

JOANNA RADOMSKA

Approach to strategy and enterprise size

1. Introduction

Results of many studies identify type of strategy executed as a determinant of results obtained and a factor influencing competitive position. Expressions used differ, however, depending on the subject of the research and its conditions. It is possible therefore to indicate strategy types (James, Hatten 1994, pp. 145-54), strategy models (Porter 1985), strategic orientation (Hakala, 2011 pp. 199-217) and strategic approach (Burnes 2004). While each of these terms encompasses slightly different elements, all refer to the selection of strategic priorities made by the organisation. Thus strategy type determines the relationship between marketing orientation and results obtained (Matsumo, Mentzer 2000, pp. 1-16) as well as influences the direction and intensity of activity, taking into particular consideration export activity (Shosam et al. 2001, pp. 236-258). A. Moreno and J. Casillas (2008, pp. 507-528), on the other hand, pointed to the connection between strategy type, entrepreneurial orientation and growth. Of key importance is also interrelation of approach to strategy and competences (DeSarbo et al. 2006, pp. 909-924) and capabilities (Di Benedetto, Song 2003, pp. 514-533). Other research has indicated the influence of strategic approach on the results

Joanna Radomska, Ph.D.
University of Economics in Wrocław

of activity, considering the context of technological scanning and innovation adoption (Dvir et al. 1993 pp. 155-162), investigating also the connection between proactive strategy and innovation type, particularly in the case of small enterprises (Kickul, Gundry 2002, pp. 85-97). The objective of this work is an examination of whether there exists a positive correlation between the approach to strategy and enterprise size (defined by number of employees).

2. Literature review

The basic division, being a basis for further research and analyses, is a typology devised by R. Miles and C. Snow (1978) indicating four strategy types detailed according to entrepreneurial approach, operational management and administrative issues. In this way, enterprises can be defined as defenders (aggressively defending a market niche won, focusing on the effectiveness of activities undertaken), prospectors (continually searching for the opportunity to win new markets and introduce new products, which is connected with a need for increased effort to coordinate activities conducted), analyzers (attempting to combine the issues of seeking new markets with retaining the competitive position gained in sectors to date, which requires outstanding flexibility and often also differentiation of organisational structure) or reactors (not in possession of a clear vision of development, undertaking exclusively activities reactive to changes in the environment). Results of further research imply, however, that the first three types of strategy may be considered as a certain continuum, while reactors should be omitted due to the low added value generated by their analysis (Doty et al. 1993, pp. 1196-1250). What is more, in course of other studies it has been indicated that this classification is characteristic rather of small and medium-sized enterprises (O'Regan, Ghobadian 2006, pp. 603-620).

An extension of the typology described is a strategic positioning classification presented by D. Lavie and A. Fiegenbaum (2003, pp. 805-814) based on an external or internal strategic orientation. Organisations detailed here are defined as amorphous (external orientation, seeking market opportunities, more innovative (Laforet 2008, pp. 753-764) and responding rapidly to emerging trend markets (Kabanoff, Brown 2008, pp. 149-171), narcissist (internal orientation, cost reduction and protecting market share (Gimenez 2002, pp. 235-244), adaptive (both external and internal orientation) and myopic (characterised by a low level of both orientation types). A study carried out by A. Garcia-Pérez et al. (2014, pp. 431- 449) demonstrated, however, that strategic choices made by

enterprises of strategic positioning types indicated did not allow them to build substantial competitive advantages being a basis for achievement of better results. It cannot therefore be stated that strategic positioning determines the financial results obtained, which may, however, derive not from a sufficiently mature process of strategic management, but rather from occasional activities characteristic of the group of small enterprises.

Analysing the typology of competing strategy, it is necessary to mention the distinction made by M. Porter (1980) dividing these, according to market scope and source of competitive advantage, into strategies of low cost, focus and differentiation. In practice it is difficult, however, to make a clear distinction between development concepts realised by an enterprise, and other researchers have indicated application values of hybrid, mixed, integrated or combination strategies (Hill 1988, pp. 265-98), demonstrating that these are more effective than pure strategies (Spanos et al. 2004, pp. 139-65). Moreover, the hybrid form of competitive strategy is a dominant strategic choice of production companies operating on foreign markets (Salavou, Halikias 2009, p. 153). Further studies also sought the interdependencies between specified strategic designs and performance outcomes (Campbell-Hunt 2000, pp. 127-54). It has also been indicated that they vary depending on the country in which operations are conducted (Salavou 2010, p. 1045). Generic strategies distinguished by Porter are not therefore a universal typology and indicate only strategic dilemmas which become a part of the business competitive struggle. They are thus perceived as components building company value (Parnell 2006, p. 1149).

A slightly different division was proposed by B. Hagen et al. (2012, pp. 369-382). The research carried out on a group of small and medium-sized enterprises demonstrated that four types of strategy execution varying in nature and strategic orientation can be identified, namely an entrepreneurial/growth-oriented strategy, a customer oriented strategy, a product/inward-oriented strategy and a group of firms that lacks strategic orientation. They differ both in the issue of strategic priorities and the dynamics of activities undertaken. What is more, the analysis of correlation between particular types and the results of their execution demonstrated that accepting a proactive strategic orientation and ensuring its coherence with the strategy leads to better effects of operations conducted and results achieved.

An analysis of the literature allows the observation that a gradual evolution has occurred in the views of researchers regarding strategy typology. Types or models of strategy have been replaced by such terms as character, orientation and strategic approach. This results mainly from a growing complexity in

interrelations between organisations and complication of relationships prevailing on the markets, as well as from a change in customer expectations and rise in competitive pressure (Kotler, Caslione 2009). These factors make it difficult to clearly identify and classify strategies executed in practice, and their elements contain aspects indicated in many theoretical concepts. These assumptions constitute a basis for the newest of them, according to which organisations may be classified on the basis of their approach to strategy. The variables in this case are the nature of the environment in which operations are performed and the possibility of its being shaped by activities planned and the accomplishment of the objectives set (Reeves, Haanaes, Sinha 2015, p. 7). Owing to its relevance and applicational nature, this particular concept has been adopted as a research basis for this study.

It is assumed that business environments differ along three easily discernible dimensions: predictability (ability to forecast), malleability (ability to shape), and harshness (ability to survive). Combining these dimensions into a matrix enables to distinguish five distinct environments. Each of them requires a distinct approach to formulating and executing the strategy. It is described at the figure below:

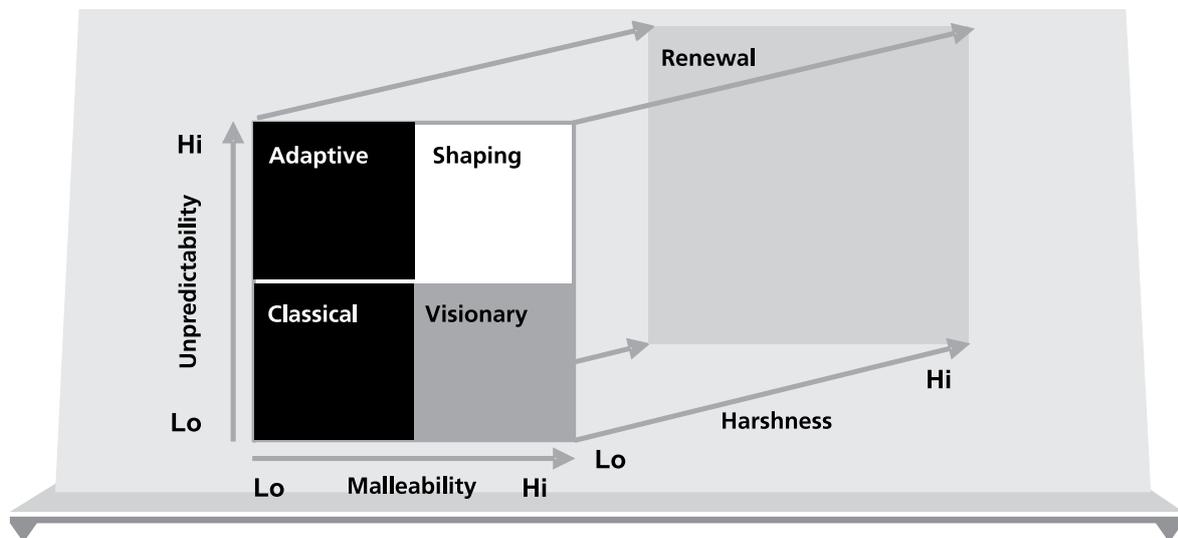


Figure 1. Approaches to strategy in different environments

Source: M. Reeves, K. Haanaes, J. Sinha, *Your strategy needs a strategy. How to Choose and Execute the Right Approach*, Harvard Business Review Press, Boston, Massachusetts, 2015, p. 7

As mentioned before, five approaches to strategy can be listed:

- Classical: organization is able to predict the environment, but unable to change it. This leads to executing classical strategy of position, based on comprehensive analysis and planning (called by the authors *being big*).
- Adaptive: organization is unable either to predict the environment, or change it, which requires continuous experimentation (called by the authors *being fast*).
- Visionary: organization is able either to predict the environment, or change it, which means creating the new market or disrupting an existing one (called by the authors *being first*).
- Shaping: organization is unable to predict the environment, but able to change it, which means shaping an industry according to requirements and competitive advantage of particular company (called by the authors *being the orchestrator*).
- Renewal: as the resources are severely constrained, the organization is forced to ensure its viability first, then choosing the other approach is possible (called by the authors *being viable*).

What is worth mentioning, proper analysis and choosing the right approach successfully matching the strategy to the environment may bring significantly better returns—4 to 8% of total shareholder return. However, as showed by the research results, around half of all companies mismatch their approach to strategy to their environment (Reeves, Haanaes, Sinha 2015, p. 8).

3. Hypotheses and research results¹

In order to achieve the research aim, the following hypothesis was formulated:
H: It is assumed that approach to strategy is linked to enterprise size.

In addition, three detailed hypotheses were devised:

H1: It is assumed that small organisations display an approach defined as renewal.

H2: It is assumed that a visionary approach to strategy is characteristic of large enterprises.

H3: It is assumed that medium-sized enterprises may be classified as organisations having a shaping approach to strategy.

A quantity survey was conducted by means of direct questionnaires (PAPI – Pen and Paper Personal Interview) on a representative sample of 150 enterprises listed on the Warsaw Stock Exchange. Companies taking part in the research were also listed on the alternative market NewConnect. In order to ensure the highest level of representativeness possible, a disproportionate stratified random sampling method was used for the selection of the sample. One of the

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strata was enterprise industry – in order to represent each stratum in a manner guaranteeing the analysis of differences, a minimum number of entities in each stratum was introduced. Owing to this, a proportionate selection method could not be applied. As a means by which to compensate for an unequal probability of population units entering the sample, resulting from the accepted draw plan (the sample was drawn in arbitrarily established numbers), a sample balancing was performed out.

The research results presented in the article relate to a pilot programme and were realised on a sample of 30 subjects with equal representation of large, medium and small enterprises, classification of which was based on number of employees. The variables determining the existence of a given phenomenon (in the form of approach to strategy) were defined on a nominal level in order to examine their interdependencies by means of chi-square test. In addition, Cramer's V coefficient was used to measure the power of association between nominal variables. This test was based on the chi-square test results. The value of the chi-square statistic obtained confirms the existence of an intercorrelation between strategy approach and enterprise size which allows the main hypothesis assumed to be accepted. The results obtained indicate a medium level of intercorrelation (0,531), so the assumption of interdependency may therefore be confirmed. In consequence, approach to strategy is linked with enterprise size, which can be recognised as a factor determining the choice of development concept realised. Detailed results divided into three categories of enterprise size are presented in the table below.

Table 1. Approach to strategy in companies of various sizes

Approach to strategy	Small	Medium	Large	Sum
Classical	3	5	1	9
Adaptive	2	4	2	8
Shaping	1	1	1	3
Visionary	1	0	4	5
Renewal	3	0	2	5
Sum	10	10	10	

Source: own research

Analysing the results above, it is worth emphasising their diversity in each of the enterprise groups. Small organisations most often demonstrate a classical or renewal approach. This is not a surprising result as it is these which suffer most often from resource constraints inhibiting their further development. Hence the necessity of maximising the efficiency of resources available, which is a priority in competitive struggle and at the same time a requirement necessary for the acceptance of another strategic approach. It also represents a reason for which small enterprises have the least potential for the shaping of their environment and although they attempt to plan and predict changes approaching, the potential for real influence on their course remains limited. It is necessary therefore to adopt a classical approach and the use of competitive position achieved. Hypothesis 1 may thus be accepted. The results obtained in the group of medium-sized enterprises are of an interesting nature as none of the companies declared a visionary or renewal approach and most indications were gained by classical and adaptive approaches. Medium-sized organisations are, on that account, most conservative in their activity and present limited potential for the shaping of environment. They employ rather an adaptive approach adjusting to changes observed, not utilising the opportunity to influence the situation in the industry. These results differ from assumptions of hypothesis 3 and do not allow its acceptance. Observed in the group of large enterprises, according to the predictions made, was the largest number of indications for a visionary approach. They therefore have the greatest potential for the creation of new markets and dictation of competitive conditions, which is certainly connected with the scale of business activity and the resources possessed. Interestingly, there were also subjects which indicated the constraints related to these two factors, and thus the use of a renewal approach. Efficient use of resources requires proper coordination, which becomes more difficult with an increase in the complexity of processes, scale and scope of business activity. The enterprise life cycle indicates moments at which the renewal approach may be recognised as a key stage preceding the introduction of other development concepts.

4. Conclusion

The research conducted points to the existence of a correlation between approach to strategy and enterprise size, and detailed results indicate that small organisations use a classical or renewal approach more often, which is tied to their specifics and the constraints most often affecting them. Contrary to the assumptions, medium-sized enterprises turned out to be the most conservative

in their strategies, not demonstrating any visionary activities or those which serve the shaping of the industry or behaviour of other subjects. The largest enterprises, on the other hand, most often defined their approach as visionary, although also in this group were entities executing a renewal strategy as a transitional stage prior to the implementation of a concrete development concept. It is necessary to verify, in further research, how approach to strategy differs depending on the branch in which the enterprise operates. It would be valuable also to conduct research in various time periods in order to evaluate changes occurring in strategies accepted, their frequency and direction.

Summary

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The article describes the subject of approach to strategy based on the current classification differentiating five types of approach specified on the basis of three features relating to business environment, such as predictability (ability to forecast), malleability (ability to shape) and harshness (ability to survive). The research demonstrated the existence of a correlation between the approaches and the size of an enterprise, indicating that small organisations most often apply a classical and renewal strategy. Medium-sized companies, however, are characterised by a low pressure on visionary behaviour and the shaping of the boundaries of the business environment. They therefore select most often a classical and adaptive approach. Large enterprises, according to the assumptions made, most often demonstrate the ability to change the conditions of competitive struggle and create new markets by showing a visionary approach.

Keywords: *approach to strategy, size of the company, strategy.*

Streszczenie

Charakter realizowanej strategii w przedsiębiorstwach różnej wielkości

Artykuł opisuje tematykę podejścia strategicznego bazując na aktualnej klasyfikacji wyróżniającej pięć rodzajów podejść wyszczególnionych na podstawie trzech cech dotyczących otoczenia biznesowego, takich jak przewidywalność (zdolność prognozowania), podatność na wpływy (zdolność

wywierania wpływu) oraz surowość (zdolność do przetrwania). Przeprowadzone badania wykazały istnienie związku pomiędzy wyszczególnionymi podejściami a rozmiarem przedsiębiorstwa, wskazując, iż małe podmioty najczęściej realizują strategię klasyczną i odnowy. Średnie firmy natomiast charakteryzują się niską presją na zachowania wizjonerskie i kształtowanie granic otoczenia. Wybierają więc najczęściej podejście klasyczne oraz adaptacyjne. Duże podmioty, zgodnie z przyjętymi założeniami, najczęściej wykazują możliwości zmiany warunków gry konkurencyjnej oraz kreowania nowych rynków, prezentując podejście wizjonerskie.

Słowa

kluczowe: *podejście do strategii, rozmiar przedsiębiorstwa, strategia.*

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