



# Measuring strategic decision making efficiency in different country contexts: A comparison of British and Turkish firms

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## ABSTRACT

This paper compares the relative efficiency of the strategic decision making (SDM) processes of British and Turkish firms. The technique of data envelopment analysis (DEA) is used to measure the relative efficiency of these firms. The evidence obtained by the DEA analysis reveals that the Turkish firms tend to be superior to the British firms in terms of their SDM efficiency. There is a significant difference in scale returns with respect to the country of origin of the firms. The analysis of the improvement potential of inputs indicates that Turkish firms place more emphasis on managing environmental turbulence to enhance their SDM efficiency, while British firms tend to overly focus on the design of an appropriate organizational structure. However, no significant difference was noted between the two groups of firms with regard to the level of resources and effort exerted on formal strategic planning practices. The analysis of output deficits reveals that there is a significant difference between British and Turkish firms in the sources of inefficiency.

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## 1. Introduction

The appropriateness of existing operations research (OR) and management science (MS) methods for strategic management literature has long been advocated by a number of scholars [1–3]. One key area of contribution from OR/MS literature falls into the efficiency-based approach to competitive advantage which has a long tradition in the strategic management literature [4,5]. Williamson [5] posits that firms build sustainable competitive advantage only through efficiency and effectiveness. For several years, a growing number of scholars in the strategy field have suggested that achieving the proper fit or alignment among the organization, strategy and environment has important performance implications and is vital to gaining competitive advantage in highly competitive markets [6–9]. The rapidly changing business environment makes it important for firms to measure the relative efficiency of their strategic decision making (SDM) process in terms of building superior performance and gaining competitive advantage against their rivals. The relative efficiency of SDM can be viewed as an index of strategic fit which involves a pattern, set or combination of variables that interact with

each other in determining performance. This composite index should be based on the input and output activities of each firm. It provides information about the efficiency of the SDM process of the firms and whether more input is required to achieve a given output. Knowledge of the relative efficiency of SDM could also help firms understand their deficiencies and identify industry leaders to benchmark.

The principal focus of this study is on deriving an index of a firm's SDM efficiency by transforming inputs into outputs relative to its counterparts. The methodology used to evaluate the relative efficiency of SDM in this study is known as data envelopment analysis (DEA). This technique has been applied extensively in the field of OR/MS across a wide range of industries as well as in not-for-profit organizations [10–23], but there has been relatively little diffusion into the broader study of management and related disciplines. In the strategy field, DEA has recently been emerging as a powerful tool of data analysis [24–31]. The assessment of SDM efficiency ought to be a major item on the agenda of researchers in the strategic management field, not least because the issue of how appropriately a firm aligns its strategy, organizational structure, and environment is central to its ability to survive and grow. Given the need to address SDM efficiency within structural contingency theory, the study aims to specify why some firms might be better at achieving the congruity of environmental, planning and structural complexities. The DEA approach adopted in this study illustrates how differences in SDM efficiency between firms can be ascertained empirically and will thus help management to determine policy and action scientifically.

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Another key objective of this study lies in its attempt to compare the SDM efficiency of firms from two different nations, Britain and Turkey. The notion that each nation has a distinct administrative heritage that affects its management style can be derived from existing cross-cultural studies and recent evidence from institutional investigations [32,33]. Britain and Turkey have different environmental contexts and are characterized by substantial institutional and cultural differences. Based on the work of Hofstede [34] and more recently on Globe Project dimensions [34], there is a strong consensus that in the Turkish culture there is a higher need for “power distance” and “uncertainty avoidance” and a lower need for “assertiveness” and “individualism” than in the British culture. Further evidence stems from the institutional literature. Those who have compared the managerial and institutional characteristics of these two countries note that decentralization appears to be a more legitimate means of control among British firms, while centralized mechanisms are more prevalent among Turkish firms [33,35]. Unlike most advanced market economies, the business environment in Turkey has been characterized by high economic growth, unsaturated markets, consumption-prone population, relatively weak financial and legal infrastructure, and more importantly lack of economic and political stability. Comparing the efficiency of SDM processes of firms from two different country contexts with distinct administrative heritage provides a valuable contribution to the literature as most prior studies on the SDM process have focused on firms from a single country, either from a mature market economy or an emerging country.

The findings of this study also provide some important insights to the applicability of Western strategic management thinking to the business environment in emerging countries [36,37]. It is becoming increasingly important to examine how closely the results of empirical research conducted in the West apply to strategic management in other countries. Despite the plethora of research on managerial practices in Western countries, comparatively little is known about their equivalent in emerging countries and Turkey in particular [38]. In terms of managerial attitudes and work practices, not surprisingly, British firms in general have been characterized as adhering more to Anglo-American business culture than have Turkish firms. The latter have more commonalities to the Arabic cluster in terms of values, norms and behaviors in organizations and business relationships [39] as well as governance and leadership practices ([40]. In this regard Turkey is an instructive case as it is currently at the center of several debates given its ongoing membership negotiations with the EU. The characteristics of the Turkish economy and its strategic location as a bridgehead between East and West make it an interesting case to examine SDM efficiency. Since the early 1980s, government policies in Turkey have aimed at developing a free market economy and have encouraged an outward-oriented development policy. Significant progress has been achieved in the liberalization of trade and investment policies and the pursuit of macroeconomic stability and economic growth [41]. The study is organized as follows. The next section provides a brief literature review of the concept of strategic fit. Research methods along with the measurement of input and output variables are in Section 3. The fourth section presents the DEA model. The results and discussion are provided in the fifth section. Conclusions are in the final section.

## 2. The concept of strategic fit

Drawing on the contingency perspective, the notion of strategic fit or alignment generally refers to the efficiency with which the organization's resources and capabilities are aligned with the key opportunities and threats the environment presents [42] and also the effectiveness with which the organization executes a chosen strategy in certain environments [6]. It is a commonplace of the strategic management literature that in order to compete successfully,

organizations must fit or align themselves with their environment [43]. An organization exists within its competitive environment; consequently, in order to succeed its strategy must fit its environment. Uncertain environments, characterized by continuous and turbulent change, for example, associated with changing customer preferences and technological innovation, make the achievement of strategic fit highly problematic [44]. In such rapidly changing environments, fit cannot be seen to be in a fixed state, rather, achieving fit is a continuous process [45,46]. This requires a capacity to learn and adapt such that existing capabilities are meshed with new capabilities in order to realign the organization with its environment [47]. To adapt to a changing environment organizations must redesign themselves in order to fit that environment and in doing so “create the necessary organizational capabilities” ([43], 448). Similarly, Peters and Waterman [48] suggest that organizational “excellence” hinges on the congruence or fit among seven organizational elements: strategy, structure, systems, style, shared values, staff, and skills.

As Beer et al. [43] point out; it is not an easy feat to achieve an integrated plan for strategic fit, particularly as this is not a one-off event but rather involves a continual procedure. Strategic plans on how to achieve objectives adjust regularly to reflect progress and internal and external change. The standard formal planning model of the strategic management process is essentially a fit model of strategy formulation and implementation. Its central purpose is to identify strategies that align or fit a firm's resources and capabilities to the conditions prevailing in the firm's competitive environment. Essentially the fit model seeks to match the firm's strengths and weaknesses with the opportunities and threats in the environment. The fit model was first developed by Andrews [42], since when it has been widely accepted as the prescriptive planning model firms should adopt in order to formulate and implement strategies.

Porter [49] takes the notion of fit further, by emphasizing that the firm's strategy is about combining activities. For Porter, strategy involves choices about which activities to perform, how to configure individual activities and how activities relate to one another. The latter is important because discrete activities often affect one another. Competitive advantage then derives from the way the firm's activities fit and reinforce one another. Achieving fit is difficult, however, because it involves the integration of decisions and actions across several independent subunits.

According to Porter [49] there are three types of fit. First-order fit is simple consistency between each activity or function, and the overall strategy. This ensures that the competitive advantage of activities cumulate and do not erode or cancel themselves out. Also, it makes the strategy easier to communicate to stakeholders and improves implementation through a single-minded focus in the firm. Second-order fit occurs when activities are reinforcing. Third-order fit involves optimization of effort, for example, coordination and information exchange across activities to eliminate redundancy and minimize wasted effort. Porter stresses that in all three types of fit, the whole matters more than the individual part and that competitive advantage grows out of the entire system of activities. Moreover, strategic fit among many activities is fundamental to the sustainability of competitive advantage. This is because it is harder for a competitor to match an array of linked activities than to imitate one particular activity. Porter concludes that “strategy is creating fit among a company's activities” ([49], 25).

The use of the fit model as an aid to strategic decision making has been increasingly questioned. Mintzberg [50], for example, has criticized advocates of the fit model for failing to recognize that emergent strategies may be just as successful as intended strategies, which are the result of formal planning. Hamel and Prahalad [51] and Prahalad and Hamel [52] have criticized the fit model for being too static and limiting. They argue that it causes managers to focus too much on the degree of fit between the firm's existing resources

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