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# Stretching strategic learning to the limit: The interaction between strategic planning and learning

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## ABSTRACT

This study sets out to analyze the potential performance benefits of the interaction between strategic planning and strategic learning processes. First, this study analyzes whether strategic learning positively moderates the relationship between strategic planning and firm performance. Second, extending the literature on the limitations of firm-level learning capabilities, the nonlinear interaction between strategic planning and learning is examined. Results from 182 small and medium-sized software firms, including pre- and post-performance measures, indicate that strategic learning positively moderates the relationship between strategic planning and performance. Furthermore, the study reveals that the moderating effect of strategic learning is nonlinear (represented by an inverted U-shape). Low to medium levels of learning offer an important mechanism to enhance the positive performance benefits derived from planning. However, at higher levels of learning, the interaction between learning and planning on performance becomes negative, suggesting that knowledge overload can expose the limitations of the learning process.

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## 1. Introduction

Formal strategic planning (Ansoff, 1991, 1994) and emergent strategy making (Mintzberg & Lampel, 1999) are frequently identified as separate and opposing approaches to strategy formation. Whereas the planning school contends that a systematic, prediction-oriented, and formal approach leads to superior performance, the learning school suggests strategic learning (creation, dissemination, interpretation, and implementation of strategic knowledge) (e.g., Kuwada, 1998; Thomas, Sussman, & Henderson, 2001) is a source of competitive advantage. This distinction has sparked debate on the characteristics of successful strategy development that has highlighted the benefits and limitations of both approaches. For instance, existing empirical studies on the relationship between strategic planning and company performance provide mixed evidence, presumably resulting from the complex relationship between strategic planning and its potential moderators (Andersen, 2004; Powell, 1992; Wolf & Floyd, *in press*).

These mixed findings led the academic discussion on strategy processes to focus on the interplay between planning and learning, suggesting that effective organizations engage in both complex strategy formation processes including detailed strategic planning and also

learning processes (Andersen, 2004; Brews & Hunt, 1999; Hart, 1992; Mintzberg & Lampel, 1999; Mintzberg & Waters, 1985). Following a meta-analysis of small firms' planning–performance relationships, Brinckmann, Grichnik, and Kapsa (2010) asserted that future studies should adopt a concomitant approach to planning and learning and conduct those activities simultaneously. Although the benefits of these mixed models have been recognized, empirical testing of the effectiveness of these balanced applications is still rare (Andersen, 2004; Dibrell, Craig, & Neubaum, 2014; Hart & Banbury, 1994) and poorly understood especially in the more resource-constrained small and medium-sized enterprises (SMEs) (Brinckmann et al., 2010; Gibbons & O'Connor, 2005).

The present study builds on a limited set of studies asserting that the benefits derived from planning processes are influenced by the firm's intra-organizational capabilities as they relate to strategic learning (SL) (Eisenhardt & Sull, 2001; Liedtka, 2000; Miller, Wilson, & Hickson, 2004). In general, strategy process studies underline the importance of organizational adaptation, such as knowledge sharing (Kuvaas, 2002), sensemaking (Gioia & Chittipeddi, 1991; Gioia, Thomas, Clark, & Chittipeddi, 1994), and organizational memory (Bontis, Crossan, & Hulland, 2002), for strategy implementation, but they also highlight the lack of evidence concerning implementation practices such as learning (Mantere & Vaara, 2008). Strategy processes, which are designed to leverage the potential of human capital accumulated within the organization, have become a key factor in strategy implementation, yet the strategy process research has rarely presented applications of the learning aspects

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(Hutzschenreuter & Kleindienst, 2006; Wolf & Floyd, in press). This an important gap, given that learning is suggested to be “an important lever in strategy-process effectiveness...[that] has largely been overlooked” in prior research (Hutzschenreuter & Kleindienst, 2006, p.701).

This study contributes to the strategic planning and learning literature by addressing these identified gaps in the context of SMEs in the dynamic software industry. By integrating the existing views, we suggest that strategic planning in SMEs should be paired with SL capabilities. We argue that SL, which consists of intra-organizational processes applied by a firm to ensure the creation, dissemination, interpretation, and implementation of strategic knowledge (Kuwada, 1998; Thomas et al., 2001), enables the adaptation of a new strategy and, hence, effective implementation of the planned strategy. However, studies have implied that the SL capabilities of firms may be limited (Mueller, Titus, Covin, & Slevin, 2012) by information-processing constraints and cognitive biases (Hwang & Lin, 1999; O'Reilly, 1980; Paruchuri, 2009) and that SMEs in particular may be subject to these limitations (Zahra, Sapienza, & Davidsson, 2006). These findings signal that the moderating effect of SL on the strategy–performance relationship may be nonlinear, meaning that beyond a certain threshold, learning no longer strengthens the relationship between planning and performance but instead prompts it to become a negative relationship.

In this study, we analyze the interaction between strategic planning and SL in the context of SMEs by asking the following research question: *How do strategic planning and SL interact to generate company performance?* The study makes two key contributions to the research on SMEs: First, it challenges the valuable and somewhat dichotomous debate between strategic planning and learning in the existing literature by arguing that an interaction between planning and SL is central to the effective implementation of planned strategies. Second, building on prior theorization of the limited learning capabilities of firms, it assesses whether SL moderates the relationship between strategic planning and SME performance in a nonlinear way (i.e., whether the effect of planning on profitability varies as a nonlinear function of SL). In so doing, the study extends the existing research, which has not established the nonlinear interaction between strategic planning and SL, by demonstrating not only that SL plays a key role in the planning–performance relationship but also that the benefits of planning are restricted by the limitations to the organization's SL capabilities. This study highlights the need to understand the characteristics of learning capabilities and the restrictions to their use in the planning process, especially in resource-constrained SMEs.

## 2. Theoretical background and hypotheses

### 2.1. Strategic planning and strategic learning

The existing literature regarding strategy work within firms builds on the established streams of research ranging from strategic planning to strategy process research (Burgelman, 1991) and is paralleled by the strategy-as-practice school of thought (Jarzabkowski, 2008; Mantere & Vaara, 2008; Whittington, Molloy, Mayer, & Smith, 2006). The classic debate in this field has centered on the distinctions between the planning (Ansoff, 1991, 1994) and emergence perspectives (Mintzberg & Lampel, 1999; Mintzberg & Waters, 1985). The planning paradigm was introduced as a rational analytical approach to provide strategic direction to organizational actions, whereas the emergence perspective was presented as examining the social processes in which strategies are actually realized and implemented and acknowledges SL as a key factor in a strategy process (Chakravarthy & Doz, 1992; Mantere & Vaara, 2008; Pettigrew, 1998).

In this study, we apply the concept of strategic planning to study and measure the planning process of SMEs that generates strategic decisions, objectives, and goals for the long-term survival of an organization (Collier, Fishwick, & Floyd, 2004). Planning helps small firms to specify their goals and pursue them in an effective manner while using their

limited resource base efficiently (Brinckmann et al., 2010). Mintzberg and Waters (1985) were the first to outline the conceptual link between emergent strategy and SL. Building on the ideas of evolutionary economics (Nelson & Winter, 2002; Zollo & Winter, 2002), SL is defined as a firm's ability to create, extend, and modify its knowledge base to strategically adapt to shifts in changing strategic circumstances (Anderson, 2009). SMEs in particular need learning capabilities because the skills and competencies that these firms have must be upgraded to ensure successful adaptation for growth (Zahra et al., 2006). Because learning allows SMEs to survive, achieve legitimacy, and benefit from their innovations (Sapienza, Autio, George, & Zahra, 2006a; Sapienza, Autio, George, & Zahra, 2006b), SL represents a true source of sustained competitive advantage for such companies (De Geus, 1988; DiBella, 2001; Mueller et al., 2012). In fact, SL can have a greater effect in SMEs than in large firms (Real, Roldán, & Leal, 2014).

SL is considered a combination of knowledge creation, knowledge dissemination, knowledge interpretation, and knowledge implementation (Kuwada, 1998; Thomas et al., 2001). Knowledge creation is defined as the process of knowledge acquisition in which individuals actively collect strategic information from the environment (Atuahene-Gima & Murray, 2007). Strategic knowledge dissemination refers to knowledge sharing that occurs in intra-organizational interactions among individuals (Jerez-Gómez, Céspedes-Lorente, & Valle-Cabrera, 2005). The interpretation of strategic knowledge allows a firm's personnel to process relevant knowledge and engage in collective actions that affect the firm's strategy and performance (Daft & Weick, 1984; Tippins & Sohi, 2003). Finally, knowledge implementation enables effective execution within an organization and of its processes. However, because the dimensions of SL are interrelated (Crossan & Berdrow, 2003; Flores, Zheng, Rau, & Thomas, 2012) and the largest effects are realized through the shared core of the dimensions, the coexistence of all learning dimensions is especially important.

The current study builds on the notion of a coalition between strategic planning and emergent strategies in that it adopts the perspective that both processes are necessary to a successful SME and that neither alone is sufficient. For instance, relying only on emergent strategies may make SMEs subject to strategic drift and noncumulative strategic opportunism (Idenburg, 1993; Titus, Covin, & Slevin, 2011), whereas building only on planned strategies hinders adaptability and prevents the firm from exploring opportunities that are not part of the plan (Miller & Cardinal, 1994). The study by Titus et al. (2011) offers support for this argument by positing that the growth rate is highest when a manufacturing firm's strategy exhibits both emergent and planned qualities. This complementary view has also been justified by Mintzberg and Waters (1985) p. 271, who have attempted to bridge the gap between intended and emergent strategies by stating that “managing requires a light [and] deft touch—to direct in order to realize intentions while at the same time responding to an unfolding pattern of action.”

Following Mintzberg and Waters' (1985) approach, we suggest that strategic planning and SL interact to support effective strategy making and implementation in SMEs. Whereas strategic planning contributes more to structured analysis and decisions, SL complements strategic planning by adding adaptive learning components, such as knowledge creation, dissemination, interpretation, and implementation to the strategy process. Interaction between planning and learning adds capabilities needed for effective strategic adaptation suggesting that once the firm's executives have made their plans, the firm must be prepared to rework them and implement them effectively (Brews & Hunt, 1999). The need for SL is especially evident in SMEs that, due to their limited experience, will encounter novel challenges when making strategic plans (Brinckmann et al., 2010; Zahra et al., 2006). However, previous studies provide little empirical evidence on the learning processes in SMEs (Zahra et al., 2006).

Although SL is important, recent studies have produced unexpected findings on the benefits of SL capabilities (Covin & Slevin, 1989; Mueller

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