

Approaches to Strategy: Experiences of Slovak enterprises

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This paper deals with area of strategic management and mainly focuses on approaches to strategy. Strategy is often considered as one of the critical factor of success but there are often discussions what is the best approach to strategy. In this paper we focus on two basic approaches, prescriptive and emergent. Both of these approaches have supporters and critics. In this paper we try to summarize the fundamentals and recommendations for improvements of these approaches to be better applied in current environment. The paper also shows the results of our research. We studied and analyzed 242 enterprises operating in Slovak republic. These enterprises were from various sectors and various sizes. Based on information from questionnaires, structural interviews and studying of company documents we were able to identify and analyze the approach to strategy of these enterprises. In findings we summarize the main results of our research.

Field of Research: Strategy

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1. Introduction

The strategy is based on regard to the future. It expresses the ideas about the future and leads to preparation for the future. About its importance and impact to successfulness hardly anybody doubts. However, there are still different opinions on what strategy really is, how to create strategies and how to apply them. These opinions have been mainly changing because of the impact of changing environment.

Strategies have been for long time considered as an important prerequisite of success in many areas of human activities. They have been used mainly in military, diplomacy and politics. The theory of management has begun to discovered and developed strategies in the sixties of twenty century. Strategies became part of management theory in the context of necessity to improve planning and they became the basics for development of strategic planning.

After its creation strategic planning quickly and successfully spread and became a successful tool for managerial practice. Despite these successes an unexpected disappointment came in the mid seventies. Until then, relatively stable environment allowed usage of methods and techniques developed for predicting the external environment. As a result of emerging oil and energy crises it virtually overnight

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turned into unpredictable. Not until a creation of new theory of strategic management in the late seventies, strategies gain confidence again.

Nowadays we are facing a turn in strategic management again. A global financial and economic crisis similarly have surprised many that though that have mastered in creating strategies in turbulent environments. Even the most prominent professionals and analysts have to face the difficult situation in anticipation of further development of the environment. Under influence of these changes even those who defended strategies in the past starts to question them. Preparation of strategies in a relatively stable environment in which it is possible to predict the development of environment, to identify exposure of factors and to determine real strategic objectives, is much easier. In this paper we would like to discuss the main approaches to strategy and their application in current environment. The result of our research will show the current state of application of strategic management in Slovak republic.

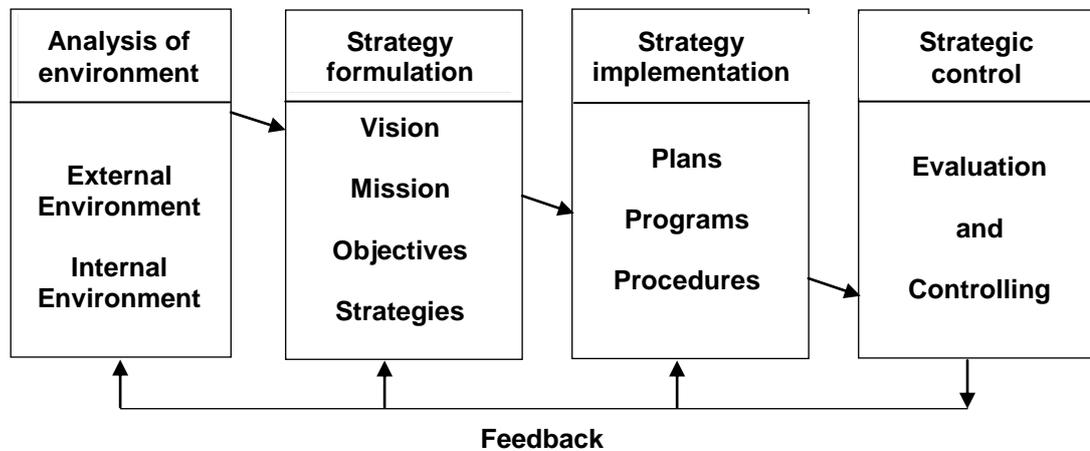
2. Literature Review

Strategic management is concerned with a set of strategic decisions and actions taken by strategic / top managers in consultation with the hierarchy within the organization, to determine the long-term and successful direction of the organization (Houben et al. 1999). A clear and well-formulated strategy is needed to help a manager take the right decisions to obtain superior performance. Strategic Management is in fact the study of why some firms outperform others (Dess, Lumpkin and Taylor 2005). A key word here is strategy. Having a strategy means thinking about the future, preparing in advance for the future, having an active approach to the future. However, how to formulate a strategy and how to implement it, are two difficulties many organizations struggle with. (Sioncke & Parmentier 2007, Verweire & Van den Berghe 2004). The way organizations formulate strategy has become one of the most congested areas of debate in the strategic management field. (Hadighi et al. 2012). In the course of development of the theory of strategic management the strategy creation has been influenced by different approaches. Among the dominant approaches are prescriptive and emergent approaches that significantly affect the theory and practice of management until nowadays.

2.1 Prescriptive approach to strategy

Prescriptive approach is the traditional approach to strategy. It has many supporters and a wide application. Prescriptive approach uses basic phases of strategic management, such analysis of environment, strategy formulation, strategy implementation and strategic control (Figure 1, adapted from Wheelen, Hunger 1989).

Fig. 1: Process of Strategic Management (Prescriptive Approach)

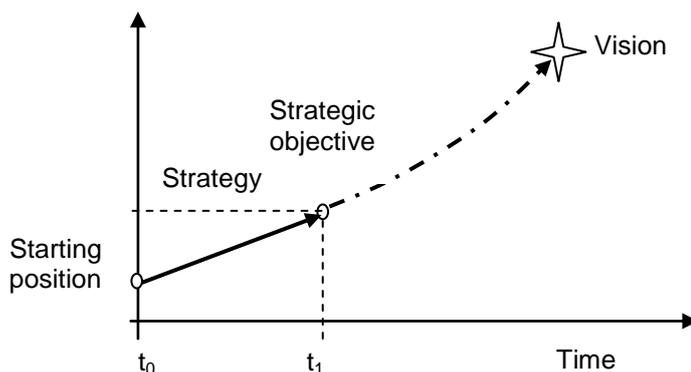


Based on results of analysis of external and internal environment we are able to develop a strategy that as the basic document will guide our progress in achieving the set objectives. The mere word "prescriptive" (prescribing, ordering) means that we create a strategy that inwardly acquire our trust and that would have lead us towards the future.

This approach emphasizes on application of methods and techniques of analysis of environment. Theory of management has created a number of methods and techniques, but not all can be effective nowadays. Especially techniques based on a static view or situational approach (e.g. SWOT analysis) are useful, but rather as a guide and helper starting procedures. If we want to detect future trends of environment it is necessary to examine it in the dynamics, with causal relations and holistic view.

Prescriptive approach to strategy also emphasizes the need to create a vision. Strategic objectives are seen only as milestones towards the vision and the strategy is seen as a way to bring us to the fulfillment of its objectives. Mission has in this case a supplementary rather than a decisive role. Its task is to define the space in which we set objectives and develop a strategy towards fulfilling the vision. The relationship between strategy, strategic goals and vision is illustrated on the Figure 2.

Fig. 2: Strategy, Strategic Objective and Vision



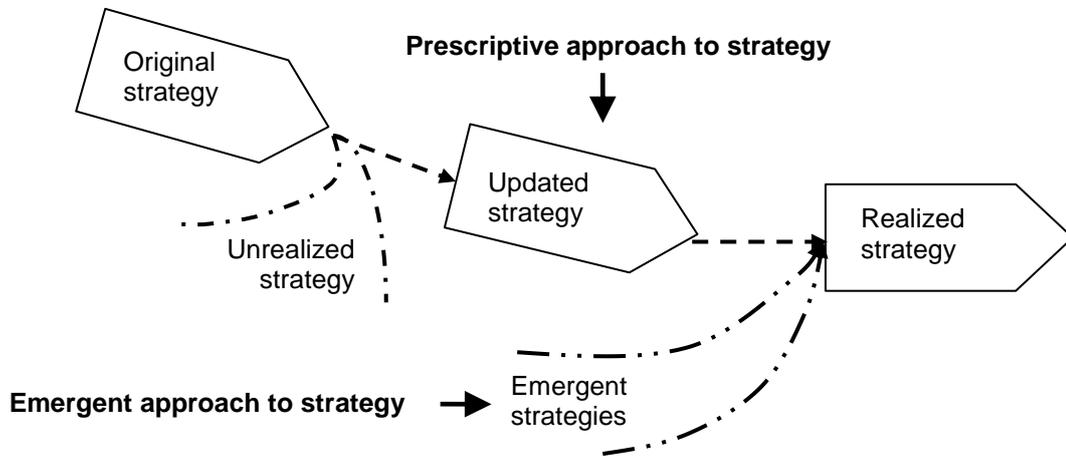
Prescriptive approach is based on the assumption of predictability environment, our ability to set objectives and to find appropriate ways to fulfill them. Set goals and adopt strategies are perceived as mandatory documents that guide the company towards progress in the future. In constantly changing, distinctive and difficult to predict environment we are not able to prepare a strategy with the long-term effectiveness and timeliness. Prescriptive approach therefore recommends the first to make the initial strategy, which is based on our current knowledge and skills to understand and anticipate the background and development of environment. Creating original strategy is based on our ability to predict the future development of the environment, to establish strategic objectives and to adopt a strategy that will guide our next steps. Prescriptive approach, however, provides the opportunity to respond to sudden changes in the environment and modify the original strategy, to create updated strategy. The important role has strategic control that should trace problem signals in time, warn us and allows us to react by implementing changes (Papula 2003, Papula 2008)

Recommendation to better application of prescriptive approach:

- The strategic methods and techniques should be appropriately used to not only analyze the current situation but also to predict and forecast the future trends of environment in their dynamic with causal relations and holistic view.
- Monitoring, analyzing and forecasting of environment should be carried out by qualified personnel. We need specialized professionals (e.g. strategists, strategic planners) to cooperate with other functionally specialized departments (marketing department, human resources, research and development etc.). Strategic management theory provides a variety of analytical techniques and instruments that require special knowledge and skills.
- Analyzes are based more on rational and logical thinking. In formulation of strategy there should be also a place for intuition, creativity and creative skills.
- In prescriptive approach, it is important to create a vision. Vision should be a basis for strategy development. The ability to see and understand the future gives the competitive advantage. Strategies that come from strong visions generate opportunity to act ahead, before others will understand the importance of it. Visions are reflected in thinking ahead and give the opportunity to act in advance.
- The weak side of prescriptive approach might be in separation between strategy formulation and strategy implementation. It is not about the time difference between these two phases but it is about top managers creating strategy and lower level managers implementing it. Managers that implement the strategy can see it from different perspective and different context. Involvement and communication is important. Also application of BSC is a great way how to improve the implementation phase.
- The important role should have also strategic control. Strategic control does not only monitor and evaluate the achieved results but should also examine the factors that influenced the results obtained. If the results do not match expectations, it should investigate the causes of them. It should also be used as early warning system and prepare the possibility for strategy actualization.

The prescriptive and emergent approaches are illustrated on Figure 3 (adapted from Mintzberg, Lampel, Ahlstrand 1998).

Fig. 3: Approaches to Strategy

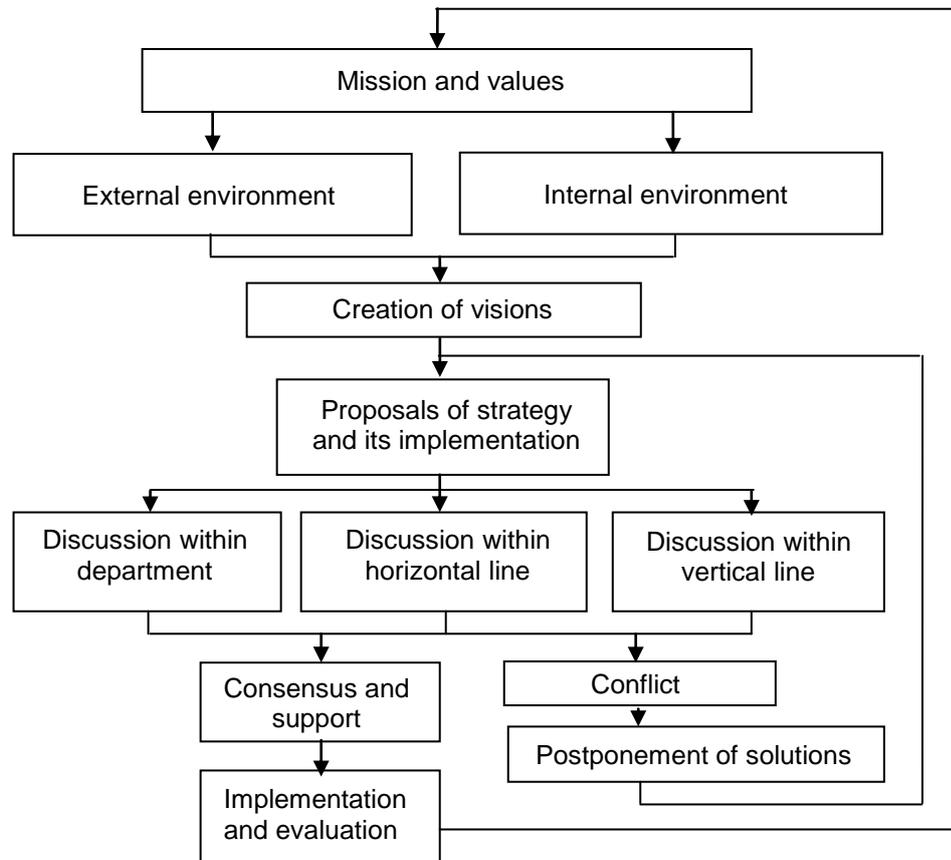


2.2 Emergent approach to strategy

Emergent approach sees everything in constant dynamics, and therefore does not place emphasis on the creation of original strategies and update them, but leaves the strategy open and enables to shape it constantly. The strategy is not a plan, but rather clarified idea that is completed and further specified by tactics and operation. Emergent approach is based on the assumption that it is not necessary to see the end from the outset.

Due to rapid changes in environment, the demand for emergent strategy approach is increasing. Emergent approach allows more creative and responsive process, which can be more suitable to dynamic environment (Idenburg 1993). This approach to strategy formulation has been characterized by trial, experimentation, and discussion; that is, by a series of experimental approaches rather than a final objective. Emergent strategy is undertaken by an organization that analyzes its environment constantly and implements its strategy simultaneously. (Lynch 2000). The main advantages of emergent approach are flexibility and speed of response to emerging strategic opportunities. Emergent approach relies on a mission and values rather than on vision. Mission and value system lead us to a clearer view of the future and allow us to focus in a more limited area. The model of emergent approach to strategy is illustrated on Figure 4.

Fig. 4: Process of Strategic Management (Emergent Approach)



Emergent strategies also rely on the organization's ability to learn from the actual experiences of employees at all levels (Noe et al., 2003). According Mintzberg (1998), emergent strategy originates not in the mind of the strategist, but in the interaction of the organization with its environment, the dynamics of the actions of individuals within the organization, the alignment of action with strategic intent and strategic learning.

Emergent approach does not require creating "original" strategy, which would be after the election and approval binding and restrictive for a long time. Clearly defined mission and value orientation allow us to constantly look ahead to the defined time horizon and constantly explore new visions. We can constantly update our goals and help shape our strategy. In this case strategy becomes an open document that is constantly updated with new strategic insights and ideas.

Recommendation to better application of emergent approach:

- The strategic direction of an enterprise should be primarily led by mission and value orientation and not by vision or strategic goals, as it is in prescriptive approach. Vision should be created after, when it will be possible to distinguish detail of emerging the occasion. After creating mission and values there should be provided an ongoing monitoring and reviewing of external and internal environment with an emphasis on detecting emerging visions.

- Preparing a strategy and its implementation is beyond the power and capabilities of individuals. Therefore, it is necessary to engage in this process managers and employees and create space and support for this engagement.
- Development of strategy should be prepared alongside with implementation of strategy. This will increase the flexibility and speed of reaction.
- Emergent approach does not mean that all emerging ideas immediately become a part of the strategy and will be implemented. Incoming stimuli can be implemented only if there is a support. First, it is necessary to get support among colleagues in department and then throughout the organization.
- Innovation and creativity are crucial in emergent approach. Organizations should find the right approaches how to stimulate and support creativity and creative skills of their employees and support the process of innovations.

3. The Methodology

The aim of our research was to analyzed and indentified approaches to strategy and to strategic management in Slovak enterprises. In the research we studied and analyzed 242 enterprises operating in Slovak republic from various industries/sectors. The distribution of enterprises regarding size is in Table 1.

Table 1: Size of Enterprises in Research

Size	Number	%
Micro Enterprises	63	26,03%
Small Enterprises	77	31,82%
Medium Enterprises	52	21,49%
Large Enterprises	50	22,66%

The distribution of enterprises regarding industry or sector is in Table 2.

Table 2: Industries/Sectors in Research

Industry/sector	Number	%
Automotive industry	27	11,16%
Banking and insurance	23	9,50%
Chemical industry	5	2,07%
Construction industry	15	6,20%
Education	9	3,72%
Electronics industry	14	5,79%
Food industry	15	6,20%
IT and telecommunication	24	9,92%
Media industry	3	1,24%
Pharmaceutical industry	10	4,13%
Pulp and paper industry	3	1,24%
Service industry	75	30,99%
Transport and distribution	10	4,13%
Other	9	3,72%

The research took place from September 2011 - April 2013. The research was based on methods of gathering data:

- structured questionnaires and structured interviews with managers, strategists or owners of the enterprises;
- in many companies we also have available company documents such as annual reports and internal methodology of strategic management;
- economics journals and statistical portals

The structural interviews and structural questionnaires were prepared with regards to theoretical background of strategic management and two main approaches to strategy, prescriptive and emergent approach. The focus of interviews and structural questionnaires was on these four areas:

- identification of the company and its performance
- level of importance of strategic management
- approach and attitude to strategy and strategic management
- application of strategic methods and techniques

The analysis focuses on:

- identification of tendency to approaches to strategy in respect to theoretical characteristics
- examination of impact of size of enterprise to approach to strategy
- examination of impact of types of industry of enterprise to approach to strategy
- examination of common and problem areas of these approaches

As it was summarized in literature overview, there are two dominant approaches to strategy, prescriptive and emergent approach to strategy. Each of them has main characteristics and model how can be applied in organizations. We also summarized some of our recommendations how to improve their applications. We studied how these approaches were implemented in enterprises, which approach is more preferred and what are the problematic areas of application.

Size of the enterprise is factor that impacts the approach to strategy and can be successfully measured. In general, the larger enterprises tends to have a formal approach to strategy, they suffer more from communication, control, complexity and rigidity issues.

Also larger enterprises could be more strategic aware than smaller enterprises. We also studied how size impacted the approach to strategy.

Type of the industry or sector is a factor that can be seen from more perspectives. The main perspective is stability of the environment. The more stable environment is preparing better conditions for application of prescriptive and more formal strategy approach. In fact, emergent strategies are created as a response to environmental change. The environment can be studied from elements as industry maturity, speed of change, stability of technology, information availability and innovation. The greater is the intellectual activity, the larger is the space available for emerging strategy.

4. Findings

The first area of research focused on study and analysis of an actual state and attitudes of enterprises towards strategy preparation and creation. The result shows that 57 companies out of 242 (23,55%) did not have any strategy. It seems as quite high number but when we looked closer to results, we found that most of these companies are micro and small enterprises (45 out 57) that building their business mostly on business plans and focusing more on operation. Micro and small enterprises are in general less strategically oriented. Often they are run by owners who are more preoccupied with operation, understand more the technical part of business and have less managerial skills. This was also proven in our research. 23 of these enterprises without strategy are currently considering starting to create strategies, so there is a positive trend to the future. We identified five groups of approaches to strategy, illustrated in Table 3.

Table 3: Approaches to Strategy in Selected Enterprises

Approach to strategy	Number	%
No interest in strategy	34	14,05%
Strategy is under consideration	23	9,50%
Prescriptive approach	135	55,79%
Emergent approach	41	16,94%
Approach was not clear	9	3,72%

Majority of the enterprises (76,45%) have strategies and we could in most of the cases identify tendency to prescriptive or emergent approach to strategy. This result shows that strategic management and strategy is applied in most of the companies nowadays in Slovak republic.

In our research we identified that majority of enterprises with strategy (135 enterprises out of 185 companies - 72,97%) tend to use prescriptive approach to strategy. Mostly this approach is used by middle and large companies and this approach is widely used across all sectors and industries. During our study and analysis, we identified some common problem areas:

- analysis are more focused on complete analysis
- forecasting is the most problematic area
- sometimes vision and mission statements are seen more like a marketing tools without strategic importance and role
- implementation phase is much weaker than formulation strategy phase
- strategy is prepared in top management without involvement/discussion with lower level management
- the role of strategic control undervalued

Emergent approach was identified in 41 enterprises. This approach was mostly preferred by small enterprises. But there were also medium-sized companies using this approach. We found out some common features of these enterprises, they were all focusing on innovation and presented themselves as innovative companies. They showed support and involvement of more employees to strategic discussions and strategic proposals.

We noticed four industries, where this approach was mostly used:

- pharmaceutical industry
- banking and insurance
- IT and telecommunication
- electronics industry

5. Summary and Conclusions

In the environment full of significant and unexpected changes the strategy development is a much more difficult process nowadays. It requires search and focus on volume of information, carry out many demanding analyzes and assessments and develop a number of variants. Preparation of strategies based on analytical and analytical-synthetic procedures, requires the involvement of many people, time and effort. Despite all this effort, strategies under influence of change in environment might quickly become obsolete.

In that situation it is not surprising if someone decides not to waste time to prepare quickly aging and inefficient strategies and better focus on the continuous monitoring of the environment, on rapid identification of emerging opportunities and on flexible response to the detected opportunities.

Being able to quickly orientate in the changing environment and flexibly respond to emerging opportunities bring tempting quick success. Quickly gained success, however, usually does not last long.

In our research we found out that the majority of examined enterprises have strategy and there were only a few enterprises without interest in strategy. Prescriptive approach is still dominating in practice. It is more applied by larger firms in stable and mature industries. Prescriptive approach, despite all criticism is still widely applied. It is important to find the appropriate tools and techniques for improvement of this approach and look closer to problem areas.

Emergent approach to strategy is applied primarily in companies that operate in dynamically evolving industries, where it is possible in a relatively short time horizons to explore emergent occasion, but also potential threats. This approach is preferred by small and medium-sized enterprises, which have the ability to flexibly and quickly respond to stimuli from the environment and thus gain important competitive advantages. This approach was mostly used by enterprises from pharmaceutical industry, banking and insurance, IT and telecommunication and electronics industry.

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