Entrepreneurial-Oriented Strategy Making Gestalts

by

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ABSTRACT

A multiple hierarchical regression analysis was applied on 104 medium-sized companies to identify a gestalt of strategy making that would predict changes on the entrepreneurial orientation in response to changes in the five Ps for strategy, to wit: plan, position, plan, perspective, and ploy. A uni-dimensional perspective was adopted for the 5 dimensions of entrepreneurial orientation. Factor analysis found that the indicators for each of these dimensions were heavily lodged in one component which is termed EO. This confirms that EO is indeed composed of 5 subparts (innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy) to make a whole. Results show that only position, pattern and ploy strategy making modes figured in the regression equation with significant $R^2$. Interestingly, two gestalts came-up. Model one shows that positioning contributes more on EO while pattern has a very minimal contribution. Model two states the same except that positioning goes with ploy. Particularly, we find that positioning based strategy explains much the exhibition of EO together with either combination of pattern and ploy modes.

I. Introduction

Strategy Making and Entrepreneurial Orientation: An Overview

McGrath and MacMillan (2000) debate that strategists must adopt an entrepreneurial mindset to be able to sense opportunities, mobilize resources, and act to exploit opportunities (Hitt et al., 2001). For instance, Hitt, Camp and Sexton (2001a), pronounced that the degree to which a firm acts entrepreneurially in terms of innovativeness, risk-taking and proactiveness is related to dimensions of strategic management (Hitt et al., 2001b). Besides Schendel and Hofer (1979) described strategic management as a process that deals with the entrepreneurial work of the organization. Hence, we find a growing literature on the integration of strategic management and entrepreneurship (Sandberg, 1992).

The strategic management literature through the years has considered varying schools of strategy-making (Hart, 1992; Hart and Banbury, 1994; Mintzberg, Ahlstrand, and Lampel, 1998). The modes of strategy-making for this research refer to plan, position, perspective, pattern, and ploy (Mintzberg, 1987; see Hart and Banbury, 1994), which are adopted from Mintzberg’s (1987) pioneering works on strategy-making modes. Likewise, the dimensions of entrepreneurial orientation are innovativeness, proactiveness, risk taking, competitive aggressiveness, and autonomy (Lumpkin and Dess, 1996).

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In a nutshell, the research culled from a stocktaking of literature strategy making gestalts. Gestalt refers to the organizing of isolated parts into groups or whole objects where this whole is amounting to more than the sum of its parts. This means the best combination of strategy making modes that would explain the influence towards a positive entrepreneurial orientation of business organizations. This study hoped to find a balance of perspectives (modes) that can coexist in one company. Thereby develop a configuration/gestalt of strategy making modes that pay off in terms of entrepreneurial orientation.

2. Theoretical Framework

2.1 Plan and EO

Planning mode, with all its more intricate processes i.e. budgets, controls, etc, through the years, as companies made use of it, has been found to hamper an organization’s system instead of liberating it. As the literature suggests (Vaghefi and Huellmantel, 1998; Kaplan and Beinhocker, 2003), the connection is seen to be strong, only under conditions of deliberate opportunism and/or strategic entrepreneurial orientation. The danger, ultimately, is that the planning mode forces out the entrepreneurial capabilities and activities of the organization; procedure tends to become rigid, so that (Mintzberg and Waters, 1982) strategy making becomes more extrapolation than invention.

The study of Covin, Green, and Slevin (2006) on 110 manufacturing firms concluded that innovativeness, risk taking, and proactiveness warrant unpredictability which would prove contrary to the principles of planned strategy formation. Furthermore, Quinn (1985) claimed, based on his research that few, if any, major innovation results from highly structured planning systems. Grant (2003) also in his study of the oil majors showed that planning systems fostered adaptation and responsiveness but limited innovation. In the case of autonomy, Burgelman (1983) found that autonomous strategic behavior does not fit in the existing categories used in the strategic planning of the firm.

2.2 Position and EO

A longitudinal case study by Beverland and Lockshin (2004) identified how a firm can build a sustainable niche through commitment to positioning based values (i.e. brand values) and constant market action which allow firms to engage in proactive action. Further, Lumpkin, Dess and Covin (1997) stated: “It is particularly noteworthy to note that cost
leadership is not inherently antithetical to a differentiation strategy”. Hence, both cost
leadership and differentiation which are positioning strategies can proactively monitor the
environment, take some risks and innovate. Miller (1988) in his empirical study supported
this claim. In view of competitive aggressiveness, Covin and Covin (1990) identified Porter’s
(1985) offensive strategies for achieving and maintaining competitive advantage as a diverse
strategic and tactical manifestation of competitive aggressiveness.

2.3 Pattern and EO

The pattern mode also known as entrepreneurial strategy making is described by
Lumpkin et al. (1997) as characterized by experimentation, innovativeness, risk-taking,
proactive assertiveness, opportunity-seeking and decisive action catalyzed by a strong
leader. Similarly, Mintzberg (1973) saw risk taking and decisive action (bold action or
proactiveness as used in Mintzberg et al., 1998) catalyzed by a strong leader as elements of
his entrepreneurial mode. Also references on innovation can be found in the text of
defined EO, as “the CEO’s strategic orientation reflecting the willingness of a firm to engage
in entrepreneurial behavior”. From the foregoing discussions, one can carefully infer and
argue that pattern mode also known as entrepreneurial strategy-making mode and EO (re:
innovativeness, proactiveness, risk taking) are connected with each other. There is a certain
level of embeddedness of some dimensions of EO (if not all) that can be found in the pattern
mode. Essentially, the definition of EO by Wiklund highlights the CEO’s major role which is
basically the determining factor in the pattern mode.

With regard to autonomy, Burgelman’s (1983) study found that the ‘motor for
corporate entrepreneurship resides in the autonomous strategic initiative of individuals at the
operational levels in the organization (Lumpkin et al, 1997).

2.4 Perspective and EO

It is very essential to bear in mind that perspective strategy-making looks at
strategies as abstractions which exist only in the minds of interested parties - those who
pursue them, are influenced by that pursuit or care to observe others doing so (Minzberg,
1987). The perspective mode is synonymous with cultural perspective. Culture in
organizations is usually approached through concepts such as ‘symbol, language, ideology,
belief, ritual and myth (Pettigrew, 1979, p.580) which are difficult to trace through historical
data (Schein, 1985). Culture defines what the organization is internally. Culture explains
how people in the organization perceive the organization, and consequently determines how they behave (Pearson, 1990). An organization's ability to develop and maintain an entrepreneurial posture is contingent upon that organization's culture. Cornwall and Perlman (1990) suggest that organizational culture is a key determinant of entrepreneurial orientation (Chadwick, Barnett and Dwyer, retrieved 2/25/06).

Research has demonstrated that a firm's innovative capacity is affected by cultural norms (Kanter, 1982 in Covin and Slevin, 1991). Likewise, the level of competitive proactiveness exhibited by a firm will be in part culturally determined (Miller and Friesen, 1984). Not surprisingly, common cultural attributes are often identified with entrepreneurial firms (Cornwall and Perlman, 1990 in Covin and Slevin, 1991). Potentially, culture offers a way of combining concentration and consistency with the flexibility essential to effective strategy (Pearson, 1990). On second thought, a traditional culture at times limits the risk-taking capabilities of a company (Rowlinson, 1995). Culture can encourage or discourage business-related risk-taking (Burgelman & Sayles, 1986 in Covin and Slevin, 1991).

To conclude, the nature of the relationship between perspective/cultural strategy making mode, be it positive or negative, is expected to vary with the culture type emphasized within the firm. One thing is for sure though; this paper would address the principles behind perspective strategy making and apply them to companies.

2.5 Ploy and EO

Strategy is clearly tied to the social process of strategy negotiation. The balancing act between putting the well-being of the group as the primary consideration on the one hand and disorganized competing behavior on the other is an integral part of strategy-making. Conflict and consensus co-exist but the implication is that the process of negotiating action is central to organizational behavior and so central to strategy making—a process of negotiation influenced by power of all sorts (Eden and Ackermann, 1998). Concretely, it was in the study of Fredericks (2003) that portrayed how the everyday human exchange of a particular strategist shaped the attention of others and began to lay the building blocks for shaping future possibilities. This strategist in reference was shown to possess greater political advantage.

Sandberg (1992) suggested that the most promising theoretical applications to entrepreneurship involve the handling of conflict in the decision process. The study of
Wagner et al. (1984), Knight et al (1999), and Amason (1996), found that conflict does appear to improve decision quality but at the same time appears to disrupt group effort.

Otherwise, the study of Hambrick et al (1996) on 32 major airlines also found that heterogeneity was positively related to action propensity (basic tendency to undertake competitive initiatives) and the magnitude of competitive actions. Heterogeneous teams are also seen to possess decision creativity. Further, Ferrier’s study (2001) suggests that competitive aggressiveness is influenced by a top management team’s ability to scan and interpret signals from the competitive environment. Heterogeneous top teams are better equipped to carry out complex sequence of competitive moves than homogenous top teams.

2.6 Dimensions of Entrepreneurial Orientation

Entrepreneurial orientation consists of five dimensions: innovativeness, proactiveness, risk-taking, competitive aggressiveness, and autonomy. The first three are conceptualized by Miller (1983). Eventually, Lumpkin and Dess (1996) contributed two more dimensions as part of EO: competitive aggressiveness and autonomy. Although the latter two, seemingly are not eye catching enough to have grabbed the attention of researchers as reflected in the dearth of extant literature pertaining thereto. Needless to say, Lumpkin, Dess and Covin (1997) suggested to further study on the research findings of Burgelman (1983) regarding autonomy. Hence, the interest to study the five dimensions of EO.

At this juncture, a critical point of argument about EO is whether the dimensions covary or unique from each other. Prior research on entrepreneurship (eg. Miller, 1983; Covin and Slevin, 1989) suggests that EO is a unidimensional construct. In contrast, Lumpkin and Dess (1996) argue that the dimensions of EO can vary independently of each other (Lyon, Lumpkin and Dess, 2000). However the inclination of this study takes off from the result of factor analysis using principal component analysis and varimax with Kaiser normalization having KMO=0.93 and Bartlett significant at 0.01. All the factors are found to be lodged under one component. This simply confirms that indeed entrepreneurial orientation as a particular concept is composed of five subparts to make it one whole. Consequently, it is from this solid evidence that prescribed the basis for taking a unidimensional perspective for this current study. It would seem, based on the factor analysis result that there is a future and value in a unidimensional study of EO.
3. Stocktaking of Strategy Making Modes and Dimensions of Entrepreneurial Orientation

<table>
<thead>
<tr>
<th></th>
<th>Plan</th>
<th>Position</th>
<th>Perspective</th>
<th>Pattern</th>
<th>Ploy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td>-</td>
<td>+</td>
<td>?</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>Proactiveness</td>
<td>-</td>
<td>+</td>
<td>?</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Risk-taking</td>
<td>-</td>
<td>?</td>
<td>?</td>
<td>+</td>
<td>-</td>
</tr>
<tr>
<td>Competitive</td>
<td>?</td>
<td>+</td>
<td>?</td>
<td>?</td>
<td>+</td>
</tr>
<tr>
<td>Aggressiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Autonomy</td>
<td>-</td>
<td>?</td>
<td>?</td>
<td>+</td>
<td>?</td>
</tr>
</tbody>
</table>

From above, we can derive the following:

Hypotheses

- **H1** Plan will not figure in a strategy making gestalt for entrepreneurial orientation
- **H2** Pattern more than position will have more additive predictive power effect on entrepreneurial orientation.
- **H3** The combination of positioning and pattern modes plus minimal ploy will have more predictive power effect on entrepreneurial orientation.

4. Research Methods

4.1 Questionnaire and Data Collection

A questionnaire consisting of two blocks was floated to the respondents. The first block consisted of the items on strategy making modes and the second block on the dimensions of entrepreneurial orientation. The first block was developed by the researcher herself based on numerous literatures. The second block was from an existing questionnaire on entrepreneurial orientation (innovativeness, proactiveness, risk taking) by Covin and Slevin (1989). This questionnaire has been based on previous scale development by Khandwalla (1977) and Miller and Friesen (1982). The original scale on proactiveness by Covin and Slevin (1989) has been qualified to take note of recent study done by Lumpkin and Dess (2001). Competitive aggressiveness is adopted from the study of Lumpkin and Dess (2001). Autonomy is developed by the researcher herself but the content is adapted from the study of Lumpkin and Dess (2005).

The measurement scale (innovativeness, proactiveness and risk taking) developed by Covin and Slevin (1989) has been tapped in many researches (Barringer and Bluedorn,
1999; Wiklund and Shepherd, 2003; Aloulou and Fayolle, 2005, etc.) therefore has exhibited high levels of reliability and validity. The reliability of both Blocks 1 and 2 during pre-test was assured with Cronbach alpha of .89.

There were 148 questionnaire turnouts across sectors. After data cleaning only 104 left. The top executives from vice-presidents and up were taken as respondents (Hoffman and Hegarty, 1993) as they are partaking in the strategy process but the organization is the measurement unit of analysis.

4.2 Results

A multiple hierarchical regression analysis method was done to predict the changes in the entrepreneurial orientation in response to changes in the five Ps for strategy. Effort to assess the collinearity of the predictor variables was pursued. Despite the high correlation significance at 0.10, the formal test based on variance inflation factor, tolerance and condition index yielded sound results. As expected the results supported hypotheses1 and hypotheses3 with variations but hypotheses2 was not. For hypotheses1, plan did not figure out in the regression equation. Hypotheses2 lent two regression equation models. Model 1 shows EO = 0.73Position + 0.14Pattern and Model 2 presents EO = 0.67Position + 0.17Ploy, having the same adjusted $R^2$ of 0.60. This implies that the variables position and pattern, likewise position and ploy that entered into the models have significant positive effects on the level of exhibition of entrepreneurial orientation. In particular, for every unit of increase in the level of exhibition of position and pattern (same for position and ploy), there is an increase in the level of exhibition of entrepreneurial orientation respectively, fixing the other variables constant. Take note that positioning based strategy making outruns pattern and ploy by a large margin in terms of its predictive power effect on entrepreneurial orientation.

**MODEL1: Dependent Variable - EOM**

<table>
<thead>
<tr>
<th>Root MSE</th>
<th>R-Square</th>
<th>Dependent Mean</th>
<th>Adj R-Sq</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.69710</td>
<td>0.6038</td>
<td>4.86106</td>
<td>0.5959</td>
</tr>
<tr>
<td>Coeff Var</td>
<td></td>
<td>14.34045</td>
<td></td>
</tr>
</tbody>
</table>
### Model 2: Dependent Variable - EOM

|       | DF | Parameter Estimate | Standard Error | t Value | Pr > |t| | Standardized Estimate | Tolerance | Variance Inflation |
|-------|----|--------------------|---------------|--------|------|---|----------------------|-----------|---------------------|
| Intercept | 1   | 0.27588            | 0.38090       | 0.72   | 0.4706 | 0 | .                    | 0         | 0                   |
| PATTERN | 1   | 0.13952            | 0.06266       | 2.23   | 0.0282 | 0.16120 | 0.74849 | 1.33603  |
| POSITION | 1   | 0.72783            | 0.07708       | 9.44   | <.0001 | 0.68357 | 0.74849 | 1.33603  |

5. Discussions and Conclusions

The idea has existed that pattern strategy making is the exact thesis to plot an entrepreneurial orientated inclination, but the result has proven otherwise. It makes sense that positioning strategy making which rings around understanding market structure, developing products on company’s industry position and keeping abreast of competitors are basic parameters for an entrepreneurial orientation to flourish. The main tenets of entrepreneurial orientation are built on actions that engage in product market innovation, undertake somewhat risky ventures, and is first to come up with proactive innovations, beating competitors to the punch (Miller, 1983: 771). The study of Tzokas et al. (2001) demonstrated marketing and entrepreneurial orientations as synergistic constructs. Pattern
mode on other hand depends largely on the president that prescribes the strategies that company may follow.

Model1 strategy making gestalt is expected, as both position and pattern modes complement each other. The pattern/entrepreneurial mode is described by Lumpkin et al. (1997) as characterized by experimentation, innovativeness, risk-taking, proactive assertiveness, opportunity-seeking and decisive action catalyzed by a strong leader. Hence position and pattern involve extensive interplay with the environment and require the assumption of risk and uncertainty. An entrepreneurial orientation requires a deep understanding of the complexity of contemporary markets and company’s position in this environment that can be defended against competitors and coupling this with a decisive leader that can act boldly and flexibly. The study of Haiyang Li et al (2005) affirmed that firms benefit from pattern/entrepreneurial strategy making depends on what they perceive from the environment and what they are able to do. Pattern mode thrives in the context of positioning based perspective where opportunities in the environment take precedence in crafting strategies.

Model2 strategy making gestalt speaks of positioning and ploy. Theory underpins and reality substantiates such linkage. Theory wise, ploy takes us into the realm of direct competition where maneuvers for or against the competitors are employed to gain competitive advantage. Further, since the area of study is an Asian country, the study of Haley and Tan (1996) and Haley and Haley (1998) asserted that Asians rely on social networks for their strategic decision making and survival. Since South-East Asia has an informational void especially on the external environments of firms operating in the region, it is essential to find web of relationships (ex. friends, government) to provide the necessary information. Hence, Asian business men practice action driven decision making and emergent planning to conform well to an information-scarce environment. Thus it figures, why amongst those surveyed, planning strategy making has not been an option as the strategy making is almost entirely done internally though articulated but not printed.
References


Pearson G. Strategic Thinking. (UK: Prenhall, 1990)


