain or build upon performance; and strategy helps organizations hold their ground in the ever-changing environment especially in the short term (Zajac and Shortell, 1989; Amburgey et al., 1990). There are two overarching aspects of a strategy; first the way it is made and second what it is made of. The former is referred to as ‘strategy formulation’ and the latter as ‘strategy content’ (De wit & Meyer, 2010; Boyne and Walker, 2004). Primarily strategic management literature has focused on either of the two (Boyne and Gould-Williams 2003; Andrews et al., 2006). A few studies have attempted to amalgamate the two to formulate an analytical model. Andrews, Boyne, Law and Walker (2009) presented a model in which they argued that both aspects would work best together in harmony and not in isolation. They measured the simultaneous effect of strategy formulation and strategy content on the performance of the organization in public sector organizations. Taking their work forward this study has attempted to test their model on private sector organizations in Pakistan.

It has been proposed that strategic performance would be best understood if the typical differentiation in strategy process and strategy substance is not made because that limits the contextual boundaries of strategic management (Andrews et al., 2009). A mix of process and substance approaches can be used; and their impact can be evaluated on service performance. The present study has examine strategy related
questions which are not only academic but also relate to the practical world. The aim is to study “process” and “substance” of strategies followed by private sector organizations in Pakistan to see if these two aspects impact the performance.

A similar study is has not been done in Pakistani context. The conclusion of this study is expected to add value to the original research and the literature of the subject in general.

What lies at the core of organizational performance are strategy formulation and strategy content. Decentralized decision making and prudence in strategy process are increasingly being sought by organizations (Walker and Boyne, 2006). When change is frequent and focus is on customers then substance of strategy comes to play a very important role (Boyne et al., 2004; Walker and Boyne, 2006). Hence, the aim of this study is to take into account simultaneously the intricacies of strategy content and strategy formulation process as observed in Pakistani companies, and to relate these aspects with the organizational performance.

Literature reveals that transformations have been inculcated in the way strategy is made and that include setting objectives and targets, and decentralization of management to make decisions (Walker and Boyne, 2006). It is reported that conscious efforts have been made by managers to change strategy contents as well by focusing more on thinking out of the box, making partners and putting customers first for the attainment of superior performance (Boyne et al., 2004; Walker and Boyne, 2006). Effectiveness of an organization’s strategic management can be measured with the help of the way strategy is formulated and the content and substance of which the strategy is made (Boyne and Walker, 2004).

In Pakistan, strategy’s role and its impact on decision making needs to be appreciated more clearly than the importance given to it currently. This research is likely to would help decision makers in private sector organizations in Pakistan to identify the possible
available combinations of strategy formulation processes and strategy contents; and then they are expected to be better placed to customize these combinations according to their particular organizational setting.

**Theoretical Background**

*Strategy and Organizational Performance*

Moore (1995) and Joyce (1999) have reported that more and more organizations reported about their concern with the efficacy of strategic management function. Boyne and Walker (2004) have studied in detail the structure and implementation of strategy in organizations. Findings reported by Miles and Snow (1978) resulted in classification of organizations into different strategic groups. Most of the past research has used only one of the four strategic stances to classify organizations with respect to their strategic stance (Garcie-Perez et al., 2014). However, some noteworthy exceptions are there; such as Prajogo (2015), who proposed that each type of strategy is best applicable in given environmental circumstances hence each type of strategy would have innate shortcomings in unfavorable environment. Shoham and Lev (2015) have proposed that to overcome these shortcomings a mix of strategies ought to be pursued by organizations simultaneously. Boyne and Walker (2004) have argued that it is best not to put organizations in isolated silos with respect to their strategic position. Similar observation was made by Andrews et al. (2009), and they concluded that it would not be appropriate to classify organizations in only one strategic type.

*Strategy Formulation*

The body of strategic management literature suggests two major processes of strategy formulations, namely, rational planning and logical incrementalism (Elbanna, 2006). Not all organizations are likely to be pursuing an unambiguous strategy and therefore some organizations may demonstrate ‘strategy absence’. According to
Inkpen and Choudhury (1995), it’s a decision knowingly made by strategy formulators not to follow a precise manner of making a strategy.

Processes that are official, systematic, and critical in nature are more likely to allow an organization to know its internal and external environment better. Based on such environmental assessment, organizations can include success possibilities (opportunities) into their rational planning process. These opportunities present in the environment can be checked before responding to them, and can be reviewed and re-checked at periodical checkpoints (Dror, 1973; McCauley, 2012). The way managerial personnel think, make decisions, and switch between different strategic positions, inevitably leads to guided rationality leading to rational planning (Elbanna, 2006).

Boyne (2001) and Elbanna (2006), however, has reported mixed outcomes about relationship of rational planning with organizational performance; but their results are based on samples taken from public sector organizations. Positive relationship between performance and planning was reported from samples of private sector organizations and also from not-for-profit organizations (Crittenden et al., 2014; Walker et al., 2013; Boyne and Gould-Williams, 2003). It has also been argued that presence of planning alone is neither sufficient nor necessary condition to attain better performance in an organization (Boyne et al., 2004).

Alternatively there has been a contention that emphasis on long-term organizational targets was the basis of logical incrementalism, or purposed incrementalism (Martens et al., 2013). Such incrementalism is viewed as a democratic way to devise a strategy in which stakeholders are persuaded for a common course of action (Elbanna, 2006). Being a democratic process it would require reconciliation of stakeholders about the way strategy is devised. During the strategy formulation process internal political conflicts over organizational goals and policy setting or allocation of resources would in all
likelihood arise and be vocalized (Elbanna, 2006). Such politicization of strategy formulation process may prove counterproductive for the organization as trivial issues may let corporate goals slip away. These conflicts may divert the organization’s focus from its goals (Elbanna, 2016). All these concerns make it evident that logical incrementalism is likely to be unfavorable for organizational performance.

A clear and unambiguous strategy is not necessarily evident in all private sector organizations. When organizations knowingly decide not to follow a precise manner of making a strategy due to volatility in their environment, then these organizations are in a state of ‘strategy absence’ (Stefanovic& Milosevic, 2012). Such a state of affairs, arguably, may give favorable results, but empirical studies have shown that knowingly not following a certain strategy formulation structure leads to undesired performance in such organizations (Andrews et al., 2009).

Strategy Content

The substance or content of a strategy focuses on interaction of an organization with its environments. How an organization scans environment to improve the performance is crucial (Andrews et al., 2009). Rubin and Pepler (2013) has suggested that organizations understand very well their underlying prospects, and quickly register change in status quo with respect to other players in the environment; and organizations look to achieve corporate goals with the help of deliberate guided action which is suitably called strategy content. This line of logic is based upon the typology of organizational strategic positions proposed by Miles and Snow (1978). The typology of strategies forwarded by Miles and Snow is still applicable in a wide range of organizational settings. This strategy typology is based on the idea that any industry can have four kinds of strategic courses of action. First are the prospectors. Prospectors are organizations in an industry which innovate and pioneer quite regularly, these
organizations are the first movers to identify new options and opportunities and they respond to the available options in the existing and new markets (Miles and Snow, 1978). Second are the defenders. Defenders are traditional organizations playing safe in their products and markets by focusing on improving what they do while keeping their prices and quality competitive (Miles and Snow, 1978). Third are analyzers. This category is an amalgamation of prospector and defender. They are more of on-lookers of prospectors; they have a keen eye on the moves of prospectors and seek to exploit the opportunities exploited by prospectors. When such opportunities are available the analyzers are well prepared and ready to embark upon them (Miles and Snow, 1978). Fourth are reactors. Reactors are organizations with a ‘wait and see’ approach, such organizations adopt change not willingly but only when the environment leaves them no option but to adopt the inevitable changes (Miles and Snow, 1978). Inkpen and Choudhury (1995) have argued that this behavior of reactors is no different than strategy absence because actions of reacting organizations are dictated by the environment and these organizations have no apparent plan.

Researchers have used likert like scale to measure prospectors, defenders and analyzers using two tiers of managerial personnel: the boss and second –in -command (Andrews et al., 2006).They found that organizations classified as prospectors showed positive performance, while those classified as defenders showed neutral performance and those classified as reactors showed negative performance. These findings by Andrews et al (2009) implied that first priority of an organization should be prospecting and the last priority should be reacting (Andrews et al., 2009). Pleshko et al. (2014) concluded that there existed a sequence in the performance of organizations based on the strategy classification; i.e. performance of reactors was surpassed by that of defenders who in turn were surpassed by prospectors in performance. Andrews et al., (2005) and Etticott and Walker (2008) have also reported positive relationship of performance with prospecting classification and negative relationship.
of performance with reacting classification with respect to strategy content.

It is interesting to note that these finding are in conflict with the original representation and relation of these stances as proposed by Miles and Snow (1978) who had proposed that similar performance levels are likely to be reported by prospectors and defenders. A number of studies on private sector organizations have also supported this claim (Hawes and Crittenden, 1984; Conant et al., 1990; Shortell and Zajac, 1990). While some studies have reported prospectors and defenders as two different strategic stances resulting in two different set of outcomes. Evans and Green’s (2000) found that defenders were more likely to successfully turnaround the business. Defenders were reported to be surpassed by prospectors on grounds of market share changes (Hambrick, 1983) but flipside of this trend was found in case of return on investment (Zajac and Shortell, 1989) where defenders out performed prospectors on the criterion of return on investment.

The theoretical framework for the research is as follows:

Figure 1:
*Theoretical Framework*
Methodology

Data Collection

Department heads and second in command in that department from private sector companies in service sector in Pakistan were taken as the unit of analysis for this research (Andrews et al., 2003, 2005; Enticott and Walker, 2008). Four randomly selected respondents were asked to fill the questionnaire and interviewed to check for adaptability and understandability of the questionnaire items. Suggestions to improve ambiguity on some items were considered. Pilot study on thirty five questionnaires was conducted. The pilot study was conducted to check for validity and reliability. The reliability was measured by Cronbach Alpha which was higher than 0.6. The validity was tested through exploratory factor loading (EFA), using Principal Component Analysis (PCA) through varimax rotation. The factor loading for all items was above 0.4. Items with loading less than 0.4 were removed from further analysis. Three items from strategy formulation and five from strategy content had factor loading of less than 0.4 and were removed. This confirmed the acceptability of the questionnaire in private Lahori organizations. The method of sampling carried out for this study was snowball sampling. Three hundred and twenty-five heads of departments and their second in command were asked to fill in the data collection instrument, and 217 usable responses were received giving a response rate of 66.7%.

Two regression models were estimated; first model was aimed to study the relationship between dependent variable (organizational performance) and independent variables pertaining to strategy formulations, namely, Rational Planning, Logical Incrementalism, Strategy Absence; and the second model aimed at studying the relationship between dependent variable (organizational performance) and independent variables, namely, prospector stance, defenders stance, and reactor stance as pertaining to strategy content of that responding organization as perceived by the responding managers.

Hypotheses

The hypotheses for this research were developed as follows:
For Strategy Formulation

H1: Organizational performance is positively impacted by rational planning.
H2: Organizational performance is negatively impacted by logical incrementalism.
H3: Organizational performance is negatively impacted by strategy process absence.

For Strategy Content

H4: Organizational performance gets a positive impact from strategic position of a prospector.
H5: Organizational performance gets a positive impact from strategic position of a defender.
H6: Organizational performance gets a negative impact from strategic position of a reactor.

Measurement of Variables

Data was collected using the instrument of questionnaire, which in itself comprised of a mix of instruments. Questions related to each; dependent and independent variables were brought together to make an inclusive questionnaire. The questionnaire was derived from the study of Andrews et al. (2009) for public sector organizations. Respondents of the survey had to answer questions on a Likert scale ranging from 1 (strongly disagree with the given proposition) to 7 (strongly agree with the given proposition).

There were three sections of the questionnaire. The first section asks questions about the process of making a strategy in their organization. Questions pertained to three concepts namely strategy absence, logical incrementalism and rational planning. This section had seventeen (17) questions in all from which strategy absence and rational planning had five (5) questions each whereas logical incrementalism had seven (7) questions. Second section was about the substance of strategy. It included the concepts of Miles and Snow (1978) typology, which are prospectors, defenders and reactors. These are the strategic positions that organizations take in face of given internal and external environment. Second section had forty (40)
questions in all. Prospecting had fifteen (15) questions, defending
had thirteen (13) and reacting had twelve (12) questions in this section.
Third section is about the organizational performance. It included
questions about the efficiency, efficacy, quality and quantity
dimensions of the performance. There were ten (10) questions for this
section.

<table>
<thead>
<tr>
<th>Table 1: Operational definition and measurement of variables</th>
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</thead>
<tbody>
<tr>
<td>Variable</td>
<td>Constitutive Definition</td>
<td>Operative Definition</td>
</tr>
<tr>
<td><strong>Independent Variables (strategy formulation and strategy content)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy Formulation</td>
<td>The process followed to make a strategy.</td>
<td>The mean of items 1—17 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td>Strategy Absence</td>
<td>A decision knowingly made not to follow a precise manner of making a strategy.</td>
<td>The mean of items 13—17 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td>Logical Incrementalism</td>
<td>Long term organizational targets are set (Boyne et al. 2004). It’s a democratic way to devise a strategy in which stakeholders are persuaded to agree on a common course of action.</td>
<td>The mean of items 1,2,8—12 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td>Rational Planning</td>
<td>Processes which are official, systematic and critical in nature and let the organizations know their internal and external environment better to devise success possibilities. These possibilities are thoroughly checked before embarking on them, which in turn are reviewed and checked at periodical checkpoints.</td>
<td>The mean of items 3—7 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td><strong>Strategy Content</strong></td>
<td>The essence and substance of a strategy.</td>
<td>The mean of items 18—57 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td>Prosectors</td>
<td>Organizations which innovate and pioneer quite regularly are often the first movers to identify and respond to the available options/opportunities in the existing and new markets</td>
<td>The mean of items 18—21,32—36,44,47,49,50,53,55 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td>Defenders</td>
<td>Traditional organizations playing safe in their products and markets by focusing on improving what they do while keeping their prices and quality competitive.</td>
<td>The mean of items 22—25,30,31,37,41,43,46,48,52,56 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td>Reactors</td>
<td>Reactors are organizations with a ‘wait and see’ approach adopting change only when the environment pushes for it.</td>
<td>The mean of items 26—29,38—40,42,45,51,54,57 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
<tr>
<td><strong>Dependent Variable Organizational Performance</strong></td>
<td>It’s the level of performance of service in an organization.</td>
<td>The mean of items 58—67 of section 1 measured on a 7 point Likert scale of 1=strongly disagree and 7=strongly agree</td>
</tr>
</tbody>
</table>
Results

The following table (Table 2) reports descriptive statistics including mean and standard deviation of 6 independent variables and the dependent variable.

Table 2

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>MALE</td>
<td>183</td>
<td>84.3</td>
</tr>
<tr>
<td>FEMALE</td>
<td>34</td>
<td>15.7</td>
</tr>
<tr>
<td>Total</td>
<td>217</td>
<td>100.0</td>
</tr>
</tbody>
</table>

To check the usability of the data collection instruments, Cronbach Alpha was calculated so that internal consistency of the component statements pertaining to each construct could be established. Alpha values greater than 0.6 are considered to depict acceptable internal reliability (Hult et al., 2004). Higher the alpha values higher the internal reliability of the constituent questions on the questionnaire as they measure a composite construct. Cronbach Alpha values of the constructs used as a measurement instruments in this study are given in Table 3.

Table 3: 
Reliability test

<table>
<thead>
<tr>
<th>Variable Name</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rational Planning</td>
<td>0.875</td>
</tr>
<tr>
<td>Logical Incrementalism</td>
<td>0.641</td>
</tr>
<tr>
<td>Strategy Absence</td>
<td>0.679</td>
</tr>
<tr>
<td>Prospecting</td>
<td>0.899</td>
</tr>
<tr>
<td>Reacting</td>
<td>0.956</td>
</tr>
<tr>
<td>Defending</td>
<td>0.683</td>
</tr>
</tbody>
</table>
Strategy content

The following regression model was estimated to study the relationship between dependent variable (organizational performance) and independent variables pertaining to strategy content, namely, Prospector, Defender, and Reactor.

Organizational performance = a + (B₁ * Prospector) + (B₂ * Defender) + (B₃ * Reactor).

Table 4 reports the results:

Table 4
Dependent variable: Organizational Performance

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Beta</th>
<th>p-value</th>
<th>R²</th>
<th>Adjusted R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prospector</td>
<td>0.941</td>
<td>0.00</td>
<td>0.35</td>
<td>0.28</td>
</tr>
<tr>
<td>Defender</td>
<td>0.948</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reactor</td>
<td>0.957</td>
<td>0.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.312</td>
<td>0.14</td>
<td></td>
<td></td>
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</tbody>
</table>

Explanatory power of independent variable is judged by R squared and it is a goodness of fit statistic and tells how much variation in dependent variable is explained by the set of independent variables used in the model. P-values for any variable less than 0.05 means that independent variable has significant impact on the dependent variable with chance of error being less than 5%. Table 4 shows the significance of each independent variable in relationship to Organizational performance. Rational planning is positively related to organizational performance. It shows as rational planning increases organizational performance improves. The value of beta is 0.882 and is highly significant. Logical incrementalism is negatively related to organizational performance with a value of -0.951. It shows as logical incrementalism increases organizational performance decreases. The value of beta is -.951 and is highly significant showing logical incrementalism has a significant impact on the organizational performance. Strategy absence is negatively related to organizational performance with a value of -0.890. It shows that in the absence of a strategy organizational performance declines or as strategy absence increases organizational performance deteriorates. The significance
of this relationship is very high showing the impact of one on the
other.

**Strategy Formulation**

The following regression model was estimated to study the
relationship between dependent variable (organizational performance)
and independent variable pertaining to strategy formulation, namely,
Rational Planning, Logical Incrementalism, Strategy Absence.

Organizational performance = a + (B₁ * Rational Planning) + (B₂ *
Logical Incrementalism) + (B₃ * Strategy Absence).

Table 5 reports the results:

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>B</th>
<th>p-value</th>
<th>R²</th>
<th>Adjusted R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rational Planning</td>
<td>0.882</td>
<td>.00</td>
<td>0.42</td>
<td>0.37</td>
</tr>
<tr>
<td>Logical Incrementalism</td>
<td>-0.951</td>
<td>.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy Absence</td>
<td>-0.891</td>
<td>.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.451</td>
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</tbody>
</table>

Table 5 shows the regression results of rational planning, logical
incrementalism and strategy absence with organizational performance.
Rational planning is positivity significant at p-value of 0.00 with 0.882
beta co-efficient. The logical incrementalism and strategy absence are
negatively significant. This shows that as logical incrementalism and
strategy absence increases organizational performance decreases.

**Discussion**

This research study was carried out to find out the best fit of
strategy making process and strategy substance. Both dimensions
are found studied separately in the body of literature but this study
has made an effort to bring the two on a strategic fiber of the
organization to see how to tie these two to get the best quality strategic
fiber for the organization. Such a study was not carried out in the
context of Pakistani private sector organizations.
Most of the results in the original study, which was carried out public sector, hold true for Pakistani private sector organizations. Organizational performance is greatly affected by the way strategic management is done. Companies must acknowledge the best fit between the way a strategy is made and is substance. The relation between the two is established in this research study. Results have made it evident that while making a strategy logical incrementalism along with absence of a strategy are detrimental to the performance of an organization. While as suggested by Miles and Snow (1978) the strategy substance strategic standpoint of prospecting and defending result in improved performance. Adding to that the strategic position of a reactor also provides better results.

**Implications For Managers**

Planning is one of the most important aspects in the performance of an organization. When an organization fails to plan it is basically planning to fail. Culture of the organization must be understood for effective execution of the strategy. Moreover, the most effective way to make a strategy and of what it is to be made must also needs to be appreciated. This study provides an insight for the managers to know what strategy making process best fits with which strategy substance.

**Future Recommendations**

This is a cross-sectional study but it would be interesting to know whether the results of this study hold true if a longitudinal study is carried out. Also this study had its limitations of being carried out in the organizations in Lahore if this study is carried out Pakistan wide it would be an important addition to the body of strategic management literature. Future research can further explore the mix of the fit between strategy making process and strategy substance. It could improve the performance of an organization if it is understood better what level of emphasis is put on the two dimensions of strategy making process and strategy substance e.g. what extent to prospect and what extent to defend and which strategy making process to select i.e. rational planning or logical incrementalism.
References


