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Daniel Ebner

# Formal and Informal Strategic Planning

The Interdependency between  
Organization, Performance  
and Strategic Planning



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Daniel Ebner

# Formal and Informal Strategic Planning

The Interdependency between  
Organization, Performance  
and Strategic Planning



**Springer** Gabler

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## Foreword

Die Forschung zum strategischen Management beschäftigt sich intensiv mit Planungskonzepten und der formellen Planbarkeit der zukünftigen Ausrichtung der Unternehmung. Üblicherweise wird angenommen, dass eine Strategie das Ergebnis eines formellen Planungsprozesses ist. Tatsächlich zeigt jedoch die Praxis, dass eine Vielzahl von Strategien eher zufällig oder durch informelle Prozesse entsteht. Neben der Diskussion um formelle und informelle Planungsprozesse ist ein wesentlicher Aspekt die innerorganisationale Koordination. Erneut wird zwischen streng formellen und informellen Koordinationsmechanismen unterschieden. Die Interaktion von Planung und organisationsinterner Koordination sowie deren Wirkung auf den Unternehmenserfolg sind, da empirisch und theoretisch noch wenig untersucht, hochspannend.

Daniel Ebner verfolgt mit seiner Arbeit das Ziel, diese Interdependenzen theoretisch zu argumentieren und empirisch zu untersuchen. Nach einer umfassenden Aufarbeitung der bestehenden internationalen akademischen Literatur, lassen sich klare Forschungsfelder erkennen. Erstens wird die Koexistenz formeller und informeller Planung sowie deren Wirkung auf den Unternehmenserfolg Großteils von der bestehenden Literatur ignoriert, zweitens ist die Umsetzung bzw. Koordination auf operativer Ebene als entscheidende Interaktion weitestgehend unbeachtet.

Auf Basis einer quantitativen Untersuchung mit 121 österreichischen Unternehmen, die eine operative Tätigkeit im Ausland aufweisen, werden die entwickelten Hypothesen getestet. Das Untersuchungsdesign entspricht den internationalen Standards. Neben der Entwicklung des Erhebungsinstruments, welche nach strengen wissenschaftlichen Kriterien erfolgt, testet Herr Ebner potentielle Verzerrungen um interne als auch externe Validität nachweisen zu können. Um die Hypothesen zu testen verwendet Herr Ebner OLS Regressionen und führt eine Moderationsanalyse durch.

Die Ergebnisse der Untersuchung bestätigen, dass ein paralleler Einsatz von formellen und informellen Koordinationsmechanismen und Planungsprozessen den Unternehmenserfolg am besten determinieren kann. Die Ergebnisse sind für die Praxis von hoher Relevanz, da erstmals unterschiedliche Mechanismen empirisch überprüft werden, die zeigen, dass Unternehmen auch „Über-

Formalisieren“ können. Für die weitere Forschung bietet die Arbeit ebenfalls zahlreiche Anknüpfungspunkte.

Es bleibt der Arbeit von Daniel Ebner zu wünschen, dass sie die breite und interessierte Leserschaft findet, die ihr zusteht.

*Dr. Florian Bauer*

## Profile of Institute

Das *Management Center Innsbruck (MCI)* ist integraler Bestandteil des in Österreich einzigartigen Konzepts "Offene Universität Innsbruck". Die Idee zur Gründung des MCI wurde Anfang der 1990er Jahre von der Universität Innsbruck im Zuge der baulichen Errichtung und inhaltlichen Weiterentwicklung der Sozial- und Wirtschaftswissenschaftlichen Fakultät geboren.

Das MCI begleitet motivierte Menschen, die ihre Zukunft durch zielgerichtete akademische Aus- und Weiterbildung aktiv gestalten wollen, in ihrer beruflichen und persönlichen Entwicklung.

Führungskräften und Nachwuchsführungskräften der unterschiedlichen Managementebenen und Branchen bietet das MCI Bachelor-Studiengänge, Master-Studiengänge sowie Executive Master-Studiengänge, Zertifikatslehrgänge, Seminare, wissenschaftliche Foren und maßgeschneiderte Firmentrainings.

Die am MCI vermittelten Inhalte umfassen wirtschaftlich und gesellschaftlich relevantes Wissen auf wissenschaftlichem Niveau und mit hoher Praxisrelevanz. Als international ausgerichtete Hochschule geht das MCI offen auf neue Perspektiven, Methoden und Aufgabenstellungen zu. Konstruktiver Dialog und das gemeinschaftliche Erarbeiten interdisziplinärer Handlungskompetenz zählen zu den tragenden Säulen des Lehrens und Lernens am MCI.

Als Unternehmerische Hochschule® fördert das MCI die Wettbewerbsfähigkeit von Organisationen und leistet einen Beitrag zur Professionalisierung von Wirtschaft, Verwaltung, Politik und Kultur. Angewandte Forschung & Entwicklung und die Förderung von Technologie, Innovation und Unternehmensgründung nehmen am MCI zunehmende Bedeutung ein, stärken den Wirtschaftsstandort und tragen zur Sicherung einer qualitätsorientierten Lehre bei.

Eingebettet in ein breites Netzwerk von Trägern, Förderern und Partnern ist das MCI wichtiger Motor in der Positionierung Innsbrucks, Tirols und Österreichs als Zentrum für wissenschaftliche Auseinandersetzung und internationale Begegnung.



Der synergetische Verbund mit der Universität Innsbruck, die Nähe zur lebendigen Innsbrucker Altstadt und die kraftvolle Architektur des Standorts sind Ausdruck für die Philosophie und den Auftrag dieses international wirkenden Hochschulzentrums.

# List of contents

<b>Foreword.....</b>	<b>V</b>
<b>Profile of Institute.....</b>	<b>VII</b>
<b>List of contents .....</b>	<b>IX</b>
<b>List of tables .....</b>	<b>XI</b>
<b>List of figures .....</b>	<b>XIII</b>
<b>List of abbreviations .....</b>	<b>XV</b>
<b>Abstract .....</b>	<b>XVII</b>
<b>1 Introduction.....</b>	<b>1</b>
1.1 Initial situation .....	2
1.2 Problem statement and objectives .....	3
1.3 Course of investigation.....	4
<b>2 Literature review .....</b>	<b>7</b>
2.1 Strategy formation.....	7
2.1.1 Strategy formation theory.....	10
2.1.2 The strategy formation process.....	12
2.2 Strategic planning .....	14
2.2.1 The strategic planning process.....	18
2.2.2 Formal and informal strategic planning.....	22
2.2.3 Strategic planning in a turbulent environment.....	28
2.2.4 Strategic planning in an international environment .....	32
2.2.5 Planning, plans and planners .....	35
2.3 Strategic organization and organizational structure .....	38
2.3.1 Organizational learning and strategic thinking .....	42
2.3.2 Organizational ambidexterity .....	44
2.3.3 Coordination mechanisms.....	47
<b>3 Research gap and current state of research.....</b>	<b>52</b>
3.1 Strategic planning .....	52
3.2 Coordination mechanisms .....	53
3.3 Research gap.....	54
<b>4 Hypothesis and model development .....</b>	<b>55</b>
4.1 Derivation of the structural research model .....	55
4.2 Hypothesis development .....	56

4.2.1	Strategic planning .....	56
4.2.2	Coordination mechanisms .....	58
4.3	Measures .....	60
4.3.1	Dependent variable .....	60
4.3.2	Independent variables .....	62
4.3.3	Moderating variables .....	63
4.3.4	Control variables .....	64
4.3.5	Measurement testing and summary of hypotheses .....	66
<b>5</b>	<b>Empirical study and results .....</b>	<b>67</b>
5.1	Methodology .....	67
5.1.1	Sample description .....	67
5.1.2	Data collection .....	68
5.1.3	Questionnaire design .....	70
5.2	Results of the empirical analysis .....	71
5.2.1	Descriptive statistics .....	71
5.2.2	Validation and potential biases .....	74
5.2.3	Evaluation of the structural research model and hypotheses .....	76
5.2.4	Summary and final structural research model .....	78
5.3	Discussion and conclusion .....	79
5.3.1	Conclusion .....	82
<b>6</b>	<b>Limitations and implications for future research .....</b>	<b>84</b>
6.1	Limitations .....	84
6.2	Implications for future research .....	86
	<b>References .....</b>	<b>89</b>
	<b>Appendix .....</b>	<b>109</b>

## List of tables

Table 1: 10 Schools of Strategy Theories .....	12
Table 2: Specific advantages of strategic planning .....	18
Table 3: Levels of environment turbulence .....	30
Table 4: Organizing framework for a global strategy .....	34
Table 5: Strategic planning levels .....	36
Table 6: Five basic forms of organizations .....	39
Table 7: List of the most common mechanisms of coordination .....	49
Table 8: Dependent variable – Corporate performance .....	62
Table 9: Descriptive statistics – DoI, Entry mode, Company size .....	72
Table 10: Descriptive statistics - Reasons for internationalization.....	73
Table 11: Descriptive statistics - Job position.....	74
Table 12: Means, Standard Deviations, and Correlations .....	76
Table 13: Results of regressing performance on strategic planning.....	77
Table 14: Summary of tested hypotheses .....	78

**List of figures**

Figure 1: Course of investigation..... 6

Figure 2: 5 Ps of Strategy ..... 13

Figure 3: Applied Strategic Planning Model ..... 20

Figure 4: Formal strategic planning process ..... 24

Figure 5: Structural relation of key variables ..... 55

Figure 6: Final structural research model..... 79

## List of abbreviations

approx.	approximately
CE	Central Europe
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMO	Chief Marketing Officer
Dol	Degree of Internationalization
ed.	Edition/Editor
eds.	Editors
e.g.	for example (Latin: <i>exempli gratia</i> )
et al.	and others (Latin: <i>et alii</i> )
etc.	et cetera
EM	Entry Mode
EU	European Union
EUR	Euro (currency)
GDP	Gross Domestic Product
m	Million
MCAR	Missing completely at random
MNE	Multinational enterprise
No.	Number
ns	not significant
pp.	pages
Qtr.	Quarter
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
VIF	Variance inflation factor
Vol.	Volume
VP	Vice President
w/o	without

## **Abstract**

Previous research focused either on the relationship between strategic planning and performance or coordination mechanisms and performance. Therefore, a conceptually and empirically validated understanding of the interaction between these three factors is limited. This thesis addresses this gap in the literature by delivering three contributions to theory and empirical research: firstly, by clarifying and proposing the influences of strategic planning and strategic organization on the performance; secondly, by developing a model and associated hypotheses on both direct and interaction effects of strategic planning and coordination mechanisms; and thirdly, by testing the hypotheses based on a sample of 121 Austrian companies that engage internationally.

Findings regarding strategic planning suggest the coexistence of formal and informal strategic planning activities. A higher degree of formal planning compared to informal planning has a positive and significant impact on corporate performance, whereas there is no significant relationship when formal and informal strategic planning are considered separately. Furthermore, results show that the relationship between strategic planning and performance is moderated by coordination mechanisms. A higher proportion of formal coordination mechanisms that outweighs the proportion of informal coordination mechanisms, weakens the relationship between strategic planning and performance.

This research thus clarifies and extends prior strategic planning research by indicating the conditions under which there is a positive impact on corporate performance. This thesis' theoretical contributions and empirical results prove for the interdependency between an organization's strategic planning, its organization, and its performance.

# 1 Introduction

Henry Mintzberg, one of the main thinkers and theorists in the field of strategic planning, concludes in one of his articles (Mintzberg, 1994a): "We human beings seem predisposed to formalize our behavior. But we must be careful not to go over the formalization edge. No doubt we must formalize to do many of the things we wish to in modern society. That is why we have organizations. But the experiences of what has been labeled strategic planning teach us that there are limits. These limits must be understood, especially for complex and creative activities like strategy making."

This thesis is going to examine these limits for strategic planning mentioned by Mintzberg. While in some organizations efforts are made to formalize the strategic planning process and to plan more formally, there is empirical evidence for a coexistence of formal and informal planning, namely for activities that fall outside the scope of a formal strategic planning concept. Either one is influenced and favored by different factors, such as the external environment, the industry, the size of the business, and the life cycle of the firm, among others. Generally a lack of formal planning procedures is not necessarily negative, and a high degree of formalization is not necessarily positive for an organization. Depending on the circumstances each approach has its benefits and downsides and should be in accordance with the overall strategy and the current conditions.

To integrate and implement strategic planning efforts, organizations make use of so-called coordination mechanisms. They are tools and facilitators to achieve integration throughout different units of organizations and can also be classified as formal and more informal mechanisms. The more complex the organizational structure, the more the demand for integration of the strategy and coordination of the individuals across different units increases, and the more intensively will be their application. This still does not mean that they are tools solely for complex and large companies; also small and simply structured firms make use of them. In addition to the strategic planning activities within organizations, this study will therefore also examine the coordination efforts of organizations, as well as their interdependency and their impact on the corporate performance.



## 1.1 Initial situation

A strategy can be formed by either central planning activities based on formalized processes or can emerge within the organization (Mintzberg *et al.*, 2003). From a more formal perspective, strategies are formed by rational analytical steps that include among others a mission statement, different analyses, and strategic control. This approach provides a normative outline for rational strategy formation processes (Andrews, 1987; Ansoff & McDonnell, 1988; Cohen & Cyert, 1973). From a more informal perspective, strategic emergence are patterns that evolve over time within the organization as a response to changing external conditions (Bower, 1982; Burgelman, 1983; 1996; Mintzberg, 1978; 1994a; Mintzberg & Waters, 1985). These two perspectives have often been considered as either/or choices dependent on the external environment, namely on stable and predictable or unstable and changing conditions (Mintzberg, 1990; Fredrickson & Iaquinto, 1989; Powell, 1992), and still influence the thinking among contemporary strategy scholars (e.g. Volberda & Elfring, 2001; Fredrickson, 1984; Mintzberg *et al.*, 2003). Several studies have stressed the importance of structure, comprehensive internal and external analyses, and emergent strategic initiatives (e.g. Eisenhardt, 1989; Eisenhardt & Martin, 2000; Caves, 1980; Davis *et al.*, 2009), while Mintzberg (1978) even suggested that "the study of the interplay between intended and realized strategies may lead us to the heart of this complex organizational process".

Therefore a central objective of strategic management research is to gain new knowledge and a better understanding concerning the impact of strategy on the performance of an organization (Wiersema & Bowen, 2011). Strategic management literature generally suggests that strategic planning activities allow a company to outperform rival companies and to have a positive impact on corporate performance (Steiner, 1997). Before researchers started to examine this field of interest, and even during the early years of research, organizations had to take this assumption on faith (Hofer, 1976). The first empirical test on the relationship between strategic planning and performance was conducted by Thune & House (1970). They found that there was a highly positive relationship between planning activities and the corporate performance, and thereby confirmed many organizations' aspirations about the profitability of strategic

planning. This study was followed by many other studies and empirical tests examining the very same relationship. Unfortunately, as Boyd (1991) wrote, "this larger body of research is less clear and less encouraging, than Thune and House's original findings". While some studies confirmed this findings and reported positive benefits of planning (e.g. Rhyne, 1986; Hopkins & Hopkins, 1997; Berry, 1998; Andersen, 2000; Brinckmann *et al.*, 2010), many studies were without result or ambivalent (e.g. Kallman & Shapiro, 1978; Shrader *et al.*, 1984; Falshaw *et al.*, 2006; Rudd *et al.*, 2008), and others even found a negative impact (e.g. Kudla, 1980; Fredrickson & Mitchell, 1984). Several meta-analyses and reviews examined this body of empirical studies to work towards integrating these findings (e.g. Armstrong, 1982; Pearce *et al.*, 1987; Boyd, 1991; Miller & Cardinal, 1994; McIlquham-Schmidt, 2011). They criticized a number of shortcomings, such as research problems, inconsistent and contradictory empirical support, lack of clarity of the definition of the main concepts involved, or different measurement of variables.

Only a few studies, however, had the relationship between the integration of different strategy-making modes and performance as their focus (e.g. Hart, 1992; Hart & Banbury, 1994; Andersen, 2000; 2004). Consequently further research of the relationship between strategic planning, the integration of strategy, and the corporate performance, across industries and international business environments is needed to fill this gap. Additionally, a conceptual and empirically validated insight on a combined view of strategic planning efforts, their integration and implementation through coordination mechanisms, and their impact on an organization's performance, is scarce. To further enlighten the understanding and to contribute to this issue theoretically and empirically, the author develops and tests hypotheses not only about the relationship between strategic planning and performance but also about their interaction effects on the corporate structure.

## **1.2 Problem statement and objectives**

This thesis seeks to examine three scientific issues of research that comprise ambiguities and unresolved questions. Firstly, the relationship between strategic planning and corporate performance will be examined. To be more specific, the influence of formal and informal strategic planning efforts on the performance

will be put into focus. Secondly, the author addresses the coexistence of formal and informal strategic planning. While many studies focus either on only one of these two or consider them separate from each other, this study investigates their interplay and consequently their impact on corporate performance. And thirdly, this study adds a third dimension to the first research question. Beside the strategic planning and the performance of an organization, the corporate organization measured by coordination mechanisms will be included in this investigation. In doing so, this thesis seeks to examine the relations of this triumvirate, namely the reciprocity between formal and informal strategic planning activities, formal and informal coordination mechanisms, and the corporate performance.

The problem statement is therefore defined as follows: Is there a relationship between strategic planning, the corporate organization, and the organization's performance? And if so, how do they interact with each other?

To sum up, this study aims at delivering three contributions to the literature on strategic planning and strategic organization. Firstly, by clarifying and proposing the influences of strategic planning and a corporate organization on corporate performance, through integrating insights from previous studies. The second contribution is made by developing a model and its related hypotheses on both direct and interaction effects of strategic planning and coordination mechanisms on corporate performance. More specifically, the interdependency between the strategic planning activities, the organizational structure, and the corporate performance will be investigated. And thirdly, by testing the hypotheses based on a sample of 121 companies. For this purpose, Austrian organizations engaging internationally were surveyed, as this thesis seeks to contribute to the understanding concerning strategic planning and coordination mechanisms in an international environment, regardless of their size and industry. Thereby the author seeks to increase generalizability of the findings further.

### **1.3 Course of investigation**

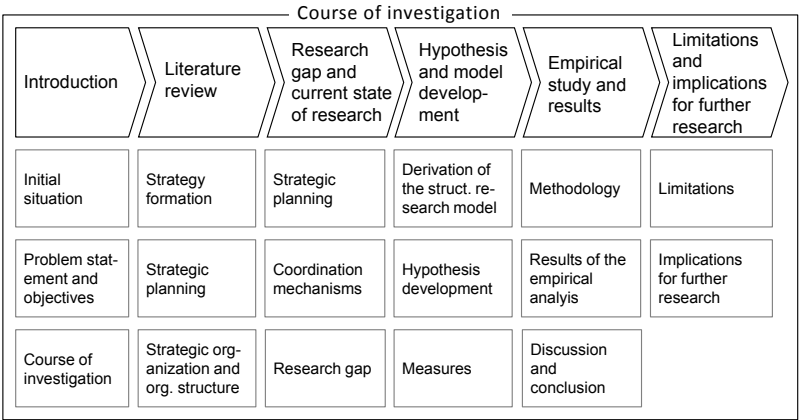
Marcus Tullius Cicero said: "Before beginning, plan carefully". Writing a paper like the one at hand also needs to be planned. For every strategy there is a purpose and a goal. In the present case it is examining the reciprocity between

strategic planning, corporate organization, and an organization's performance, to finally develop new findings. Based on this goal and before taking action, a plan has to be developed on how to achieve it in the most suitable way. A plan, that bridges the gap between the current state and the desired state (as will be discussed later in the literature review); the gap between starting this piece of work with an introduction and finishing it with new findings and giving recommendations for further research. The plan includes many different elements, such as existing literature and studies, an empirical part and data collection based on a survey, the analysis of the collected data, a final research result and a conclusion. All these elements have to be structured logically to form the base for giving insight into this field of research and acquiring new knowledge.

The structure of this thesis is made up of six chapters and each one is divided into subchapters. While the first three parts relate to existing and current research, the remaining three chapters work towards new valuable insights and new scientific knowledge. The first part forms the current chapter, the introduction. It explains why it is exactly this topic that is going to be examined, what the problem definition and the objectives are, and gives furthermore a very short overview of the topic of this thesis. Chapter 2 is the literature review. This part serves as a theoretical basis for the following chapters by explaining the main concepts and theories related to the main topics, which are going to be examined later on. It provides the reader with an overview of relevant fields of interest and with details about the existing knowledge, that are most important for understanding the research questions and everything that is related to it. The following chapter 3 is a rather short part of this thesis, bridging the existing research and theory with what is going to be examined to gain new knowledge and findings. It gives a summary on the current state of research in the fields of interest and explains why there remains a gap that is going to be examined afterwards.

Chapter 4 starts off with working towards the generation of new findings and the examination of the present research question. A structural research model will be derived upon the development of hypotheses and key variables, which form the base for the research and analysis that follows in the next two chapters. It forms the core of the research of this paper that enables the following practical

execution to collect and analyze data. Chapter 5 deals with the empirical study and results of the present research. This part will add the demanded value to this paper by revealing new findings and conclusions. Outcomes of the statistical analysis will be discussed and explained. The reader is provided with new knowledge and the answer of the scientific research question. The last chapter completes this thesis by showing possible limitations of this study and giving implications for further research.



**Figure 1: Course of investigation**  
Source: Author's illustration

After the introduction, follows chapter 2: the literature review. This part forms the theoretical base for this piece of work and provides an overview of the relevant issues and a detailed view of the topics that are essential for the understanding and the further development of the present research.

## 2 Literature review

“What are strategies and how are they formed in organizations?” Mintzberg (1978) asks in one of his articles. This chapter will respond to this question and give insight into topics related to strategy, strategy formation, strategic planning and strategic organization. It will provide the reader with the fundamental knowledge essential to understand the scientific course of this thesis. Past and current research findings and studies were selected carefully and are going to be reviewed and intertwined to a comprehensive summary of the most relevant issues.

The literature review is divided into three parts, which are again split up into subchapters, discussing and defining the most important aspects in the fields of interest of this study. The first part is concerned with strategy formation (see 2.1 Strategy formation). After a short introduction to strategy in general and strategic management, the *10 Schools of Strategy Theory* will be presented as well as Mintzberg's *5 Ps for Strategy Model*, as one example of the formation of strategies. The second part deals with strategic planning and related issues (see 2.2 Strategic planning). After a definition and general information, the strategic planning process is going to be explained as a base for the subchapters. Formal and informal strategic planning is put into focus and consequently strategic planning in different environments will be reviewed. Information about planning, plans and planners completes this second part of the literature review. The third part focuses on a company's strategic organization and structure (see 2.3 Strategic organization and organizational structure). After an introduction to organizational learning and how to think strategically, the concept of organizational ambidexterity is going to be explained. Insights on coordination mechanisms conclude this literature review. After reading this chapter, the reader will be able to understand the key issues of this piece of work and thus follow the further scientific investigation.

### 2.1 Strategy formation

At the beginning it is probably a good idea to talk first about strategy. Strategy is a widely used term. For the purpose of this piece of work, we will concentrate only on strategy in the field of business. It is necessary, however, to mention

that all kinds of strategy derived from military strategy. The concept of strategy dates back a long time ago, when the Chinese military general Sun Tzu is believed to have written his book "The Art of War", describing military strategies and tactics (Tzu, 1963; Mintzberg, 1994b; Cherp *et al.*, 2007). Consequently the word "strategy" has been in use for a long time and has also been used in different ways. One of the most influential people in the field of strategy and strategic planning, Henry Mintzberg, criticizes, that most definitions of what strategy really is, are too easy and lack comprehension (Mintzberg *et al.*, 1998). He argues that strategy requires a number of definitions, that is to say five definitions, the so-called *5 Ps for Strategy* (see 2.1.2 The strategy formation process) (Mintzberg, 1987a; Mintzberg *et al.*, 1998).

Nevertheless, Mintzberg (2003) tried to come up with one comprehensive definition of what strategy is, namely "a pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and noneconomic contribution it intends to make to its shareholders, employees, customers, and communities..."

Due to an increasing environmental volatility and uncertainty (see 2.2.3 Strategic planning in a turbulent environment), the following impacts on organizations' strategic planning systems and strategy formation suggested by several studies: (1) Redistribution of strategic planning decision making authority, (2) Shorter planning horizons, (3) Less formality of planning processes, (4) A shift from detailed planning to strategic direction, and (5) Increased emphasis on performance planning (Grant, 2003).

(1) *Redistribution of strategic planning decision making authority*: Studies have shown that a turbulent environment encourages decentralization of strategic decision making authority from corporate to business level and reduces the role of staff planners compared to that of line managers (Lindsay & Rue, 1980; Grinyer *et al.*, 1986; Wilson, 1994). (2) *Shorter planning horizons*: As strategic planning is based on predictions, uncertainty about the future should shorten the planning horizon. While certain studies found no relationship between plan-

ning time spans and environmental stability (Lindsay & Rue, 1980; Javidan, 1984), Kukalis (1991) examined that in unpredictable markets with high levels of innovation and competition the planning horizons were comparably shorter. (3) *Less formality of planning processes*: Based on organizational theory, less stable environments demand less bureaucratization and more flexible decision making (Courtright *et al.*, 1989). Formality concerning the strategic planning process manifests itself in fixed timescales for the planning cycle, use of standardized methodologies, extensive documentation and written reports, and deployment of planning specialists. Kukalis (1991) observed that increasing change in the external environment causes an increase in the flexibility of planning practices; and Wilson (1994) showed that external instability led to greater informality. Contrary Lindsay & Rue (1980) pointed out that organizations tried to counteract uncertainty and unpredictability with greater planning efforts. (4) *A shift from detailed planning to strategic direction*: An increase in environmental turbulence did not only result in less formality and rigidity of the planning process, but also in less exactness and greater flexibility in the content of strategic plans. Instead of detailed plans of action, commitment to certain projects and resource deployment, the focus changed to more broadly defined goals. Organizations emphasize vision and mission statement to communicate and guide their strategies, and thereby create commitment to their long-term strategic intent and strategic goals (Grant, 2003). (5) *Increased emphasis on performance planning*: The organizations shifted their focus away from specific strategic decisions and forecasts towards performance targets. These targets might include financial targets, operating targets, safety and environmental targets, strategic milestones, and capital expenditure limits. Short-term profit targets were combined with strategic and operational targets in consistency with building longer-term competitive advantage measured by operational targets or strategic milestones (Grant, 2003; Brown & Eisenhardt, 1997).

Inside the company one can distinguish between two kinds of management: strategic management and operational management. Strategic management is what is done at the top of the organization's structure; everything else can be labeled as operational management. Nevertheless, both are linked strongly with each other. Strategic management sets the framework and guidance for the operational management. Strategic management and strategic planning there-



fore focus more on strategy than on operations (Steiner, 1997; Goodstein *et al.*, 1993). We can also find two types of important decisions within an organization, that is to say strategic decisions and strategically driven decisions. Making strategic decisions is a function of top and executive management, even one of the most important ones. They have to ensure that strategically driven decisions are implemented and applied properly. This process of the execution of a strategic plan is what we call strategic management; the day-to-day implementation of the strategic plan. Top management must be clear about, united and committed to their strategy. This commitment is one of the crucial factors in the implementation of strategy (Goodstein *et al.*, 1993).

The managerial emphasis in most organizations was once on operations and operational management. The main question used to be how to use scarce resources to produce goods and services, meeting the price range of consumers, which was supposed to consequently lead to profit maximization. This has changed over time. The efficient use of scarce resources is still an important issue for organizations, but due to turbulent and fast changing environments, it is vital for organizations to adapt properly to the internal and external environment (Steiner, 1997). With an appropriate strategy, a company can overcome inefficient use of resources. With the imperfect strategy, however, even a very good production and distribution performance is usually not sufficient. Ideally a company can design excellent strategies and implement them effectively and efficiently. Leadership and strategy are dealing with effectiveness, while management's responsibility is efficiency (Steiner, 1997; Ackoff, 1993). Leaders traditionally focus on effectiveness, on doing the right things, while managers concentrate on doing things right. Both topics are important and organizations can improve if focusing on the "right" issues (Ackoff, 1993).

### **2.1.1 Strategy formation theory**

In many organizations the framework for the formation and the implementation of strategies is a formal strategic planning system. Strategy does not necessarily have to be formulated through a formal system; formulation and implementation can be done to some extent or totally informal as well (Steiner, 1997). In a complex organization it is tremendously challenging, if not impossible, to plan and coordinate the process of strategy formation throughout the whole or-

ganization. It is almost impossible to put together all the information, such as internal decisions, the external environment, power relationships, technical and informational needs, information about competitors, and organizational behavior, at a precise moment (Quinn, 1978; Mintzberg, 1990).

Unlike suggested by Mintzberg (1990), explaining that managers are either totally sure or unsure about the future, however, these two extremes are rarely observable in the real business world (Schwartz, 1996; Ansoff, 1991). Especially in environments in which it is hard and challenging to predict the future, explicit strategy formulation is used to compensate for the unpredictability (Steiner & Schöllhammer, 1975). Assumptions, that the future will be just an extrapolation of the past, are too dangerous and can be overcome by precisely formulating a strategy (Ansoff, 1991).

There are altogether ten schools of strategy theories that seek to explain the 5 Ps and their correlations, which are classified and summarized in Table 1. Each of these schools has its own perspective on strategy and the strategy process and can be scaled into three groups: the first three schools are of a *prescriptive* nature, the following six schools are concerned with *describing* how strategies are made, and the remaining group being a hybrid is called *configuration* (Cherp *et al.*, 2007; Mintzberg, 1987a; Mintzberg *et al.*, 2003). It is important to add that various relationships do exist among the different definitions, and neither one relationship nor any single definition obtains priority over the others. Some of the definitions might be substitutes for each other or even a complement for each other. Not all plans are patterns, not all patterns are planned. Some strategies are more than positions and less than perspectives, and vice versa (Mintzberg, 1987a).

Summing up, there exist ten schools of thought, which represent ten different approaches to strategy formation. The relationships between them are varied. Some of the schools have their preferences, for example plan in the planning school, position in the positioning school, or pattern in the learning school. Although there may not be one simple and true definition of what strategy is, there are some general areas of agreement about the nature of strategy (Mintzberg *et al.*, 1998).

The 10 Schools of Strategy Theories	
Design school	Strategy formation as a process of conception. Strategy is a unique planned <i>perspective</i> conceived by senior leadership based on an ad hoc analysis of external and internal factors.
Planning school	Strategy formation as a formal process. Strategies are <i>plans</i> decomposed into programs resulting from formal planning procedures.
Positioning school	Strategy formation as an analytical process. Strategies are planned generic <i>positions</i> but also <i>plays</i> to defeat competitors. Positions are based on detailed analysis of markets and industry structures. Highly integrated corporate activity systems support focus on selected positions.
Entrepreneurial school	Strategy formation as a visionary process. Strategies are personal <i>perspectives</i> of visionary leaders conceived largely intuitively and adjusted when necessary.
Cognitive school	Strategy formation as a mental process. Strategies are mental <i>perspectives</i> reflecting 'constructed reality' in leaders' minds.
Learning school	Strategy formation as an emergent process. Strategies are unique <i>patterns</i> , constantly evolving as a result of learning by leaders and others in an organization.
Power school	Strategy formation as a process of negotiation. Strategies are political <i>patterns</i> and <i>positions</i> as well as <i>plays</i> . The micro-power school emphasizes internal politics as the basis for a strategy. The macro-power school considers strategy as a negotiated position and a play to defeat competitors.
Cultural school	Strategy formation as a collective process. Strategies are collective <i>perspectives</i> reflecting dominant ideologies, collective cognitive maps and narratives.
Environmental school	Strategy formation as a reactive process. Strategies are specific <i>positions</i> (ecological niches) developed as a result of evolutionary adaptations of organizations to ever changing and uncontrollable external circumstances.
Configuration school	Strategy formation as a process of transformation. Strategies can be formed by different processes depending upon the internal and external context (or stage in an organization's evolution).

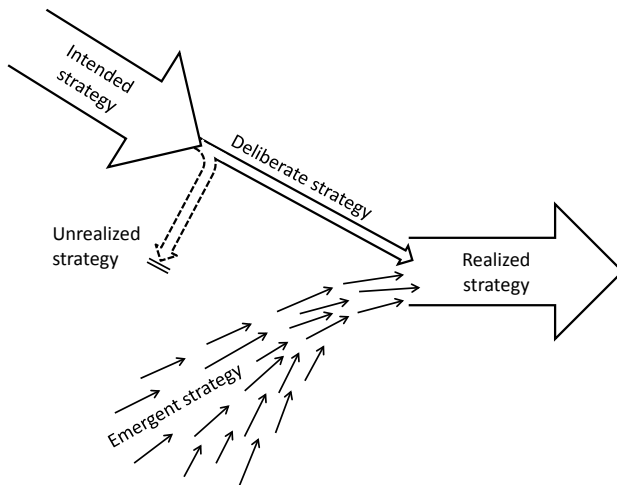
**Table 1: 10 Schools of Strategy Theories**

Source: Cherp *et al.*, 2007; Mintzberg *et al.*, 1998; Mintzberg *et al.*, 2003

### 2.1.2 The strategy formation process

Strategy formation can be made implicitly or explicitly. As already discussed, many different theories and schools of strategy theories exist. While many thinkers in this field suggest an explicit strategy formation as the most promising approach, Mintzberg and his design school model of strategy formation suggest an implicit strategy formation approach. He states that no formal strategic planning is used within an organization and that strategy should not be made explicitly, except under special circumstances. Mintzberg especially stresses the "emergent strategy", based on a trial and experience process, which he describes in his *5 Ps for Strategy Model* (Mintzberg, 1990; 1987a; Ansoff, 1991).

Asking someone for a definition about strategy, it is most likely that the answer will be that strategy *is a plan* or something similar; a plan to get from the current state to a projected state in the future, a defined goal and a guide to get there. This implies two essential characteristics about strategies: they are made in advance based on predictions and assumptions, and they are developed consciously and purposefully (Mintzberg *et al.*, 1998; Mintzberg, 1994b). Comparing this intended strategy with the strategy actually pursued over the past few years, there will be a difference between the intended strategy and the realized strategy. Strategy, therefore, *is a pattern*, looking at the behavior and performance in the past. It results from actions, not designs (Cherp, Watt, & Vinichenko, 2007). Companies develop strategies for the future and also evolve patterns out of their past (Mintzberg, 1987a).



**Figure 2: 5 Ps of Strategy**

Source: Author's illustration upon direct adoption from Mintzberg, 1987a

At the beginning we have the *intended* strategy, as shown in Figure 2. Parts of these intentions that are not realized are the so-called *unrealized* strategies. The *realized* strategy consists of the *deliberate* strategy, which contains the realized intentions, and of the *emergent* strategy, where patterns realized were not expressly intended.

Deliberate strategies are not necessarily positive and emergent strategies are not necessarily negative for an organization. Effective strategies have a combination of both, emergent and deliberate strategy, since all kinds of strategies combine some degree of flexible learning and some degree of control (Rea & Kerzner, 1997; Mintzberg, 1994a).

Completing the 5 Ps, strategy *can be a ploy*, a specific plan to outmaneuver an opponent or competitor; it *is a position*, meaning the positioning of an organization in the so-called environment or particular products in particular markets (strategy looks outside the company); and it *is a perspective*, taking into consideration its perception of the world, what is inside the heads of its strategist and the vision of the company (strategy looks inside the company) (Mintzberg, 1987a; Mintzberg *et al.*, 1998).

Mintzberg stresses especially what he calls the “emergent strategy” formation process, based on “trial and experience”. According to him, formulating an explicit strategy is more or less impossible in unpredictable environments, before the process of trial and experience has run its course. This process can be seen as a logical pattern of a historical sequence of successful trials (Mintzberg, 1990). This use of trial and error, however, might be tremendously expensive (Ansoff, 1991). For Mintzberg (1990) a company “has to make a number of mistakes until it gradually learns what works for it, if it ever does”, meaning that patterns of successive failures are automatically transformed into a successful instruction. This is contradicted by Ansoff (1991), who suggests that “repeated mistakes are [is] not a valid basis for recommending that others should follow the same path”.

## 2.2 Strategic planning

*“If you are failing to plan, you are planning to fail.”*  
(Tariq Siddique)

Drucker (1954) explained the strategic planning process as “the task of thinking through the mission of the business, that is, of asking the question ‘what is our business and what should it be?’ This leads to the setting of objectives, the development of strategies and plans, and the making of today’s decisions for tomorrow’s results. This clearly can be done only by an organ of the business that

can see the entire business; that can make decisions to affect the entire business; that can balance objectives and the needs of today against the needs of tomorrow; and that can allocate resources of men and money to key results.” Hopkins & Hopkins (1997) relate their definition of strategic planning to the strategy itself: “Strategic planning can be described as the process of using systematic criteria and rigorous investigation to formulate, implement, and control strategy, and formally document organizational expectations.”

Goodstein *et al.* (1993) define strategic planning as “the process by which the guiding members of an organization envision its future and develop the necessary procedures and operations to achieve that future.” This future state, the vision of the organization, provides both a direction in which the organization is supposed to move and the motivation to begin this move. It is important to add that this process must not be confused with long-range planning since this is usually simply an extrapolation of the current state and business trends. Especially when mixing strategic planning with strategic thinking, organizations and their leaders might confuse vision with quantitative analysis. Successful strategies, however, are visions and not plans (Goodstein *et al.*, 1993; Mintzberg, 1994b). Most planning processes are long-range plans rather than strategic plans. These long-range plans are made in the assumption that the future can be extrapolated from the past and the present. As this might work in certain cases, in general there will be significant, unforeseeable changes in the future that make an extrapolation pointless. A genuine strategic plan, therefore, should include a consideration of a variety of futures and develop different options to meet these different scenarios (Goodstein *et al.*, 2008).

The strategic planning process does not just plan for the future; it also “helps an organization to create its future” (Goodstein *et al.*, 1993). Envisioning the future is more than just anticipating it and preparing accordingly. It also means believing that some aspects of the future might be influenced and even changed by what an organization is doing now. Strategic planning is still more than just envisioning the future. It sets clear goals and objectives and how to reach them within a specified period of time. The targets must be realistic, objective and attainable, and have to be developed with the background of the designed and desired future state in mind. By doing so, they provide guidelines for all day-to-

day managerial decisions and should provide an organization with its core priorities (Goodstein *et al.*, 1993).

Strategic planning needs to answer three basic questions for an organization: Where are we going? What is the environment? How do we get there? Without any direction, the organization is drifting away from reaching its goals. Without knowing itself and its environment, it is exposed to threats and might miss opportunities. Without being aware of how to reach its goals and how to allocate the resources, the organization cannot enable the specific measures to reach the specific objectives. Therefore strategic plans should have an impact on day-to-day decisions and on the actual running of an organization (Gup, 1979; Goodstein *et al.*, 1993).

Top Management is mainly responsible for the strategy; strategic planning, however, is the function and responsibility of managers at all levels in an organization. Their involvement may vary significantly among different levels in this organization, their tasks and responsibilities and the type of organization itself (Steiner, 1997). The CEO is not, as often assumed, the only strategist within an organization. The CEO is, however, the initiator and maintainer of the development and operation of a strategic planning system. He or she (or a group of executives) is the person with the most influence within the organization and with the authority to make decisions and manage the business. CEOs have to understand that strategic planning is their responsibility and that they have to establish a climate in favor of strategic planning. They have to make sure that the design of the planning system is suitable to match the unique characteristics of the organization. (Andrews, 1987; Steiner, 1997).

McIlquham-Schmidt (2011) conducted a meta-analysis examining 88 individual studies concerning the relationship between strategic planning and corporate performance. His findings suggest that strategic planning does have a positive effect on the performance of an organization and confirm already existing management literature and other meta-analyses (Boyd, 1991; Miller & Cardinal, 1994; Capon *et al.*, 1994; Schwenk & Shrader, 1993): Strategic planning results in a better match between internal organizational conditions and external environment variables. Through this match the organization's vision and goals are

realigned with its strategies and thereby improve the long-term performance of the company (McIlquham-Schmidt, 2011; Camillus, 1975; Ansoff, 1979).

Strategic planning is no longer the bureaucratic top-down process it used to be and is sometimes even the primary way to make strategic decisions. It focuses rather on the internal communication, integrating different capabilities, and coordinating activities inside an organization, than the resulting strategy (Hutzschenreuter & Kleindienst, 2006; Grant, 2003). As already mentioned before, there is evidence that strategic planning has a positive effect on the performance of an organization. Moreover, it leads to more efficient decision making, enhances the communication inside and outside the company, and contributes to the optimization of the organization (Brinckmann *et al.*, 2010).

Furthermore, literature provides several specific advantages. They can be classified into process advantages and personnel advantages as shown in Table 2. The advantages and the importance of strategic planning are at hand. The value of strategic planning, however, might be diminishing over time. If all companies plan ahead, strategic planning would no longer be considered as a competitive advantage but rather a competitive necessity (Powell, 1992). Maintaining or creating a competitive advantage depends to a large extent upon strategic innovation. Especially informal strategic planning systems (see also 2.2.2 Formal and informal strategic planning) offer the potential for developing innovative strategies (Grant, 2003).



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### Specific advantages of strategic planning

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#### Process advantages

- The identification and exploitation of future marketing opportunities
- Awareness of strengths, weaknesses, opportunities and threats
- An objective view of management problems/awareness of problems
- The provision of a framework for the review of a plan execution and control of activities
- Minimization of effects from adverse conditions and changes
- Major decisions can be related more effectively to established objectives
- More effective/systematic allocation of time and resources to identified opportunities
- Provision of co-ordination of the execution of the tactics of the plan
- Allowing for the combination of all functions into a combined effort
- Better information and communication inside the organization
- Lessening of resources and time needed to correct erroneous ad hoc decisions
- Creation of a framework for internal communication between personnel
- The identification of priorities within the timing of the plan
- The utilization of planning provides an advantage over competitors
- Creation and maintenance of an organization-environment alignment
- Better alignment and financial results than a process of trial-and-error learning
- Serves for coordination and control

#### Personnel advantages

- Helps to integrate the behavior of individuals in the organization into a team effort
- Faster and better decision making
- Provides a basis for the clarification of individual responsibilities, contributing to motivation
- Encourages forward thinking on the part of personnel
- Cost savings
- Stimulates a cooperative, integrated and enthusiastic approach to tackling problems and opportunities/ability to explore more alternatives
- Encourages a favorable attitude to change and helps to understand business processes
- Gives a degree of discipline and formality to the management of business function that would not exist without planning
- More timely information and more accurate forecasts

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#### Table 2: Specific advantages of strategic planning

Source: McIlquham-Schmidt, 2011; Ansoff, 1991; Armstrong, 1982; Al-Bazzaz & Grinyer, 1980; Ang & Chua, 1979; Loasby, 1967

### 2.2.1 The strategic planning process

*"I have not failed. I've just found 10,000 ways that won't work."*

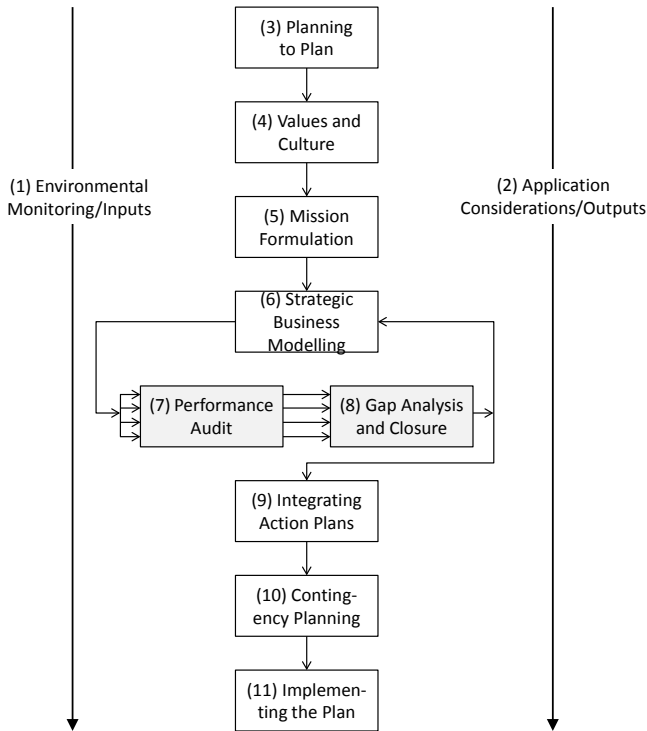
*(Thomas Alva Edison)*

The strategic planning process consists of three main components: formulation, which provides developing a mission, setting major goals, assessing the internal and external environment, evaluating and selecting strategy alternatives; im-

plementation of the strategy; and control (Hopkins & Hopkins, 1997; Armstrong, 1982). There is no such thing as *the* strategic planning process or system, that every organization should implement and use. Every strategic planning system has to be designed to fit and consider all of the different characteristics of a certain organization. Since every organization varies in its characteristics and is somewhat unique, also its planning systems vary (Steiner, 1997).

Goodstein *et al.* (2008) developed a comprehensive approach to strategic planning with their *Applied Strategic Planning Model*. They define strategic planning as “the process by which the guiding members of an organization envision its future and develop the necessary procedures and operations to achieve that future” (Goodstein *et al.*, 1993). Because of its comprehensiveness their model was chosen in this piece of work to serve as an example for a strategic planning process. This model is similar to other models built on best practices; it differs, however, in a number of major aspects. Firstly and most importantly, is the process itself that makes the management actually work together to create the strategies themselves. Secondly, it stresses the importance of learning how to think strategically (see also 2.3.1 Organizational learning and strategic thinking), as strategic thinking builds the foundation of strategic planning. Another key difference is the continual emphasis on the direct application of findings, emerging out of the planning process to the operations of an organization instead of waiting for a final plan being adopted. Furthermore the model emphasizes the identification and clarification of personal and organizational values as well as the resulting organizational culture as basis for decision making. Another focus lies on the creative envisioning of the desired future state (Goodstein *et al.*, 2008).

The Applied Strategic Planning model, as shown in Figure 3, consists of nine sequential steps accompanied by two continuous steps, the environmental monitoring (inputs) and application considerations (outputs).



**Figure 3: Applied Strategic Planning Model**

Source: Author's illustration upon direct adoption from Goodstein *et al.*, 2008

Based on this illustration, hereinafter follows a brief description of each step of the model by Goodstein *et al.* (2008):

(1) *Environmental Monitoring (inputs)*: Managing input from inside and outside the company. Most organizations fail to provide a forum for individual members to surface observed information. All the information and knowledge has to be understood in an organizational context. (2) *Application Considerations (outputs)*: The implementation of corrective actions and responding to possible threats and opportunities, based on what has been learned through the environmental monitoring process. It is the organizations immediate response to important information in general, rather than waiting for the completion of the whole planning process. (3) *Planning to Plan*: The organization has to be ready and committed to engage in such a planning process. It has to be clarified

whether the culture of the organization supports a planning process, who should be engaged, how and when the process should be initiated, and what the time frame looks like. One of the most important aspects is to choose the planning group, namely those people being actually and directly involved in the planning process. (4) *Values and Culture*: All personal and also organizational decisions are based on the values of decision makers to a certain degree. One of the important aspects of the *Applied Strategic Planning Model* is that it pays attention to reveal and make public the values held by decision makers within an organization, and their influence of these values on the organizational culture. (5) *Mission Formulation/Clarification*: The development of the shared future state for the organization leads to drafting a mission statement. It should answer four questions: What business are we in? What customer needs are we meeting? What are we going to do to meet customer's needs? What are our values and basic societal needs? The purpose is to clarify the organization's future direction, provide communication to the stakeholders, and reflect the distinctive competences of the organization. (6) *Strategic Business Modeling*: The definition of the vision of the ideal and desired future state in tangible, measurable tools. It is a specific, detailed plan with procedures that will lead the organization towards the envisioned future and specifications on how to fulfill the mission as defined one step earlier. The plan includes definition of measurement and milestones, as well as how the organizational structure and culture has to change and adapt. The strategic business modeling calls for high creativity as the ideal future for the organization has to be described. (7) *Performance Audit*: As a next step the attention must be put on a detailed examination of the present state of the organization through an objective, unbiased performance audit. This includes a screening of how well the organization is performing in conducting the current business plan to determine the organization's capacity to realize its envisioned future. (8) *Gap Analysis and Closure*: As determined in the steps before, the gap between the desired future state and the current capacity of an organization provokes the question, if the desired future is achievable and how the gap between this state and the present condition of the organization can be bridged or closed. (9) *Finalizing Strategic Direction/Integrating Action Plans*: This step is about reviewing the outcomes of the former steps and either finalizing the strategic direction or going back a few steps in the planning process.

Before any strategic plan can be implemented, it needs fairly specific and detailed operational plans. These plans have to be integrated across the entire organization and also within each of the functional operations together with time lines and control processes. (10) *Contingency Planning*: The two main aspects of this step are probability and impact. They are based on the assumption that the basic strategic plan involves the scenario with the most promising probability for successful implementation. There are, however, always other high-impact scenarios and events that are less likely to occur compared to the one with the highest probability. The strategic plan should provide the possibility to be re-examined and changed if necessary. (11) *Implementing the Plan*: The strategic plan has to be put into action and should serve as a template the managers base their decisions on. The process of implementation should start with one or more action steps as intended in the strategic plan. This might include restructuring of the organization or the management or launching of new products or services. It should be accompanied by a clear statement that this is the commencement of moving towards the desired future state of the organization.

The *Applied Strategic Planning Model* is just one example of a variety of different models for strategic planning. The author of this thesis has chosen this one because it seems to be a comprehensive model that takes into consideration many important aspects of the strategic planning process. The next chapter will discuss if strategic planning always has to be made explicitly or if it might be better to not plan explicitly under certain circumstances.

### **2.2.2 Formal and informal strategic planning**

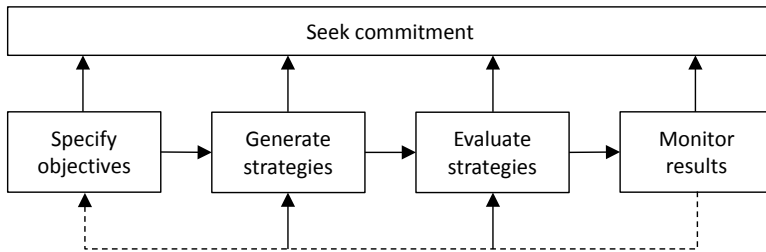
*"Reduce your plan to writing. The moment you complete this, you will have definitely given concrete form to the intangible desire."*

*(Napoleon Hill)*

While the correlation between strategic planning and performance has received greater attention in recent surveys and research, the effect of different types of planning needs further research. Strategic planning is mostly described as a continuum between no planning on one side and well-established, formal planning processes, on the other side (Brinckmann *et al.*, 2010; Robinson Jr. & Pearce, 1984; Schwenk & Shrader, 1993).

Formal strategic planning is described as an organizational process that can be defined as "the process of determining the mission, major objectives, strategies, and policies that govern the acquisition and allocation of resources to achieve organizational aims" (Pearce *et al.*, 1987). A formal planning system is developed and based on a set of procedures. Usually, many people are involved and they are provided with guidelines and instructions that explain "who is going to do what and when and what will happen with the information". The outcome is regularly a written set of plans according to Steiner (1997). He believes that if an organization is managed and led by intuitive geniuses there is no need for formal strategic planning. He admits, however, that most organizations are not "so blessed". And even if they are, it does not necessarily mean that intuitive decisions are always correct. Put simply, formal strategic planning is duplicating what is on the intuitive planner's mind. A formal planning process, however, cannot really be effective if not managers at all levels contribute their judgments and intuition to the planning process. A planning process will just be as ineffective if top managers reject it in favor of their own intuition. Although managers will have different thought processes and ways of thinking, the design of a formal planning system must be understood and reflected by them to work properly and be successful (Steiner, 1997).

Formal strategic planning demands an explicit process that sets the organization's long-range objective, procedures for developing and evaluating alternative strategies, and a system to monitor and control the results of the plan after implementation. It is essential to use a systematic procedure during the whole strategic planning process to gain commitment of all the members of an organization that are affected by the plan (Armstrong, The value of formal planning for strategic decisions: Review of empirical research, 1982). This formal strategic planning process is summarized in Figure 4 and described below.



**Figure 4: Formal strategic planning process**

Source: Author's illustration upon direct adoption from Armstrong, 1982

*Specify objectives:* The specification of goals is one of the major aspects of formal planning. They should be written clearly, be challenging and focus on the ultimate objectives for the organization. These ultimate objectives should then be translated into specific measurable objectives. Since many objectives involve stakeholders, explicit objectives for each group of stakeholders should be identified (Latham & Yukl, 1975; 1976; Tolchinsky & King, 1980; Armstrong, 1982). Furthermore, research has proven that explicit objectives lead to greater satisfaction among members of an organization (Arvey *et al.*, 1976; Ivancevich, 1977).

*Generate strategies:* Alternative strategies have to be developed and written in enough detail to allow for an explicit evaluation, which is the next step in the planning process. Strategies should be comprehensive, considering all important factors, and they should contain spare resources, such as extra time, money, and facilities, to prepare for uncertainty and to add flexibility to the plan (Armstrong, 1982; Grant, 2003; Schoemaker, 1993; Brinckmann *et al.*, 2010).

*Evaluate alternative strategies:* It is essential to systematically evaluate the various strategy alternatives. As a first check it has to be ensured that they do not violate any constraints. The feasible strategy alternatives should then be rated against each of the listed objectives. Alternative strategies help organizations to find alternatives that are superior to the current procedure, and to meet environmental changes in a systematic way (Ansoff, 1979; Armstrong, 1982; Brinckmann *et al.*, 2010).

*Monitor results:* The following variables have to be monitored: Changes in the environment, changes in strengths and weaknesses of the organization and its

competitors, all the actions taken by the organization and its competitors, and outcomes. The monitoring of results should be related to the specific objectives for each stakeholder as was mentioned before. The comparison between results and objectives allows the organization to determine if the chosen strategies are achieving the desired result (Miller & Friesen, 1977; Delmar & Shane, 2003; Wiltbank *et al.*, 2006; Armstrong, 1982).

*Seek commitment:* Just developing plans is usually not sufficient because plans are frequently ignored or used to rationalize a course of action that has been decided before. Therefore, a planning process needs to gain commitment for its plans. Participation in the planning process is a useful tool to achieve commitment and a monitoring system that provides accurate feedback is a useful tool to maintain this commitment (Armstrong, 1982).

Formal planning is dependent on already established categories, such as levels of strategy, strategic business units, and units of structure. To produce new perspectives and new combinations, however, it is necessary to think beyond these established categories and encourage informal learning (for organizational learning see 2.3.1 Organizational learning and strategic thinking). By doing so, formal techniques can be combined and supplemented with judgment and intuition in the process of problem solving and strategic planning (Mintzberg, 1994a). Empirical evidence provides evidence for the coexistence of formal and informal strategic planning processes. A survey by Sinha (1990) conducted in 1990, analyzing 1087 decisions by 127 Fortune 500 companies, found out that the “overall contributions of formal strategic planning systems [...] are modest”. Mintzberg and McHugh (1985) identified a “grass roots” process, meaning that strategies tend to emerge under fast-moving and unstructured circumstances. And Burgelman (1994; 1996) attested the existence of a smooth and timely adaptation to external change resulting from unplanned decision processes that formed an “internal selection mechanism”.

Mintzberg (1990), based on his “*emergent strategy*”, proposes that “[e]xplicit strategies [...] are blinders designed to focus direction and so to block out peripheral vision.” He therefore suggests that strategy should not be made explicitly. In general, it is not possible to formulate a strategy in unpredictable environments, nor is it possible to formulate a useful strategy in a predictable environ-



ment as it is impossible to know ahead of time or to forecast the future with confidence (Mintzberg, 1990; Mintzberg, 1987b; Ansoff, 1991). While there surely are repetitive patterns that may be predictable, the forecasting of discontinuities is virtually impossible. As all decisions are based on data derived from market research or other sources that inform the senior management, this data needs time to harden, which makes them late. Furthermore this data often lack qualitative aspects or were aggregated too extensively. Therefore, some managers rely on “some of the softest form” of information, even including hearsay and “other intangible scraps of information” (Mintzberg, 1994a).

This criticism by Mintzberg, that too explicit strategic planning is counterproductive, is one of the most widely circulated ones. There might be the risk of channeling too much attention and behavior to a plan, driving out important innovations that are not included in this plan. A too formal planning process might become excessively rigid and thereby restrict strategic thinking; or it might result in a lower degree of adaptability to the changing environment since it decreases the flexibility of an organization (McIlquham-Schmidt, 2011; Mosakowski, 1997; Inkpen & Choudhury, 1995). Mintzberg affirms his point of view mentioned before on this topic: “Setting oneself on a predetermined course in unknown waters is the perfect way to sail straight into an iceberg” (Mintzberg, 1987b).

Studies have shown (Dodgson & Rothwell, 1991) that even in small firms, strategic planning might be very important, if not essential, for a successful long-term performance and development. Especially in turbulent environments (see 2.2.3 Strategic planning in a turbulent environment), where conditions change with such a speed that forecasting becomes almost impossible and long range plans are of questionable value, strategic planning gains importance (Berry, 1998). In addition, organizations that try to internationalize early are most of the time resource-dependent and can therefore not implement formal procedures. This should not be interpreted as a lack of strategy or strategic planning, since they often adopt different approaches in strategic planning (Bell *et al.*, 2004).

In some organizations a conflict between formal and informal strategic planning might take place. Managers who were successful before with their intuitive judgments could tend to be against a formal planning system. Reasons for that are, for example, that managers lack competence to establish and organize a

formal planning system, or that they feel a challenge to their authority, as in a formal planning system more people participate in decision making (Steiner, 1997). Surely there can arise conflicts between these two but ideally they can and should complement one another. A formal planning system helps managers to sharpen their intuitive-anticipatory inputs into the planning process. Formal strategic planning can only be effective if managers of all levels contribute their judgments and intuitions to the planning process. And if top managers refuse formal planning in favor of their own intuition, it will not be effective either (Steiner, 1997). Formal and informal strategic planning processes can occur together in a planned way, with formal systems facilitating informal processes (Mintzberg, 1994b).

Regardless of the fact that an organization focuses on formal or informal strategic planning, some analytical elements should always be emphasized by the management, namely: determine vision and mission, scanning the environment, screening of the competition and its activities, analyzing the internal resources, evaluating strengths and weaknesses, identifying and assessing alternatives to the chosen strategy, implementing the strategy, evaluating and controlling performance, and reviewing and revising plans (Berry, 1998; McIlquham-Schmidt, 2011).

In small firms, the role of the entrepreneur in the process of strategic planning is even more critical. The personal goals, characteristics and strategic awareness of the firm's owner-manager will have a significant impact on the development and progress of the organization. If the owner-manager is not willing or even does not have the knowledge to plan strategically, this activity will not or just rarely take place, as in small firms this depends on the entrepreneur's personality and his or her abilities in the field of strategy and strategic planning (Carland *et al.*, 1989; Berry, 1998; Bracker *et al.*, 1988). Managers of small firms have been shown to often have a clear mental framework of strategy even if these strategies are not formally expressed and written down (Ackelsberg & Arlow, 1985). As suggested in literature, planning in small firms usually begins as simple financial plans, budgets or a business plan, and will evolve and become more formal and sophisticated over the life cycle of an organization. When activities and functions within an organization become more complex and

unclear, and communication channels lengthen, the need for strategic thinking and strategic planning will grow stronger and finally result in a strategic transformation (Berry, 1998; Robinson Jr. & Pearce, 1984a; Hanks *et al.*, 1993; Kazanjian, 1988).

In general can be said that small firms do not plan as much as large firms and that their strategic planning activities are much more intuitive, informal and invisible compared to large organizations (Stone & Brush, 1996). This is mainly due to their lack of time to do formal planning, lack of skills, shortage of trust and openness, unfamiliarity with the components, implementation barriers, and their small size and stage of business development (Robinson Jr. & Pearce, 1984a; Berry, 1998). Informal analytical planning, however, might be more favorable for small firms than formal planning (Ackelsberg & Arlow, 1985).

### **2.2.3 Strategic planning in a turbulent environment**

*"It is not the strongest of the species that survive, nor the most intelligent, but the one that is most responsive to change."*

*(Charles Darwin)*

Apart from the debate between the different theories of strategy formation, the impact of the organization's environment is undisputed. Especially in turbulent environments the strategic planning process has to be adapted to relevant circumstances and requires strategies that are flexible and creative (Ansoff, 1991; Grant, 2003).

Today different types of organizations have different environments. Starting in the 1940s the environment has steadily become more and more turbulent and unpredictable. While some organizations enjoy a relatively pleasant environment, others are experiencing very high turbulence (Ansoff, 1984; Drucker, 1990). Especially in the last quarter of the twentieth century the postwar economic stability ended due to the emergence of newly industrializing countries, exchange rate volatility, the microelectronics revolution, financial crises, and macroeconomic disequilibrium. Consequently, also the ability of companies to plan changed since economic and market forecasts could no longer predict prices, demand, exchange rates and interest rates (Grant, 2003).

To be successful, companies have to respond strategically to their environment, which has become one of the main drivers for strategic planning. While in low

turbulent environments it is in many cases satisfactory to use strategies based on historically successful strategies, this will not be sufficient in high turbulence environments. Aiming for success, companies in high turbulent environments have to use strategies that are discontinuous from their historical strategies (Ansoff & Sullivan, 1990). It is also suggested to substitute formal plans and formal planning with simple principles that guide the operational decision making (Davis *et al.*, 2009; Eisenhardt & Sull, 2001).

Ansoff (1984) identified 5 distinctive levels of observable environmental turbulence, which range from stable to creative, as shown in Table 3. To identify the context for different approaches of strategy formation, he suggests aggregating the five turbulence levels into two categories: (1) Incremental turbulence, which considers environmental changes as a logical evolution of historical change processes while the pace of change is slower than the response time of an organization; and (2) Discontinuous turbulence, in which successive changes are discontinuous from preceding ones while the speed of change is greater than the response time of an organization (Ansoff, 1991).

Adequate strategies for organizations in a high turbulent environment will be costly and wasteful for organizations operating in a low level of turbulence, while appropriate strategies in a low turbulent environment will cause a bad positioning in a highly turbulent environment. If the environment is stable, strategic planning based on extrapolation of past success strategies might be sufficient, since the future can be predicted with a higher degree of certainty and long-range plans can be prepared in a fairly detailed way. In turbulent environments an organization will be faced with ongoing shifts in strategic success factors, which forces and challenges its management to recognize and adapt to these changes. In this case a strategic plan therefore is rather a direction than a detailed plan (Ansoff, 1984; Wijnolst & Wergeland, 2009). Sometimes it is best to leave strategies flexible, like a broad vision, to be able to adapt to a changing environment (Mintzberg, 1994a). Eisenhardt (1989) points out the advantages of strategic decision making processes that are “unpredictable, uncontrolled, inefficient, proactive, continuous and adverse”.

Levels of environmental turbulence	
Level	Characteristics and Strategic success formula
Level 1 Repetitive Environment (stable)	<p>Change is at a slow pace or nothing ever changes; change is predictable. In a free market economy very few organizations are operating in this environment, except for some not-for-profit organizations.</p> <p><i>Strategic success formula:</i> Firms at this level usually do not change their strategy unless forced by a threat to their survival. Firms operating at this level are hierarchical and highly structured.</p>
Level 2 Expanding Environment (slow incremental)	<p>A stable marketplace, growing gradually. This environment is usually found in a segment of the economy that is growing rapidly. In this environment, demand usually exceeds supply, and customers' needs are basic and undifferentiated.</p> <p><i>Strategic success formula:</i> Organizations at this level succeed by adapting reactively to change and making incremental moves based on experience. They are likely to achieve success by maximizing market share.</p>
Level 3 Changing Environment (fast incremental)	<p>Incremental growth, with customer requirements altering fairly quickly. In this environment, customers' demands are differentiated by different buying power and product preferences.</p> <p><i>Strategic success formula:</i> Organizations seek to progressively improve their products and services in anticipation of the evolving needs of the customers. These firms are extroverted and market-driven. The focus is on servicing the future needs of existing customers using the existing strengths of the firms.</p>
Level 4 Discontinuous Environment (predictable)	<p>Characterized by some predictable change and some more complex change. The majority of companies today are operating in this complex and discontinuous environment. Changes are taking place at a rate faster than the company's ability to respond and the future is difficult to predict.</p> <p><i>Strategic success formula:</i> This level might be considered as the most difficult level to manage. A firm at this level is ready to abandon its historical position. It is driven by its perception of the new opportunities that will exist in the environment. The firm is prepared to move to where it perceives the profits to be.</p>
Level 5 Surprising Environment (unpredictable)	<p>Change which cannot be predicted. In this environment, technological leadership is the key success factor. New technologies and new industries develop rapidly and customers are prepared to pay for the most advanced technology.</p> <p><i>Strategic success formula:</i> The firms seek to create their own environment. They are flexible and totally committed to creativity. For an optimum return on investment, both the aggressiveness of the firm's strategy and its capabilities must match the turbulence of the environment.</p>

**Table 3: Levels of environment turbulence**

Source: Ansoff, 1984; Ansoff, 2007

Grant (2003) identifies four attempts to attune systematic strategic planning in an unpredictable and turbulent environment: (1) Scenario planning, (2) Strategic intent and the role of vision, (3) Strategic innovation, and (4) Complexity and self-organization.

(1) *Scenario planning*: Scenario planning seeks to identify alternative views of the future in the form of key environmental variables instead of predicting the future with single-point plans. These strategy alternatives emphasize strategic flexibility that creates open value. Scenario planning does not aim at the creation of strategic plans, but at establishing a process for strategic thinking and

organizational learning. It is about changing the mental models that decision makers have in their heads rather than making actual plans. Through scenario analysis, the strategic planning process allows decision makers to share and synthesize their different knowledge sets and bring out their mental models and implicit assumptions (Schoemaker, 1993; De Geus, 1988; Grant, 2003).

(2) *Strategic intent and the role of vision*: If detailed planning is not possible, strategy is primarily concerned with what Bourgeois (1980) calls “domain selection” and “domain navigation”. This means that strategy is focusing on establishing clarity of direction within a short-term flexibility that is in accordance with overall coordination of strategic decisions rather than specific actions. Therefore, long-term strategic goals have to be established and articulated through statements of vision and mission (Van der Heijden, 1993; Grant, 2003).

(3) *Strategic innovation*: “Search all those strategic planning diagrams, all those interconnected boxes that supposedly give you strategies, and nowhere will you find a single one that explains the creative act of synthesizing experiences into a novel strategy” (Mintzberg, 1994a). What Mintzberg wants to point out is the fact that strategic planning is usually not known for being innovative. To overcome and deal with new and challenging environments, innovative approaches for strategic planning have to be developed. Managers should be encouraged to explore alternatives beyond the scope of their previous experiences and their “tunnel vision”. It is the responsibility of the top management to break the conservative bias of strategic planning and form the base for strategic change and strategic innovation (Hamel, 1996; Grant, 2003; Burgelman, 1996).

(4) *Complexity and self-organization*: The so-called complexity theory reinforced the arguments in favor of strategy making as an informal, unsystematic and organic process. Even models of complex adaptive systems, that were developed to analyze biological evolution, have been applied to the evolution of organization and to find strategies that can achieve the necessary adaptations. (Anderson P. , 1999). Brown and Eisenhardt (1997) suggest that a key feature of strategic processes is the presence of structures that create plans and standards as well as responsibilities for certain activities while allowing freedom somewhere else. This can be reached by simple rules that establish a frame-

work that sets boundaries and permits adaptation at the same time (Eisenhardt & Sull, 2001; Davis *et al.*, 2009).

## **2.2.4 Strategic planning in an international environment**

*"It has been said that arguing against globalization  
is like arguing against the laws of gravity."*

*(Kofi Annan)*

Globalization forces, environmental transformations, such as market liberalization and innovations in information and communication technologies, have challenged traditionally used business strategies and structures for multinational enterprises (MNEs) (Jean *et al.*, 2010; Lin *et al.*, 2009; Peng *et al.*, 2008). MNEs need to gain scarce resources, which in combination with today's fast changing environment that challenge a lot of organizations, has increased risk and uncertainty even more. This puts the focus on understanding how the structure of global business complements strategy work. Due to a further development of global value chains, the importance of achieving global integration of strategic and operational activities grew further, and drew attention to the process of managerial decision making (Kotabe & Mudambi, 2009; Grant, 2003; Buckley & Ghauri, 2004). Consequently this led to a reconfiguration within MNEs, but also concerning inter-firm relationships, such as the coordination of geographically scattered networks. Enhanced technologies enable faster response, a better information flow, and deeper integration into these global networks. Furthermore, management tools such as global account management, global brand teams, or product innovation management contributed to this change in global business and the global value chain (Kotabe & Mudambi, 2009; Shi *et al.*, 2010; Townsend *et al.*, 2010; Buckley & Ghauri, 2004).

Especially in an international environment and geographically dispersed locations, the question of decentralized decision making and central planning activities gains importance. Strategy formation is a shared understanding among the individuals that enact the organization's strategy, an on-going learning process based on organizational activities, and also a social learning process. Strategic decisions are therefore assumed to be influenced by managers throughout the organization, including lower level and middle managers. Their actions taken enable the emergence of a strategy over time. This is decentralized strategic

decision making (Noda & Bower, 1996; Mintzberg, 1994a; Burgelman, 1983; Floyd & Wooldridge, 1992). In contrast, central planning gives authority to the top management of an organization. The strategy development process includes organizations' goals, policies, analyses of the environment, strategy formulation and implementation, and control. The whole process mirrors the emphasis of the organization on long-term objectives and the current mission, action plans, and continuous evaluation of the strategic objectives (Ansoff & McDonnell, 1988; Andersen, 2004).

Decentralized and centralized decision making can be complementary and the interaction between them might even be advantageous for organizations engaging in international markets that are sensitive to the external environment. Decentralized decision making allow for new insights about potentially useful future strategic actions, while still being in accordance with the overall direction of the organization's strategy (Andersen, 2004). Organizations that increase their global reach are usually faced with a higher level of turbulence due to the diversity of national market characteristics. In light of this, the strategic planning processes gain importance as they are supposed to increase responsiveness and adaptability. Strategic planning can support the emergence of insights and actions that are vital to develop effective strategies in a turbulent international environment. Furthermore, it can integrate these international insights and experiences of decentralized strategic initiatives to reach a more effective and efficient strategic response and adaptation (Rosenzweig & Singh, 1991; Ghoshal, Korine, & Szulanski, 1994; Lord & Ranft, 2000). Strategic planning processes help to coordinate long-term organizational activities, foster corporate adaptation, and encourage adaptive thinking in striving for new business opportunities. This generally leads to a better adaptation to environmental changes. The strategic planning process also enhances the integration of different organizational perspectives and thereby the coordination of activities throughout functional areas and units that are essential to operate more effectively and efficiently (Ansoff & McDonnell, 1988; Lorange & Vancil, 1976; Rhyne, 1986). The characteristics of the particular context and environment in which organizations operate, moderate the organizations' strategies (Hoskisson *et al.*, 2000; Meyer & Lessard, 2005).



As already mentioned before, organizations that seek to go global early on are usually time resource-dependent and therefore do not implement formal procedures. This should not be interpreted as a lack of strategy or strategic planning, since they often take on different approaches to plan strategically (Bell *et al.*, 2004). The lack of resources increases the need to different management approaches, which are more of an implicit instead of an explicit kind.

Due to a lack of resources, small firm internationalization is often considered as being ad hoc as well as unplanned, reactive, and opportunistic. The crucial factors for a successful expansion of small firms are strategic planning activities undertaken by the CEO or owner-manager. An absence of explicit and formal strategy does not necessarily constitute a lack of vision, regardless if it involves a global focus or not. Strategic planning activities are suggested to become more formal over the life cycle of the business and with an increase in resources (Welsh & White, 1981; Westhead *et al.*, 2002; Timmons, 1978; Gibb & Scott, 1985; Berry, 1998; Bell *et al.*, 2004).

Organizing framework for a global strategy			
Strategic objectives	Sources of competitive advantages		
	National differences	Scale economies	Scope economies
Achieving efficiency in current operations	Benefiting from differences in factor costs (wages and cost of capital)	Expanding and exploiting potential scale economies in each activity	Sharing of investments and costs across products, markets and businesses
Managing risks	Managing risks arising from changes in comparative advantages of different countries	Balancing scale with strategic and operational flexibility	Portfolio diversification of risks and creation of options and side-bets
Innovation learning and adaptation	Learning from societal differences in organizational and managerial processes and systems	Benefiting from experience, cost reduction and innovation	Shared learning across organizational components in different products, markets or businesses

**Table 4: Organizing framework for a global strategy**

Source: Author's adaptation from Ghoshal, 1987

Ghoshal (1987) developed a framework, which summarizes the goals of an organization to become multinational. These three categories, as shown in Table 4, are: achieving efficiency in current activities, managing risk that is involved in these activities, and developing internal learning capabilities to be able to innovate and adjust to future changes.

This framework can be divided into two dimensions, strategic objectives and sources of competitive advantages. According to Ghoshal (1987), the task of managing a global strategy is to use the three sources of competitive advantage, namely national differences, economies of scale, and economies of scope, to optimize efficiency, risk and learning simultaneously in global business. Managing the interactions between these different objectives and means is the key to a successful global strategy (Ghoshal, 1987).

### **2.2.5 Planning, plans and planners**

*"Plans are worthless. Planning is essential."*

*(Dwight D. Eisenhower)*

Planning is "the process of establishing objectives and choosing the most suitable means for achieving these objectives prior to taking actions" (Goodstein *et al.*, 1993). Ackoff (1981) noted, that "[p]lanning... is anticipatory decision making. It is a process of deciding... before action is required". This is supported by Friedmann (1967), who wrote that "planning is defined as the guidance of change within a social system. [...] Planning may be simply regarded as reason acting on a network of ongoing activities through the intervention of certain decision structures and processes". And Koontz & O'Donnell (1972) defined that "[p]lanning is deciding in advance what to do, how to do it, when to do it, and who is to do it. Planning bridges the gap from where we are to where we want to go. It makes it possible for things to occur which would not otherwise happen. Although the exact future can seldom be predicted and factors beyond control may interfere with the best-laid plans, without planning events are left no chance. Planning is an intellectual process, the conscious determination of courses of action, the basing of decisions on purpose, facts, and considered estimates"

As shown in Table 5, Bracker & Pearson (1986) identified four different kinds of plans based on distinct levels of sophistication in the strategic planning process, preferably applicable in small firms.

Planners are those members of an organization who are actually and directly involved in the whole strategic planning process. They should represent the management level of various organizational functions and have to be committed to the whole planning process. Strategic planning is a function and a responsi-

bility of all managers at all levels throughout the organization. The planning responsibilities of managers, however, will vary significantly in relation to different types of organizations and different levels of an organization (Goodstein *et al.*, 2008; Steiner, 1997).

Strategic planning levels	
Structured strategic plans (SSP)	Formalized, written, long-range plans covering the process of determining major outside interests focused on the organization; expectations of dominant inside interests; information about past, current, and future performance; environmental analysis; and determination of strengths and weaknesses of the firm and feedback. Typically 3-15 years in nature.
Structured operational plans (SOP)	Written short-range operation budgets and plans of action for current fiscal period. The typical plan of action would include basic output controls such as production quotas, cost constraints, and personnel requirements.
Intuitive plans (IP)	These informal plans are developed and implemented based on the intuition and experience of the owner of the firm. They are not written and are stored in the memory of the firm's owner. They are of a short-term duration, no longer than 1 year in nature. They depend on objectives of the owner and the firm's present environment.
Unstructured plans (UP)	No measurable structured planning in the firm.

**Table 5: Strategic planning levels**

Source: Bracker & Pearson, 1986

Mintzberg (1994a; 1994b) distinguishes between two types of people being responsible for planning: The (1) *Analytical thinker* and the (2) *Creative thinker*. The analytical thinker is more conventional and thus fulfills the expectation of a planner better. He or she tries to bring order into the organization, carries out analytical studies to ensure consideration of the crucial hard data, programs intended strategies and makes sure that they are communicated early, and screens strategies for implementation. In contrast, the creative thinker is less conventional but nevertheless present in many organizations. This kind of planner seeks to open up the strategy making process. He or she is more of a soft analyst who is inclined towards intuitive processes, conducting studies quicker, trying to find out-of-the-box-strategies, and to encourage others to think strategically. Many organizations need both types of planners, the analytical as well as the creative thinker. It is the task of the top management to ensure that there is the appropriate proportion of each. Organizations need people who bring order to the management but also people who challenge the convictions developed by managers and their organizations (Mintzberg, 1994a; 1994b).

It is essential to choose a well-qualified and highly skilled corporate planner and to locate his or her tasks in the proper position within the organization. Especially in large firms, the corporate planning task is quite challenging and important. The planner has to manage complex relationships among many managers and members of the organization; he or she has to gain respect, good will, and trust of all individuals involved. The ideal choice for a corporate planner therefore is "a man who is both philosopher and realist, theoretician and practical politician, soothsayer and salesman and [...] he probably should be able to walk on water" (Steiner, 1997).

Grant (2003) examined large multinational companies, namely the 10 leading oil and gas majors in the 1997 Fortune Global 500 ranking. He found out that all these organizations possessed a corporate staff unit that was responsible for strategic planning. These planners fulfilled four generic tasks: Firstly, they provide technical and administrative support to strategic management activities. The corporate planners support the top management team that is responsible for the corporate strategy with information and analyses, and administer the planning process. Secondly, they prepare market, economic and politic forecasts, competitor analysis, risk analysis and other research of the business environment to assist planning through the company. Another function of corporate planners is to foster communication and dialog between corporate and business management. And furthermore corporate planners act as internal consultants concentrating expertise about strategy analysis and strategic planning techniques (Grant, 2003).

In small organizations the task of planning is usually carried out by the owner-manager of a firm. If he or she is not able or willing to plan, this activity will not take place; the role of the entrepreneur therefore is crucial for strategic planning (Carland *et al.*, 1989; Berry, 1998). In the case of small firms, it is challenging and not even realistic to distinguish planning from the rest of the management process, such as organizing, directing, motivating, and controlling. Although all of these functions and elements can be defined formally and compared to each other, for an owner-manager as a planner it would not make sense to break up his or her job into parts and examine each part as a separate part. He or she is not only planner, but also organizer, director, and conducts many other func-

tions. Therefore the whole of his or her job has to be examined, as well as all of its interactions in the management process (Steiner, 1997).

## 2.3 Strategic organization and organizational structure

*"A living cell requires energy not only for all its functions,  
but also for the maintenance of its structure."*

*(Albert Szent-Györgyi de Nagyrápolt)*

The importance and essentiality of strategy and strategic planning has been highlighted before; they furthermore influence the organizational design and organizational structure process because they establish the requirements for choosing the future organizational structure among alternative structures. Nevertheless, some even argue that it would be more effective to use time for developing the organization than using the same time for strategic planning (Galbraith, 1995; Bhidé, 2000).

Some of today's challenges for organizations have already been mentioned earlier. In addition, organizations are faced with the challenges of exploiting existing competences and also exploring new competences. Organizations have to generate new knowledge linked to new products and services, but also to foster current competences and make the best out of existing products and services. To achieve long-term success, organizations have to be capable of satisfying current demands while simultaneously being prepared for future developments (Vera & Crossan, 2004; Danneels, 2002; Gibson & Birkinshaw, 2004).

Organizations are divided into departments or subunits. Each department uses a specific technology and specific procedures that may differ from other departments. To create a well-performing organization, each department must perform its tasks, and all the tasks of all departments have to be coordinated with one another. Uncertainty and ambiguity might be caused by departmental technology and procedures, coordination of departments managing interdependence, and the external environment (Hall, 1962; Ven & Delbecq, 1974; Daft & Macintosh, 1981; Tushman, 1978). Mintzberg (1994b) proposed a framework of five basic forms of organizations, which are shown in Table 6. This framework can be used to determine the position of planning, plans and planners under different circumstances and kinds of organizations.

Five basic forms of organizations	
The Machine Organization	Classis bureaucracy, highly formalized, specialized, and centralized, and dependent largely on the standardization of work processes for coordination; common in stable and mature industries with mostly rationalized, repetitive operating work (as in airlines, automobile companies, retail banks).
The Entrepreneurial Organization	Non-elaborated flexible structure, closely and personally controlled by the chief executive, who coordinates by direct supervision; common in start-up and turnaround situations as well as in small business.
The Professional Organization	Organized to carry out expert work in relatively stable settings, hence emphasizing the standardization of skills and the pigeonholing of services to be carried out by rather autonomous and influential specialists, with the administrators serving for support more than exercising control; common in hospitals, universities, and other skilled and craft services.
The Adhocracy Organization	Organized to carry out expert work in highly dynamic settings, where the experts must work cooperatively in project teams, coordinating the activities by mutual adjustment, in flexible, usually matrix forms of structure; found in "high technology" industries such as aerospace and in project work such as filmmaking, as well as in organizations that have to truncate their more machine-like mature operations in order to concentrate on product development.
The Diversified Organization	Any organization split into semiautonomous divisions to serve a diversity of markets, with the "headquarters" relying on financial control systems to standardize the outputs of the divisions, which tend to take on the machine form.

**Table 6: Five basic forms of organizations**

Source: Mintzberg, 1994b; Mintzberg *et al.*, 1998

Organizational design is the handling of a series of variables that determine the division of labor and the achievement of coordination. Some are concerned with the design of individual positions, some with the design of the network of units, others with the design of lateral linkages to back up the superstructure, and a fourth group with the design of the decision making system of the organization (Mintzberg *et al.*, 2003; Rivkin & Siggelkow, 2003). Furthermore, organizations are open social systems that have to process a lot of information but only have limited capacity. Information is needed to fulfill internal tasks, coordinate activities, and to interpret the external environment. Organizations are faced, however, with two inherent challenges: information complexity and information capacity. Since an organization is a complex system, the interpretation of data cannot just be set or routinized. In addition, an organization is not capable to process and interpret all available information. The goal therefore is to design an organization using information processing mechanism that is able of coping with di-

versity, uncertainty, coordination, and an unclear environment (Boulding, 1956; Cohen *et al.*, 1972; Weick, 1976; Daft & Lengel, 1986; Scott, 1998).

Caves (1980) defines organizational structure as "the internal allocation of tasks, decision rules, and procedures for appraisal and reward, selected for the best pursuit of a [that] strategy". And Mintzberg (2003) says about organizational structure: "Every organized human activity – from the making of pottery to the placing of a man on the moon – gives rise to two fundamental and opposing requirements: the division of labor into various tasks to be performed and the coordination of these tasks to accomplish the activity. The structure of an organization can be defined simply as the total of the ways in which its labor is divided into distinct tasks and then its coordination achieved among those tasks". He summarized six basic coordination mechanisms (see also 2.3.3 Coordination mechanisms) that "can be considered the most basic elements of structure, the glue that holds organizations together", namely mutual adjustment, direct supervision, standardization of work processes, standardization of outputs, standardization of skills, and standardization of norms (Mintzberg *et al.*, 2003).

A longstanding question concerning strategy and strategic organization has been how the degree of organizational structure shapes the performance of an organization. This has been explored in a variety of studies and researches; and although their results were highly diverse, they nevertheless highlight two fundamental arguments (Davis *et al.*, 2009). The first argument states that there should be a balance between too much and too little structure. Organizations that have too little structure usually lack sufficient guidance to generate proper behaviors in an efficient way, while on the other hand organizations with too much structure are too constrained and lack flexibility. To overcome this challenge and to resolve this tension, organizations try to use a moderate amount of structure to improvise a variety of high-performance solutions (Weick, 1993; Okhuysen & Eisenhardt, 2002; Baker & Nelson, 2005; Miller & Friesen, 1980; Siggelkow, 2001; Brown & Eisenhardt, 1997). The second argument deals with the influence of the changing nature of environmental opportunities on achieving high performance with moderate structure. Highly dynamic and fast changing environments demand flexibility to process a lot of opportunities in a faster, more complex, more indistinct, but less predictable way compared to less dy-

dynamic environments. Therefore, high-performing organizations deal with dynamic environments with less structure, while high-performing organizations in less dynamic environments are more structured. This leads to the suggestions that the optimal amount of structure decreases with increasing environmental dynamism (Adler *et al.*, 1999; Rindova & Fombrun, 1999; Eisenhardt & Martin, 2000; Rowley *et al.*, 2000; Rivkin & Siggelkow, 2003).

Flexibility gives organizations the possibility to adapt immediately to the changing environment and its managers more freedom to operate, which allows them to combine some structured actions and some improvised actions. It has to be noted, however, that improvised actions need more attention than rule-following actions, since it requires managers to select what action to take. Because attention is constrained, it also limits the number of possible actions in a certain period of time. To benefit from flexibility, there has to be sufficient attention to figure out what to do (Weick, 1998; Gilbert, 2005; Miner *et al.*, 2001; Okhuysen & Eisenhardt, 2002).

Organization theory uses the phrase "complex organizations" to describe organizations that exhibit surprising and nonlinear behavior. These complex systems are defined as systems made up of a large number of parts that have many interrelations, or as a set of interdependent parts, that altogether make up a whole that is interdependent with its environment (Anderson P. , 1999; Simon, 1997; Thompson, 1967). Complexity is used as a variable that describes both organizations and their environments. Concerning organizations, complexity stands for the number of activities or subsystem inside the organization, which can be measured along three dimensions: vertical complexity is the number of levels in the organizational hierarchy, horizontal complexity is the number of job titles or departments across the organization, and spatial complexity is the number of geographical locations (Daft, 1992; Anderson P. , 1999). Concerning environments, complexity stands for the number of different items or elements that the organization has to deal with simultaneously. Organization design and organizational structure tries to match both the complexity of the organization's structure with the complexity of its environment (Scott, 1998; Galbraith, 1973; Anderson P. , 1999).



### 2.3.1 Organizational learning and strategic thinking

*"The significant problems we face cannot be solved at the same level of thinking we were at when we created them."*

*(Albert Einstein)*

Rea & Kerzner (1997) say that "organizations frequently engage in strategic planning in a way that impairs strategic thinking." And concerning organizational learning they suggest that one of the most common failures of strategies is the "failure to recognize the importance of organizational learning" (Rea & Kerzner, 1997). Mintzberg (1994b) distinguishes clearly between planning and strategic thinking. Planning is about analysis, while strategic thinking is about synthesis, intuition and creativity. The outcome of strategic thinking is an integrated perspective of the organizations, an articulated vision of direction. Strategies often cannot be developed on schedule, but they have to be free to arise at any time and any place in the organization through processes of informal learning at different organizational levels. It has been criticized, however, that many managers and even theorists wrongly used strategic planning, strategic thinking and strategy making as synonyms (Mintzberg, 1994a).

The interpretation of organizational learning by Levitt & March (1988) consists of three observations: Firstly, *behavior in organizations is based on routines*. Actions derive from a logic of suitability or legitimacy more than from a logic of consequentiality or intention; it focuses on matching procedures to situations rather than calculating choices. Routines include all forms of procedures, rules, forms, policies, strategies, and technologies on which organizations are based and through which organizations operate. It furthermore includes the structure of frameworks, codes, cultures, knowledge, beliefs, and paradigms. Routines are independent of the individuals executing them and therefore are capable of coping with a turnover in personnel (March, 1991; Levitt & March, 1988; Winter, 2003; Miner *et al.*, 2001). Secondly, *organizational actions are dependent on history*. Routines are interpreted in the light of the past rather than anticipating the future. They adapt to experiences step by step as a response to the outcome. These experiential lessons of history are captured by routines, which makes it accessible to the organization and its members; especially those who have not experienced this history themselves. Routines are transmitted through education, imitation, professionalization, socialization, imitation, personnel

transfer, and mergers and acquisitions. They are recorded in some kind of collective memory, which can change over time (Lindblom, 1959; Levitt & March, 1988; Levinthal & March, 1993; Herriott *et al.*, 1985; Kostova, 1999). And thirdly, *organizations are oriented to targets*. Their behavior depends on the relationship between observed outcomes and expectations for these outcomes. The collective memory of an organization can be changed based on an evaluation and interpretation of outcomes. (Levitt & March, 1988; Simon, 1955).

A strategy-making process should capture what the managers learn from different sources, such as personal experience and experiences of others throughout the organization as well as data from market research and the like, and then putting that learning into a vision of direction the organization should pursue. Strategy making is a very complex process, involving some of the most subtle, sophisticated, and sometimes even subconscious elements of human thinking. This means that strategy can develop without the conscious intention of senior management through a process of learning (Mintzberg, 1994a). Organizational learning has to deal with confusing experience and the challenging problem of balancing the need to develop new knowledge through exploring, while exploiting current competences and knowledge (Levinthal & March, 1993). Both exploration and exploitation are vital for organizations, but they compete for scarce resources. Consequently organizations have to make explicit and implicit choices between these two. Finding and maintaining a suitable balance between exploration and exploitation (see 2.3.2 Organizational ambidexterity) is therefore one of the main factors in the survival of the organization's system and its prosperity (March, 1991; Benner & Tushman, 2003; McGrath, 2001).

Ansoff (1991) refers to two models of learning: the existential model of learning and the rational model of learning. According to him, the existential model is the oldest one in human history. It consists of repeating lessons learned from past successes, without challenging why it was successful in the past. In the rational model, which was developed during the age of enlightenment, decision making is the first stage, followed by implementing the decision. The rational model became the standard model of natural sciences, due to several advantages it has over the existential model. Firstly, it saves time; decision making is less time-consuming than trial and error because it selects action alternatives which are

promising to be successful. This is especially important if an organization finds itself faced with a turbulent and rapidly changing environment. Secondly, it allows responding in anticipation of the need to act; a process called strategic planning. And furthermore the number of strategic errors is reduced by eliminating non-promising strategic moves and thereby selecting the most promising ones (Ansoff, 1991).

Formal systems could never internalize, comprehend and synthesize hard information, which means that planning could not learn. A formal process is a rational sequence, starting with analysis to eventual action through administrative procedures. Strategy making, however, is a learning process and can proceed into the other direction too, namely starting with an action. In other words "we think in order to act, to be sure, but we also act in order to think" (Mintzberg, 1994a). Trying things and experimenting will progressively create patterns that become strategies. This is the core of strategy making as a learning process (Mintzberg, 1994a). Organizations store knowledge in their rules, policies, norms and forms. This knowledge is gained from their members over time. Simultaneously, individuals within an organization are socialized to organizational values and beliefs, which are communicated to them. By doing so, the organizational "code" is adapting to individual beliefs. Therefore, it can be said that the organizational code affects the beliefs of individuals, but also the organizational code is affected by their beliefs (March, 1991; Levitt & March, 1988).

### **2.3.2 Organizational ambidexterity**

*"As for the future, your task is not to foresee it, but to enable it."*

*(Antoine de Saint-Exupéry)*

Strategic management literature argues that successful organizations have to be "ambidextrous" (Duncan, 1976; Jansen *et al.*, 2009; Mom *et al.*, 2009) by generating competitive advantage through "exploratory and exploitative innovation" (Benner & Tushman, 2003; Gibson & Birkinshaw, 2004; O'Reilly & Tushman, 2004). Exploration and exploitation require totally different and inconsistent architectures and approaches. Exploitation is related to efficiency, centralization, and tight cultures, and results from refinement and focus. Exploration on the other hand is linked to flexibility, decentralization, and loose cultures and results from experimentation and divergent thinking (Benner & Tushman, 2003;

March, 1991). Structural differentiation and integration enable organizations to balance these conflicting demands and achieve ambidexterity to pursue exploratory and exploitative activities simultaneously (Siggelkow & Levinthal, 2003).

Jansen *et al.* (2009) suggest that organizational ambidexterity is recognized as “a dynamic capability [...] that refers to the routines and processes by which ambidextrous organizations mobilize, coordinate and integrate dispersed contradictory efforts, and allocate, reallocate, combine and recombine resources and assets across differentiated exploratory and exploitative units” (O'Reilly & Tushman, 2008; Teece, 2007). Dynamic capabilities are defined by Galunic & Eisenhardt (2001) as “the organizational and strategic processes by which managers manipulate resources into new productive assets in the context of changing markets”. Structural differentiation can support ambidextrous organizations to maintain multiple competences dealing with contradictory demands by protecting ongoing operations of exploitative units from interfering with emerging competences of exploratory units. This is to ensure that exploratory units are able to the flexibility and the freedom necessary to develop new knowledge and skills. It also allows for and protects the coexistence of inconsistent exploitative and exploratory efforts at different locations by providing a sense of autonomy and ownership over specific activities and creating a structural flexibility to adapt to local task environments (Gilbert, 2005; Benner & Tushman, 2003; Orton & Weick, 1990).

Furthermore, different types of integration mechanisms are needed for becoming ambidextrous. Organizations have to use formal and informal integration mechanisms (see 2.3.3 Coordination mechanisms; as suggested by Martinez & Jarillo (1989) the terms “coordination mechanisms” and “integration mechanisms” will be used as synonyms in this piece of work) to increase knowledge flows across differentiated units, both of exploratory and exploitative nature. These integration mechanisms allow organizations to obtain and apply strategically valuable combinations (Gilbert, 2006). The crucial task is more than just a simple organizational structural decision to separate the exploratory and exploitative units and subunits; it is the process to integrate and coordinate these units in a way that creates value. Organizations can effectively carry out day-to-day activities while producing a desired output (O'Reilly & Tushman, 2008;

Winter, 2003). The application of such combinations and longing for ambidexterity require new organizational structures and collective patterns of interaction. The so-called “dynamic capabilities framework” takes into consideration this important aspect. These dynamic capabilities, based on different ways of how organizations integrate, create and recombine competences flexibly across units, are vital to achieve a long-term strategic advantage (Helfat & Peteraf, 2003; Eisenhardt & Martin, 2000; Kogut & Zander, 1992).

Organizational ambidexterity as a dynamic capability varies from organization to organization, depending on its formation and is specific in detail; it provides, however, common features. These commonalities involve different integration mechanisms also referred to as coordination mechanisms (see also 2.3.3 Coordination mechanisms), each of which offers specific and diverse ways of dealing with differences in the organizational structure of ambidextrous organizations (O'Reilly & Tushman, 2004; Eisenhardt & Martin, 2000; Jansen *et al.*, 2005). Mom *et al.* (2009) argue that organizations do not just need ambidexterity at the business unit and firm level, but also at the individual level. This is supported by O'Reilly & Tushman (2004), commencing one of their research papers with the description of the Roman god Janus: “The Roman god Janus had two sets of eyes – one pair focusing on what lay behind, the other on what lay ahead”. Managers and executives should be able to relate. As Janus they constantly have to look backward, taking into consideration present and past activities, while also gazing forward and enabling innovations that will define the future (O'Reilly & Tushman, 2004; Gibson & Birkinshaw, 2004). The ambidexterity at the manager's level is therefore defined as “a manager's behavioral orientation toward combining exploration and exploitation related activities within a certain period of time” (Mom *et al.*, 2009).

Ambidextrous managers provide three characteristics: (1) they host contradictions, (2) they are multitaskers, and (3) they refine and renew their knowledge, skills, and expertise (Mom *et al.*, 2009).

(1) *Ambidextrous managers host contradictions*: They have the motivation and also ability to be sensitive to, to understand, and to strive for a range of apparently conflicting opportunities, needs, and goals. They also have to deal with conflict and engage in paradoxical thinking (Smith & Tushman, 2005; O'Reilly &

Tushman, 2004; 2008; Floyd & Lane, 2000; Gibson & Birkinshaw, 2004). Ambidextrous managers both elaborate and reassess existing decisions, goals, and beliefs, and furthermore are short-term and long-term oriented in identifying and chasing opportunities (Ghemawat & Costa, 1993; Rivkin & Siggelkow, 2003; O'Reilly & Tushman, 2004).

(2) *Ambidextrous managers are multitaskers*: They fulfill several roles of both deployment and definition activities of competences, and carry out multiple various tasks as well as creative and collective actions, within a certain period of time (Floyd & Lane, 2000; Adler *et al.*, 1999; Sheremata, 2000). Ambidextrous managers are rather generalists than specialists and usually act outside the borders of their own job (Leana & Barry, 2000; Adler *et al.*, 1999).

(3) *Ambidextrous managers both refine and renew their knowledge, skills, and expertise*: If managers have difficulties to understand the relationship between their tasks and a larger purpose due to increasing formalization, this may decrease the motivation to cooperate and combine efforts with others (Organ & Greene, 1981; Hage & Aiken, 1969; Pierce & Delbecq, 1977). An increase in formalization of manager's tasks also obliges them to develop more expertise in a limited area and to broaden their level of specialization and their knowledge concerning the formalized tasks (Hage, 1965; Daft & Lengel, 1986; Zander & Kogut, 1995). This hinders managers from broaden their range of skills, and reduce their ability to be ambidextrous as well as think and act outside the narrow borders of their tasks (Adler *et al.*, 1999; Daft & Lengel, 1986). Ambidextrous managers obtain and process explicit and implicit knowledge and information; they involve themselves in searching for this knowledge and information within their network of contacts, and engage in learning activities that increase reliability and variety (Floyd & Lane, 2000; Sheremata, 2000; Holmqvist, 2004; McGrath, 2001; Lubatkin *et al.*, 2006; Subramaniam & Youndt, 2005).

### **2.3.3 Coordination mechanisms**

*"If we could first know where we are, and whither we are tending,  
we could better judge what to do, and how to do it."  
(Abraham Lincoln)*

Martinez and Jarillo (1989) define in their study the mechanisms of coordination as "any administrative tool for achieving integration among different units within

an organization.” Coordination mechanisms can generally be classified into two types: formal and informal mechanisms. While formal mechanisms are established intentionally and in a conscious way, informal mechanisms coordinate the individuals of an organization in a more spontaneous manner (Moreno-Luzón & Lloria, 2008).

Jansen *et al.* (2009) suggest four types of integration mechanisms along two dimensions, namely senior team integration versus organizational integration mechanisms, and formal integration versus informal integration mechanisms as a commonality of organizational ambidexterity. Senior team integration mechanisms should enable the distribution of limited resources and the divergence from existing skills and competences within exploratory units, while establishing promotion for and strategic synergies with ongoing activities in exploitative units (Gilbert, 2005; Hill & Rothaermel, 2003; Jansen *et al.*, 2009). Organizational integration mechanisms should allow for the access and integration of knowledge sources flexibly across reasonably sovereign exploratory and exploitative units (Galunic & Eisenhardt, 2001; Gilbert, 2006). The second dimension of mechanisms is assumed to be richer and provide higher information-processing capacity (Tsai, 2002). Formal integration mechanisms help to coordinate and integrate distinguished activities through already established mechanisms (Ghoshal *et al.*, 1994). In comparison, informal integration mechanisms are concerned with emergent social properties and influence trans-border relations across different units (Tsai, 2002).

The study of coordination mechanisms has been changing over the last few years. While especially more formal mechanisms had been focused, today there is more and more appreciation of the more subtle and informal forms of coordination, such as acculturation and informal communication networks. Every organization has a certain degree and combination of specialization and differentiation among its units that longs for some kind of coordination across them. This is especially true for large companies (Martinez & Jarillo, 1989). Martinez & Jarillo (1989) provide a summary of the major kinds of coordination mechanisms, put together from different organization theory scholars, as shown in Table 7. As already mentioned before, they are divided into structural and formal mechanisms, and less formal and more subtle mechanisms.

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List of the most common mechanisms of coordination

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Structural and formal mechanisms

1. Departmentalization or grouping of organizational units, shaping the formal structure.
2. Centralization/decentralization of decision making through the hierarchy of formal authority.
3. Formalization and standardization: written policies, rules, job descriptions, and standard procedures, through instruments such as manuals, charts, etc.
4. Planning: strategic planning, budgeting, functional plan, scheduling, etc.
5. Output and behavior control: financial performance, technical reports, sales and marketing data, etc., and direct supervision.

Other mechanisms, more informal and subtle

6. Lateral or cross-departmental relations: direct managerial contact, temporary or permanent teams, task forces, committees, integrators, and integrative departments.
  7. Informal communication: personal contacts among managers, management trips, meetings, conferences, transfer of managers, etc.
  8. Socialization: building an organizational culture of known and shared strategic objectives and values by training, transfer of managers, career path management, measurement and reward systems, etc.
- 

**Table 7: List of the most common mechanisms of coordination**

Source: Martinez & Jarillo, 1989

The first group of structural and formal mechanisms contains five mechanisms. *Departmentalization* is the base for a formal structure or the grouping of activities within units. They can be divided into two groups: Functional departments, based on similarity in distinctive functions, and divisional departments, based on different tasks or responsibilities for serving different markets (Matsuno *et al.*, 2002; Miller & Dröge, 1986; Sherman & Smith, 1984; Caves, 1980). *Centralization or decentralization* determines if decision making authority lays in the higher or the lower level in the chain of command. An organizational structure is decentralized when decision making competence is scattered among a number of units, subunits and division, each making its own decisions. On the contrary a centralized organizational structure leaves the authority of decision making only at the level of the organization as a whole (Siggelkow & Levinthal, 2003; Pugh *et al.*, 1968; Child, 1972; Sheremata, 2000). *Formalization and standardization* is the extent to which rules, policies and codes describe a certain task, and the degree to which a manager has to conform to this task description (Hage, 1965; Pugh *et al.*, 1963; Child, 1972). *Planning* is concerned with systems and processes like strategic planning, schedules, budgeting, setting of objectives, with the intention to guide and channel the activities of independent units within an



organization (Armstrong, 1982; Mintzberg, 1994a; Berry, 1998; Goodstein *et al.*, 1993). The fifth mechanism, *output and behavior control*, compromises two different ways of exercising control inside an organization. Output or performance control is based on the surveillance of hard facts, such as files, records, and submitted reports. Behavior control on the other hand deals with direct and personal examination of the behavior of subordinates (Ouchi & Maguire, 1975; Ouchi, 1977; Child, 1972; Mintzberg & McHugh, 1985).

The second group of mechanisms contains three kinds of informal and subtle managerial tools. *Lateral or cross-departmental relations* cut across the vertical formal structure of an organization. These cross-functional interfaces, such as liaison personnel, task forces and teams, enable direct contact between managers of different departments that share the same problem, facilitate knowledge exchange, and deepen knowledge flows across functional boundaries and lines of authority. Managers' participation in cross-functional interfaces increases their willingness to cooperate with other managers of different functions, units, and hierarchical levels, and thereby makes them think outside the field of interests of their own job and position. This contributes to a unit's ability to overcome differences, interpret issues, and build understanding about new external knowledge (Gupta & Govindarajan, 2000; Galbraith, 1973; Miller D. , 1987; Floyd & Lane, 2000; Whetten, 1987; Daft & Lengel, 1986). *Informal communication* supplements the formal communication by creating a network of informal and direct personal contacts among managers across units and hierarchical levels within an organization. This connectedness of managers can be enhanced by corporate meetings and conferences, personal visits, management trips, and transfers of managers. The encouraged communication improves the efficiency of knowledge exchange across units, and develops trust and cooperation among managers. In addition, an increase in connectedness leads to a decrease in the likelihood of conflicts regarding goals and activities (Simon, 1997; Nahapiet & Ghoshal, 1998; Jaworski & Kohli, 1993; Rowley *et al.*, 2000; Galunic & Rodan, 1998; Rindfleisch & Moorman, 2001). Third, *socialization* deals with the development of an organizational culture by communicating to its members the way of doing things, its values and goals, and the approaches for decision making. This socialization process is vital for the emergence of shared codes and languages that serve as a base for transferring and

integrating new ideas, and for understanding different experiences, knowledge, and backgrounds of other members of the organization. An organizational culture leads to the congruence of values, beliefs, and needs among individuals within units, and enables the understanding of background knowledge and communication with other members of the organization. It therefore directs to strong social norms and beliefs, and consequently to commitment and compliance concerning exploitation processes of new external knowledge. The process of socialization can be enhanced by training corporate and unit managers, the transfer of managers to different units, and managing the career paths of managers, as well as evaluate and reward them in appropriate ways. (Pfeffer, 1982; Hansen, 2002; Ashforth & Saks, 1996; Feldman, 1981; Adler & Kwon, 2002; Edström & Galbraith, 1977).

The coordination mechanisms described above and summarized in Table 7 range from formal, structural and comparably simple tools to more informal, subtle and sophisticated devices, to accordingly implement increasingly complex strategies. Each coordination mechanism cannot be regarded as a substitute for other mechanisms, but as an additional tool for the implementation of a strategy. Simple strategies usually need little coordination and can therefore be implemented by using formal and structural mechanisms. Complex strategies on the other hand, namely strategies as a result of interrelated, multiunit and multimarket conditions, need a lot of coordination effort, demanding for an implementation through formal and informal mechanisms. This additional effort of coordination is usually more intense in terms of money and time of managers. Consequently an organization seeks to select coordination mechanisms from the list showed in Table 7 starting at the top and going down only as far as necessary for implementing its strategy (Martinez & Jarillo, 1989; 1991; Edström & Galbraith, 1977; Galbraith & Kazanjian, 1986).

### 3 Research gap and current state of research

After the more theoretical literature review, this short chapter leads to the more practical and statistical part of this thesis by giving an overview of the development and current state of research and defining the research gap this paper should contribute to. The development of research during the last centuries, their different streams and positions, concerning strategic planning and coordination mechanisms will be shown as well as recent findings of business sciences. The void of existing research, which this paper will contribute to, will be highlighted to show once more the value of this study.

#### 3.1 Strategic planning

Strategic planning is said to have a positive effect on corporate performance. At least strategic management literature suggests that it is an effective way to improve an organization's performance. Taking a closer look at the empirical literature dealing with the subject of strategic planning and its interrelation with corporate performance, a more diverse picture is revealed. While some studies showed a positive effect of strategic planning on the performance (e.g. Karger & Malik, 1975; Wood Jr. & LaForge, 1979; Bracker & Pearson, 1986; Rhyne, 1986; Boyd, 1991; Capon *et al.*, 1994; Hopkins & Hopkins, 1997; Berry, 1998; Andersen, 2000; Delmar & Shane, 2003; Brinckmann *et al.*, 2010; McIlquham-Schmidt, 2011), some studies were without result or ambivalent (e.g. Herold, 1972; Fulmer & Rue, 1974; Grinyer & Norburn, 1975; Kallman & Shapiro, 1978; Robinson Jr. & Pearce, 1983; Shrader *et al.*, 1984; Pearce *et al.*, 1987; Capon *et al.*, 1994; McKiernan & Morris, 1994; Brews & Hunt, 1999; Homburg *et al.*, 1999; Falshaw *et al.*, 2006; Rudd *et al.*, 2008), and others even showed a negative impact (e.g. Kudla, 1980; Fredrickson & Mitchell, 1984; Fredrickson, 1984). In the beginning of his research on the topic of strategic planning, Hofer (1976) wrote: "Does strategic planning pay? For a substantial time, those involved in the strategic planning area have had to accept as a tenet of faith the belief that strategic planning was indeed worthwhile. This belief was justified with the theoretical arguments of Ansoff and others, but there was no research evidence to provide support for these beliefs". Since then the value of strategic planning for the performance has been subject to a long debate. The overall conclusion after

reviewing existing research was that these studies "were confusing, contradictory, and impossible to reconcile" (Powell, 1992). Pearce *et al.* (1987) stated that, "[e]mpirical support for the normative suggestions that all firms should engage in formal strategic planning has been inconsistent and often contradictory". And Shrader *et al.* (1984) added that, "[t]here is no systematic relationship between long-range planning and organizational performance". In the meantime until today several researchers focused on this issue and tried to explain the planning-performance relationship. And still, recent literature reviews suggest that further research is needed (e.g. Boyd, 1991; Brinckmann *et al.*, 2010; Yaprak, Xu, & Cavusgil, 2011).

### **3.2 Coordination mechanisms**

In the early years of research on coordination mechanisms all studies focused on formal mechanisms of coordination. Two streams could be distinguished; studies on organizational structure (e.g. Cleve & di Scipio, 1959; 1964; Fouraker & Stopford, 1968; Franko, 1976; Davidson & Haspeslagh, 1982; Egelhoff, 1982; Daniels *et al.*, 1984) and studies of centralization of decision making and bureaucratic control, such as formalization, standardization, reporting, and control (e.g. Rocour, 1966; Ryans Jr. & Donnelly Jr., 1969; Aylmer, 1970; Inkson *et al.*, 1970; Schollhammer, 1971; Wiechmann, 1974; Brandt & Hulbert, 1977; Hedlund, 1980; Garnier, 1982;). Until 1975 researchers focused on structural and formal administrative tools; around this time researchers enlarged their focus and included more subtle and informal mechanisms of coordination but still remained interested in formal mechanisms too (Martinez & Jarillo, 1989). Researchers today still focus on informal and more subtle mechanisms while taking into consideration both dimensions. This is due to an increase in using informal mechanisms, especially by multinational companies (Martinez & Jarillo, 1989). Several studies deal with the examination of coordination mechanisms; most of them concentrated on coordination mechanisms in an international environment (e.g. Egelhoff, 1982; 1988; Daniels *et al.*, 1984; Doz & Prahalad, 1984; Martinez & Jarillo, 1989; 1991; Tsai, 2002; Buckley & Ghauri, 2004; Moreno-Luzón & Lloria, 2008; Sinkovics *et al.*, 2011; Yaprak *et al.*, 2011). Martinez & Jarillo (1989) detected that the focus of the research went from simpler devices and unidimensional respectively bidimensional perspectives to

more complex devices and more multidimensional perspectives. This was due to increasing complex environments and external conditions, which forced organization to adapt new coordination tools in addition to already established coordination mechanisms.

Until today, only a few studies focused on the relationship between the integration and coordination of an organization's strategy and its performance (e.g. Hart, 1992; Hart & Banbury, 1994; Andersen, 2004; Yaprak *et al.*, 2011). Hence also in this field of interest, researchers suggest a demand for further examination (e.g. Martinez & Jarillo, 1989, Yaprak *et al.*, 2011).

### **3.3 Research gap**

As already mentioned, this thesis seeks to examine three scientific fields of research that contain ambiguities and unresolved questions. Firstly, the relationship between strategic planning and corporate performance will be examined; to be more specific the impact of formal and informal strategic planning efforts on the performance. Especially their coexistence will be put into focus, as most studies lack either a differentiation between formal and informal activities or do not consider them together.

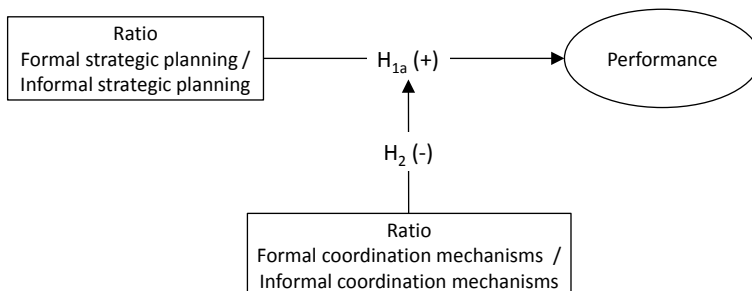
Additionally, only a few studies had the relationship between the integration of different strategy-making modes and performance as their focus (e.g. Hart, 1992; Hart & Banbury, 1994; Andersen, 2000; 2004). Consequently, further research on the relationship between strategic planning, the integration of strategy, and the corporate performance, across industries and international business environments is needed to fill this gap. The present study takes into account all three fields of interest, namely an organization's strategic planning efforts, its organization that serves as an integrator for the strategy through coordination mechanisms, and their impact on the performance. It therefore examines the reciprocity between the triumvirate of strategic planning, the organizational structure and the corporate performance in an international environment. This paper should contribute to the current literature examining strategic planning, coordination mechanism, and their impact on corporate performance based on the example of Austrian companies that are internationally engaged and operate in industries with different levels of environmental turbulence.

## 4 Hypothesis and model development

After the theoretical foundation and highlighting where further research is demanded, this chapter forms the base for the empirical analysis of this thesis. A structural research model will be derived and diagrammed to give the reader an overview of the analyses to be conducted in the next chapter. In this chapter the hypotheses will be developed and formulated to form the base for the statistical examination in order to gain new findings. Furthermore, it includes a description of the key variables that are then needed to test these hypotheses.

### 4.1 Derivation of the structural research model

To clarify the nature of the hypotheses to be developed, Figure 5 shows the structural relationships between the key constructs. The author hypothesizes a main effect, namely a direct effect on the corporate performance by the level of formal strategic planning over informal strategic planning, as well as a moderator effect, that is to say a negative impact on the strength of this relationship by the level of formal coordination mechanisms over informal coordination mechanisms. Since the author hypothesizes in Hypotheses 1b and 1c that there is no effect of formal strategic planning and informal strategic planning on corporate performance in the case of a separate consideration of these two, no structural or graphical representation is made for the concerned hypotheses in this figure.



**Figure 5: Structural relation of key variables**

Source: Author's illustration

After showing the structural relationships between the key constructs, the hypotheses will be developed subsequently and the key variables are going to be explained in detail.

## **4.2 Hypothesis development**

This subchapter deals with the development of the hypotheses. Based on existing knowledge about strategic planning and coordination mechanisms, the author will suggest the associated 4 hypotheses for the structural research model shown above.

### **4.2.1 Strategic planning**

Planning processes have been defined in various ways and there is still no unified definition of formal and informal planning (O'Regan & Ghobadian, 2002). Some researchers measure the formal planning process based on the degree to which certain practices are used, and the existence of a written documentation (Boyd & Reuning-Elliott, 1998).

Planning is assumed to improve the performance of an organization. Even if some studies show a different picture, the majority of researchers found a positive relationship between strategic planning and corporate performance (see 3 Research gap and current state of research). Strategic management literature suggests that the reasons for this positive impact are due to a more efficient decision making, a fostering of the internal and external communication, and an optimization of the organization, among other reasons (Brinckmann *et al.*, 2010). The existing research also holds a variety of arguments against formal strategic planning. It is claimed that formal planning in some cases might become excessively rigid and thereby restrict strategic thinking, as well as it is criticized for lowering the degree of adaptability and flexibility (O'Regan & Ghobadian, 2002; Mosakowski, 1997; Inkpen & Choudhury, 1995). Some even argue that formal planning and plans could easily be substituted with simple principles that guide operational decision making (Davis *et al.*, 2009), or that it would be more effective to use the time to develop the organization instead of focusing on strategic planning (Bhidé, 2000).

Formal and informal planning processes can occur together and complement each other, even in a planned way. Formal techniques can be combined and supplemented with judgment and intuition in the process of problem solving and strategic planning (Mintzberg, 1990; 1994b). Previous studies also provide proof for the coexistence of formal and informal strategic planning processes (Sinha,

1990; Grant, 2003). Especially under fast-moving and unstructured circumstances, such as turbulent environments or early internationalization, strategies tend to emerge. In these cases, it is suggested that a strategic plan should rather be a direction than a detailed plan; strategies should be flexible to be able to adapt to a changing environment (Mintzberg & McHugh, 1985; Grant, 2003; Ansoff, 1984; Wijnolst & Wergeland, 2009; Mintzberg, 1994a). Strategic management literature suggests the existence of an adaptation to external change resulting from unplanned decision processes that forms an internal selection mechanism (Burgelman, 1994; 1996). And a lack of formal procedures should not be interpreted as a lack of strategy or strategic planning. These organizations often make use of different approaches to plan strategically that are more of an implicit rather than explicit nature (Bell *et al.*, 2004). And Eisenhardt (1989) even points out the advantages of “unpredictable, uncontrolled, inefficient, proactive, continuous and adverse” strategic decision making processes. Consequently, it can be assumed that a lack of formal strategic planning is compensated with the emergence of informal strategic planning activities, as well as special circumstances favor an increase of informal planning.

Many studies define strategic planning as a continuum between formal planning and no planning (e.g. Brinckmann *et al.*, 2010; Robinson Jr. & Pearce, 1984b; Schwenk & Shrader, 1993). There is scientific evidence that even if firms do not plan formally, or just to some extent formally, they still do planning. Empirical evidence proves the coexistence of formal and informal strategic planning processes (Grant, 2003). While strategic activities might be induced by the organization's corporate strategy, some autonomous strategic activities can emerge, namely activities that fall outside the scope of a formal strategy planning concept (Burgelman, 1983; Bell *et al.*, 2004; Stone & Brush, 1996). Consequently, and based on the coexistence of formal and informal strategic planning, the author hypothesizes:

**Hypothesis 1:** Strategic planning will have a positive effect on corporate performance in the case of an overall consideration of formal and informal strategic planning.

More specifically, the hypotheses to be tested in this study state:



**Hypothesis 1a:** The relationship between strategic planning and corporate performance is positive when formal and informal strategic planning are considered together and when the degree of formal strategic planning outbalances the degree of informal strategic planning - across different industries, company sizes and external environments.

**Hypothesis 1b:** Formal strategic planning will have no effect on corporate performance in case of a separate consideration from informal strategic planning.

**Hypothesis 1c:** Informal strategic planning will have no effect on corporate performance in case of a separate consideration from formal strategic planning.

#### **4.2.2 Coordination mechanisms**

Coordination mechanisms are defined as any kind of administrative tool that serves for achieving integration throughout an organization and its different units (Martinez & Jarillo, 1989). They can generally be classified as formal and informal mechanisms. While formal mechanisms are established consciously and with intention, informal mechanisms coordinate the individuals of an organization in a more spontaneous manner (Moreno-Luzón & Lloria, 2008).

It is important to note that these mechanisms are not exclusive tools of organizations that pursue activities in an international environment. Since every organization has a certain degree of specialization and differentiation among its parts, they need to be coordinated (Martinez & Jarillo, 1989; Buckley & Ghauri, 2004). Especially in a multinational environment, however, there is an increased demand to coordinate operations more closely that are both geographically and technologically further apart. While many managers have already understood the importance of the integration and coordination of all activities of their national subsidiaries under a common strategy, implementing and coordinating such global strategies has shown to be substantially challenging (Quelch & Hoff, 1986). Global integration, namely the coordination and control of business operations and functions across different business units and also across national borders, serves as the base to develop a combination of comparative and competitive advantages (Kim *et al.*, 2003; Roth *et al.*, 1991). Coordination of a cor-

porate strategy allows an organization to distribute its value-creating activities across business units and national markets by coordinating these activities throughout the organization towards a unified goal, while integration seeks to implement and establish them (Cray, 1984; Rangan & Sengul, 2009). A high degree of coordination means that activities inside an organization are tightly related and integrated across units and locations (Roth, 1992).

Also during the life cycle and growth of a company, changes take place in strategy, organizational structure and communication throughout the company. It is assumed that as an organization grows, also organizational complexity increases and communication channels lengthen, which consequently leads to the development of more formalized processes (Perks, 2006; Hanks *et al.*, 1993; Kazanjian, 1988). The formalization of processes and use of formal coordination mechanisms is therefore regarded as a result of firm growth and also vital for sustaining firm growth (Berry, 1998). While it is suggested by literature that strategy, organizational structure, and integration and coordination efforts, have a direct impact on corporate performance, also their interaction mediates and even increases this influence on performance (Venkatraman & Camillus, 1984; Xu *et al.*, 2006; Lim *et al.*, 2006; Yaprak *et al.*, 2011).

Unlike formal mechanisms that are established consciously (and with intention), informal mechanisms appear in a more spontaneous manner to coordinate the individuals of an organization (Moreno-Luzón & Lloria, 2008). Informal coordination mechanisms are concerned with emergent social properties and influence trans-border relations across different units (Tsai, 2002). Coordination mechanisms occur hierarchically, going from formal, structural and simple tools to more informal, subtle and sophisticated devices, adjusted proportionally to increasingly complex strategies. They are not substitutes for other mechanisms, but an additional tool for the integration and implementation of a corporate strategy. Especially in an international environment and cross-border business, complex strategies, resulting from interrelated, multiunit and multimarket conditions, demand more coordination effort and integration through formal and informal mechanisms (Martinez & Jarillo, 1989; 1991; Galbraith & Kazanjian, 1986).

This study concentrates on organizations that engage in business activities abroad and are faced with an international environment. It can be assumed that with a higher degree of internationalization and company size, the complexity of an organization's strategy increases and consequently the need for informal coordination mechanisms grows as well. Thus, the author of this thesis proposes that:

**Hypothesis 2:** The strength of the relationship between strategic planning and corporate performance is influenced negatively by a higher proportion of formal coordination mechanisms in relation to informal coordination mechanisms.

### **4.3 Measures**

In this subchapter, the key variables as shown in Figure 5 will be explained in detail. The key variables consist of the performance of an organization as the dependent variable, formal and informal strategic planning as the independent variables, formal and informal coordination mechanisms as the variables having a moderating effect, and the five control variables included in the evaluation of the structural research model and the suggested hypotheses. All variables were obtained from the questionnaire.

#### **4.3.1 Dependent variable**

To measure the *performance* of an organization, the author adapted an existing scale developed by Wirtz & Becker (2006). This seemed especially appropriate, as many companies may be reluctant to share objective financial performance data with outsiders. Additionally, secondary data is less readily available; usually only for publicly traded companies and companies with disclosure obligation (Dess & Davis, 1984; Homburg *et al.*, 1999). To avoid item-non-response (Armstrong & Overton, 1977) a different approach had to be used. Instead of asking for numbers concerning the organization's performance, this existing scale by Wirtz & Becker provides a quantified perception of success.

Scales of corporate success were constructed by combining two dimensions: an objective financial dimension and subjective motive-driven success dimension (Wirtz & Becker, 2006; Napier, 1989). This approach is supported by the literature, as perceptual performance measures have been proving to have a high

correlation with objective financial performance measures, and therefore confirm its validity (e.g. Homburg *et al.*, 1999; Dess & Davis, 1984; Hart & Banbury, 1994; Naman & Slevin, 1993; Venkatraman & Ramanujam, 1986; 1987). The objective financial measures included the return on investment (ROI), return on equity (ROE), operating profit margin (return on sales, ROS), and relative company value. Participants were asked to assess to what extent these figures changed over the last few business years until today on a five-point Likert scale, ranging from “very negative” to “very positive”. In comparison to the objective financial performance, the subjective motive-driven success dimension takes into consideration the management's goals to maximize value. Participants had to indicate their agreement on a five-point Likert scale, ranging from “strongly disagree” to “strongly agree”, on statements related to corporate goal setting and corporate goal achievement. The questions included an assessment of the corporate goals and their achievement, the organization's position after achieving their goals, and an overall impression about the performance's success.

An exploratory factor analysis was conducted with Varimax rotation with all 8 items from the survey, as shown in Table 8. Two summated scales could be constructed, namely the already mentioned objective financial dimension and the subjective motive-driven success dimension. A list of the complete scales and items used for measuring the performance of an organization is provided in the Appendix.

A Cronbach's alpha (Cronbach, 1951) was calculated to prove for reliability, which was  $\alpha = 0.92$ . Most researchers claim that a Cronbach's alpha should at least be 0.70 (e.g. Nunnally, 1978), some even argue that it should not be under 0.80 (Cortina, 1993), depending on the number of items. The reliability for the performance measurement construct can therefore be regarded as excellent.

Dependent variable - Corporate performance		
Items <sup>a</sup>	Factors <sup>d</sup>	
Objective financial success <sup>b</sup>	1	2
Return on investment (ROI)	0.87	0.25
Return on equity (ROE)	0.82	0.26
Operating profit margin/Return on sales (ROS)	0.79	0.38
Relative company value	0.76	0.35
Subjective motive-driven success <sup>c</sup>		
The goals set were achieved.	0.41	0.73
The goals set were the right corporate decision.	0.26	0.81
The company is better after achieving its goals than it was before.	0.22	0.85
An overall view suggests that the corporate performance was successful.	0.42	0.81

<sup>a</sup> All items were measured on a five-point scale; 1 = very negative to 5 = very positive for objective financial success items; 1 = strongly disagree to 5 = strongly agree for subjective motive-driven success.

<sup>b</sup> Objective financial success: To what extent have the following figures been changing compared to the past years?

<sup>c</sup> Subjective motive-driven success: To what extent do you agree with the following statements?

<sup>d</sup> Extraction method: principal component analysis. Rotation method: Varimax with Kaiser normalization.  
Explained variance: 75.53

**Table 8: Dependent variable – Corporate performance**

### 4.3.2 Independent variables

To measure *formal strategic planning*, a ten item scale was developed based on existing scales and research (e.g. Robinson Jr. & Pearce, 1983; Hopkins & Hopkins, 1997; Armstrong, 1982; Grant, 2003; Boyd & Reuning-Elliott, 1998). This scale contains several determinants that assess the extent to which organizations conduct and take advantage of formal strategic planning activities. This includes the specification of vision, mission, short-term and long-term goals, as well as the preparation of different analyses, such as trend analysis, competitor analysis, ongoing evaluation, action plans etc. (Boyd & Reuning-Elliott, 1998). Furthermore, the author added the different stages of the formal strategic planning process to the scale, namely formulating objectives, generating and evaluating strategy and strategy alternatives, and implementing and monitoring the results (Armstrong, 1982). To measure *informal strategic planning*, the author created a six item scale based on existing research. Following a review of previous research, no appropriate scales could be identified. Academic and practitioner sources, however, provided a large pool of items (e.g. Grant, 2003; Rudd *et al.*, 2008; Berry, 1998; Bracker & Pearson, 1986), which were subsequently included to assess the extent to which organizations make use of informal plan-

ning actions. The items determine the influence of the experience and intuition of the decision makers (Bracker & Pearson, 1986), flexibility and informal decisions, the organization's administration (Rudd *et al.*, 2008), frameworks instead of strict rules (Davis *et al.*, 2009), short-term planning (Berry, 1998), and the personal goals of the decision makers (Carland *et al.*, 1989). A reliability test resulted in some items being dropped in order to achieve an acceptable reliability.

Despite the coexistence of formal and informal strategic planning as suggested by existing research (e.g. Sinha, 1990; Grant, 2003), both scales were constructed and tested separated from each other, following existing research. By doing so the author of this thesis intended to examine both formal and informal strategic planning isolated from each other as well as their interdependency to be able to respond to past studies. Complete lists of the scales and items used for the independent variables are shown in the Appendix.

#### **4.3.3 Moderating variables**

A moderator is defined as either a qualitative or quantitative variable that "affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable" (Baron & Kenny, 1986). As suggested by literature (e.g. Martinez & Jarillo, 1989; 1991; Galbraith & Kazanjian, 1986), coordination mechanisms facilitate and enhance the implementation and integration of strategy and strategic planning activities. Especially complex strategies have an increased demand for more coordination efforts and integration within an organization (Martinez & Jarillo, 1989). Based on these findings, formal and informal coordination mechanisms were included as moderating variables in this study.

To measure *formal coordination mechanisms*, a scale developed by Martinez & Jarillo (1989) was used, expanded with some items from other studies (e.g. Martinez & Jarillo, 1991; Jansen *et al.*, 2005; 2009; Yaprak *et al.*, 2011; Ghoshal *et al.*, 1994). The final eight item scale evaluates which formal coordination mechanisms an organization uses and to what extent. The items refer to departmentalization and hierarchy, centralized decision making, formalization and standardization, planning and budgeting, and control (Martinez & Jarillo, 1989), as well as communication of corporate goals and values (Jansen *et al.*,

2005), and the structure of communication (Ghoshal *et al.*, 1994). The scale to measure *informal coordination mechanisms* was mainly based on an existing scale by Martinez & Jarillo (1989), extended with items from other studies (e.g. Martinez & Jarillo, 1991; Yaprak *et al.*, 2011; Jansen *et al.*, 2005; Jansen *et al.*, 2009; Siggelkow & Levinthal, 2003; Tsai, 2002). Finally, a five item scale was derived to assess if an organization makes use of informal coordination mechanisms and how intensively they are used. The items are related to direct and lateral communication among managers, informal networks, socialization (Martinez & Jarillo, 1989), decentralized decision making (Siggelkow & Levinthal, 2003), formation of temporary or fixed project teams (Jansen *et al.*, 2009), and opportunities to informally exchange knowledge with others (Tsai, 2002). A reliability test resulted in some items being dropped in order to achieve an acceptable reliability.

As already mentioned before, coordination mechanisms occur hierarchically, ranging from formal, structural and simple tools to more informal, subtle and sophisticated devices, proportionally adjusted to increasingly complex strategies. They do not substitute other coordination mechanisms, but provide an additional tool for the integration and implementation of a corporate strategy. Especially complex strategies, such as in an international environment and cross-border business, demand more coordination effort and integration through more sophisticated mechanisms (Martinez & Jarillo, 1989; 1991; Galbraith & Kazanjian, 1986). Nevertheless were both scales developed and measured independently from each other; firstly, due to their very different nature, and secondly, with the intention to contribute to research concerning formal and informal coordination mechanisms and furthermore to be able to assess their interaction. A list of the complete scales and items used for measuring the moderating variables is provided in the Appendix.

#### **4.3.4 Control variables**

An organization's business activities in foreign countries may influence their strategy and performance. Hennart (2011) writes about the theoretical basis and the assessment of the activities in foreign countries as the "relationship between the size of a firm's foreign footprint (its multinationality) and its performance [...] focusing on size of a firm's foreign footprint". He also argues that

concerning multinationality, "bigger is not better". More important is a global fit with global strategy, the organization, and institutional characteristics of the country (Hennart, 2011). It is argued that there is a positive relationship between multinationality and performance, since it allows companies to make use of economies of scale, gain better and more flexible access to resources, spread risk, and access more diverse knowledge and know-how. Although all of these benefits have offsetting costs as well, it is assumed that on the whole, the benefits outweigh the costs (Hennart, 2011; Contractor, 2007). To explain variations in international business strategies and operations across countries, strategic management literature uses the concept of "distance". The more distant a host country is from the home country, the more it has to adjust itself to differences in laws and regulation, culture, languages, and organizational practices and customs. To be able to manage these differences, the organization has to adapt its entry strategies, organizational structure, and internal processes (Johanson & Vahlne, 1977; Kogut & Singh, 1988; Kostova & Roth, 2002). The choice of entry mode is therefore one of the most important strategic decisions for companies operating in an international environment, or for companies seeking to do so (Anderson & Gatignon, 1986; Hill *et al.*, 1990).

An entry mode is a structural agreement that allows an organization to implement its business and product market strategy in a host country. A company can decide just to carry out their marketing operations in foreign markets via export modes, or to carry out both production and marketing in the host country. The latter can be done by the organization itself, with a wholly owned subsidiary, or cooperation together with other organization, through joint ventures or contractual relationships (Sharma & Erramilli, 2004). Entry modes can also be divided into equity and non-equity, based on the investment requirements and control involved. Equity modes, such as Joint ventures, Greenfield and Brown-field investments, and acquisitions, regularly demand for a higher level of control and a greater investment. Non-equity modes, such as licensing, franchising, alliances and other cooperation contracts, on the other hand, require lower levels of control and are much less investment intensive (Pan & Tse, 2000; Anderson & Gatignon, 1986). Consequently, to control for internationalization, the author of this thesis included the four entry modes: *export, license/franchising, joint venture/cooperation, and subsidiary*.



To control size effects (Mom *et al.*, 2009), the *company size* based on the natural logarithm of employees throughout the whole organization was included. This is suggested by existing research, as company size is said to be a critical contingency variable in the field of strategic management research and theory development (Robinson Jr. & Pearce, 1983).

#### **4.3.5 Measurement testing and summary of hypotheses**

The reliability for the scales assessing strategic planning, coordination mechanisms and performance were initially assessed using coefficient alpha (Cronbach, 1951) that assumes an equal contribution of each indicator to the overall variance observed (Homburg *et al.*, 1999). For most of the measures the coefficient alpha was greater than the recommended standard of 0.70 as suggested by Nunnally (1978).

After deriving and assessing the key variables as illustrated in the structural research model in Figure 5, the hypotheses are summarized hereinafter, before they are going to be tested based on empirical data from the conducted survey:

**Hypothesis 1a:** The relationship between strategic planning and corporate performance is positive when formal and informal strategic planning are considered together and when the degree of formal strategic planning outbalances the degree of informal strategic planning - across different industries, company sizes and external environments.

**Hypothesis 1b:** Formal strategic planning will have no effect on corporate performance in case of a separate consideration from informal strategic planning.

**Hypothesis 1c:** Informal strategic planning will have no effect on corporate performance in case of a separate consideration from formal strategic planning.

**Hypothesis 2:** The strength of the relationship between strategic planning and corporate performance is influenced negatively by a higher proportion of formal coordination mechanisms in relation to informal coordination mechanisms.

## 5 Empirical study and results

After deriving the structural research model, developing the hypotheses, and formulating the key variables, this chapter describes the empirical part of this thesis. The methodology of this study forms the first subchapter, which includes a description of the sample, of how the data was collected, and what the design of the questionnaire used in the mail survey is. Afterwards in the next subchapter, the statistical analysis will be conducted. Before testing the hypotheses and evaluating the structural research model, descriptive statistics will give detailed information about the companies that participated in the survey. Test for validation will be carried out to ensure that there is no problem with bias in the sample and constructs. The already mentioned testing of the hypotheses and the evaluation of the derived structural research model will form the core of this chapter. The outcomes will then be summarized and a final research model that comprehends the most important findings will be established. This chapter is completed with the discussion and conclusion of the conducted research and findings.

### 5.1 Methodology

In this subchapter the author of this thesis provides details about the methodology of this study. This includes a detailed description of the sample and a short summary of the Austrian economy and business statistics. The process of data collection and the design of the questionnaire used in the mail survey will be demonstrated as well.

#### 5.1.1 Sample description

The present study focused on organization that fulfilled the two following requirements: having their seat of business in Austria, and being involved in business activities in foreign countries. Not considered as necessary requirements were the company size, the legal form of the organization, and the industry or industries where the organization is economically active. Furthermore, of no importance for being selected as a participant in this survey was how the organizations conduct business abroad, meaning their entry modes into foreign markets.

The European Commission (2003) defined that businesses with less than 10 employees are classified as micro companies; businesses with less than 50 employees as small-sized businesses. Organizations with less than 250 employees are middle-sized companies; with a higher number of employees, companies qualify as a large company. According to statistics published by the Austrian Economic Chambers (2012), by the end of the year 2011 409,194 companies were registered in Austria. 92.3 % out of these were classified as micro companies; 6.2 % as small-sized businesses; and only 1.5 % had more than 50 employees in their organizations, which amounts for 6,051 companies that are not micro or small-sized business in Austria. The micro business sector provides work for 15.7 % of Austria's employed population; 22.4 % fall upon the small-sized businesses; and all organization employing more than 50 people contribute 61.9 % of the whole employed population.

In the year 2011, Austria imported goods worth 103.76 billion EUR while exporting goods with a value of 122.16 billion EUR. 71.3 % of all imports and 69.7 % of all exports were realized within the EU area. Trade with Asia amounted for 11.5 % of imports and 9.1 % of exports; the Americas 4.2 % of imports and 7.6 % of exports; and finally 1.7 % of imports and 1.2 % of exports were made with Africa. In 2011 Austria's direct investments abroad amounted for a total net investment of 21,905 million EUR, which adds up to a total stock of direct investment of 140,673 m EUR by the end of last year. Austria's economy made active direct investments to the amount of 14,823 m EUR in the EU 27 area, 1,495 m EUR in the Americas, 1,081 m EUR in Asia; and 186 m EUR direct investment in Africa. The Austrian economy grew in 2011 3.1 % in terms of real GDP compared to the year before, by contrast with 1.5 % economic growth within the EU 27 area during the same period of time. Concerning the current balance in percent of the GDP in the year 2011, Austria realized 1.9 % compared to 0 % in the EU 27 area.

### **5.1.2 Data collection**

As a first step, the target group of the survey had to be defined. Potential candidates were companies with their seat of business in Austria that are engaged in business abroad. The size of the company, its legal form, the industry, and internationalization form, were not relevant in order to examine the present topic

on a larger scale (Andersen, 2000). A total of 2,078 contacts of executive managers of 1,047 companies were extracted from a database providing information about companies in Austria. Executive managers were chosen because they are supposed to provide the source of information with the greatest knowledge of the organization (Snow & Hrebiniak, 1980). After sorting out multiple entries, the number of addresses remained 2,047. The already drafted questionnaire (see 5.1.3 Questionnaire design) was established with an online survey tool. Afterwards, a pretest was carried out by 5 persons of different professional and educational backgrounds to ensure understandability and consistency. After slight adjustments of the questionnaire based on the feedback derived from the pretest, the address data was implemented. Then the questionnaires were sent out to the selected participants in three waves including two reminders, each with a gap of one week. To ensure that only selected people have access to and fill out the questionnaire, each of them got a unique ID number. The participants were offered to receive the results of this research. Furthermore, it was guaranteed that the results of this survey will be treated anonymously; and a closing date was set to enhance quicker responses. Out of the final sample 145 addresses turned out to be invalid; a non-achievement rate of 7.08 %. From the remaining 1902 contacted persons, 336 accessed the online questionnaire by clicking on the link in their e-mail correspondence, a rate of 17.67 %. A total of 139 people finished the questionnaire, which is a 41.37 % rate compared to the total number of people accessing the online questionnaire, and a 7.31 % response rate in total compared to all contacted persons. Additionally one person sent the filled out questionnaire via fax. Out of these 140 questionnaires, 19 had to be excluded from further examination because of more than 10 % missing data. To compute the missing data-values below a margin of 10 %, a likelihood ratio test of the assumption of completely at random (MCAR) test provided by Little (1988) was executed in order to exclude bias caused by missing data. In case that the p value is significant at the 0.05 level, data are not missing completely at random. The MCAR test did not show evidence against random missing values (Sig. = 0.522), which means that the missing values did not depend on the value of variables of the present data set (Little, 1988). Consequently, an expectation-maximization algorithm was used to calculate the missing data. The final data set therefore comprised a total of 121 completed questionnaires,

which determines a rate of 6.36 % in total compared to people that received the questionnaire. As most studies on strategic planning processes were based on questionnaire data with samples sizes between 48 (Grinyer *et al.*, 1986) and 199 firms (Lindsay & Rue, 1980), the present data sample size of this study could be regarded as satisfying.

### **5.1.3 Questionnaire design**

The data for the present study was collected by using a self-completion questionnaire sent electronically to potential participants. As this kind of survey usually has a low response rate, a few suggestions had to be considered. Dillman (1983) observed that an attractive layout is likely to increase the response rate, while trying to make a questionnaire appear shorter through different formatting, such as reducing margins or the space between questions, might lead to a counterproductive higher non-response rate. The author of the present study therefore paid special attention that the layout was “easy on the eye” and facilitated the answering of all questions, such as a consistent use of a chosen format (Dillman, 1999). Based on these layout rules, a questionnaire was developed that consisted of four chapters. A general and fairly short introduction explained the topic of the study itself, information about the author of the research project, protection of personal data, and hints about the structure of the questionnaire including some guiding principles on how to fill out the form. At the beginning of each chapter a short explanation was provided, giving a short but precise explanation about the certain topic of the current chapter. The first three chapters, dealing with issues related to strategic planning, coordination mechanisms, and corporate performance, were designed of closed questions each with a five-point Likert scale with a horizontal format. Clear instructions were given above each battery of questions on how to respond. The fourth chapter dealt with information about the demographics of the respective organization. It included again closed questions with the exception of one open question regarding the job position of the participant. Optionally, every participant had the possibility to request the outcome of the present study by leaving their email address. This data was collected separately from the previous part of the questionnaire so that no inference was possible. The scales and items used in the questionnaire are shown in the Appendix.

## **5.2 Results of the empirical analysis**

This subchapter forms the empirical core of this thesis, as it includes descriptive statistics, a validation of the data, and especially the testing of the suggested hypotheses. Based on the outcome, a final structural research model will be developed that comprises the main findings of this study.

### **5.2.1 Descriptive statistics**

In the survey, respondents were asked to indicate their company size based on the number of employees, both the people employed in Austria and the total number of employees in all their locations worldwide, as shown in Table 9. In the present study 45.5 % of the companies in Austria are micro and small businesses, while 54.5 % are middle and large companies. This balance is a pleasing outcome concerning representativeness, as the aim is to examine the strategic planning behavior in all kinds of organizations of all sizes and throughout all industries. Since the dimensions in global business have to be bigger in relation to number of employees than compared to employees just in Austria, the scale had to be extended by introducing larger numbers. 38.8 % of all participants in this survey answered, that their companies employ less than 50 people worldwide; organizations with an employee rate between 50 to 200 employees account for 25.6 %; and Austrian large companies with more than 200 employees formed a part of 35.6 % in this survey.

In addition, Table 9 shows the degree of internationalization of the companies and their entry modes for doing business globally. Since it was a requirement for the companies to be located in Austria, it was assumed and then unsurprisingly affirmed that all of them are operating in Central Europe. In the questionnaire, Europe was split up into five parts: Central, Northern, Eastern, Southern, and Western Europe. Beside Austria, the region of Central Europe furthermore included Germany, Switzerland, Liechtenstein, Poland, Czech Republic, Slovakia, Hungary and Slovenia. To increase comparability with other continents, the rest of Europe without Central Europe was merged into Europe (w/o CE). The outcome was that 60.3 % of all participants operate in Europe excluding Central Europe. A total of 54 companies, which amounts to 44.6 %, answered that they do business in Asia. Taking into consideration the business activities

overseas, 38 % of the companies are involved in North America and 31.4 % in Middle and South America. Australia and Oceania make up 22.3 %; Africa 14 %.

The different options of the participants to conduct business abroad are shown in descending order. The favored entry mode by far is exporting, thus marketing and direct sale of products and services from the home country to countries abroad, with a total of 83.5 %. More than 56 companies have subsidiaries abroad, which amount for 46.3 %. Anyway 21.5 % engage in global Joint Ventures and cooperation, such as Strategic Alliances. 6.6 % make use of licensing or franchising to operate in international markets.

Descriptive statistics – Degree of Internationalization, Entry mode, Company size					
Degree of Internationalization			Company size (employees)		
Region	Frequency	Percent	Austria	Frequency	Percent
Central Europe	121	100 %	Less than 10	19	15.7 %
Northern Europe	43	35.5 %	11 – 50	36	29.8 %
Eastern Europe	48	39.7 %	50 – 100	19	15.7 %
Southern Europe	46	38.0 %	More than 100	47	38.8 %
Western Europe	56	46.3 %	<b>Global</b>	<b>Frequency</b>	<b>Percent</b>
Europe (w/o CE)	73	60.3 %	Less than 10	17	14.0 %
Africa	17	14.0 %	11 – 50	30	24.8 %
Asia	54	44.6 %	50 – 100	17	14.0 %
Middle and South America	38	31.4 %	100 – 200	14	11.6 %
North America	46	38.0 %	200 – 500	10	8.3 %
Australia and Oceania	27	22.3 %	More than 500	33	27.3 %
Entry mode					
Type of entry mode	Frequency	Percent			
Export	101	83.5 %			
Subsidiary	56	46.3 %			
Joint Venture/Cooperation	26	21.5 %			
License/Franchising	8	6.6 %			

**Table 9: Descriptive statistics – DoI, Entry mode, Company size**

It was asked about the reasons for being economically active in countries abroad in order to learn more about the motivation of the participating companies to operate in foreign markets. The results are summarized in Table 10 and already in descending order based on the frequency of answers. The two main reasons for internationalization with a percentage of 81.8 % and 75.2 % are

raising growth of the organization and expanding to new markets, as well as increasing profits respectively turnover. Another reason for going international concerns the home market. Organizations seek to go abroad when their home markets are saturated or the pressure of competition in the home market grows too strong. In the present survey 33.9 % of the participants indicated this as their motives, which is closely followed by 28.9 % of the companies operating abroad to accommodate the pressure to internationalize due to a gradual globalization and a globalization of markets. The reduction of costs based on economies of scale, lower production costs and wages etc. was a motive for 24 participating companies. Gaining access to resources, technology and know-how is only a motivation for 10.7 % of the organizations, while only 3.3 % went abroad for tax or law reasons. The three remaining motives were split between two companies following their clients to foreign markets, and one firm serving niche markets and therefore operating abroad.

Reasons for Internationalization		
Reasons	Frequency	Percent
Growth of organization/Expansion to new markets	99	81.8 %
Increase profit/turnover	91	75.2 %
Saturation of home markets/Competitive pressure in home markets	41	33.9 %
Pressure to internationalize/Globalization and global markets	35	28.9 %
Reduction of costs	24	19.8 %
Access to resources/technology/know-how	13	10.7 %
Tax or legal grounds	4	3.3 %
Other	3	2.5 %

**Table 10: Descriptive statistics - Reasons for internationalization**

The intention of the author of this thesis was to reach predominantly people from the top management of the company, namely CEOs, owner-managers and executive managers in general, as they have to deal with strategic planning issues and have the necessary overview to answer the questionnaire. Responses were received from 74 CEOs, 6 owner-managers, 6 managing partners, and 6 executive managers. This makes a 76.1 % of all participants being part of the executive board. Furthermore Floyd & Wooldridge (1992) suggest that market related managers are generally involved in the strategy process. In the present study, 10 managers of the middle management had responsibilities directly related to markets or strategy, such as Head of Marketing, Head of Sales, and



Head of Strategy, which amounts to 8.3 %. Additionally, it is assumed that the assistants to the CEO usually almost have the same view and insights as the CEO him- or herself. Including them, the cumulated percentage makes up approx. 88 % of all the participants. The remaining percentage is distributed between 4 participants belonging to the middle management and 3 participants of the operational management; 7 participants did not indicate their job position. Summing up, approx. 88 % of all respondents are part of the executive board and have the knowledge and involvement related to strategic planning that is needed to answer the questionnaire of this study. The intention of this study can therefore be seen as fulfilled.

Job position of respondents		
Job position	Frequency	Percent
CEO	74	61.1 %
Owner-manager	6	5.0 %
Managing partner	6	5.0 %
Executive Management other (CFO, CMO, VP etc.)	6	5.0 %
Total Executive board/Top Management	92	76.1 %
Assistant to CEO	5	4.1 %
Middle Management (Head of, Director etc.)	14	11.6 %
Operational Management	3	2.4 %
Missing	7	5.8 %
Total	121	100 %

**Table 11: Descriptive statistics - Job position**

After describing the main features of the organizations that participated in the survey, follows the development of the statistical model, which will be the basis for the data analysis.

### 5.2.2 Validation and potential biases

Common method variance, a measurement error that is rather caused by the measurement method than the constructs the measures represent, is a potential problem in behavioral research, as argued by Podsakoff *et al.* (2003). Method bias in general is one of the main sources of measurement error, which threatens the validity of the conclusions about the relationships between measures. Bagozzi & Yi (1991) suggest that one of the main sources of systematic measurement error is method variance based on a variety of different sources. Method effects can be interpreted within the meaning of response bi-

ases, such as halo effects, leniency effects, or yea- and nay-saying, among others. One of the most widely used techniques addressing the issue of common method variance is the Harman's single-factor test. All constructs of the study are loaded into an exploratory factor analysis to determine the number of factors, which are necessary to account for the variance in the variables. The assumption is that if either one single factor emerges from the factor analysis or one general factor makes up the majority of the covariance among the measures, a common method variance is present (Podsakoff *et al.*, 2003). To assess the construct validity of the measures, a Harman's single factor test was executed based on an exploratory factor analysis (extraction method: principal component analysis; rotation method: Varimax with Kaiser normalization; as suggested by Mom *et al.*, 2009). The results indicate that the measures were constructed appropriately. 10 factors emerged with an eigenvalue greater than one, and no item cross-loading was greater than 30 as the first factor with an eigenvalue of 7.63 made up only 21.18 of the Variance. Both assumptions can therefore be rejected and according to the Harman's single-factor test no common method bias was present in this study.

As a next step the data sample was tested for late and non-response bias. A non-response occurs when certain members of the sample refuse to cooperate, cannot be reached, or cannot supply required data. Especially mail surveys have been criticized for nonresponse bias. It has to be determined, if persons who did not answer the survey, or did answer the survey with a time lag, differ substantially from those that responded to the survey. In case of different results, the study could not be generalized and would not allow to state how the entire sample would have responded (Armstrong & Overton, 1977; Baur, 1947). A solution to find out about non-response bias suggested by Armstrong & Overton (1977) is based on the assumption that comparing participants that responded quickly with those that responded late will be similar to participants that responded late and people who did not respond. Thus non-respondents are expected to answer similarly compared to late respondents. As the present survey was sent to participants in three waves, this technique seemed to be appropriate to determine if a late and non-response bias was given in the survey. A Kruskal-Wallis test was conducted on early and late responses. The outcome demonstrated that none of the variables tested produced statistically

significant results ( $p < 0.05$ ) between the early and late response and therefore nonresponse bias may not be a problem.

### 5.2.3 Evaluation of the structural research model and hypotheses

A multiple regression analysis was conducted to test for the relationship between strategic planning and performance. Table 12 presents descriptive statistics and correlations for all variables. The results of the regression equations are shown in Table 13. To examine multicollinearity, the variance inflation factor (VIF) for each of the regression equations was calculated. VIFs are between 1.892 and 1.043, which is below the rule of thumb of 10 (O'Brien, 2007). Therefore multicollinearity may not be a problem. The regression equations were tested further regarding the presence of autocorrelation. A Durbin-Watson statistic (Durbin & Watson, 1950; 1951) calculates a coefficient between 0 and 4; a value close to 2 means that there is no autocorrelation. The computed values for the three models were 2.271, 2.235, and 2.281; thus autocorrelation does not seem to be a problem. Furthermore, the regressions were tested for heteroscedasticity (White, 1980; Breusch & Pagan, 1979) and normality (Razali & Wah, 2011).

Means, Standard Deviations, and Correlations								
	1.	2.	3.	4.	5.	6.	7.	8.
1. Formal / Informal strategic planning	1							
2. Formal / Informal coordination mechanisms	.118	1						
3. (F. / Inf. strat. pl.) x (F. / Inf. coord. mech.)	.091	.053	1					
4. Entry mode: Export	-.093	-.155	-.016	1				
5. Entry mode: License/Franchising	-.062	-.097	-.160	.029	1			
6. Entry mode: Joint Venture/Cooperation	.117	-.167	-.082	.070	.185*	1		
7. Entry mode: Subsidiary	.200*	.105	.051	-.256**	-.047	.120	1	
8. Company size global <sup>a</sup>	.360**	.172	.027	-.154	-.099	-.027	.625**	1
Mean value	1.1614	.9863	-1.0474	1.83	1.07	1.21	1.46	1.1083
Standard deviation	.39078	.33148	5.13107	.373	.250	.412	.501	.61279

N = 121; \*\* = Correlation is significant at the 0.01 level; \* = Correlation is significant at the 0.05 level

<sup>a</sup> Logarithm of number of employees worldwide

**Table 12: Means, Standard Deviations, and Correlations**

Concerning the control variables the full Model 3 of Table 13 shows that there was no significant relation to the corporate performance: EM Export ( $\beta = -0.068$ ,  $p = ns$ ), EM License/Franchising ( $\beta = -0.019$ ,  $p = ns$ ), EM Joint Ven-

ture/Cooperation ( $\beta = 0.131, p = \text{ns}$ ), EM Subsidiary ( $\beta = -0.022, p = \text{ns}$ ), and Company size global ( $\beta = 0.044, p = \text{ns}$ ).

Model 3 of Table 13 shows the main effects referring to hypothesis 1a. It shows that the ratio of formal to informal strategic planning relates positively to the performance ( $\beta = 0.199, p = < 0.05$ ), thus supporting hypothesis 1a. Formal strategic planning and informal strategic planning considered separately were not significantly related to the performance ( $\beta = 0.114, p = \text{ns}$ ;  $\beta = -0.125, p = \text{ns}$ ). These results provide support for hypotheses 1b and 1c. It is also interesting to learn that while the ratio of formal and informal strategic planning relates significantly at the 5 percent level to performance, there is no significant effect from the ratio of formal and informal coordination mechanisms on the performance. ( $\beta = 0.034, p = \text{ns}$ ).

Effects of strategic planning on performance			
	Model 1	Model 2	Model 3
<i>Main effects</i>			
Formal / Informal strategic planning	--	.177*	.199**
Formal / Informal coordination mechanisms	--	.029	.034
<i>Interaction effects</i>			
(Formal / Informal strat. pl.) x (Formal / Informal coord. mech.)	--	--	-.214**
<i>Control variables</i>			
Entry mode: Export	-.086	-.072	-.068
Entry mode: License/Franchising	.000	.011	-.019
Entry mode: Joint Venture/Cooperation	.170*	.147	.131
Entry mode: Subsidiary	-.056	-.040	-0.22
Company size global <sup>a</sup>	.137	.061	.044
F-value	1.067	1.259	1.841
R-square	.044	.072	.116

N = 121; \*\*\* =  $p \leq .01$  strongly significant; \*\* =  $p \leq .05$  significant; \* =  $p \leq .10$  weakly significant

<sup>a</sup> Logarithm of number of employees worldwide

**Table 13: Results of regressing performance on strategic planning**

Hypothesis 2 was tested using moderated regression analysis (Champoux & Peters, 1987; Sharma *et al.*, 1981; Russell & Bobko, 1992). This means to include an interaction effect between the independent variable, which is strategic planning, and the hypothesized moderator, namely coordination mechanisms. Model 3 of Table 13 shows the interaction effect referring to hypothesis 2. The interaction term between the ratio of formal to informal

strategic planning and the ratio of formal to informal coordination mechanisms is negative and significant ( $\beta = -0.214$ ,  $p = < 0.05$ ), supporting hypothesis 2.

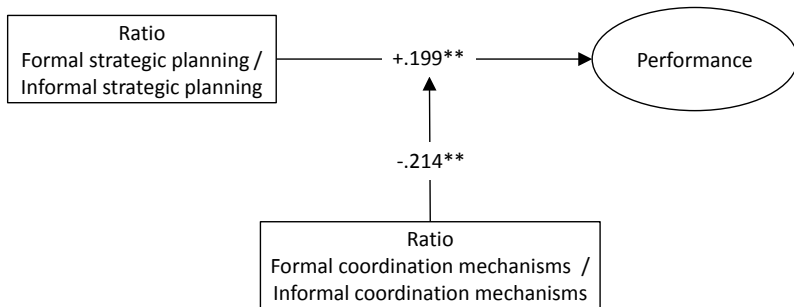
### 5.2.4 Summary and final structural research model

On an overall basis, there was strong support for the author's theoretical reasoning as all four hypotheses were supported as shown in Table 14. A summary of the results and a derived final structural research model can be seen in Figure 6.

Summary of the tested hypotheses	
<b>Hypothesis 1a:</b> The relationship between strategic planning and corporate performance is positive when formal and informal strategic planning are considered together and when the degree of formal strategic planning outbalances the degree of informal strategic planning - across different industries, company sizes and external environments.	supported
<b>Hypothesis 1b:</b> Formal strategic planning will have no effect on corporate performance in case of a separate consideration from informal strategic planning.	supported
<b>Hypothesis 1c:</b> Informal strategic planning will have no effect on corporate performance in case of a separate consideration from formal strategic planning.	supported
<b>Hypothesis 2:</b> The strength of the relationship between strategic planning and corporate performance is influenced negatively by a higher proportion of formal coordination mechanisms in relation to informal coordination mechanisms.	supported

**Table 14: Summary of tested hypotheses**

Firstly, the outcome shows that it is important to focus on the coexistence of formal and informal strategic planning by confirming the hypotheses 1b and 1c stating that there is no significant relationship between these two on the performance when considered separately. These results are underpinned with the confirmation of hypothesis 1a, namely that the ratio of formal to informal strategic planning is significantly related to the corporate performance ( $\beta = 0.199$ ,  $p = < 0.05$ ). The second hypotheses, which proposed that the relationship between strategic planning and the performance, is influenced negatively by the ratio of formal to informal coordination mechanisms ( $\beta = -0.214$ ,  $p = < 0.05$ ). The results of the empirical analysis are diagrammed in Figure 6.



**Figure 6: Final structural research model**

Source: Author's illustration

The obtained results will be discussed and reflected in the next section. Based on the argumentation for the findings, an overall conclusion will complete this chapter.

### 5.3 Discussion and conclusion

This study contributed to a better understanding and towards inconsistent outcomes of existing research in the field of strategic planning, its facilitation by coordination mechanisms, and their impact on corporate performance. This was done by clarifying and proposing the influences of strategic planning and organizational structure on corporate performance based on previous studies. Furthermore, the author of this thesis developed a model and its associated hypotheses on both direct and interaction effects of strategic planning and coordination mechanisms on corporate performance. The hypotheses were tested based on a sample of 121 Austrian companies that engage internationally.

One of the main findings of this study is that formal and informal strategic planning activities have to be considered together. When considered separately, no significant influence of either formal or informal strategic planning on corporate performance was evident. Only when considered together a significant impact was detected. The author of this thesis goes conform with strategic management research (e.g. Grant, 2003) in suggesting that it is impossible not to plan. Even though the plans may not be written down or stated explicitly, they do exist. Even if they are just an idea, a vision, or a goal in someone's head, this is sufficient to provoke this person to work towards them. This might be concern-

ing just one person, such as the owner-manager of a small firm, a bigger number of persons, such as the managing partners of a medium-sized firm or the executive board of a large multinational company. As soon as a desired future state emerges, people and organizations are working towards it. Regardless of the formality or informality of strategic actions, they coexist and complement one another. A low degree of formal strategic planning efforts is compensated for a higher degree of informal strategic planning. And if there's a high degree of formal strategic planning, informal strategic planning adds flexibility to an organization's planning efforts and autonomous strategic activities can emerge as a support to deal with fast changing environments. The results of the empirical analysis suggest that when the degree of formal strategic planning in comparison to informal strategic planning is higher, the corporate performance is improved. Existing research suggests that especially in an international environment, the need for more formal planning approaches is necessary to ensure a global strategic fit (e.g. Hennart, 2011). This is affirmed by the present study, as it was conducted among Austrian organizations that work in an international environment. The converse argument, however, is not that strategic planning should be just formal while informal approaches are unwanted. As stated before, both formal and informal planning approaches are necessary, depending on the circumstances and should complement each other. Mintzberg (1987b) suggests that too explicit strategies are counterproductive, because they channel too much attention into one plan; they might become excessively rigid and thus lower the degree of adaptability to a changing environment. This study gives evidence for this long discussed topic, as the formal strategic planning considered by itself did not have a significant impact on the corporate performance. Neither did the informal strategic planning. Only when considered together and interacting with each other, a positive significant relationship could be detected.

Based on the analysis of 121 Austrian organizations, the answer to the hypothesis on the relationship between strategic planning and corporate performance is affirmative. The impact of strategic planning on corporate performance, however, was weaker than the author of this thesis expected it to be. Beside the fact that prior research even claimed to have found a negative relationship between those two, most of the existing strategic management literature and research

suggested quite a positive impact. Nevertheless, the outcome still goes conform with a recent meta-analysis that reviewed 88 individual studies (McIlquham-Schmidt, 2011). It suggests that there exists a positive relationship, although it is smaller than existing literature claimed it to be. Also another meta-analysis of 29 individual studies supports the present study and the aforementioned meta-analysis, as it suggests that there exists a relationship, that might be stronger in turbulent environments (Boyd, 1991). The present study affirms that strategic planning improves corporate performance; even if at a lesser degree than expected. This might be due to the intention of the author of this thesis, to conduct the study across different industries and different environments (see 6 Limitations and implications for future research). The outcome is still satisfying and contributes to the understanding of the strategic planning-performance relationship as it provides more detailed insight. Strategic planning activities improve the corporate performance when the degree of formal strategic planning activities outweighs the degree of informal planning activities.

As it was argued by previous studies, coordination mechanisms facilitate and enhance the implementation and integration of strategy and strategic planning activities. This is especially true for complex strategies that have an increased demand for more coordination efforts and integration within an organization (Martinez & Jarillo, 1989). Based on these findings, coordination mechanisms were included in this study as a moderator for the impact of strategic planning on corporate performance. The proposed hypothesis was supported and provides therefore evidence for prior findings. The author of this thesis again considered formal and informal coordination mechanisms together and approved the coexistence of formal and informal coordination efforts. Empirically speaking, the findings demonstrate that a higher degree of formal coordination mechanisms compared to informal coordination mechanisms, has a negative and significant effect on the relationship between strategic planning and corporate performance. Or vice versa, if an organization uses more informal than formal coordination mechanisms, the relationship between strategic planning and corporate performance is not influenced negatively. This finds approval in existing research (Martinez & Jarillo, 1989; 1991) suggesting that coordination mechanisms occur hierarchically. They range from formal, structural and simple to more informal, subtle and sophisticated tools; adjusted proportionally to increas-



ingly complex strategies. The more complex a strategy, the more coordination effort is needed, which results in the implementation of both formal and informal mechanisms. This additional effort of coordination is usually very expensive and time-consuming, which is why organization always seek to make first use of more simple and formal coordination mechanisms. Especially organizations that engage in cross-border business will have to deal with more complex strategies and therefore demand for more coordination effort. As this study was conducted among Austrian organization that engage internationally, it was expected that they would need more complex strategies and therefore a higher degree of coordination mechanisms, including more informal ones. It is interesting to learn, however, that when using complex strategies, a too extensive use of formal coordination mechanisms is somewhat counterproductive as it weakens the relationship between strategic planning and corporate performance.

On a general level, this study highlights the importance of strategic planning for organization in an international environment. Based on a sample of 121 Austrian companies, this study demonstrates the positive impact of strategic planning on corporate performance under certain conditions, namely a higher proportion of formal strategic planning efforts compared to informal ones. By using coordination mechanisms as a moderator for this relationship, the empirical analysis made evident that there is a weaker impact of strategic planning on corporate performance if more formal than informal coordination mechanisms are employed.

### **5.3.1 Conclusion**

This research has extended knowledge in strategic planning research in essentially four respects. Firstly, the author of this thesis was able to show that there exists a relationship between strategic planning and corporate performance. This finding is consistent with recent research. Secondly, evidence for the coexistence of formal and informal strategic planning was provided. More specifically, findings suggest that when the ratio of formal compared to informal strategic planning is higher, there is a positive impact on corporate performance. Thirdly, this study found moderator effects on the strategic planning-corporate performance relationship. The outcome of this research suggests that this relationship is weaker, when the degree of formal coordination mechanisms is greater than

the degree of informal coordination mechanism. Lastly, this study contributes to the partly inconsistent research area of strategic planning in an international environment. It is also worth emphasizing that, to the best of the author's knowledge, this study is one of the first ones to investigate the importance of the triumvirate strategic planning, coordination mechanisms, and corporate performance.

The answer to hypothesis 1, if there is a relationship between strategic planning and corporate performance, is affirmative. The empirical analysis showed that strategic planning has a positive effect on corporate performance, when formal and informal strategic planning activities are considered together and the degree of formal strategic planning activities is higher than the degree of informal strategic planning efforts ( $\beta = 0.199$ ,  $p < 0.05$ ). An answer to hypothesis 2, if the strength of the relationship between strategic planning and corporate performance is negatively influenced when the degree of formal coordination mechanisms is higher than the degree of informal coordination mechanisms, is also affirmative ( $\beta = -0.214$ ,  $p < 0.05$ ).

Summing up the results, it can be concluded that organizations working in an international environment are challenged with more complex strategies. To ensure a global fit and commitment throughout the organization, they are recommended to have a higher degree of formal strategic planning than informal strategic planning activities. Nevertheless, there should be a certain degree of informal strategic planning efforts as well, to be able to stay flexible and adjust to changing environments and circumstances, and enable strategic thinking within an organization. By doing so, strategic planning has a positive impact on the corporate performance, and this relationship can be strengthened through the use of coordination mechanisms. As more complex strategies demand a higher degree of integration and implementation, more coordination effort is needed. Thus, an organization should make use of formal as well as informal coordination mechanisms, since more informal and sophisticated coordination tools have a positive impact on the relationship between strategic planning and corporate performance. This study therefore could prove for the interdependency between an organization's strategic planning, its organization, and its performance.

## 6 Limitations and implications for future research

This study comprises limitations and room for improvement like every other study. These limitations are mentioned subsequently, before implications and recommendations for further studies (see 6.2 Implications for future research) will complete this chapter.

### 6.1 Limitations

This study has limitations, suggesting several issues for future research (see also 6.2 Implications for future research). With the purpose to gain universally applicable knowledge, the author of this thesis did not explicitly address or control external influences and dynamic environments. This study was conducted across industries, while most existing studies concentrated on a certain industry or certain branches. As it is suggested that different industries may face different environments, this might influence the concerned organizations' attitude and actions towards strategic planning and integration efforts. While in relatively stable environments a more formalized approach might be adequate, a fast changing and turbulent environment might favor more informal and flexible approaches (Grant, 2003). Furthermore, the author did not test for effects over time, although existing research suggests that there is a gap between cause and effect due to the lag between strategic planning activities and the dynamics of the environment (McIlquham-Schmidt, 2011). This means that from the initiation of a strategic planning process to its completion a certain period of time is needed. As some industries are challenged with fluctuating environments, it might be very difficult, if not impossible, to define cause and effect due to changing circumstances, and consequently to recognize and measure planning and coordination activities and their impact inside an organization. With the same aforementioned reasoning, namely to increase generalizability of the findings, the author of this thesis did not focus on either small and medium-sized businesses or large companies. In addition, the life cycle of the company was not taken into consideration. This might as well impose a limitation to this paper as it is suggested that the organizational structure as well as planning and integration procedures might differ significantly based on the size of a company and its life cycle. Existing literature suggests that smaller companies are more likely

to rely on subtle and informal approaches, which might be due to a lack of knowledge or resources, while larger and more complex organizations might demand more formal approaches to guarantee effectiveness and a strategic fit throughout the whole organization (Berry, 1998; Robinson Jr. & Pearce, 1984a). Although the author controlled for the company size based on the number of global employees, the author did not focus on a certain company size. This and the abovementioned limitations do not lessen the value of the findings of this research; but it should be noticed that a focus on certain industries, external environments, or company sizes, might lead to more significant results.

Another limitation of this thesis relates to the very different natures of formal and informal processes. While formalized and planned actions are usually easy to notice and categorize, more informal and intuitive actions are difficult to observe and recognize since they may not be obvious and noticeable to the members of an organization. Furthermore, they can appear and disappear in a spontaneous manner, and in certain cases no beginning and end of their application can be detected. Therefore some of the variables might reflect subjective and dissenting judgments of the participants, instead of objective and observable statements. As it is so hard to observe them, the answers of the respondent depend very much on this person's point of view and knowledge about the presence of more subtle and informal planning and coordination actions. The author of this thesis tried to compensate this subjective influence and nescience by developing a questionnaire that lessens the impact of this subjectivity and creates awareness through a careful selection of the variables and constructs applied, as well as through a competent formulation of the questions used in the survey. Although subjectivity and unawareness may therefore not be a big issue for this study, this caveat has to be kept in mind. Another factor may have limited this paper's ability to explain even more of the relationship of this examined triumvirate. This limitation is related to self-reported data concerning the use of strategic planning and coordination mechanisms. Organizations with a good performance would probably rate their beliefs and expertise about planning and integration efforts highly. This "biases in causal attributions" (Schwenk C. R., 1995) suggest that executives cannot always recall the details of complex processes within the organization; or they even try to interpret events and processes in a way to make them seem more purposeful and logical than they actually were

(Hopkins & Hopkins, 1997; Schwenk C. R., 1995). As this study contributed significant research findings, this limitation did not seem to influence the outcome of this study substantially, but should be taken into consideration.

Despite this caveats, this thesis and the results gained are nevertheless believed to contribute to the understanding of the relationship between strategic planning, coordination mechanism, and performance of organizations in an international environment. In response to the demand for further research, this study contributes to the literature by conceptually and empirically investigating this reciprocity between these three dimensions. In the following the author presents implications and recommendations for further research.

## **6.2 Implications for future research**

Based on the abovementioned limitations of this research and the main outcomes, this study suggests several issues for further research. With this study, its author sought to gain universally applicable outcomes by not taking into consideration the company size, its life cycle, its industry, and the external environment organizations have to deal with and adapt to. Although this study contributed significant research findings, in order to get more significant results the author suggests that future research should be more focused on the abovementioned circumstances and factors. Research should distinguish between small or medium-sized and large companies; between new or already established firms; and between organization that face different environments and different external influences. The distinction between these kinds of organizations has important theoretical implications and hence can lead to significantly different empirical results (Brinckmann *et al.*, 2010).

This study proved the coexistence of formal and informal strategic planning. One of the main contributions of this thesis was to show that formal and informal strategic planning occur together and should therefore be considered as such. Most studies focused either on formal or informal strategic planning, did not distinguish between them and labeled it just strategic planning, or considered both of them but separated from each other. The significant outcome of this research, however, showed that they should be differentiated and considered together as a ratio of formal strategic planning compared to informal stra-

tegic planning. This could lead to more significant outcomes and help to clarify the partly inconsistent and therefore unsatisfying findings of other studies. Hence, the author of this thesis suggests a distinctive but combined consideration of formal and informal strategic planning efforts for future research.

Another inherent challenge of strategic management research in general is related to the clarity and uniformity of the definitions of the reviewed concepts and their application. Confucius is quoted to have said that if he was made ruler of the world, the first thing he would do would be to clarify the meaning of words as actions follow definitions (Steiner, 1997). Commonly accepted definitions would help the whole field of strategy research to increase understanding and comparability. When working on this study towards new findings, the author realized that within the literature and researches related to the main topics of this study, the use and meaning of definitions and concepts were inconsistent and varied strongly in some cases. The same observation was made concerning the selection of the performance measurement concepts (e.g. McIlquham-Schmidt, 2011). Instead of agreeing on one generally accepted performance measure or performance measurement model, most studies developed their own measurement tools. A common language and commonly accepted measurement would make it easier for future research to assess and compare studies in order to gain new knowledge. Hence, the author of this thesis recommends future research to work towards a commonly accepted wording and measures to increase the contributions and added-value for other studies.

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# Appendix

## Measures and Items

### Strategic planning

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*Please indicate the importance of the following measures of the strategic planning process for your organization. (from 1 = 'not important' to 5 = 'very important')*

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#### **Formal strategic planning**

- Developing a vision and a corporate philosophy.
- Specifying long-term corporate (group) goals.
- Preparing an internal analysis (strengths, weaknesses).
- Determining the allocation of internal resources and compile an action plan.
- Analyzing the external environment (opportunities, threats) and trend analysis.
- Formulating corporate mission.
- Evaluating and generating strategy alternatives.
- Formulating a strategy.
- Implementing and controlling of formulated strategy.
- Monitoring of strategy implementation.

#### **Informal strategic planning**

- Experience and intuition of decision maker(s).
  - Short-term, flexible planning instead of long-term planning.
  - Compensating external uncertainty factors with situation-based and informal decisions.
  - Current organization's situation and goals of decision maker(s).
  - Setting a framework (scope) instead of strict guidelines.
  - Reduction of bureaucracy and flexible decision making.
-

## Coordination mechanisms

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*Please evaluate to what extent the following statements are true for your company.  
(from 1 = 'never the case' to 5 = 'always the case').*

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### **Formal coordination mechanisms**

The (global) internal organization is built-up strongly hierarchically. Clear structures and formal reporting paths are provided.

The decision making always takes place centralized at the top management level.

Planning and budgeting is carried out according to standardized guidelines and apply globally in all corporate locations.

Clear guidelines and behavioral rules for employees and the management are provided.

Strategic planning is an important element to achieve the corporate (group) goals.

Corporate goals and values are increasingly communicated throughout the organization.

The internal communication takes place exclusively in a clearly structured manner and within departments and their superior departments.

### **Informal coordination mechanisms**

Decisions are made decentralized in accordance with the top management.

Temporary or fixed project teams that consist of employees of different departments (possibly from different locations and countries) are established within the organization.

Within the (global) organization exist informal network across different units and levels.

The top management and managers maintain a direct and informal communication across respective responsibilities, resorts, and possibly national borders.

Employees and managers are intentionally provided with spaces (e.g. common kitchen, recreation rooms etc.) and opportunities to compare notes with others on an informal base.

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## Performance

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*To what extent have the following figures been changing compared to the past years?  
(from 1 = 'very negative' to 5 = 'very positive')*

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### **Objective financial success**

Return on investment (ROI).

Return on equity (ROE).

Operating profit margin/Return on sales (ROS).

Relative company value.

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*To what extent do you agree with the following statements?  
(from 1 = 'strongly disagree' to 5 = 'strongly agree')*

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### **Subjective motive-driven success**

The goals set were achieved.

The goals set were the right corporate decision.

The company is better after achieving its goals than it was before.

An overall view suggests that the corporate performance was successful.

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