



Enterprise strategy concept, measurement, and validation: Integrating stakeholder engagement into the firm's strategic architecture



Veselina Vracheva^{a, *}, William Q. Judge^b, Timothy Madden^{c, d}

^a North Central College, Department of Management & Marketing, 30 N. Brainard Street, Naperville, IL 60540, USA

^b Old Dominion University, Strome College of Business, 2137 Constant Hall Norfolk, VA 23529, USA

^c Old Dominion University, Strome College of Business, 2166 Constant Hall Norfolk, VA 23529, USA

^d East Carolina University, 3111 Bate Building, Greenville, NC 27858-4353, USA

ARTICLE INFO

Article history:

Received 8 June 2015

Received in revised form

7 December 2015

Accepted 14 December 2015

Available online 2 January 2016

Keywords:

Enterprise strategy

Stakeholder management

Computer-aided text analysis

Construct development

ABSTRACT

A firm's enterprise strategy is its overarching strategic orientation, addressing questions regarding its general purpose and the specific nature of its relationships with stakeholders along two dimensions: (a) scope, which represents the range of stakeholders the organization attempts to serve, and (b) type, which represents the general motivation behind stakeholder initiatives. The corporate social responsibility literature has played an important role in bringing a concern with stakeholder issues; however, this literature does not provide a systematic means of integrating these concerns into the firm's strategic architecture. Enterprise strategy offers a unifying construct, grounded in strategic considerations of both the social and economic demands placed on an organization. However, despite its conceptual importance to strategy and social issues, this construct is empirically underdeveloped. This study develops a reliable and valid measure of the enterprise strategy construct to advance the field's understanding of this increasingly important stream of research. Based on computer-aided text analyses of company letters to stakeholders, we systematically identify terminology that reflects the scope and type of a firm's espoused enterprise strategy. Overall, these data support four fundamental orientations of enterprise strategy: (1) narrow defensive, (2) narrow offensive, (3) broad defensive, and (4) broad offensive.

© 2015 Elsevier Ltd. All rights reserved.

1. Introduction

Managers increasingly devote resources to support organizational relationships with stakeholders (Porter & Kramer, 2011) and stakeholder management research continues to grow in importance. Traditional approaches to stakeholder relationships examine corporate social responsibility (CSR) (Freeman, 1984) and the effects a firm's voluntary initiatives, such as sustainability and philanthropy, have on financial performance. However, because CSR promotes "a split between the profit-making piece of business and the profit-spending or socially-responsible part" (Margolis, Elfenbein, & Walsh, 2007, p. 40), CSR does not provide a strategic perspective of how firms interact with their financial and social stakeholders. To this end, Freeman (1984) suggests:

Isolating social issues as separate from the economic impact which they have, and conversely isolating economic issues as if they had no social effect, misses the mark both managerially and intellectually. While the corporate social responsibility literature has been important in bringing to the foreground in organizational research a concern with social and political issues, it has failed to indicate ways of integrating these concerns into the strategic systems of the corporation in a non-ad hoc fashion. (p. 40)

In contrast to CSR, enterprise strategy (ES) offers a unifying construct, grounded in integrative analyses of both the social and economic demands placed on an organization, to help advance this highly-relevant research stream.

ES assesses a firm's overarching social legitimacy (Schendel & Hofer, 1979) and reason for being (Freeman, 1984). ES also unites the financial and non-financial concerns of a firm by emphasizing value-based judgments as a primary component of decision-making and overall strategic architecture. These deeply-held

* Corresponding author.

E-mail addresses: vpvracheva@noctrl.edu (V. Vracheva), wjudge@odu.edu (W.Q. Judge), tmadden@odu.edu (T. Madden).

values are considered simultaneously with primary, external constituents' interests (Freeman & Gilbert, 1988), and although the concept and its typology were developed over thirty-five years ago, limited empirical studies have followed. Nonetheless, the enduring concepts of values, ethics, negotiations, and motivations are held together by ES, making it more important than originally expected (Freeman, 2004).

ES draws importance from its position at the apex of a hierarchical order of strategies (Hofer & Schendel, 1978), and “as one moves from the enterprise strategy to corporate strategy to business strategy to functional strategy, one not only moves down the organizational hierarchy, one moves downward in terms of constraints” (Schendel & Hofer, 1979, p. 13). Thus, within this hierarchy of strategies, ES sets the parameters within which all lower-level strategies are formulated, and understanding a firm's ES is crucial to understanding its nested strategies.

Although Schendel and Hofer (1979) argued that ES was central to the field of strategic management, this construct has received limited empirical exploration perhaps because it challenges the prevailing notion that maximizing shareholder value should be the central mission of all for-profit firms (Judge & Krishnan, 1994). Furthermore, due to its normative, value-laden nature, the construct is difficult to operationalize through secondary data (Crilly, 2013). In summary, a measure of ES is absent despite its conceptual elegance and central importance to organizational science. Without such a measure, research on ES and its links to other strategies remains stagnant, so this study offers a reliable and valid measure of ES to help advance this important research stream. Specifically, in the present study we seek to address the following question: *Can we develop a reliable and valid measure of a firm's espoused enterprise strategy using archival data?*

We recognize that a complex concept like ES cannot be easily reduced to a single measure. Yet, a reliable and valid proxy for this important construct would be a valuable contribution to the strategic and stakeholder management literature. Thus, our purpose in this study is to (1) develop one such measure that is reliable and valid and (2) provide a methodology for further research in the antecedents and effects of ES.

In this study, we focus on multinational enterprises (MNEs) as our empirical context for several reasons. First, stakeholder concerns are a global issue (Gjølberg, 2009), and MNEs are highly visible targets for external stakeholders. Compared to domestic firms, MNEs manage a greater variety of stakeholders (Buyse & Verbeke, 2003), including global media sources, activist groups, and international non-governmental organizations, all of which assess firm accountability. MNEs also operate in multiple environments, spanning home- and host-country institutions (Zaheer, 1995) and MNEs are more likely than domestic firms to approach a broad set of stakeholders strategically and MNEs are often more responsive to social concerns (Judge, Gaur, & Muller-Kahle, 2010).

Additionally, MNEs are dominant economic participants in the global economy. For example, “51 of the 100 largest economies in the world are corporations, [and] the top 500 multinational corporations account for nearly 70% of the worldwide trade; this percentage has steadily increased over the past twenty years” (Steger, 2008, p. 51). Relationships between financial performance and stakeholder engagement are frequently explored in the stakeholder literature (Margolis et al., 2007; Orlitzky, Schmidt, & Rynes, 2003; Stanwick & Stanwick, 1998), and due to their vast resources, MNEs are more likely than domestic firms to engage with stakeholders using distinguishable strategic actions. Given its applicability to so many aspects of strategic management, ES provides a useful construct to understand how MNE executives orient themselves to all their stakeholders.

2. Definition and dimensions of ES

ES suggests that firms secure their long-term survival and prosperity by approaching each stakeholder group with wisdom and care (Freeman, Harrison, Wicks, Parmar, & de Colle, 2010). It reflects top managers' ultimate strategic intent regarding converging stakeholder interests, and helps to determine corporate goals and strategies (Freeman, 2004). ES also reflects “the firm's attempt to match its ‘values’ to the ‘values’ of its stakeholders,” and shows “how a firm attempts to add value to its environment in order to legitimize its existence and ensure its future” (Meznar, Chrisman, & Carroll, 1991, p. 53).

Conceptual work suggests that ES contains two dimensions: scope and type. ES scope refers to the range of stakeholders the organization attempts to serve simultaneously (Meznar et al., 1991). In other words, ES scope is a continuum that ranges from “narrow” to “broad.” A firm that focuses on only a small subset of stakeholders, such as its owners, has a narrow ES. A firm that attempts to serve a larger variety of stakeholders operates with a broad ES.

The second dimension, ES type, reflects how proactive the firm is in adding value to its various stakeholder demands (Meznar et al., 1991). ES type mirrors the benefits a firm provides to its stakeholders, including economic gains (e.g., corporate philanthropy), social gains (e.g., endorsing causes), and reductions in financial or social costs (e.g., responses to dissatisfied stakeholders). Like scope, ES type is a continuum that ranges from “defensive” to “offensive” orientations. A firm that maximizes tangible, value-generating benefits for its stakeholders has an offensive ES, and one that focuses on minimizing stakeholders' costs characterizes a defensive ES. The ongoing interactions between MNEs and their multiple stakeholders result in variations in these two dimensions of ES.

Combined, these two dimensions form four ideal ES orientations: (1) narrow defensive, (2) narrow offensive, (3) broad defensive, and (4) broad offensive. The original classification of these four types from Meznar et al. (1991) contains two other ES orientations: accommodative narrow and accommodative broad. An accommodative strategy is an intermediate response to social responsibility demands (Carroll, 1979; Sethi, 1975). Because we seek to establish the reliability and validity of the essence of ES (Meznar et al., 1991), these intermediate orientations are beyond the scope of this study.

Additionally, the ES literature has not explicitly dealt with the issue of the extent to which a firm has a single, identifiable ES. In its original formulation, the ES is conceptualized as “a broad description of claims regarding ‘what do we stand for’” and involves “tradeoffs about the relative importance of stakeholder concerns, values and social issues” (Freeman, 1984, p. 101). Therefore, at this point in its level of empirical development, we have assumed that the ES is a single strategy that drives a firm's overall decisions, unlike a business-level strategy that can vary across strategic business units within the same firm.

In sum, this study seeks to establish a systematic measure of a firm's espoused ES, and then proceeds to empirically explore whether these four ES orientations are identifiable in contemporary multinational organizations. Table 1 outlines the primary literature of this domain.

3. Method

We operationalized the firm's espoused ES orientation using Short, Broberg, Cogliser, and Brigham's (2010) content-analysis method, which combines conceptual and empirical approaches to ensure proper psychometric properties. Content analysis offers an unobtrusive method of assessing organizational issues (Palmer,

Download English Version:

<https://daneshyari.com/en/article/1014717>

Download Persian Version:

<https://daneshyari.com/article/1014717>

[Daneshyari.com](https://daneshyari.com)