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Strategy formation in the innovation and market domain: emergent or deliberate?

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Abstract

Purpose – The purpose of this paper is to study the nature of the strategy formation and its impact on firm performance in relation to market development and product innovation.

Design/methodology/approach – The paper is based on an empirical study of 91 Austrian SMEs which covers a time period of ten years. Strategy formation was captured by an analysis of strategic intentions and corresponding actions in two surveys carried out in 1995 and 2003.

Findings – The study finds no direct association between strategy formation and performance, though, emergent strategists had less often a growth orientation. Taking into account industry dynamics, shows, contrary to our expectations, that companies which employed an emergent market development strategy achieved higher sales growth in stable than in dynamic industries.

Originality/value – The question of the superiority of planned vs emergent strategies has a long debate in strategy formation literature. The authors contribute to this question by investigating the role of different information sources for the formation of market and product innovation strategies and its impact on the performance in different environments over a ten-year time period.

Keywords SMEs, Emergent strategy, Longitudinal study, Market strategy, Product innovation strategy, Strategy formation

Paper type Research paper

Introduction

A number of theories and concepts has all contributed to our understanding of the strategy process in firms. The definition of deliberate and emergent strategies has particularly extended the widespread, classical understanding of strategy formulation and implementation and delivered improved insight into the reality of strategy formation (Mintzberg and Waters, 1985). Indeed, the question of the superiority of planned vs emergent strategies probably initiated the most heated debate in strategy formation literature (Slater *et al.*, 2006). Empirical studies deliver evidence that approaches to strategy formation vary from emergent to deliberate and that internal organisational and external environmental factors moderate the link between strategy formation and performance (e.g. Slevin and Covin, 1997; Brews and Hunt, 1999). However, considering the content of strategies (e.g. Dess *et al.*, 1997), there is a lack of empirical evidence about the role of different strategy-making modes. In this respect, some studies found that specific functional strategies such as product innovation or internationalisation, actually employed different strategy formation modes (Dess *et al.*, 1997; Balabanis and Spyropoulou, 2007). However, it is unclear in which domains emergent or deliberate strategy making is more relevant and beneficial when taking into account the environmental context. Based on a contingency perspective

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(Slevin and Covin, 1997) we hence address the question whether in more dynamic environments, companies have to use more formal strategies or whether they should just “storm the castle” (Brinckmann *et al.*, 2010). This is also relevant for small business managers and entrepreneurs as the use of strategic and formal planning approaches by SMEs have been strongly promoted in business schools, by consultants, and even by industry policy makers (Lilischkis, 2011). Indeed, SMEs and managers increasingly invest in the formalisation of strategy making (Verreynne, 2006).

We study emergent and deliberate strategy formation in the strategy domain of market development and product development (Ansoff, 1965) in SMEs considering the context of varying levels of environmental dynamism. Both decisions are core of strategic decision making in firms and in this study we aim to investigate the dynamics of the different strategy formation in these two domains. These strategies gained importance for SMEs in highly industrialised small economies such as Austria in the last two decades and we are interested in how SMEs adapted strategically to the new market dynamics, increased competition and the need to innovate. Market development became particularly important due to the liberalisation of markets within and the enlargement of the European Union (Brouthers *et al.*, 1998) which, in turn, allowed firms to expand more easily during the late 1990s. Product innovation has achieved special attention by SMEs in order to cope with fierce international competition and has gained importance across Europe and in Austria and can be interpreted as industry-wide trend (e.g. Spender, 1989; Armbruster *et al.*, 2005). Our research is thus motivated by the question on how SMEs strategically adapt to these environmental challenges and opportunities. Due to the structural change, new opportunities and more competition in the 1990s, we can expect that the need for strategic behaviour, whether done deliberate or emergent, increased. We assume that emergent strategy formation is particularly significant in the market and product innovation domain as for instance companies can respond to new customer demands or employees’ ideas which incrementally lead to a deliberate strategy. This is in line with arguments of those authors who argue that strategy making in smaller firms is mainly emergent, adaptive and based on personal relationships (e.g. Harris *et al.*, 2000). Consequently, this type of firm forms a useful sample that contains a sufficient number of emergent and deliberate strategists to allow a comparison.

In addition to the question of the extent and performance implications of different strategy-making modes we address the question how emergent strategies evolve in practice by studying the role of information sources used by managers. Emergent strategists may be considered as proactive insofar as for instance small business managers might constantly monitor the environment and take advantage for emerging opportunities or minimise emerging threats. We see the specific use of information to be closely associated with emergent strategy formation, following the model proposed by Thomas *et al.* (1993) for explaining strategic adaptation. In both fields, specific information from employees and customers should be important for small business managers or entrepreneurs when taking actions, which may later become a strategy. We address the gap in the literature by studying the use of different information sources of managers for strategy formation in SMEs. Thereby, we particularly shed light on the emergent approach of strategy making for which so far little empirical evidence has been provided (Mintzberg, 1994; Harris *et al.*, 2000).

Only a limited number of studies have investigated the nature of the strategy process over a longer period of time, despite repeated emphasis on the importance of such an approach (e.g. Venkatraman, 1989; Gibbons and O’Connor, 2005; Sminia, 2009).

We cope with this deficit by analysing and examining strategy formation based on a longitudinal study of SMEs. Our study analyses the strategic behaviour and performance of 91 Austrian SMEs in the period from 1992 to 2002 and draws upon a sample of manufacturing companies with 20 to 500 employees. These firms were interviewed in 1995 and again in 2003 using the same standardised questionnaire covering their strategy content and process. The dynamics of strategy formation is operationalised by tracking intentions and activities over time based on two measures: the strategic actions and the strategic goal in the product innovation and market development domain, which then allows to construct different strategy formation modes.

The paper is organised as follows: In the next section, we will develop hypotheses followed by the explanation of the measurement of the variables. We will then present the results of the statistical analysis and conclude with a discussion of our main findings.

Theoretical framework and hypotheses

Emergent and deliberate strategy formation

Strategy process research offers various frameworks and taxonomies describing different “strategy making” or “strategy formation” modes and their relationship to strategy content, organisational structure, environment and performance (e.g. Mintzberg, 1973; Hart, 1992; Idenburg, 1993). Mintzberg (1973) identifies three strategy-making modes: entrepreneurial, adaptive or planned. The entrepreneurial mode is characterised by a permanent search for new opportunities with power centred on the individual entrepreneur; firms using the adaptive model try to avoid uncertainty by seeking more reactive solutions to existing problems, while formal analyses dominate the strategy-making process in the planned mode. Mintzberg and Waters (1985, 1990) also define the concept of emergent strategy which served as the starting point for our study. According to this concept, strategy is consistency in behaviour, whether it is intended or not, and an emergent strategy is a “pattern in a stream of actions” (Mintzberg and Waters, 1990). In contrast, deliberate strategies are those in which prior intentions are actually realized. As an example of an emergent strategy, Mintzberg (1994) describes the possibility of a firm gradually acquiring diverse business units until a diversification strategy emerges. Deliberate and emergent strategies are independent of each other as intended strategies might go unrealised while emergent strategies can appear without preconception. Ultimately, realised strategies are the result of intended and emergent strategies, with Mintzberg claiming that probably only 10-30 per cent of intended strategies are actually realised. Mintzberg and Waters (1985) plot various kinds of strategies on a scale ranging from “quite deliberate” to “mostly emergent”.

Numerous researchers have already investigated the topic of strategy formation in small firms (e.g. Bhidé, 1994; Hanlon and Scott, 1995; Berry, 1998). Harris *et al.* (2000) find strategy formation in small firms to be emergent, adaptive and based on personal relationships. Empirical literature also delivers evidence of the importance of visions and leadership for strategic behaviour in entrepreneurial firms (e.g. Gibb and Scott, 1985). Mintzberg (1973) argues that small firms more frequently exhibit emergent strategy formation patterns. Although emergent strategies can play an important role for SMEs, what lies behind them can be interpreted differently depending on the size of the actual firm. In small firms, emergent strategy formation is strongly related to

the owner's personality and his/her ability to quickly take up new opportunities in dynamic environments, behaviour which may also be interpreted as responsive action in the course of logical incrementalism (Quinn, 1980). In contrast, literature on strategic development in large firms traditionally stresses the role of middle managers as agenda setters and facilitators in the emergence of strategies (e.g. Wooldridge and Floyd, 1990; Andersen, 2004).

Strategy formation in the product innovation and market development domain

Strategy research has dealt with the question of the relationship between strategy content and process. Such studies have been carried out for instance based on Porter's generic strategy taxonomy (Dess *et al.*, 1997), or Miles and Snow's (1978) strategy typology and strategy making (e.g. Segev, 1987). Burgelman (1983), for instance, argued that prospector aim to be the first in new product and market areas was most compatible with the entrepreneurial mode of Mintzberg. In contrast, Mintzberg and Waters (1985, p. 269) speculated that the prospectors were more likely to be emergent strategists whereas defenders more often showed a deliberate orientation.

We are interested in the strategic decisions related to market development and product development which can be linked to the seminal work of Ansoff (1965). The market development and internationalisation of a company might be an incremental process where clear strategies emerge over a longer period. Balabanis and Spyropoulou (2007) studied the role of strategy making with respect to the internationalisation of firms. They showed based on an adopted strategy-making taxonomy by Dess *et al.* (1997), that firms employed simplistic as well as adaptive strategy-making mode for the formation of export strategies. Homburg *et al.* (2004) and Beverland and Lindgren (2007) have dealt with the implementation of marketing strategies and market orientation, however, they did not address emergent or incremental strategy formation. Hutt *et al.* (1988) dealt with strategy decision making related to marketing planning based on case study research and found that marketing managers played an important role for the formation of marketing strategies, which showed clearly emergent properties. Sashittal and Jassawalla (2004) dealt with marketing plan implementation in smaller firms based on an exploratory study of 50 firms. They found that customers are targeted less by planning but more by emergent choices by managers responding to opportunities and inquires. They illustrate that the marketing strategy process is strongly shaped by emergent strategies and that the adaptations and improvisations enforce the customer orientation which evolves over time.

Covin *et al.* (2006) studied the role of strategy formation in entrepreneurial firms arguing that for entrepreneurial firms the emergent strategy formation mode is more promising while for conservative firms planned strategies are better. Covin *et al.* (2006) note that an emergent strategy mode is more satisfactory in the product innovation domain as it is able to take advantage of real-time knowledge gained during development and launch. They argue, for instance, that emergent strategies allow firms not only to postpone commitments if necessary, but also to react quickly to market responses. They found that considerable number of entrepreneurial firms employed an emergent strategy formation mode.

The nature of strategy and associated resource investments may be associated with the strategy formation, and vice versa. The improvement of quality, to give an example, requires some kind of immediate formalisation which, in turn, may facilitate the deliberateness of this process (Kuratko *et al.*, 2001). In contrast, the improvement of an

existing product due to an idea from the shopfloor or a request from a customer might be realised more informally. We suppose that in the market development as well as product innovation domain strategy formation may be an important model, and hence, we propose the following:

H1. In SMEs emergent strategy formation in the product innovation and market development domain is equally prevalent as deliberate strategy formation.

Emergent strategy formation and information usage

Although literature has studied some aspects of strategy formation such as the relationship to the organisational structure (e.g. Covin *et al.*, 2001) there is still a lack of empirical knowledge about the determinants of emergent strategies. Emergent strategists may be considered as proactive insofar as for instance small business managers might constantly monitor the environment and take advantage for emerging opportunities or minimise emerging threats. We thus see specific forms of information use closely associated with emergent strategy formation. There is hardly any evidence which type of information emergent strategists use or respond to when taking actions, which, on the long term may become then a deliberate strategy. We hence, assume that actions related to emergent strategy formation are though related to and the result of cognitive processes.

Literature has studied the role of information processing and environmental scanning for strategy decision making and formation (e.g. Thomas *et al.*, 1993; Garg *et al.*, 2003). Studies, for instance, have carried out in the context of the Miles and Snow (1978) strategy typology (e.g. Rogers *et al.*, 1999) but to a less extent with respect to Mintzberg and Waters emergent and deliberate strategy formation modes. Linking this discussion to the strategy formation mode, we assume that emergent strategy formation requires some kind of information gathering which can be considered as antecedent to action (Daft and Weick, 1984). Thus, although emergent strategy formation is not the result of a strategy workshop or the application of a strategy method and extended analyses, or a formalised concept of an entrepreneurial vision, it is associated with permanent searching and interpreting information by the small business manager or entrepreneur. Information usage as understood in our research is hence not necessarily output of formalised activities are carried out in relation which employed strategic methods such as a SWOT-analysis.

For the purpose of this research we define information usage as the application of acquired and transmitted information which is applied to tactical and strategic outcomes of an organisation (Nutt, 1986). We assume that information from employees as well as customers or fairs and suppose that emergent strategists particular emphasis tacit, informal information which is not analytically derived, e.g. from databases (Menon and Varadarajan, 1992; Hart *et al.*, 1994). Using informal information, e.g. from personnel networks of the entrepreneur, may assure a faster response to new events. In this context, Noe *et al.* (2003) stressed that the ability to learn from the experiences of employees at all level is important for strategies to emerge. Carr *et al.* (2004) proposed, that effective strategic decisions emerge form a communicative interaction among relevant organisational members. Verreynne (2006) argues that employees may have a very active role in the strategy formation process encouraged by communication with the small business manager. The emergent strategy process may hence be promoted by innovative employees, instead of commanding entrepreneurs. Sashittal and Jassawalla (2001) found that listening skills

of managers play an important role for the emergence of marketing strategies. Hence, we assume that close customer relationships and communication capabilities of the employees support the emergence of strategies. Both forms of capabilities may hence be interpreted as form of “absorptive capacity” with respect to incremental strategic adaptation. Based on these arguments we suggest:

H2a. Emergent strategy formation in the product innovation and market development domain is positively associated with an emphasis on information use from employees.

H2b. Emergent strategy formation in the product innovation and market development domain is positively associated with good customer relationships and good employees’ communication capabilities.

Strategy formation and growth orientation

Not all SMEs want to growth as corporate growth is often associated with giving away independence (Bamberger, 1983; O’Farrell and Hitchens, 1988). This is hence an important general factor to be considered in a longitudinal research study but also of relevance in relation to strategy formation. Moreover, growth orientation is often regarded as characteristic of entrepreneurial firms (e.g. Mintzberg, 1973; Lumpkin and Dess, 1996). Gibbons and O’Connor (2005) postulated that conservative firms were more likely to adopt the emergent strategy-making mode while entrepreneurial firms adopted comprehensive approaches. Gibbons and O’Connor, 2005 showed that entrepreneurial firms tended to adopt more formalised planning approaches. They argued that the need of entrepreneurial firms to frequently review the basis upon which their competitive advantage rests might explain the surprisingly greater use of extensive analysis and planning. At the same time, the basis of competitive advantage may not be subject to the same level of questioning in firms that are more conservative, which, in turn, allows relying on informal and emergent planning. Brinckmann *et al.* (2010) argues that small firms with growth ambitions are more inclined to prepare formal plan because a larger need for long-term resource planning is required, moreover, plans may be requested also by investors and funding parties such as banks. Storey (1994) explains that growing firms tend to plan more. We conclude that emergent strategy formation behaviour reflects an open, though passive way of corporate development and that the definition of growth targets requires a more comprehensive and deliberate strategy. We propose hence:

H3. Growth orientation has a negative impact on the likelihood to employ an emergent strategy formation mode in the product innovation and market development domain.

Strategy formation and performance

Even though strategy making can make an important difference with respect to performance, the empirical evidence for the impact of different strategy-making modes on performance is still rather limited. While there are many studies (e.g. Ackelsberg and Arlow, 1985; Bracker and Pearson, 1986; Shrader *et al.*, 1989; Waalewijn and Segaar, 1993; Gibson and Cassar, 2004) investigating the impact of strategic planning on performance in large and small firms in various industries, less research has been

reported based on more sophisticated classifications of different strategy-making modes or emergent strategies.

A few studies have examined whether strategy formation has an impact on firm performance. The paper by Slevin and Covin (1997) explicitly deals with emergent and deliberate strategies. These strategies are measured on a scale that allows to distinguish strategy making on a continuum between formal, planned strategy formation on the one hand and informal, emergent strategy formation on the other hand. Slevin and Covin (1997) measured strategy formation with a five-item, seven-point scale asking the importance of factors by phrases such as “trial-and-error actions”, “careful planning before actions are taken” and “formal plan precedes the action”. They found no direct relationship between strategy formation and performance. Covin *et al.* (2006) found evidence that entrepreneurial firms where strategies emerged had indeed higher sales growth.

Both theory and research suggest that the relationship between strategy formation and performance is dependent on the firm’s competitive environment, which has been described along a number of dimensions such as dynamism, heterogeneity and hostility (Dess *et al.*, 1997). However, the evidence for the role and necessity of formal planning depending on the environment is inconclusive. While some mainly older studies found that classical rational planning processes were effective in stable industries (e.g. Fredrickson, 1984), recent studies show that strategic planning is effective in dynamic environments (Brews and Hunt, 1999). Others (e.g. McGrath and Mac Milan, 1995) argued that in turbulent environments companies must keep a certain level of strategic flexibility that constrains the possibility to achieve strategic implementation consistency, though. McCarthy *et al.* (1987), for instance, proposed that in high-tech environments firms had to rely more on intuitive decision making. Burgelman and Grove (1996) showed that in highly dynamic environments an alignment of a firm’s strategy intent and action was particularly difficult to achieve. Following these arguments, different environments characterised by hostility, dynamics, growth and munificence should more or less offer opportunities for effective emergent strategy formation.

Miller and Cardinal (1994) argue that firms in uncertain environments need to plan more to cope with the uncertainty in the environment. However, few firms have the resources to undertake the associated in-depth analysis (Verreynne and Meyer, 2007). Hart and Banbury (1994) found partial support for the impact on environmental turbulence on the strategy-making-performance linkage. They reported that in munificent environments the strategy-making process capabilities had no impact while in turbulent environments, contrary to their expectations, both, high as well as low strategy process capability were associated with high performance. The study by Slevin and Covin (1997) investigated the relationship between strategy formation and performance considering the environmental context. They demonstrated that firms that followed an emergent strategy mode were more often successful in benign environments.

Based on a contingency perspective we claim that the external environment moderates the strategy formation performance relationship and expect that dynamic industries offers opportunities that can exploited more easily by emergent strategists while in stable industries a planned strategy is required considering in advance the actions of various factors determining competition. We propose hence the following hypothesis:

H4a. Emergent strategy formation in the market development domain is more strongly associated with profitability and growth in dynamic industries than in less dynamic industries.

H4b. Emergent strategy formation in product innovation domain is more strongly associated with profitability and growth in dynamic industries than in less dynamic industries.

Sample

This paper is based on a study on strategy content and processes in Austrian SMEs. The data analysed and interpreted for this paper has been taken from an empirical study of SMEs with 20 to 500 employees. The final sample size of 91 firms allows for representative findings given the firm population in the different sectors in Austria found in enterprise statistics (Dun&Bradstreet database). The study includes both independent firms as well as firms owned by other firms, although the latter were only allowed to participate if they had the possibility to formulate their own strategies and, hence, retained a certain level of strategic independence from their owners, e.g. larger international firms or banks. The firms were selected at random from the Dun&Bradstreet database, which covers all Austrian companies with more than 20 employees. The use of multi-industry samples allowed me to study the extent of the influence of industry performance levels on firm performance, while the distribution of the firms across each sector represents the industry distribution across Austria and is thus a good representation of the studied sectors in the country. The selected firms are distributed across the Austrian industry classification standards and cover “manufacture of wood and of products of wood”, “manufacture of furniture”, “manufacture of basic metals”, “manufacture of fabricated metal products”, “manufacture of machinery and equipment”, “manufacture of chemicals and chemical products” and “manufacture of rubber and plastic products”.

The first empirical survey was carried out in 1995. 120 firms were contacted by telephone, and an interview date arranged. A total of 100 firms agreed to participate in the study. An analysis of the motives for the non-participation of the other firms revealed no evidence of a bias in the sample with regard to performance or strategic behaviour. The interviews were carried out on-site with the managing directors of the firms using a questionnaire with standardised questions and a few open questions and lasted about 90 minutes. The second survey was carried out in 2003. Since nine of the companies initially interviewed had gone bankrupt in the meantime, only 91 companies participated in the second survey, providing data on strategic behaviour and performance based on a shortened questionnaire. These interviews were carried out by phone with the managing directors.

Measures

Strategy formation

Studying the role of different types of strategy formation processes based on a broad empirical base of data brings with it the challenge of measuring and operationalising the complex phenomena of deliberate and emergent strategies. In the literature available to date, the different strategy-making modes have primarily been operationalised by identifying the importance of strategic goals, visions and statements regarding the role of participation, the use of formal plans, risk-taking by organisational members and the information used in decision making (e.g. Hart and Banbury, 1994; Slevin and Covin, 1997). We followed an approach that has been called for in the existing strategy literature (e.g. Naman and Slevin, 1993; Lyon *et al.*, 2000; Hult *et al.*, 2004). Hult *et al.* (2004), for instance, argue that taking beliefs, orientations and actions into consideration is essential in order to capture entrepreneurial strategies

of small firms more comprehensively. In social-psychology research it is also common to use measures of intentions and behaviour to examine their relationship, an approach used, for instance, to test Fishbein and Ajzen's (1975) theory of reasonable action (e.g. Doll and Orth, 1993).

Lyon *et al.* (2000) deal with the question of measuring the strategy processes in entrepreneurial firms and suggest three approaches: managerial perception, corporate behaviour and resource allocations. They suggest combining these three approaches to achieve greater measurement accuracy, a suggestion which also influenced our choice of approach for our own study.

We operationalised deliberate and emergent strategy formation by capturing intentions and actions and thus measured strategy by tracking intentions and activities over time (Sminia, 2009). To this end, we separated product innovation and market development as two main strategic decisions to be taken by managers following the basic distinction of Ansoff (1965). As studies showed, both strategies are of high relevance for SMEs and gained importance in the 1990s, particularly in highly industrialised economies such as Austria (e.g. Armbruster *et al.*, 2005). In our study, a market development strategy covers entering new market segment, new customer groups or new geographical markets. This strategy is highly relevant for SMEs as due to increasing competition, many companies were forced to expand their business or find new customers to survive, and thus, for instance, entered markets in the new European member states. New EU legislations aiming to liberalise markets and the enlargement of the EU have certainly challenged Austrian firms in this respect. Product innovation was considered as one possible strategic option on the market to remain competitive and achieve firm performance (Porter, 1985; Kay, 1993). However, we have not dealt explicitly with market diffusion and diversification strategies and hence have not separated whether new products are launched at existing or new markets (Ansoff, 1965).

Two individual factors were identified for each of the two strategies, namely specific strategic intentions and related managerial activity (e.g. the enlarging of the customer base, the launch of new products). With regard to the product innovation strategy, we asked the participating firms to assess the importance of product innovation as a strategic goal on a scale of 1 to 5 (1 = "Not At All Important" and 5 = "Highly Important"). To capture their activities in this area, we asked if they had introduced a new or improved product (dichotomous variable, 1 = "yes", 0 = "no") in the years prior to the interview. We thus followed the suggestions given in innovation literature (Baldwin and Johnson, 1996). Changes that only involved minor design alterations were not considered valid. The market development strategy was assessed by a question regarding the importance of market development as strategic goal (intention) on a scale of 1 to 5 (1 = "Not At All Important" and 5 = "Highly Important"), and a question whether the firm had gained access to new customer groups or geographical markets in the years prior to the survey (dichotomous variable).

Based on the dynamics of intention and action we were able to classify different strategy formation patterns. We distinguished between "deliberate", and "emergent" types (see Table I). Using the two criteria (intention and action) in both points of time, we were theoretically able to separate 16 combinations, which, in turn, served as the basis for the classification of the strategy-making mode (see Table I). Thereby, firms which continuously followed a strategy over the whole time span (t_0 and t_1) and thus had assessed the goal as "Highly important" and realised the corresponding action were categorised as "deliberate strategists". Firms which successfully realised their

1995 (<i>t</i> 0)	2003 (<i>t</i> 1)	Strategy-making mode
Intention	Intention	→ Not followed
Intention	Intention and action	→Deliberate
Intention	Action	→Deliberate
Action	Action	→Emergent
Action	Intention and action	→Emergent
Intention and action	Intention and action	→Deliberate
Intention and action	Action	→Deliberate
Intention	Neither intention nor action	→Not Followed
Action	Neither intention nor action	→Not Followed
Neither intention nor action	Action	→Emergent
Neither intention nor action	Intention and action	→Deliberate
All other combinations		→Not followed

Table I.
Coding of
strategy-making mode

intended strategies were regarded as planners, too. Those firms which acted without formal recognition of the strategy in *t*0 were framed as “emergent strategists”. Finally, firms which had just intentions in only one or both periods without any corresponding activities or neither intentions nor actions at all were classified as having no strategy. In addition to this procedure we took into account the information from the interviewed managers and owners and used company material provided by the firms (brochures, mission statements, etc.) to check and confirm the classification. Table I displays all possible combinations we observed in our sample and how they were categorised.

Information use and growth orientation

Internal information use was measured by asking the importance of information from internal employees for the strategic development on a five-point Likert scale (1: not important at all), 5: very important). Communication capabilities and close customer relationships were assessed by the respondents in comparison to the competitors on a five-point Likert scale, too (e.g. Spanos *et al.*, 2004). Growth orientation was the emphasis for the strategic goals “corporate goal” on a scale from 1 (not important at all) to 5 (very important).

Size, age and industry dynamism

Some factors related to ownership, size, age and industry characteristics were used and measured on dichotomous or ordinal scales. Following Audretsch and Acs (1991) and Bolland and Hofer (1988), industry dynamism was operationalised as the intensity of R&D in a particular industry. Industry R&D intensity for the nine sectors on the three-digit NACE level was taken from the Annual Statistical Yearbook published by the Austrian Statistical Office. Industry growth was measured as the annual rate of sales growth between 1992 and 2002 on the three-digit-level NACE level in percentage term based on data from the Annual Statistical Yearbook. Firm age was gathered in the first survey in 1995.

Performance

Two performance indicators gathered in the two surveys were used, namely average profitability and turnover growth. It is often difficult to obtain data on the profit levels of small firms as in many cases they are not obliged to publish their results and are frequently reluctant to provide such financial information (Sapienza *et al.*, 1988).

Profitability was thus measured on the basis of a self-assessment by the respondents, who were asked to compare themselves with their competitors using a five-point Likert scale (where 1 = very poor and 5 = very good). Profitability was measured as the annual average value for the years 1992 to 2002. Literature indicates a strong correlation between self-reported, perceived measures of performance and objective measures of performance (e.g. Venkatraman and Ramanujam, 1987; Dess and Robinson, 1984).

Turnover figures for the years 1992 to 1994 and 1995 to 2002 were provided by the interviewed firms in both surveys. The annual average value was then calculated to enable a comparison of the two figures and adjust the data for the different time periods. Given the differing growth rates in the industries used in the sample, the average growth rate in each firm's principal industry was subtracted from its own actual growth rate. Industry growth figures were taken from the Annual Statistical Yearbook published by the Austrian Statistical Office. The analysis of turnover and employee growth rates shows extremely high values for some firms, a result which clearly reflects the success of a particular strategy, but also introduces some limitations in the application of statistical tests. Consequently, a winsorisation procedure (Kothari *et al.*, 2005) was used to replace extreme values beyond a specific lower and upper percentile with the value at the percentile. Values outside the fifth and 95th percentile were winsorised. A subsequent analysis of normal distribution showed that both performance variables were normally distributed. See Table II for the descriptive statistics and correlations.

Results

The analysis of the strategies intended and realised in 1995 and 2003 according to our classification schema delivered insights into the strategy formation process and dynamics in SMEs (see Table III). Based on our conceptualisation, we were first and foremost able to identify emergent strategic behaviour in the two domains (*H1*). We found that emergent strategic formation is particularly relevant in the market and innovation domain where new opportunities can quite often arise within as well as outside the firm (e.g. new customer requests, ideas from employees for the improvement of products). Regarding market development, emergent strategies are even as important as deliberate strategies, which seems to be plausible having in mind that, for instance, in the past decade, many Austrian SMEs incrementally expanded their business in new European member states. 26 companies followed both, a market development and product innovation strategy. In many firms, this behaviour evolved over time and was not the result of a grand master plan or an entrepreneurial vision.

In order to test whether emergent and deliberate strategy formation is equally important in the market and product innovation domain we performed a χ^2 -test (not revealed here). This test showed that with respect to market development both strategy formation modes were equally distributed while in the product innovation domain deliberate strategies were more common ($\chi^2 = 3.92$, $p < 0.05$). Thus, we found partly support for *H1*. By considering strategy formation in the product and market domain, we were further able to classify the strategy-making mode on an aggregated level and found that in total 34 firms had an emergent strategy in either the product innovation or the market development domain. In total, 33 firms had followed a deliberate product innovation or market development strategy.

H2a-b deals with the role of information use from employees, their communication capabilities and close customer relationship as predictors for emergent strategy

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
1 Firm size	133.9	97.50	1										
2 Age	49.9	44.23	0.169	1									
3 Industry R&D intensity	2.56	1.62	0.064	0.020	1								
4 Strategy formation (market)	0.36	0.48	0.225	0.063	-0.107	1							
5 Strategy formation (innovation)	0.47	0.50	0.204	0.069	-0.069	0.138	1						
6 Growth orientation	3.71	1.06	-0.045	-0.191	0.109	-0.300*	-0.214	1					
7 Information use	3.80	1.87	-0.141	0.004	-0.123	-0.296*	-0.315*	0.177	1				
8 Communication capabilities	2.75	0.56	-0.028	0.080	-0.091	-0.169	-0.419**	0.219*	0.093	1			
9 Close customer relationship	3.72	0.97	0.151	0.168	0.049	-0.051	0.010	0.062	0.095	0.291**	1		
10 Profitability	3.64	0.67	0.075	0.093	0.018	0.208	-0.157	0.187	-0.109	0.203	-0.017	1	
11 Sales growth	2.66	8.46	0.076	0.053	0.093	0.215	-0.136	0.155	-0.260**	0.049	-0.159	0.444**	1

Notes: * $p < 0.05$; ** $p < 0.01$

formation. Although we have not formulated an explicit hypothesis we also incorporated firm age which should have an effect on the strategy formation mode. We constructed logistic regression models with strategy formation (1 = emergent) as dependent dichotomous variable (see Table IV). The model for market development shows that none of the mentioned variables had a significant coefficient. Information use from employees and their communication capabilities were interestingly negative, although not significant. With respect to product innovation we deliver evidence that information from employees ($B = -2.435$) and their communication capabilities ($B = -2.638$) had a negative effect on the likelihood to employ an emergent strategy formation mode. Close customer relationships had a positive value, but too was not significant in both domains. Moreover, older firms had more often a deliberate product innovation strategy. We hence found no evidence for *H2a-2b*.

We analysed the role of growth orientation by integrating a variable in the logistic regression model (*H3*). The coefficient of the market development model (see Table IV) showed that the emergent strategists had a lower growth orientation ($B = 0.649$, $p < 0.05$). Hence, emergent strategists seem to follow a more passive, reactive path than deliberate strategists considering the market development.

Moreover, we performed as *post hoc* analysis and tested whether strategy formation in the innovation domain is stronger associated with incremental innovation by employing a χ^2 -test. Innovativeness was measured by separating whether firms have developed new products or launched improved products. We found no significant difference between incremental innovators and strategy formation, i.e. among the emergent strategists there was also a considerable number of SMEs which have developed in the first or second period a new product.

We tested the associations between strategy formation, industry dynamism and performance (*H4*) by employing hierarchical regression analyses with the dependent variables of profitability and sales growth (Table V). We used a standardised

Table III.
Overview of
strategy formation
modes

Strategy domain (content)	Not followed	Strategy formation	
		Deliberate	Emergent
Market development	45	24	22
Product innovation	41	32	18

Table IV.
Logistic regression
model for
propensity of firms
employing an
emergent strategy
formation mode in
the market and
innovation domain

	Market development strategy			Product innovation strategy		
	B	Wald statistic	Sig	B	Wald statistic	Sig
Constant	5.297	4.040	0.044	6.903	5.573	0.018
Age	0.217	0.658	0.417	-0.508	2.840	0.092
Growth orientation	-0.649	3.891	0.049	-0.015	1.326	0.968
Information use from employees	-1.443	2.443	0.118	-2.435	6.438	0.011
Communication capabilities	-1.322	2.385	0.122	-2.638	8.218	0.004
Close customer relationships	0.283	0.539	0.463	0.628	1.849	0.174
χ^2	10.073		0.073	19.994		0.001
Nagelkerkes R^2	0.262			0.451		
Log-likelihood	53.609			45.389		

interaction term to assess the contingency hypothesis. In addition, we controlled for age and firm size. We only compared the deliberate and emergent strategy-making mode, in which we were specifically interested. We hence had a subset of 50 firms for the product innovation and 46 firms for the market development strategy to be analysed. We tested the correlations between the independent variables to check for multicollinearity in advance. This correlation indicated no concern as all values were below 0.22.

The regression models delivered evidence that in the market development domain companies with an emergent strategy formation performed better with respect to sales growth in less dynamic industries ($b = -0.62, p < 0.5$), which is contrary to our expectation, albeit the explanatory power of the model is quite low (see Table V). With respect to the product innovation strategy, emergent strategists achieved lower profitability, too, albeit that this relationship was not significant. In general, in all models the interaction term was negative, though, only in the case of the market development for sales growth significant. Thus, we found no support for $H4$, but partly support and evidence that in dynamic industries deliberate strategies are more appropriate.

Discussion and conclusions

Strategy cannot be understood simply by focusing solely on single decisions or the assessment of priorities. Instead, efforts must incorporate the sequence of actions that come together to form a strategy over time. With our study, we aimed to contribute to this premise by investigating the dynamics of intentions and actions at two points in time. Our research builds on the ideas put forward in the work of Mintzberg and Waters (1990), applying them to strategy formation in SMEs. Although the importance of different strategy formation modes and the relevance of emergent strategies are recognised in strategy textbooks, there is still a lack of understanding and empirical evidence for the complex relationships between planning and emergence, a deficit addressed in this paper.

Dependent variable	Market development strategy (n = 46)				Product innovation strategy (n = 50)			
	Profitability	Sales growth		Profitability	Sales growth			
<i>Main effects</i>								
Size	0.07	0.06	-0.16	-0.18	-0.19	-0.19	0.15	0.15
Age	0.27***	0.28***	0.07	0.08	0.23	0.25	0.24	0.25
Industry dynamism (R&D Intensity)	-0.11	0.11	-0.22	0.09	-0.15	-0.10	0.22	0.24
Strategy formation (market) (1 = emergent)	0.17	0.49***	0.22	0.71*				
Strategy formation (innovation) (1 = emergent)					-0.18	0.10	-0.03	0.06
<i>Interaction</i>								
Strategy formation x Dynamism		-0.41		-0.62*		-0.31		-0.10
Adj. R ²	0.04	0.07	0.03	0.11	0.03	0.02	0.05	0.03
F-value	1.50	1.62	1.37	2.12***	1.34	1.22	1.64	1.20

Notes: * $p < 0.05$; *** $p < 0.10$

Table V. Strategy-making, industry dynamism, and performance in the market development and product innovation domain: regression analysis

This study was of an exploratory nature, particularly with respect to the novel measurement approach employed. Consequently, there are limitations to be considered when interpreting the results. The approach used was inspired by Lyon *et al.* (2000), who suggest combining different approaches to measuring entrepreneurial orientation, e.g. managerial perception, corporate behaviour and resource allocation. Previous research focused on the importance of formal plans, participation or the risk-taking behaviour of organisational members to assess or cluster different strategy formation modes. In contrast, our study follows a novel approach by considering strategy content, (captured by related intentions and actions) and operationalising, the strategy formation mode based on the information provided by the respondents themselves. However, we did not sequentially measure the complexity and dynamics of “patterns” of decisions and actions involving different levels, domains and players that accumulate in a strategy over time. Instead, we captured strategy at two points in time by tracing the priorities of intentions and corresponding actions. Moreover, we did not explicitly measure the decision-making process in our survey, although most of the actions which had been taken by the firms prior to the survey were probably linked to a decision by the manager or entrepreneur. This assumption is highly likely given the fact that we investigated small firms, and we assume that the actions reported by the participating firms are primarily the result of decisions or at least a commitment to an action (Langley *et al.*, 1995, p. 265).

A further issue that has to be considered when interpreting the results is the rather long period of time between the two surveys. As far as this is concerned, we assumed that a longer period was more appropriate for observing incremental strategic changes, such as the emergent strategy phenomenon over time. Moreover, the strategies we defined gained importance in Austria over a longer period and would not have become relevant in only one or two years. Consequently, a shorter period would probably not have allowed us to trace strategy adaptations either. For these reasons (and given the dynamics of the industries in our sample), we elected to carry out the second survey seven years after the first. Finally, we have not studied the organisational structure, psychological and cultural factors which may have an impact on the strategy-making mode in SMEs (Shepherd and Rudd, 2014).

The study delivered evidence that emergent strategy formation matters and delivered proof of its relative importance in SMEs regarding product and market related decisions. In the market expansion domain the firms employed nearly as often an emergent strategy as a deliberate strategy which is in line with previous findings (e.g. Menon *et al.*, 1999) which though seldom reported such detailed proportions. However, while in larger firms distributed decision making and initiatives are the grassroots for emergent strategies (Burgelman, 1983; Wooldridge and Floyd, 1990; Andersen, 2004), in SMEs emergent strategists arise by responsive actions, grasping of new opportunities on markets or incremental product improvement by the small business manager or entrepreneur (Verreynne and Meyer, 2010) which can also lead to a realised and deliberate strategy over time.

Moreover, we found that firms employing a deliberate strategy formation mode in the market domain were associated with a higher ambition to growth. Although there is no common understanding in the literature about entrepreneurial orientation, growth orientation is commonly regarded as characteristic (e.g. Mintzberg, 1973; Lumpkin and Dess, 1996). Thus, our research indicates that companies employing a deliberate strategy formation mode are more often entrepreneurial as already proposed by Mintzberg and Waters (1985). Slater *et al.* 2006 found in this respect that emergent

strategy formation mode was positively associated with performance for prospectors. Probably, a strong growth orientation is somehow conflicting with the idea to “wait for upcoming events and opportunities”, as also expressed in the notion of logical incrementalism (Quinn, 1980). However, one could also argue that emergent strategists are insofar proactive as for instance managers might constantly monitor the environment and take advantage for emerging opportunities or minimise emerging threats. Yet, in the light of our findings, emergent strategists are better described as open but rather passive and observant actors referring to their growth ambition, whereas this holds particular for market development. However, as Tell (2012) more recently reports, growing firms have to adopt a more comprehensive, more dynamic and less simplistic strategy which requires to a certain extent planning and formalisation.

The increased prioritisation of strategic goals observed over time among the emergent strategy group can also be interpreted as a self-reinforcing process in which success gradually raises the awareness of specific actions that have also become increasingly important and deliberate. Moreover, a stronger intention in the second period might be an indication of a post-rationalisation of prior actions, e.g. the continuous improvement of a product. This is in line with a general level of attention to new strategies and concepts within and outside the firm (e.g. in the media, business press, fairs, industry associations, etc.). It might also indicate that a company had introduced sporadic quality measures in response to quality complaints from individual customers. Increased awareness of such issues over time may also have led to a strategy becoming more important and deliberate. Thus, emergent strategy formation can be seen as the enforcement of something popular a company had already done or of an industry trend. To some extent, we captured the gradual adaptation and adoption of common industry trends or industry recipes (e.g. Spender, 1989). Such cultural and cognitive factors often evolve and are shared within an industry. In our case, product innovation has particularly become an important development trend in many industries, also enforced by business press, consultancy firms, interest groups and innovation policy across Europe and Austria.

How do small firms discover and learn about new opportunities and paradigms? We offer two explanations: through incremental action which subsequently influences thinking and is enforced by increasing awareness within the industry and the public, or by implementing ideas and setting priorities in line with a more rational linear view which is often associated with the visionary capabilities of the entrepreneur or manager. We obtained some evidence that the former, for instance, might stem from a steady monitoring of the task environment, while the latter might be derived from a strategy workshop or strategic analysis. In this respect, we found empirical evidence for the role of information usage and communication abilities of employees for the innovation strategy, while close customer relationships had no effect. The significant role of employees is also related to the more recent work by Verreynne and Meyer (2007, 2010) who argue that employees are often involved in strategy making in small firms, e.g. when they come up with new ideas, Verreynne and Meyer (2007) describe this highly participatory process as intrapreneurial strategy-making mode and argue that the employees of SMEs often take over the role which, in large firms, usually middle managers perform in the emergence of strategy (Floyd and Wooldridge, 1997).

Likewise, the nature of emergence can be interpreted as realised and deliberate process of something that a company had already done, e.g. trial and error, which

became popular in the industry and hence enabled this process. The study delivers evidence for the existence of an emergent, evolutionary, and non-teleological nature of strategy formation in a large group of SMEs which is in line with findings of Harris *et al.* (2000) and Verreyne and Meyer (2010).

We found no direct association between emergent and deliberate strategy formation and performance. Taking into account the industry dynamics showed, the study delivers evidence that emergent strategy formation in the market development domain was associated with higher employment and sales growth in stable industries. This result confirmed to some extent the work of Covin and Slevin (1989) and Slevin and Covin (1997), who found that emergent strategy-making mode was more often successful in benign environments. Thus, emerging opportunities on markets in rather dynamic industries seldom helped companies to boost the development and growth as we found that these companies had lower sales growth rates.

The results of our study offer some practical implications. We found no clear support that deliberate strategizing in general enhances performance and thus small business managers who are concerned with strategy-making should be cautious when just adopting a highly rational process. Both, informal and formal strategy making are equally important for product innovation as well as market development in this process. Instead, small firms should focus on exploiting their advantages that stem from their capabilities to be strategically aware and adaptive. Both strategy formation modes are important and complement each other in the strategy practice of small firms. The interaction with employees and customers is highly relevant to get new inspirational ideas and evidence for the strategic development of the firm. The management should thus enhance the communication capabilities within the firm. Strategic management instruments and tools are required which allow the easy communication within the firm. In addition, active information search and environmental scanning might be one simple tool for all small business managers. However, companies who aim to grow particularly by expanding their business into new markets should take up a more analytical approach. If managers achieve their growth targets, their motivation to further expand their business will be reinforced as well (Delmar and Wiklund, 2008). Thus, managers and entrepreneurs should use strategy-making processes that are appropriate for the main goals (e.g. growth ambitions) and the external environment of the firm.

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