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Configurational answer to the ongoing riddle of formal and/or emergent planning practices[☆]

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ABSTRACT

For three decades, controversy positions in strategic management concern if formal or emergent planning practices increase firm performance. This study here investigates different configurations of planning practices and performance considering main firm characteristics in a dynamic and uncertain industry. Results of 377 firms operating in the medical device industry indicate that both age and size jointly and singularly influence successful configurations. Either formal or emergent planning practices can drive success—depending on certain configurations of firm characteristics.

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1. Introduction

Strategic planning practices serve firm performance (Wolf & Floyd, 2013), yet researchers disagree whether firms should emphasize either a formal-deliberate approach (Ansoff, 1965; Chandler, 1962; Selznick, 1957; Silverblatt & Korgaonkar, 1987) or instead an incremental, flexible, and evolutionary planning approach (Mintzberg, Raisinghani, & Theoret, 1976; Mintzberg, 1978). The formal-deliberate approach, uses rational decisions about fine grained planning and control steps developing detailed plans for budgets, schedules, and activities—formal practices (Armstrong, 1982; Krabuanrat & Phelps, 1998). Instead, the incremental, flexible, and evolutionary planning approach – using emergent practices (Mintzberg & Waters, 1985) – emphasizes improvisation, intuition, and trial & error which allow advantages in complex and dynamic environments. Empirical results only concur that formal practices that lead to higher performance than emergent practices in more predictable and less dynamic environments (Kamoche & Cinha, 2001). Yet, what practices serve better in the dynamic environment of today's industries where firms under high uncertainty require strategic management practices that help guarding financial performance or innovating their business models?

Firm size influences strategic planning within and among firms (Aldrich & Auster, 1986; Dobrev & Carroll, 2003; Hansen, 1992;

Wakasugi & Koyata, 1997). Firms' structures, processes, and even business models change when becoming more mature (Bouncken & Fredrich, 2016; Camisón-Zornoza, Lapiedra-Alacami, Segarra-Cliprés, & Boronat-Navarro, 2004; Hansen, 1992; Grullon, Michaely, & Swaminathan, 2002) and thus the application and outcomes of planning practices. Therefore, firms' internal factors provide answers about successful configurations of strategic planning practices. They might allow complementarity from the opposing logics behind formal practices and emergent practices. Complementarity of opposites is at the roots of ambidexterity theory (Lubatkin, Simsek, Ling, & Veiga, 2006). Firm size or firm age may influence firms' advantages from planning practices and their ability using ambidexterity. Additionally, firms' use of planning practices may not follow the more the merrier relationships. Large or old firms can have developed rigid structures which hinder future success. Likewise, young firms' often more flexible structures can limit further growth and success. Bouncken (2011) shows that practices oppositional to the firm's structure promote success: large firms require more flexibility and small firms need more formality in their practices. The question of how planning practices increase firm performance can take advantage from a configurational analysis, a fuzzy set qualitative comparative analysis (fsQCA) which provides insights beyond traditional methodologies following the regression logic (Woodside, 2013; Woodside, 2015). Considering firm size and age to the analysis can show different configurations to low, medium, and high performance in firms.

The analysis here with fsQCA uses return on equity (ROE) as the performance variable and firm characteristics of age and size from secondary data sources. Information about strategic planning practices comes from a survey study. The present study investigates configurations of planning practices in a dynamic industry. The medical device industry (SIC code 3840-45) serves as such. Firms in the medical device industry have to cope with strong uncertainties (Chatterji, 2009; Pullen, de

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Weerd-Nederhof, Groen, & Fisscher, 2012; Wu, 2013) and face short product life cycles of 18 to 24 months (MedTech Europe, 2013).

The study here contributes to three decades lasting debate in strategic management whether formal planning or emergent planning practices increases performance and under which conditions (Armstrong, 1982; Wolf & Floyd, 2013). New insights from the configurational analysis unravel that age and size influences whether firms can increase their performance by none or one planning practice but not by both simultaneously.

2. Theoretic framework

2.1. Planning practices

Researchers in strategic management (overview: Wolf & Floyd, 2013; Armstrong, 1982) disagree about the advantages and disadvantages of formal planning practices and the alternative of more emergent planning practices. Formal planning proponents argue that detailed formal planning practices (e.g. in-depth analyses of markets and implementation alternatives, Leontiades, 1983; Piercy & Morgan, 1994) provide a superior evaluation of the firms' environment and the utilization of firms' strength that improves firm performance under low and high uncertainties (Silverblatt & Korgaonkar, 1987; Ansoff, 1994). The key assumption is that increasing formal planning enhances firm performance (Miller & Cardinal, 1994).

Other scholars claim that particularly uncertain environments demand more incremental and emergent practices using the managers' intuition (Mintzberg, 1994; Bresser & Bishop, 1983). Non-routinized problems complicate or offset the usage of precedent solutions demanding improvisation and intuition. Intuition describes "affectively charged judgments that arise through rapid, unconscious, and holistic associations" (Dane & Pratt, 2007, p. 33). Individuals experience these affectively charged judgments as gut feelings (Hayashi, 2001) or hunches (Rowan, 1989). Psychology and neuroscience aim to unravel their underlying processes (e.g. Damasio (1996) somatic markers hypothesis or Epstein (2008) and Kahneman's (2003) dual process theory). Within organizations intuition allows to cope with complex tasks with short time horizons (Dane & Pratt, 2007) and ill-structured problems. Intuition, the capacity for understanding without rational thought or logical inference (Sadler-Smith & Shefy, 2004), enables managers to size up complex situations and to deal with incomplete information in high-velocity environments (Khatri & Ng, 2000).

Intuition can even fuel the development of creative insights and improvisation (Miner, Bassoff, & Moorman, 2001). Improvisation occurs "when the design and execution of novel action converge" (Baker, Miner, & Eesley, 2003, p. 255). This convergence goes beyond pre-existing routines as improvisation fosters experimentation leading to unique solutions (Moorman & Miner, 1998). While formal planning practices aim at an optimal solution, improvisation creates workable solutions with resources at hand (Baker et al., 2003). Nevertheless, studies do not achieve congruent results, not even within one industry (Brinckmann, Grichnik, & Kapsa, 2010; Wolf & Floyd, 2013). The study here argues that firm characteristics provide important insights on which planning practices improve success.

Previous researchers assume a competitive relationship between formal planning and emergent planning practices (Wolf & Floyd, 2013). Yet, research on organizational ambidexterity provides the idea of managing opposite logics and antithetical tasks in parallel (Gibson & Birkinshaw, 2004). The kernel of organizational ambidexterity (OA), as Jansen et al. (2009, p. 799) describes are the "routines and processes by which organizations mobilize, coordinate, and integrate dispersed ... efforts and allocate, reallocate, combine and recombine resources and assets" within and across differentiated units. Ambidexterity can inform complementary of emergent and formal planning practices. Managers can evaluate and rationalize their hunches through

formal planning practices (Sadler-Smith & Shefy, 2004). Further, formal planning practices can hoist the merits of improvisation which depend on predefined structures (Kamoche & Cinha, 2001). Eisenberg (1990, p. 154) stresses that "improvisational freedom is only possible against a well-defined (and often simple) backdrop of rules and roles".

2.2. Firm age and size

Previous studies show that firms' age and size interacts with their structures and performance, e.g. effects from age, greater resources, a larger number of products already sold, and bigness that affects firms' effectiveness (Grullon et al., 2002; Gilley, McGee, & Rasheed, 2004). Bruderl and Schussler (1990) summarize several studies that report young firms' liability of newness and the decline of organizational mortality with aging. Reasons are the organization's newness to markets and to business partners and that young firms require time to set up business connections, to establish organizational processes and structures which increase the risks of dissolution (Bruderl & Schussler, 1990; Moore, 2002). Thus, young firms will have more flexible structures while bigger and older firms typically have more bureaucratic structures and inertia (Stanko, Bohlmann, & Molina-Castillo, 2013; Le Mens, Hannan, & Pólos, 2015).

Formal planning practices provide data gathering routines, systematic frameworks, and analyzing procedures that support managers to control large firms and to apply resources effectively and efficiently (Miller & Cardinal, 1994). With increasing age and size firms become more and more complex where formal planning practices can ensure that "the various bits and pieces fit together" (Armstrong, 1982, p. 203). Mature firms will generally tend to apply formal processes towards optimal resource allocation. However, formal planning practices can increase firms' inflexibility, reducing the performance of older and bigger firms. Thus, although the formal planning matches the rigidities and formalities practices of older and bigger firms those practices can fail in advancing success.

Emergent planning practices relate to the typically more flexible and open structures of small and young firms. Improvisation and trial and error processes complement younger and smaller firms operating with their limited resources at hand (Baker et al., 2003). Improvisation and intuition will go hand in hand with individuals and their capability to exploit emergent planning practices. In small firms the application of emergent planning practices faces lower obstacles than in big firms, where managers' have to justify their gut hunches, improvisations, and trial and error experiments toward many stakeholders and within formal review systems.

Organizations can achieve ambidexterity through differently structured units, some exploratory and some exploitative, likely in different locations (Jansen et al., 2009). Larger organizations that have more spatially dispersed units and co-existing different, even antithetical logics of contemplation and behavior can potentially increase their organizational ambidexterity. Judge and Blocker (2008) assume that ambidexterity requires greater resources, more absorption of external knowledge and as such greater organizational slack. Larger organizations often have redundant activities and structures and are thus more prone to greater slack. This present study argues that larger and older firms will have less coherent structures than smaller and younger firms. Older or bigger firms will have developed diverse sets for management training, performance review, as well as diversity of their personnel and management and thus will have a better position to manage a dynamic balance of antithetical planning practices. Therefore, larger and older firms' greater resource base, greater slack, and greater differentiation will, on the one hand, allow higher levels of ambidexterity and on the other hand demand more ambidexterity to overcome inertia and greater bureaucracy associated with mature firms.

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