

Integrating the Strategy Formation Process: An International Perspective

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Strategy can emerge within a decentralized decision structure that gives managers autonomy to take responsive actions while overall strategic direction is considered within a strategic planning process. Both strategy-making modes can be conceived as complementary elements of the complex strategy formation process. This study defines the concept of decentralized strategic emergence around the decision autonomy of managers and hypothesizes on the positive interaction between dispersed managerial actions and central planning activities. An empirical study illustrates the importance of both elements in an integrative strategy formation process particularly for firms operating in the turbulence of international environments. The findings may point to essential strategic management capabilities needed to exploit opportunities in the European internal market.

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Introduction

It is generally recognized that effective strategy formation processes consist of central planning activities orchestrated at the corporate strategic apex as well as emerging strategic decisions influenced by empowered managers within the organization (e.g., Hill and Jones, 2000; Johnson and Scholes, 2002; Mintzberg *et al.*, 2003). Nonetheless, limited research has been conducted to further enlighten our understanding of the interaction between these two elements of the strategy formation process particularly in the international business context that per-

meates the competitive environment not least within the European Union (EU). The paper seeks to address this shortcoming, which has potential ramifications for the way corporations can exploit opportunities in the European internal market.

From a planning perspective, strategy is formed through a sequence of rational analytical steps including mission statement, competitive analysis, internal analysis, strategic control, etc. (Andrews, 1971; Ansoff, 1988; Cohen and Cyert, 1973; Schendel and Hofer, 1979). This strategic management framework often distinguishes between business and functional strategy levels and thereby implies a certain degree of middle management involvement in the process possibly confined to the engagement of line managers and department heads. Hence, strategic management constitutes a normative outline for rational strategy formulation but provides little explicit consideration of the potential management roles in the strategy formation process. Conversely, strategic emergence has often been ascribed to decision patterns evolving over time as relatively autonomous managers within the organization engage in resource committing activities (Bower, 1970, 1982; Burgelman, 1983, 1988, 1996) and take actions in response to changing market conditions (Mintzberg, 1978, 1994). This emergent perspective is distinct from the chief executive's selective engagement of key employees in incremental decision making as described by Quinn (1980) and managers selling ideas to the top executives (Dutton and Ashford, 1983; Dutton *et al.*, 1997).

The two fundamental strategy perspectives of planning and emergence have often been considered as either/or choices contingent on environmental conditions where strategic emergence was seen as appro-

appropriate in turbulent environments while strategic planning applied to stable and predictable conditions (Mintzberg, 1973, 1983; Fredrickson and Iacquinto, 1989; Powell, 1992). These views continue to influence the thinking among contemporary strategy scholars, e.g. as expressed by Volberda and Elfring (2001): 'Empirical research by Fredrickson (1984); Fredrickson and Mitchell (1984) and Mintzberg (1973) shows that in turbulent environments planning is ... often insufficient and leads to rigidity.' (p. 4). Nonetheless, various studies have ascribed significance to structure, comprehensive analyses, and emergent strategic initiatives alike (e.g. Eisenhardt, 1989, 1999; Jelinek and Schoonhoven, 1990). Mintzberg (1978) and Mintzberg and Waters (1985) even suggests that the interplay between intended and emergent strategies were at the heart of the complex strategy formation process. Recent studies have consistently found that strategic planning is effective in turbulent environments (Hopkins and Hopkins, 1997; Brews and Hunt, 1999; Andersen, 2000). However, only a few studies have focused on the relationship between the integration of different strategy-making modes and performance (Hart, 1992; Hart and Banbury, 1994; Andersen, 2002). Hence, further investigations of the interaction between planning and emergence in the strategy formation process across industries and international business environments are needed to fill this void.

In an assessment of current strategic decision making issues Eisenhardt and Zbaracki (1992) urged further exploration of environmental contingencies while Hendry (2000) called for the simultaneous consideration of different conceptualizations of the strategic decision-making process. This paper responds to these calls. There has been a realization that decentralized post-bureaucratic organizations in high-velocity industries need structure to be effective (Jelinek and Schoonhoven, 1990) and that firms operating in turbulent environments benefit from rationality in the strategic decision process (Goll and Rasheed, 1997). Hill and Jones (2000) made similar observations in European research and development organizations. At the same time, the continued globalization of markets has made it imperative to investigate the effects of strategy formation in the context of the organization's international engagement (Govindarajan and Gupta, 2000). The current study extends these perspectives by investigating the simultaneous effects of decentralized decision-making and central planning activities on a sample of internationally engaged firms operating in manufacturing industries with different levels of environmental turbulence.

In the following, I present the underlying views on decentralized strategic emergence and the strategic planning process and outline an empirical study testing the performance relationships of the two strategy-making modes. The study investigates the strategy formation process in the context of environmental turbulence and international engage-

ment and the findings inspire a discussion of the strategic management capabilities needed to exploit opportunities in the European internal market.

Background

Bower (1970) stressed the importance of resource committing decisions among lower level managers as they influence the development of organizational capabilities that eventually shape the strategic options available to the firm (Noda and Bower, 1996). Mintzberg (1978, 1994) argued that strategy can emerge through the actions taken by middle managers within the organization so strategic initiatives may arise without executive awareness. Jelinek and Schoonhoven's (1990) study of high technology firms found the judgments of supervising managers essential in the development of new innovations. Other authors have discussed the importance of middle managers' strategic involvement (Wooldridge and Floyd, 1990; Floyd and Wooldridge, 1992, 1994, 1996; O'Neill and Lenn, 1995). Accordingly, strategy formation has been conceptualized as shared cognition among the individuals that enact the strategy (Pennings, 1985), on-going learning from organizational activities (Normann, 1985), and a social learning process (Burgelman, 1988). The implication of these perspectives is that strategic decisions are influenced by managers located throughout the organization and that strategy can emerge over time as a consequence of actions taken by these decentralized decision-makers. Hence, we define *decentralized strategic emergence* as resource committing decisions made by lower level managers that subsequently can influence the strategic direction of the firm. By providing managers with authority to take decisions in key areas when competitive conditions change, firms should become more responsive and reach better outcomes particularly in rapidly changing environments.

Central planning is embedded in the strategic management paradigm that incorporates a number of rational analytical steps in the strategy development process including goals, policies, environmental analyses, strategy formulation, implementation, and control (Ansoff, 1988; Richards, 1986; Schendel and Hofer, 1979). Hence, we consider the *strategic planning process* to reflect the organization's emphasis on mission and long-term goals as well as action plans and on-going evaluation of strategic objectives. Several studies found that adherence to comprehensive strategic decision analysis is associated with low performance in dynamic industries and high performance in stable industries (Fredrickson and Mitchell, 1984; Fredrickson, 1984; Fredrickson and Iacquinto, 1989; Powell, 1992). These results might imply that planning has a positive performance effect in relatively stable environments but they are, nonetheless, contradicted by Eisenhardt's (1989, 1999) findings in

high-velocity computer industries where effective strategic decision-making was supported by extensive analyses. Miller and Cardinal's (1994) meta-study of prior planning research concluded that strategic planning has had a positive performance relationship particularly in turbulent environments. Brews and Hunt (1999) also found that formal planning enhanced performance in unstable environments. These observations are consistent with propositions that strategic planning activities serve to coordinate long-term organizational activities and corporate adaptation (Lorange and Vancil, 1995, 1977) and encourage adaptive thinking in the search for new business opportunities (Rhyne, 1986; Ansoff, 1988). Therefore, the strategic planning process should lead to better responses as organizations adapt to environmental change.

Middle management involvement is advanced as an essential element of the strategy formation process (Floyd and Wooldridge, 1994, 1996) but has not yet been fully integrated into the discussion of planned and emergent strategy. In their initial work, Wooldridge and Floyd (1990) proposed that the engagement of middle managers might influence performance through better decisions that lead to superior strategies or by creating consensus that facilitates strategy implementation. They found that middle management involvement was associated with higher organizational performance but found no correlation between consensus and performance. On this basis, they suggested that performance effects could be ascribed to improved decision-making capabilities. Wooldridge and Floyd (1990) noted that firms in their study used both planned and emergent styles of strategy making while all firms seemed to operate in dynamic international industries, i.e. a potential interaction between the planned and emergent strategy modes was not considered across environmental settings and degree of internationalization. Hence, the current study extends earlier investigations by integrating the strategic planning process in the analysis of decentralized strategic emergence. Strategic planning can have creative qualities as strategic discussions in conjunction with dispersed decision power can furnish a healthy level of skepticism (Wooldridge and Floyd, 1990) and encourage responsive thinking (Miller and Cardinal, 1994; Rhyne, 1986). The strategic planning process can also serve to integrate diverse organizational perspectives and coordinate activities across different functional areas (Ansoff, 1988; Lorange and Vancil, 1995), which are needed to operate more effectively and efficiently. The associated strategic response capabilities are particularly pertinent under turbulent conditions characterizing contemporary turbulent environments (Bettis and Hitt, 1995). This reasoning underpins the following hypotheses.

H1: Firms with a high degree of decentralized strategic emergence are associated with superior organizational performance;

H2: Firms with a high emphasis on the strategic planning process are associated with superior organizational performance;

H3: Firms with a high degree of decentralized strategic emergence are associated with superior organizational performance particularly in turbulent environments;

H4: Firms with a high emphasis on the strategic planning process are associated with superior organizational performance particularly in turbulent environments.

Middle management involvement deriving from dispersed strategic decision power can be perceived as a way to experiment with responsive initiatives throughout the organization that provides new insights about potentially useful future strategic actions. Even if middle managers have a high degree of decision authority, their relatively autonomous initiatives may still be carried out in accordance with the integrative thinking and overall direction that evolve from the strategic planning process. Conversely, the distributed decision authority may provide an organizational context where the managers' actions can influence the firm's strategic path and inspire discussions in the strategic planning process. That is, the two strategy-making modes can be complementary and the interaction between them might be particularly beneficial to organizations engaged in international markets that are more sensitive to exogenous environmental factors. As firms increase their global reach, the level of turbulence that circumscribes strategic decisions is likely to increase due to the diversity of national market characteristics (Rosenzweig and Singh, 1991; Zaheer, 1995; Yip, 2002). In this context, the emergent strategy processes become increasingly important as they enhance responsiveness and adaptability (Bartlett and Ghoshal, 1998). All the while, the strategic planning process can support communication of tacit market insights that are essential to develop effective strategies in the turbulent international environment (Lord and Ranft, 2000). The planning process can also integrate diverse international insights and experiences gained from decentralized strategic initiatives and thereby reach more effective and efficient strategic responses (Desouza and Evaristo, 2003). This reasoning fuels the following hypotheses:

H5: Firms with a high degree of decentralized strategic emergence are associated with superior organizational performance particularly if their business activities are internationalized;

H6: Firms with a high emphasis on the strategic planning process are associated with superior organizational performance particularly if their business activities are internationalized;

H7: Firms with both a high degree of decentralized strategic emergence and a high emphasis on the strategic planning process are associated with superior organizational performance particularly if their business activities are internationalized.

The proposed model relationships and associated hypotheses are shown in Fig. 1.

Empirical Study

Firms were sampled from industries representing different levels of environmental turbulence including food processing, household furniture, apparel, computer products, and electronic measurement equipment. The industries were chosen from the Compu-stat database based on two indexes identifying the level of environmental turbulence. A dynamism index was calculated as the standard error of the regression slope coefficients of ten-year time series on net sales and operating income (Keats and Hitt, 1988). A complexity index was calculated reflecting the degree of diversity in inter-industry trade patterns based on benchmark input-output accounts from the Bureau of Economic Analysis. Environmental turbulence can be characterized by the simultaneous effects of dynamism and complexity (Terreberry, 1968; Dess and Beard, 1984). Hence, industries were selected on the basis of high-high and low-low scores on both indexes to allow investigation of environmental contingencies. Annual reports from the firms in the identified industries were analyzed to ensure that they had maintained business operations in their current organizational forms over the preceding years. On this basis 360 single business entities (firms and corporate divisions) were identified in an initial sample of which 242 (67.2 per cent) constituted individual firms.

The proposed model constructs were measured on the basis of item scales derived from a questionnaire. The strategic planning process was reflected by the

organization's emphasis on mission statement, strategic goals, action plans, and strategic control as developed and tested by Boyd and Reuning-Elliott (1998). Decentralized strategic emergence was indicated by Aiken and Hage's items of decision authority (Dewar *et al.*, 1980) modified to capture strategic decisions regarding new business activities, product developments, and policy changes (Miller, 1987). Firm specific turbulence measures using subjective indicators of dynamism, reflecting change in demand and profitability, and complexity, reflecting the importance of change in markets and operations were also developed (Price, 1972). Organizational performance was measured by combining the dimensions of firm profitability and sales growth (Dess and Robinson, 1984). Please refer to Appendix A for a description of the items included in the construct measures. The degree of internationalization was measured on the basis of archival data as the three-year average of foreign sales as a percentage of total sales, which has been determined as a consistent internationalization variable (Sullivan, 1994).

Interviews with executives in four firms within the targeted industries provided initial face validity of the item scales, which were subsequently tested on a group of middle managers in the firms. Executives responsible for the market-oriented activities in the firms were chosen as prime respondents because market related managers usually are involved in the strategy process (Floyd and Wooldridge, 1992; Mintzberg, 1994). Questionnaires were mailed to executives in the 360 business entities followed by soliciting phone calls and a second mailing. 185 questionnaires were returned corresponding to an overall response rate of 51.4 per cent of which 116 related to single business firms indicating a response rate from individual firms of 47.9 per cent. The responding

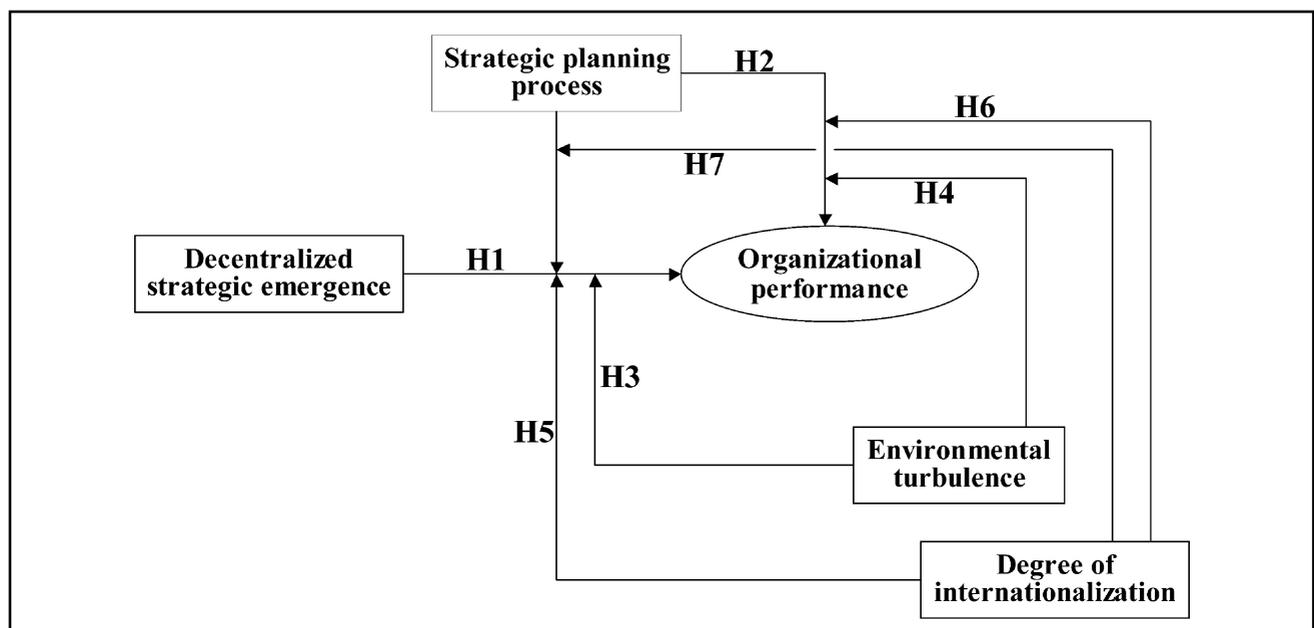


Figure 1 Integrative Strategy Model in the Context of Turbulence and Internationalization

business entities were tested for potential biases on total assets, revenue, sales growth, return on equity, and profit margin. The self-reported indicators on profitability and sales growth were compared to archival data from Compustat on the 116 individual firms showing correlations of 0.42 and 0.49 respectively, which was comparable to previous studies (Dess and Robinson, 1984). To ensure consistency, the study used only the responses furnished by executives in the individual firms. Of the 116 responding firms, 112 represented complete data sets that were used in the subsequent analyses. The item responses from the firms were exposed to factor analysis to test the validity of measures. The analysis identified distinct model constructs of environmental turbulence, decentralized strategic emergence, strategic planning process, and organizational performance. Cronbach's alphas calculated on the constructs were 0.74, 0.72, 0.83, and 0.86 respectively, which was deemed satisfactory (Nunnally and Bernstein, 1994). Table 1 provides descriptive data on the responding firms.

The hypotheses were tested by performing regression analyses using organizational performance as dependent variable and the model constructs and their interaction terms as independent variables. The study also considered the effects of potential confounding variables. Firm size reflects past and possibly present success (Aldrich, 2000), so the natural logarithm of total assets was applied as control variable to test for effects from size related organizational slack (Aldrich and Auster, 1986). The performance measure indicates outcomes in relation to the firm's close competitors and, therefore, by design eliminates industry specific effects, such as munificence, product differentiability, advertising intensity, etc. (Rumelt, 1991). Internationalization can affect performance in various ways, e.g., scale economies (Kobrin, 1991), learning (Kogut and Zander, 1993), coordination cost (Jones and Hill, 1988), resource utilization (Christophe, 1997), etc. Hence, the percentage of international sales was included as control variable. Environmental turbulence is a key characteristic of industrial environments that display different levels of profitability (Schmalensee, 1985) and was, therefore, included as control variable.

The independent variables including the interaction terms were tested for multicollinearity by regressing the descriptor variables against the other inde-

pendent variables. All the regression models had multiple R^2 well below the 0.90 threshold indicating potential multicollinearity problems (Kleinbaum *et al.*, 1998). Error terms from the regressions were checked for outliers, heteroscedasticity, and normality. The results from the hierarchical regression analysis are shown in Table 2.

Model I indicates that two of the control variables, firm size and degree of internationalization, have significant regression coefficients. Model II incorporates decentralized strategic emergence as additional regression variable, which shows a significant performance relationship. This provides initial support for hypothesis 1. Model III adds the strategic planning process as independent variable and shows a significant relationship to performance, while decentralized strategic emergence no longer shows statistical significance. This provides support for hypothesis 2 but weakens hypothesis 1. Model IV includes the interaction terms between the strategy constructs, decentralized strategic emergence and the strategic planning process and environmental turbulence, and indicates that decentralized strategic emergence has a significantly higher performance relationship in turbulent environments. This provides support for hypothesis 3. Model V adds the interaction terms between the two strategy constructs and the degree of internationalization as independent variables, but does not reveal any significant effects. Finally, the interaction term between the two strategy constructs and the degree of internationalization is included in model VI as independent variables, which indicates a significant positive interaction effect when decentralized strategic emergence and the strategic planning process are combined in firms with a high degree of international business activities. This provides support for hypothesis 5, 6, and 7. Model VI also shows significant regression coefficients for the strategic planning process, decentralized strategy under turbulence, and strategic planning under turbulence, thus providing continued support for hypotheses 2, 3, and 4.

Discussion

The analyses reveal that the two strategy-making modes, decentralized strategic emergence driven by

Table 1 Descriptive Data and Pearson Correlation Coefficients^a

(n=112)	Mean	SD	Min.	Max.	Alpha	1	2	3	4	5
1 Firm size [Ln(Assets)]	4.35	1.98	0	9	—	—	—	—	—	—
2 Degree of internationalization	8.60	17.73	0	94	—	0.127	—	—	—	—
3 Environmental turbulence	20.26	3.65	8	25	0.79	-0.099	-0.013	—	—	—
4 Decentralized strategic emergence	13.58	4.27	5	25	0.74	0.272**	0.0058	0.177	—	—
5 Strategic planning process	17.37	4.86	6	25	0.82	0.119	-0.022	0.302**	0.156	—
6 Organizational performance	7.38	2.39	2	10	0.86	0.227*	-0.141	0.089	0.234*	0.398**

^a** $P < 0.01$, * $P < 0.05$

Table 2 Hierarchical Regression Analysis (Standardized Regression Coefficients)^a

(n=112)	Organizational performance					
	MODEL I	MODEL II	MODEL III	MODEL IV	MODEL V	MODEL VI
Firm size [Ln(Assets)]	0.261***	0.211**	0.162*	0.155*	0.146	0.143*
Degree of internationalization	-0.176*	-0.179*	-0.162*	-0.165**	-0.0192**	-0.275***
Environmental turbulence	0.117	0.082	0.027	0.017	0.022	0.031
Decentralized strategic emergence	—	0.172*	0.148	0.062	0.071	0.073
Strategic planning process	—	—	0.361***	0.344***	0.330***	0.339***
Decentralized strategy by turbulence	—	—	—	0.190**	0.190**	0.179*
Strategic planning by turbulence	—	—	—	0.150	0.140	0.168*
Decentralized strategy by internationalization	—	—	—	—	0.016	0.043
Strategic planning by internationalization	—	—	—	—	-0.150	0.001
Decentralized strategy by strategic planning	—	—	—	—	—	-0.040
Decentralized strategy by strategic planning by internationalization	—	—	—	—	—	0.311***
Multiple R ²	0.095	0.121	0.235	0.297	0.316	0.373
Adjusted R ²	0.070	0.088	0.199	0.249	0.256	0.304
F-significance	0.013	0.008	0.000	0.000	0.000	0.000

*** $P < 0.01$; ** $P < 0.05$; * $P < 0.10$

middle managers' autonomous initiatives in a decentralized strategic decision structure and a central strategic planning process, both seem to have significant performance effects in turbulent environments. The planning approach shows a strong performance relationship across environmental settings where the evidence is less conclusive in the case of decentralized strategic emergence. However, it seems clear that the ability to take managerial initiatives across the organization in response to changing environmental conditions can improve the firm's strategic responsiveness and hence its performance. The strategic planning process that integrates cross-functional organizational perspectives and supports adaptive analyses shows a similar positive performance relationship. Hence, the planning approach seems equally important to integrate diverse organizational activities effectively and furnish strategic responsiveness especially in turbulent environments. What is more, the combination of decentralized strategic emergence that spurs responsive actions among middle managers and the strategic planning process that coordinates responsive actions seems to enable better outcomes and superior resource deployment that improve performance even further. These effects are particularly strong in firms engaged in international business activities that are exposed to a diversity of national conditions. The performance effect fails to show in organizations with little international engagement, which seems to indicate that the combination of decentralized strategic initiatives and planned coordination of actions is especially important in the case of organizations operating in diverse international market settings. In the absence of central planning activities, decentralized decision authority may lead to organizational chaos particularly when the organization has activities located

in different national markets. Hence, decentralized strategic emergence is not found directly related to superior outcomes across environmental settings, but displays a positive performance relationship in turbulent industrial environments and in international market settings when combined with the strategic planning process.

This study has performed an empirical test of the performance effects of an integrative strategy process based on the dual strategy modes of central planning and decentralized emergence and thereby extends previous perspectives of middle management involvement in the strategy formation process (Wooldridge and Floyd, 1990). The integrative strategy model incorporates a special type of involvement based on strategic influence gained through the decision authority of middle managers that allow them to respond faster to changes in the competitive environment and where autonomous initiatives are guided by the strategic discourse in the planning process (Hendry, 2000). Previous studies have argued that planned as well as emergent processes are necessary for effective strategy (Hart, 1992), and Hart and Banbury (1994) reported that the best performing firms were able to integrate different strategy-making modes including planning and emergence. The current study extends these findings by explicating and demonstrating incremental advantages from an integrative strategy process based on central planning and decentralized emergence in turbulent and international environments.

The empirical study is subject to potential limitations. Since measures were based on responses from market-oriented executives it could be questioned whether the strategy constructs hold for other func-

tional areas of the organization. This issue was assessed in the pre-testing phase where measures displayed different absolute levels across functional areas, while the relative indicators remained consistent across the individual firms. Hence, the measures of the strategy constructs are considered representative of the firm as a whole. There might be an issue of reverse causality in the regression analyses because no time lags were built in between the performance variable and the explanatory variables. However, all measures were construed to capture performance and process constructs throughout a period of several years, so the tested relationships represent phenomena that have taken place conjointly over some time. Great care was taken in the sample selection to only include organizations that maintained stable business processes during the period of study, and there was a sole focus on individual firms to increase consistency in the measures. Furthermore, no logical arguments seem to support the inverse causality. For example, it is hard to explain why higher performance in internationally engaged firms should lead to more decentralized decision structures and central planning activities at the same time. Finally, the study comprised evidence from different manufacturing industries but we cannot be certain that the results can be transposed directly to other types of industries, e.g. oil exploration, pharmaceuticals, etc.

Various studies have investigated the performance effects of internationalization with rather mixed results (Sullivan, 1994). A number of theoretical explanations have been given for both positive and negative effects of internationalization. Potential scale economies (Kogut, 1985; Kobrin, 1991), cross-border arbitrage opportunities (Teece, 1986), and international learning effects (Kogut and Zander, 1993) argue for positive effects from internationalization. The liability of foreignness (Zaheer, 1995), knowledge acquisition costs in foreign markets (Johanson and Valne, 1990), and increased coordination costs (Jones and Hill, 1988) argue for disadvantages associated with internationalization. However, an integrative strategy process speaks to this dilemma as decentralized strategic emergence can facilitate the potential advantages of internationalization while the strategic planning process supports the exploitation of these advantages. In other words, an integrative strategy process that combines development of strategic opportunities across international markets with the coordination of diverse national market insights that often comprise elements of 'tacit' knowledge is associated with superior performance. The adoption of a decentralized strategic emergence approach is consistent with arguments that entrepreneurship should be an engrained element of organizations with an international market presence (Zahra *et al.*, 2001). However, the study illustrates that the planning dimension adds an important component to integrate different perspectives in the

strategic thinking process and coordinate functional activities in the execution of strategic actions.

These findings could have a significant impact on the way we think about development of international business opportunities also within the European internal market. In many industrial sectors there have been concerted efforts to harmonize national standards within the EU through the introduction of various Directives. However, big disparities remain between the member states in adopting these rules. The principle of mutual recognition has been applied to ease commercial interaction between national markets in the EU (Pelkmans, 2003) and has retained many differences in regulatory structures and business procedures between countries. These efforts to open up for commercial interaction between business entities in different EU countries do not appear to have caused major intra-European corporate restructurings. Hence, total cross-border acquisitions of US businesses made by European companies during 1985–2001 were comparable to the amount of intra-European cross-border acquisitions during the same period (Smith and Walter, 2003). That is, it seems like few European corporations have been trying to realize potential scale and scope economies associated with integrated operational structures across national markets in the EU. Whereas the development towards a common European market has fostered economic growth it has happened largely through intra-European trade transactions (Allen *et al.*, 1998).

All the while, US based and Japanese firms have invested actively in the EU to take advantage of the European internal market. It is argued that the development of an internal market primarily favors US and Japanese organizations because their competitive advantage is associated with the ability to reduce cost through scale and scope economies whereas European firms are better suited to exploit the differentiated market contexts (Brouthers and Wilkinson, 2002). Therefore, it would seem like European firms need more integrative planning skills to coordinate intra-European organizational structures and thereby exploit potential scale and scope advantages from the large internal market. However, the good news from this study is that efficiencies and lower coordination cost associated with central planning is a necessary but insufficient parameter for success. Firms must also be able to take adaptive strategic actions within a decentralized decision structure at the same time. Hence, the opportunity for European firms may be to exploit their current ability to adapt to differentiated market conditions and concurrently develop their central planning and coordination skills. High performing firms must possess the combined ability to utilize knowledge about national differences and integrate the diverse market requirements in efficient solutions that exploit the potential scale and scope economies associated with the larger internal market. Therefore, the integrative strategy process should be particularly appropriate for the cross-border chal-

lenge represented by the development of the European internal market.

Conclusions

This paper has demonstrated that decentralized strategic emergence, where relatively autonomous managers are empowered to take initiatives of potential strategic consequence, and strategic planning activities that integrate diverse market experiences and coordinate strategic actions are both important to achieve superior performance. A cross-sectional study of 112 manufacturing firms confirmed that decentralized strategic emergence in conjunction with strategic planning is associated with higher performance for organizations with a high degree of international business activities that operate in turbulent industrial environments. Hence, the study contradicts conventional views that present the two strategy-making modes as alternatives contingent upon the level of environmental turbulence. Instead, the two strategy making modes are complementary elements of the strategy formation process and enhance organizational performance particularly for internationally engaged firms operating under the turbulence of global markets. These findings have implications for the way organizations should conduct themselves to take advantage of potential economic benefits associated with global market opportunities and could have special repercussions for firms trying to take advantage of the large market space across the European Union. The study suggests that the ability to effectively integrate decentralized strategic emergence and the strategic planning process may constitute essential strategic capabilities needed to exploit the simultaneous needs for national market adaptations and coordination to achieve economic efficiencies in the European internal market.

Appendix A

Items used to measure model constructs: (the following items are assessed to capture conditions in the firm over previous years)

Decentralized Strategic Emergence

1. Managers can start important market activities without top management approving the decision
2. Managers can market to new major customer segments without approval from top management
3. Top management does not have to approve new product and service developments before they can be initiated
4. Managers can introduce new practices without approval from top management
5. Approval from top management is not needed before new internal capabilities can be developed

Strategic Planning Process

1. The emphasis the organization puts on the development of a mission statement
2. The emphasis the organization puts on long-term plans
3. The emphasis the organization puts on annual goals
4. The emphasis the organization puts on short-term action plans
5. The emphasis the organization puts on on-going evaluations of strategic objectives

Environmental Turbulence

1. The extent to which product and service technologies changed in the industry over the past five years
2. The extent to which demand for different products has changed in the industry over the past five years
3. The extent to which profitability of different products has changed in the industry over the past five years
4. The importance of identifying new types of customers and adapting products and services accordingly
5. The importance of changing practices and development of new internal capabilities

Organizational Performance

The firm position compared to close competitors in the industry over the past three years:

1. Return on assets
2. Growth in net sales

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