

THE IMPACT OF CONSISTENT, FLEXIBLE AND REACTOR STRATEGY ON ORGANIZATIONAL PERFORMANCE: A COMPARATIVE ANALYSIS

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Abstract

There is an inconclusive debate in strategic management literature that whether consistency in strategy brings superior performance than flexible strategy or vice versa? There is substantial evidence in favour of both arguments. In this background, the aim of this paper is to identify the behaviour of strategic stance of the firms and classify them into consistent, flexible, and reactors. The impact of these strategic behaviours on organizational performance is also investigated using financial data of joint stock firms of textile industry in Pakistan. The framework of Miles and Snow is used to operationalize the strategic types. The results show that majority firms follow consistency in their strategic behaviors and their performance is also better than the firms following flexible strategy. Reactors performed poorly as both consistent and flexible strategies outperformed them. The performance varies across the firm size but the difference is insignificant.

Keywords: Strategic Consistency, Strategic Flexibility, Performance, Scoring Method.

JEL Classification: M100

Introduction

There is substantial evidence in favour of the argument that strategic consistency brings improved performance if it is perused over a longer period of time (Fehre et al., 2015; Lamberg, et al., 2009; Sanchez, 1995) whereas those who argue in favour of strategic flexibility claim that to produce superior results flexibility strategic stance is the necessary condition.

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This helps in having competitive advantage by exploiting the given situation and by making necessary adjustments in their strategic stance (Ouakouak & Ammar, 2015). There is known fact about the non-existence of one universal set of strategic options that fits for all businesses given the complexity and competitiveness of market conditions, (Pleshko, Heiens, & Peev, 2014). Therefore, strategic choice and the effectiveness of an organization may be contingent upon the structural and industrial peculiarities.

Given this background, the aim of the study is to examine whether the performance of the firms following consistency in their strategic orientation is superior to those following flexible approach and whether both consistent and flexible strategic orientation outperform inconsistent or reactor strategy? For this purpose, the orientation of strategic stance of the firms is conceptualized to find out their behaviour over the time to classify them into consistent, flexible, and reactor strategies. The financial data of seven years of 119 firms of textile industry listed on Pakistan Stock Exchange (PSE) is used for this purpose while SAS is applied for data analysis.

Literature Review

Strategy and Performance

Strategy is the way of doing things while understanding tradeoffs (Porter & Roach, 1996). Strategy ensures competitive advantage and long-term superior performance when organizational resources are utilized to develop core capabilities (Lin, Tsai, & Wu, 2014). The concept of organizational performance is multi-faceted. Performance of an organization is the ultimate goal of the management as a whole or the selective multiple indicators of the key organizational outcomes. From a measurement perspectives, performance is conceptualized by the standard performance indicators to quantify the outcomes of an organization (Luoma, 2015; Richard et al., 2009). Performance is measured through financial and non-financial measures. Growth in sales or revenue; profitability on assets, equity, or sales; and EPS etc. are financial indicators of performance. These indicators are generally taken as dependent variables while strategic orientation is used as an independent variable in a strategy-performance research (Anwar & SAF Hasnu, 2017).

Strategic Groups and Typologies

Strategic groups represents the clusters of the firms having similar strategic approach to have a competitive advantage (DeSarbo et al., 2009; Lin et al., 2014). These groups help in identifying the patterns of strategic behavior through empirical evidences (Anikeeff & Sriram, 1995). To understand the linkages of strategy and performance, strategic group analysis helps in identifying and distinguishing the key characteristics of high performing firms from the low performing firms (Parnell, 2011; Zamani et al., 2013).

There are a number of strategic typologies which are applied to investigate how firms behave in their competitive market environments. These typologies, according to Zamani et al. (2013), helps in identifying a number of mutually exclusive competitive strategies adapted by the firms across industries. The typologies also provide the theoretical foundations for identifying strategic groups. Among these strategic typologies, the one proposed by Miles and Snow is among the most frequently applied one. This typology has gone through a number of validity tests in strategy-performance relationship research (Hambrick, 2003). The typology is suitable where longitudinal and archived financial data is used for operationalization of strategy measures (Bentley et al., 2013).

The typology suggests the existence of three viable strategies within industries. These strategies are known as defenders, analyzers, and prospectors exhibiting distinct behaviour in terms of: their diversity of product and selection of market domains; their approach towards innovation; their appetite of adaption of technology; and the way they respond to the market changes. The approach of the defender strategy is to continually improve efficiency in existing operations through maintenance of narrow and stable products, price consciousness, quality, and service. Prospectors strive to be the market leaders by exploring new opportunities and quickly adjusting their product-market mix. Analyzer is the balancing strategy approach having the attributes of both prospectors and defenders to stabilize themselves over time. The reactors, in contrast, represent inconsistent and unstable behaviour. As a consequence, reactors represents a behaviour of perpetual instability in response to environmental change and uncertainty resulting in poor performance unless they exist in a protected and highly regulated environment. For improved performance, reactors must move toward one of the consistent and stable strategies (Miles & Snow, 1978).

Strategic Consistency and Flexibility

Strategic consistency is referred to the intentional continuity of the past strategic choice by the management (Moss et al., 2014) making it as an integral component of strategy (Fehre et al., 2016). It is the alignment of organizational actions with its historical commitments. When the environment is relatively stable, the consistency means a stable and viable behaviour of the management over the longer period of time. However, in a dynamic and unstable environment, a suitable consistent approach would mean that firms adapt only the most necessary change which is carefully aligned with innovative but well understood strategic direction along with clearly identified objectives (Lamberg et al., 2009). Strategic consistency safeguards the accumulation of competitive benefits. Consistency makes the strategy easier for communication with customers, employees, and shareholders. There are a number of evidences where the effect of consistent strategy was positive on organizational performance (Fehre et al., 2016; Lamberg et al., 2009).

In contrast to strategic consistency, flexibility in selecting strategic approach is the ability and capability of a business or a firm to quickly and effectively respond to the dynamic, unpredictable, and complex environmental conditions (Herhausen & Morgan, 2014; Sanchez, 1995). Flexibility

represents the capacity of an organization to adjust, change, and exploit the opportunities for better performance (Ouakouak & Ammar, 2015). Having flexibility, organizations can minimize economic and political risks through proactive or reactive response towards threats and opportunities (Tansuhaj, Grewal & Patriya, 2001). Flexible approach in strategy selection will expectedly enhance the effectiveness of strategic plans and performance of an organization. Sanchez (1995) posits that there are two complementary components of strategic flexibility: the resource flexibility representing the choices in combining the available set of resources; and coordination flexibility representing the choices available for coordination among resources. Likewise, March (1991) argued that strategic flexibility can adversely affect the performance when a firm needlessly respond to the environmental dynamics. Grewal and Tansuhaj (2001) asserted that flexibility can be useful in crisis situations.

Organizations are likely to adapt predictable and tested course of actions and change in strategic stance is likely to be incremental. But the outcomes of these predictable actions are sometimes unpredictable because of uncertainty in the environment. Therefore, the argument in favour of strategic shifts is strong even if the organizational outcome (performance) is not an issue. In contrast, when the outcomes by adapting the strategic flexibility are not according to the expectations, industry experts are of the view that management should consider to return back to their core strategy (Anwar & SAF Hasnu, 2017; Parnell, 2005).

Data, Measures, and Research Methodology

Data

The data for 7 years (2007-13) of 119 joint stock firms from “textile sector” is taken for analysis. For an organization to be part of the final list, it must have been listed for all seven years and must not have sales equal to zero for any given year. The financial statements data from State Bank of Pakistan’s publication “Financial Statement Analysis of Companies (Non-Financial) Listed at Karachi Stock Exchange (KSE)” now known as Pakistan Stock Exchange (PSE) is taken for analysis.

Measuring Strategies

The following ratios are used for operationalization of strategic orientation of the firms:

1. **MESR:** “Marketing Expenses to Sales Ratio”. The measure indicates the focus of the firms towards offering new products and services and shows firms’ propensity towards innovation and market research by differentiating the products and services. Prospectors are expected to have greater marketing expenditure than defenders.
2. **COGSR:** “Cost of Goods Sold to Sales Ratio”. It is used to identify internal and production efficiency of the firms.
3. **CASGR:** “Compound Annual Sales Growth Rate”. It measures the historical growth rate of change in sales and is calculated as:

$$CASGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\left(\frac{1}{\# \text{ of years}} \right)} - 1$$

4. **CIR:** “Capital Intensity Ratio”. The ratio is calculated by dividing “net property, plant and equipment” by total assets and shows the commitment of the firms towards technological focus.

Performance Measures

Four performance measures: ROA, ROE, ROS, and ROCE were used. The reason for using more than one performance measure was to avoid personal bias and subjectivity. Use of multiple measures also provide a broader view of performance.

Identification of Strategic Types

The methodology adapted by Anwar and Hasnu, (2017) is used for conceptualization and operationalization of strategic types into different categories such as viable strategies, consistent strategies, flexible strategies, and inconsistent or reactor strategies. The behavior of strategic stance over the time was identified by investigating the transition of strategic stance. For this purpose, the composite scores for each firm are calculated at four time periods to know the incremental transition. “Short-to-medium term” strategic orientation was measured for five years data at times 2011, 2012, and 2013 with the average of the preceding five years data respectively. The “medium-to-long term” orientation of the firms’ strategy was calculated for all 7 years’ average data. The transitional movement and position of a firm’s strategic orientation helped in classification of the firms into categories of viable strategies, consistent strategies, flexible strategies, and reactor strategies respectively. The firms sticking to the same strategy for all four points in time are termed as consistent while the firms who changed their stance only once are termed as flexible. The rest of the firms have inconsistent behavior and hence are termed as reactors. Firms with consistent and flexible strategic stance are following one of the viable strategies as defenders, analyzers, and prospectors (Anwar & Hannu, 2017).

Results

Strategic Orientation

The results show that the analyzer strategy is the dominating choice in the textile sector (52%). Defenders are second (18%) followed by reactors (16%) and prospectors (14%) (Table 1). Comparing the strategic behavior within strategic types, it is found that firms following consistency in strategic approach are more than the firms perusing strategic flexibility.

Table 1
Strategic orientation of the firms

Category	Strategy				
	Defenders	Analyzers	Prospectors	Reactors	Total
Most Consistent	14	33	11	-	58
Flexible	7	29	6	-	42
Reactors	-	-	-	19	19
Overall Textile Industry	21	62	17	19	119

Strategy and Performance

The results (Table 2) reveal that firms following strategic consistency outperformed flexible firms in three measures of performance while strategic flexibility performed better than consistent firms in only one measure (ROS). However, the firms following consistent strategy as well as flexible strategy produced better results than reactors in all four measures of performance.

Table 2
Performance Comparison – Overall

Strategic Behavior	Total Firms	Performance Measures			
		ROA	ROE	ROS	ROCE
Consistency	58	3.41	7.04	-2.42	3.99
Flexibility	42	1.92	2.31	0.75	0.67
Reactors	19	0.95	-10.22	<u>-12.73</u>	<u>3.23</u>
Overall Average	119	2.49	2.62	-2.94	2.70

Bold=Highest; Underlined=Least

Within strategic types, consistent defenders and consistent prospectors outperformed flexible defenders and prospectors in all measures while for analyzers, consistency and flexibility outperformed each-others in two measures each. The performance of strategic consistency within defenders strategic orientation is as per expectations of the theoretical assumptions of Miles and Snow and subsequent researchers. Similarly, analyzers performed better as consistent for ROA and ROE and as flexible for ROS and ROCE. This shows that analyzers adapted the balancing approach through exploiting both the characteristics of defenders and prospectors. The behavior of prospectors is surprising as they performed well in all measures when perusing the consistent strategy instead to flexibility which they were supposed to follow to exploit the market opportunities through innovation and growth.

Table 3

Strategic Behavior and Performance – Within Viable Strategies

P	Defenders		Analyzer		Prospectors	
	C	F	C	F	C	F
	(14)	(7)	(33)	(29)	(11)	(6)
ROA	5.68	2.22	3.19	2.37	1.18	-0.59
ROE	10.78	0.03	10.41	5.76	-7.81	-11.71
ROS	2.77	1.16	-4.37	1.76	-3.15	-4.57
ROCE	6.83	2.55	4.19	6.93	-0.21	-31.76

Strategy, Firm Size, and Performance

The comparative results for the performance of strategies within size of the firms show that the firms following consistent strategy performed better than flexible and reactor strategies in three measures for medium sized firms while for each of large and small sized firms, consistency outperformed others in two measures each. The small sized firms with flexible strategy give superior performance than consistent strategy for two performance measures while firms with flexible strategy performed well in one measures each for medium and small size respectively. Reactors performed poorly across firm size for all measures except for ROCE for medium sized firms (Table 4). Within consistent firms, large firms performed well for all measures while small firms performed poorly. Within size, the performance of firms with strategic flexibility is better for large firms. Near to them are medium firms while the performance small relatively lower. The pattern for reactors is inconsistent and inconclusive.

Table 4

Firm Size, Strategic Behavior, and Performance

Size	Strategic Behavior	Performance			
		ROA	ROE	ROS	ROCE
Small	Consistent	1.89^b	3.29^b	-8.19 ^b	<u>0.55^b</u>
	Flexible	<u>0.57^b</u>	1.93	-2.53^b	7.39^a
	Reactors	1.36	<u>1.72^a</u>	<u>-27.19^b</u>	1.32
Medium	Consistent	3.81	8.49	0.15	5.10
	Flexible	2.53	-0.81 ^b	0.22	1.41
	Reactors	<u>1.40^a</u>	<u>-18.81</u>	<u>-0.70^a</u>	<u>0.43^b</u>
Large	Consistent	5.44^a	11.43^a	3.81 ^a	8.31 ^a
	Flexible	2.78 ^a	10.76 ^a	7.85^a	<u>-12.92^b</u>
	Reactors	<u>-0.63^b</u>	<u>-19.06</u>	<u>-4.89</u>	11.98^a

“**Bold**=Highest; Underline=Lowest (With in Size); ^a=Highest; ^b=Lowest (Intra Size)”

Analysis of Variance (ANOVA)

Univariate models were used to explore the mean differences of performance across the strategic types and firm sizes. The statistics show that the variation in performance is statistically insignificant for all measures of performance except for ROS where the difference is significant (Table 5).

Table 5

Goodness of fit test: F-Values

	ROA	ROE	ROS	ROCE
Strategy	1.45	2.24	2.35*	0.31
Size	1.36	03.1	3.75**	0.01

**, *=significant at 5% and 10%

The parameter estimates (Table 6) show that mean difference of consistent strategy from reactors is positive for all measures with significant difference for ROE and ROS. The difference for strategic flexibility is positive for three measures and negative for ROCE. Except for ROS, the difference is insignificant.

Table 6

Mean Differences: Estimates (Standard Errors)

	ROA	ROE	ROS	ROCE
Intercept	0.95 (1.40)	-10.22 (7.08)	-12.73 (5.20)	3.23 (4.80)
Consistency	2.45 (1.61)	17.26 (8.16)**	10.32 (5.99)*	0.76 (5.53)
Flexibility	0.97 (1.68)	12.52 (8.53)	13.49 (6.26)**	-2.56 (5.78)
Reactors	-	-	-	-

**, *= significant at 5%, and 10% respectively

The pair-wise comparison results of the Tukey-Kramer (post hoc) test supports the earlier findings (Table 7). The difference in the returns of consistent and flexible strategic types is less than the difference of consistent from reactors in all measures except for ROCE whereas the difference of flexible strategy for reactors is greater in two measures. Similarly, the results of post-hoc tests, run for difference of performance among the firm size, are insignificant for three measures and significant for ROS only.

Table 7

Least Squares Means effect of Strategy: $Pr > |t|$, for $H_0: LS-Mean(i) = LS-Mean(j)$

	ROA			ROE			ROS			ROCE		
i/j	C	F	R	C	F	R	C	F	R	C	F	R
C	-	0.4530	0.2822	-	0.7298	0.0911	-	0.7693	0.2007	-	0.7143	0.9897
F		-	0.8326		-	0.3102		-	0.0836		-	0.8976
R			-			-			-			-

“C=Strategic Consistency; F=Strategic Flexibility; R=Reactor”

A two-way ANOVA results indicate that there is insignificant effect of strategy alone, and strategy and firm size when combined together on the performance for all measures. Also, the effect of interactive terms (strategy*size) is insignificant. However, the effect of firm size is significant but only for one measure i.e. ROS.

Discussion

Strategic consistency provided better performance followed by flexible and reactor strategies. However, there is variation in the performance of firms following consistent strategy and flexible strategy. This variation is the result of the different strategic behaviours within viable strategies and the variation in firm size. The superior performance for strategic consistency is in accordance with the prior research findings and conclusions (Fehre et al., 2016; Ouakouak & Ammar, 2015; Pleshko et al., 2014).

Those who support the adaption of strategic consistency argue that surviving with the ever changing environmental and contextual factors is a daunting task for strategic managers. Therefore, management feel comfortable with continuity and hence stick to the existing strategy. Another reason to stay with the existing strategy is the heavy cost of capital attached with shifting of strategy. For example, if a firm following prospector strategy want to adapt a defender strategy, then it will need a huge investments in acquiring the human resources and purchase of sophisticated machinery for lowering production costs. Similarly, firms have to investment heavily in R&D and marketing activities if they want to be prospectors instead of defenders and so on (Miles & Snow, 1978). Further, flexibility may create confusion among the customers who concern for price and quality. If a business, for example, switch to a differentiation strategy from a low price focus, its customers may switch to another low cost service provide and vice versa. Additionally, sustaining and maintaining the continuous success for a new product or service is always a challenging task so the firms prefer to remain with their historically successful strategic stance (Anwar & SAF Hasnu, 2017; Parnell, 2005; Parnell & Lester, 2003). For this reason, firms continue with the available strategy to reap the benefits of

consistency and stability.

The supporters of strategic flexibility argue that a strategy yields superior performance when organizations modify their strategy. Doing so, the organizations are able to create a unique set of organizational resources. They argue that it become necessary to adapt flexible strategy when the performance of an organization is below the required level (Parnell, 2005; Parnell & Lester, 2003). Flexibility is not always rewarding. It may put the existence of the firms in risks due to frequent shifts in strategic choices contrary to the past. This behaviour may lead to create an imbalance between strategic choice and market demands. This can also cause a quick increase in costs leading to a loss of position in the market (Lamberg et al., 2009). As per expectation, both consistent and flexible strategies outperformed reactors –“a non-viable strategy”. The support for the poor performance of reactors is overwhelming (Hambrick, 1981; Miles & Snow, 1978; Parnell, Long, & Lester, 2015; Parnell & Wright, 1993; Zamani et al., 2013).

Conclusion

This study aimed to investigate the impact of strategic consistency, strategic flexibility, and reactor strategy on organizational performance of non-financial joint stock firms in Pakistan. A comparative analysis of performance of various groups of strategic types was also done. The contingent impact of strategy and size on performance is also tested individually as well as collectively through interaction terms. The performance of consistent firms is the highest followed by flexible strategies and then reactors. However, the pattern of performance varies among viable strategic types and within firm size.

The study contributes to the literature on strategy-performance nexus in two ways. First, the research is unique in a sense that it uses Miles and Snow's framework to operationalize the strategic types and categorizes them into the distinct strategic groups through analyzing their transitional behavior over the time. This helped in finding the distinguishing features of the firms to classify them into firms with consistent strategy, flexible strategy, and inconsistent or reactor strategies. Second, the scoring methodology applied in this study can be replicated in other typological research for identification of multiple strategic groups including reactors.

The study is not free from limitations. This research measures the realized strategy only with objective measures which reflect the past actions of the management. The intended strategic thinking or perception of the management reflecting the current stance is not taken into account. Second, only a single industry is taken for analysis. Therefore, the findings may not be generalizable. Future research could investigate both the intended and the realized strategy and compare the similarities and differences in their strategic stance and resultant performance. Multi-industry analysis along with single industry analysis can help in generalization of the results and recommendations.

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