Contributions to Management Science

Ivona Vrdoljak Raguž
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Lara Jelenc *Editors*

Neostrategic Management

An International Perspective on Trends and Challenges

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Preface

The end of twentieth and the beginning of twenty-first century have brought new challenges for the enterprises: rapidly changing and turbulent environment, knowledge-driven and innovative global economy, networking, and new technologies. In such an environment, strategic management needs some new strategic approaches, perspectives, and paradigms. Enterprises can no longer rely only on regional development, but they have to globalize if they want to optimize their profitability. This book analyzes some new challenges of the twenty-first century and also suggests how to survive and prosper at the global market environment.

The focus of the authors is devoted to these new challenges such as structural dynamics of interfirm knowledge networks, strategic networking in hospitality industry, strategic thinking, innovation of strategy, strategy implementations, strategic leadership, multinational corporations and the changing strategic orientation in the twenty-first century, entrepreneurial orientation and strategy or networking, manufacturing strategies in selected European countries, cross-border acquisitions for emerging markets multinationals, HR's contribution to contemporary theories of strategy, and complexity theory for a new managerial paradigm. The book integrates and synthesizes academic research of strategic management from a wide range of perspectives.

The book consists of 14 chapters written by 24 authors from 8 countries: Bosnia and Herzegovina, Croatia, Italy, Lithuania, Serbia, Slovenia, Slovakia, and the USA.

In the first chapter, *Past and Future: Neostrategic Management*, the book editors offer editors an insight for the future development of strategic management. Apart from classical tracks within strategic management, new directions—forming neostrategic management—are trying to find synergy with complementary disciplines like entrepreneurship, cognitive and social psychology, spiritual and religion movements, sociology, and anthropology. They also suggest an additional role of consultants in strategic management—an emerging profession of neostrategic knowledge broker—as a bridge serving as the translator of research results by helping practitioners to utilize the scientific insights in everyday business environment.

The chapter *Structural Dynamics of Interfirm Knowledge Networks* is focused on investigating the drivers of interfirm network structural dynamics and their influence on knowledge creation and diffusion processes that occur in such networks over time. Interfirm knowledge networks are complex webs of linkages connecting a variety of idiosyncratic firms within and across industries. Aimed to contribute to answer the recent calls for a more dynamic and multilevel view of understanding network structures and processes, authors leverage the complex network research to formulate a multilevel theoretical framework that clarifies the structural dynamics and knowledge creation and diffusion potential of interfirm networks.

The third chapter is focused on "Strategic Networking in Hospitality" and brings a new dimension to the analysis of strategic networking in the hospitality industry. The mechanism of strategic networking serves to improve the ability of hotel enterprises to offer competitive products. This chapter provides an overview of various forms of strategic networking in case of hotel enterprises to illustrate how some of its forms work in practice. The process of clustering in hotel enterprises, as a form of strategic networking, is also presented. The regional and national competitiveness of local companies in global business conditions increasingly depends on the ability to achieve mutual cooperation at the local level. Thus, the efficiency of clusters is used to measure the competitiveness of hotel enterprises. Strengthening of competition is an issue related to the entire economy, but given the specifics of hotel industry and the prevailing structure of small and medium hotel enterprises, clustering is suited to this sector.

The authors of the fourth chapter "The Foundations of Strategic Thinking: Effectual, Strategic, and Causal Reasoning" dissect the differences between strategic planning and strategic thinking and suggest that traditional methods of planning no longer yield the benefits as in the past. Their analysis lays this failure on the use of a causal reasoning logic that alone no longer benefits organizations. In this chapter, authors distinguish two binary forms of thinking—causal and effectual—to frame their discussion, and then in the Hegelian tradition, they press on to form a higher category of transcendent reconciliation through dialectic synthesis to introduce strategic reasoning. Authors propose a new organizational change model that supersedes traditional planning which is called the strategic thinking protocol, which incorporates the logics of yesterday, today, and tomorrow.

In the chapter "Continuous Innovation of Strategy as a Key to the Success of Enterprises: Intensification of Strategic Orientations," the theoretical framework is based on generic strategies and styles of coping with environmental changes as basis for innovation of the strategy. A particular challenge of the presented empirical research is the analysis of reaction model by top managers in Bosnian-Herzegovinian business entities in relation to changes in the environment as well as the identification of their capability and willingness to constantly innovate strategies. The aim of the study is to highlight the significance of strategic orientation intensification in companies in order to strengthen existing and build new market positions. The research results can help managers to find answers about ways to react to changes in the environment and improve the strategic competence which is derived from the ability of their visionary and creative thinking and knowledge of all employees in the company. Therefore, a continuous development of existing and construction of new core competencies is highly advised, or simply said, a development of learning organizations.

In the sixth chapter, “Building Bridges Between Entrepreneurship and Strategic Thinking,” the authors represent two bridges linking entrepreneurial and strategic thinking. The first bridge links the research of individual entrepreneurial behavior and strategic thinking skills. The second bridge positions strategic thinking, as a link between the effectual and causal reasoning continuum. Authors concluded that linking entrepreneurship and strategic thinking results in a clearer understanding of the gap between entrepreneurial thinking and action, as well as strengthening the ability to see and recognize opportunities. The chapter concludes with five propositions to further develop the links between entrepreneurship and strategic thinking.

Authors of the chapter “Failing Strategy Implementations” recognized strategy implementation as the source of frustrations and the black box of strategic management processes. This chapter summarizes research attempts in defining implementation problems and its critical factors. Further on, based on previous empirical results, it suggests an integrated strategy implementation model. Authors also suggest that the core of the integrated model includes factors like resources, communication, people, control mechanisms, operative planning, and time. Strategy formulation is the antecedent of strategy implementation. The relation between formulation and implementation could be influenced by outer and inner environment (culture, structure, and leadership). The basic conclusion is that multiple factors should be considered simultaneously when developing and implementing a strategy.

The eighth chapter, “Leading Strategically: Process Based Approach for Driving the Changes in the Organization,” focuses on organizations in frequently changing environments that often seek leaders who are able to formulate visionary and strategic goals and lead people in organization towards the fulfillment of the strategic plan. In turbulent times, when organizations are facing an uncertain future, the process of setting up a strategy which can help the organization gain or maintain competitiveness cannot be accomplished only by one charismatic and capable individual—the leader. It is rather a complex and diverse process that merges various knowledge, skills, and experiences from a number of professionals and their expertise. This requires a process-based approach viewing the organization as a system where external and internal processes and frequent changes influence the overall performance of the organization and its employees.

Authors of the chapter “Multinational Corporations: The Changing Strategic Orientation in Twenty-First Century” concluded that there has been much attention and debate on global integration versus local responsiveness and likewise whether to standardize or adapt to local circumstances when operating abroad. It is believed that the world is globalized more than ever, but how does that reflect on businesses and multinational corporations? According to Rugman's research, at the beginning of the 2000s, only a few corporations from The Fortune Global 500 could actually be considered as global, with truly global sales and operations. By Rugman's methodology, corporations were classified as home-region oriented, bi-regional, host-region oriented, "near-miss" global corporations, or global. Regions like North America, Europe, and Asia/Pacific are determined as equivalent geographical regions. Similar research was conducted based on Fortune Global 500 ranking 2012, 10 years later. Changes have happened. For example, out of nine truly global corporations in 2002, only three remained global in 2012. Furthermore, stream of revenues have changed for many other MNCs due to their internal strategic decisions and due to external market forces. All these relevant aspects are discussed in the chapter.

The chapter "Towards International Entrepreneurial Orientation and Networking of Born Global Firms" summarizes the insights from international entrepreneurship literature focusing on the entrepreneurial orientation, drivers of internationalization, and networks relations of born global firms. These ventures pay attention to knowledge-intensive products and innovations, have accelerated internationalization, and exploit a global niche from the earliest days of their foreign operations. This chapter highlights the connection of international entrepreneurial orientation and networking of born global firms as well as points out the acceleration role of network for entrepreneurial born global. The qualitative analysis has been performed based on information communication technology (ICT) born global firms founded by Lithuanian entrepreneurs. Empirical results highlight the drivers for rapid internationalization, necessity of entrepreneurial orientation, and born global firm's relations with upstream, downstream, and horizontal partners. Results suggest that the creation of networks and active involvement in entrepreneurial ecosystem is one of the key success factors for the scope of international expansion.

Authors of the chapter "Manufacturing Strategies in Selected European Countries" contributed to the manufacturing strategy research by identification of the strategic manufacturing practices among manufacturers in selected EU countries and identification of differences, if any, among Croatia, Germany, Hungary, Ireland, Poland, and Ukraine. The Global Manufacturing Research Group (GMRG) is an international community of researchers studying the improvement of manufacturing supply chains worldwide, and the data was a subsample from the Round V GMRG. The multi-focus cluster appeared to compete on all capabilities (but dominantly on quality, cost, and delivery and in that order) and may be supporting the cumulative model rather than the trade-off approach which competes on a single competitive priority. This puts additional pressure on manufacturing companies which not only have to provide exceptional quality and reliable delivery, but also at the price that is not significantly higher. These findings suggest that manufacturing strategy needs to be focused at country level rather than as a global perspective with a single dominant model.

"Strategic Importance of Cross-Border Acquisitions for Emerging Markets Multinationals" is the chapter that focuses on the changing business environment during the last two decades under a rapid globalization. Growing number and power of multinationals from emerging markets is one of the most prominent results of these changes. From niche players in the global market or regional competitors in similar emerging markets, they became multinationals who are challenging the world leaders, even in high intensive industries. As late followers in the global market, these companies are faced up with competition gap. Therefore, they use cross-border acquisitions to obtain strategic resources necessary to compete in the global market (technology, brands, marketing knowledge, etc.). They also combine the obtained resources with their own cost advantage to reshuffle competition in the industry. To preserve targets' strategic resources, these multinationals retain the top management and give them great autonomy. Through this approach, the risk of acquisition failure is reduced, regardless of the fact that some cost synergies are not achieved. Two case studies, Lenovo and Tata Motors, from China and India, the major emerging markets, are used to show how emerging market multinationals rewrite motives and strategies for cross-border acquisitions.

In the chapter "Late to the Party: HR's Contribution to Contemporary Theories of Strategy," author pays attention to the emergent importance of HR system design to firm competitiveness. The reader is introduced to the Foursquare Model and its premise that successful strategy formulation and implementation require integrated decision making across four primary functional domains. The Model makes three significant contributions to our understanding of organizational performance: (1) it brings together important insights from a range of theoretical perspectives; (2) it presents a parsimonious, yet theoretically sophisticated, model for empirical investigators and management theorists; and (3) it provides practicing organizational leaders with a cogent and accessible tool to guide executive development.

"Complexity Theory for a New Managerial Paradigm: A Research Framework" is the chapter in which authors supply a theoretical framework of how organizations can embed complexity management and sustainable development into their policies and actions. The proposed framework may lead to a new management paradigm, attempting to link the main concepts of complexity theory, change management, knowledge management, sustainable development, and cybernetics. Authors highlight how the processes of organizational change have occurred as a result of attempting to adapt to the changes in the various global and international business environments and how this transformation has led to the shift towards the present innovation economy. Authors also point out how organizational change needs to deal with sustainability, so that it may be consistent with present needs without compromising the future.

We would like to express our deepest gratitude to our reviewers Professor Giovanni Battista Dagnino, PhD, from University of Catania, Italy, and Professor Tomas Kafel, PhD, from University of Economics, Krakow, Poland, whose observations were extremely beneficial.

This book would not have been written without the active participation of all authors and the publisher. They all cooperated and collaborated by providing the examples and realities in neostrategic management—an international approach.

We hope that this book will be exciting and beneficial for all those engaged in the areas of strategic management, from academia and corporate world.

Dubrovnik, Croatia	Ivona Vrdoljak Raguž
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March 2015	

Editors' and Authors' Biographies

About the Editors

Ivona Vrdoljak Raguž is an associate professor at the Department of Economics and Business Economics, University of Dubrovnik, Croatia. She received her MSc and PhD degrees at the University of Split. Since 2003, she is working at the University of Dubrovnik. She has been involved in lectures at the Department of Economics and Business Economics at these courses: basics of management, human resource management, sales management, and purchasing management at undergraduate level and courses on corporate governance, strategic management, and leadership at graduate level. At the Department of Electrical Engineering, University of Dubrovnik, she teaches course management in maritime industry, and at professional studies, she teaches courses on management, human resource management, and strategic management. At the Doctoral School, University of Osijek, she is involved in lectures of course organizational behavior at the PhD level. She is also a guest professor at the PhD program of the Faculty of Law, and at the master's level of study at the Faculty of Economics at the University of Mostar, Bosnia and Herzegovina. She was head of the Department of Economics and Business Economics, University of Dubrovnik, from June 2011 till October 2014. From October 2014, she is vice rector for Business and Finance at the University of Dubrovnik. Professor Vrdoljak Raguž participated as researcher and project manager at several international and national scientific and professional projects (she participated in the development of scientific research projects financed by the Ministry of Science and Sports of Republic Croatia: "Strategy of Dubrovnik-Neretva County," "Croatia in the European tourism market in terms of globalization," "Corporate Strategy-Present Future," and "The impact on the success of the strategy chosen program of improving business processes" and participated in the development of the professional project: "Integrated management of the movement of ships and passengers on sea cruises in port of Dubrovnik," client Dubrovnik Port Authority, March 2011). She was a member of the team for the implementation of the ex ante evaluation of the Development Strategy of Dubrovnik-Neretva County

2011–2013. From March 2013, she is work package manager responsible for the development of methodology and coordination of research activities for all project partners at project "Intermodal—Intermodality Model for the Development of the Adriatic Littoral Zone" financed by the European Union's IPA Adriatic Cross-Border Cooperation Programme. From the academic year 2013–2014, she is main researcher of the scientific research project at the University of Dubrovnik: "Creating clusters with a view to more efficient operation of small hotel companies." She was a President of the Academic Council of the Department of Economics and Business Economics, University of Dubrovnik, from 2011 till 2014. She was a member of the Expert Council of the Department of Economics and Business, University of Dubrovnik, in 2010 till 2014. She was a member of the Commission for the Internal System of Quality Assurance and Quality Improvement at the University of Dubrovnik, from 2011 till 2013. Professor Vrdoljak Raguž is a member of the Senate of the University of Dubrovnik, Croatia, from June 2011. She is secretary of the Commission of the course for tourist guides and supervisors of tourist agencies from 2011 and a member of the working group for the preparation and drafting contracts for teaching science as activity with the Ministry of Education and Sports at the University of Dubrovnik from 2012. Currently, she serves as a member of the Rector's Committee for the preparation of the rules and criteria of usage of the revenues of the public universities. She has been a member of numerous organizations and program committees of international scientific conferences ("18th, 19th, and 20th International DAAAM Symposium"; 1st, 2nd, and 3rd International M-Sphere Conference; 1st, 2nd, and 3rd International Organizational, Financial, Ethical and Legal Issues of Corporate Governance (OFEL); 1st International Conference on Management, Marketing, Tourism, Retail, Finance and Computer Applications; 2nd International Symposium Systems Thinking for a Sustainable Economy, Advancements in Economic and Managerial Theory and Practice; 6th International Conference of "The Economies of Balkan and Eastern Europe Countries in the changed world," EBEEC; International Conference on Innovation in Business, Economics & Marketing Research (IBEM14); 2nd International Conference "New Trends in Management and Production engineering—regional, cross-border and global perspectives" in 2015). She is a president of the organizing committee of the International Scientific Conference Dubrovnik International Economic Meeting (DIEM) from 2013. Ivona Vrdoljak Raguž was an organizer of Third Regional Meeting of the Departments of Organisation and Management in 2013. She was an invited plenary speaker (keynote speaker) at the Second Regional Meeting of the Departments of Organisation and Management in 2012 at the University of Mostar in Bosnia and Herzegovina. Professor Vrdoljak Raguž is a reviewer of numerous national and international journals and national and international conferences. She is an associate editor of International Scientific Journal Business System Review from 2012 and is also a member of the editorial boards of International Scientific Journals: Business Excellence, International Journal of Markets and Business Systems, European Journal of Economics and Management, Journal of Business and Management Sciences, Oeconomica Jadertina, Forum Scientiae Oeconomia, and Zeszyty Naukowe Wyzszej Szkoly Humanitas "Management." She has been a participant of numerous seminars and professional trainings. She presented her work on 25 conferences at home and abroad. Professor Vrdoljak Raguž has published more than 50 scientific papers, 5 professional papers, and 6 book chapters. Together with Najla Podrug and Lara Jelenc, she wrote a book *Sources of Competitive Advantage in XXI Century*. Ivona Vrdoljak Raguž was one of the editors of the book *Rethinking Corporate Governance* published by Pearson in 2014. In 2013, Ivona Vrdoljak Raguž, PhD, was one of the editors of the Proceedings of the First International DIEM conference and Proceedings of the International MATREFC conference. In 2013, she was also an editor of the Proceedings of the Third Regional Meeting of the Departments of Organisation and Management. Professor Vrdoljak Raguž has given guest lectures at Leeds Metropolitan University in the UK, Instituto Politecnico de Viana do Castelo in Portugal, Universidad de Sevilla in Spain, Universita degli studi di Palermo in Italy, and Gdynia Maritime University in Poland through ERASMUS Mobility Programme. Ivona Vrdoljak Raguž is a member of Academy of Management; European Academy of Management; BS Laboratory, Italy; South East Europe Corporate Governance Academic Network; Lab ReTMES (Research Team for Mediterranean Entrepreneurship and Startups), Supervisory Board of NGO Deša Dubrovnik, and NGO KRUG (Business Women). She is married and mother of one son.

Najla Podrug is an assistant professor at the Faculty of Economics and Business, University of Zagreb, Croatia, where she received her MSc and PhD titles. The title of her master's thesis was "The influence of national culture on decision-making style" and the title of her doctoral thesis was "Stewardship relations within management hierarchy in large Croatian companies." Since 2002, she worked at the Institute of Economics Zagreb as junior assistant and in the end of 2003 started working at the Department of Organization and Management, Faculty of Economics and Business, University of Zagreb. She received the third award on EDAMBA (European Doctoral Programmes Association in Management and Business Administration) PhD Thesis Competition 2010. In 2012, she received an award for significant contribution to science awarded by the society of university teachers, scholars, and other scientists in Zagreb for the paper published in Economic Review. Also she received the award "Mijo Mirkovic" for published scientific work (chapter "Stewardship Theory" in "Corporate Governance," editor: Tipurić, D., Zagreb, 2008) awarded by the Faculty of Economics and Business, University of Zagreb in 2008. Najla Podrug teaches the following courses: strategic management (undergraduate level course), international management, business strategy and corporate governance (graduate level courses), and management in international environment and coaching (postgraduate level course). Professor Podrug wrote two books in 2013. *International Management* was written with Zijada Rahimić, and *Sources of Competitive Advantage in XXI Century* was written together with Ivona Vrdoljak Raguž and Lara Jelenc. Najla Podrug was one of the editors of book *Rethinking Corporate Governance* published by Pearson in 2014. In 2013, Najla Podrug, PhD, was one of the editors of the Proceedings of the

First International OFEL conference on corporate governance—Organizational, Financial, Ethical and Legal Aspects of Corporate Governance. She wrote more than 70 scientific papers in the field of international management, strategic management, and corporate governance. Professor Podrug participated in two scientific projects (Organization as a source of competitive advantage of Croatian companies" and "Corporate governance and competitiveness of Croatian corporations") financed by the Croatian Ministry of Science, Education and Sports. Najla Podrug, PhD, also participated in international project "Fostering Entrepreneurship in Higher Education—FoSentHE" (grant holder Professor Marina Dabić, PhD). She is a member of program committee for the International OFEL conference on corporate governance. Since 2014, Najla Podrug is a member of Editorial Board of European Journal of Economics and Management. She is a reviewer for many scientific journals and international conferences. Since 2005, she is secretary of doctoral program at the Faculty of Economics and Business, University of Zagreb. Najla Podrug was the keynote speaker at the Second International Scientific Conference on Economic and Social Development in 2013, and she was also guest professor at the Faculty of Economics, Belgrade University, and School of Economics and Business, University of Sarajevo. In 2013, Professor Podrug received Taiwan Research Visiting Scholar Grant from the Ministry of Education, Taiwan, and was guest professor of the MBA program at the Institute of Technology Management, National Tsing Hua University, Hsinchu.

Lara Jelenc is an assistant professor at the Faculty of Economics, University of Rijeka, Croatia. Her PhD degree is from the Faculty of Economics in Ljubljana, Slovenia. She was awarded a scholarship under the Junior Development Program in the USA (Program of the Bureau of Educational and Cultural Affairs of the U.S. Department of State) at the George Washington University, Washington, DC. She serves as editorial board of *Qlife*, a Croatian journal about science and art of leadership, runs a project at the University of Rijeka on potential of strategic thinking (Strategic Thinking Potential), and is a member of another project on strategic management (Corporate Strategy—the Current Future). She delivers classes in the courses (undergraduate, graduate, master's, and PhD levels) strategic management, quality management, management, market research, and promotion. She is teaching at the Faculty of Maritime and the Faculty of Medicine at the University of Rijeka. She finished training in executive coaching (The Practitioner Diploma in Executive Coaching by Academy of Executive Coaching), strategic thinking (Learning to Think Strategically and Exploring Strategic Thinking by the Sloan International), NLPt (Croatian-Austrian Training Center for NLPt), and for Lead Auditor ISO 9001:2008 (BVQI Croatia Ltd. Rijeka). She is serving as a consultant in HE (helping in creating strategy at the level of Faculty of Economics, strategy for the University of Rijeka, and strategy for the Ministry of Science of the Republic of Croatia) and NGO sector (founded and runs NGO, lecturing for University of the Third Age, University of Rijeka) and volunteers in local community positions (board member of Festival Opatija, City of Opatija, the Committee for Budget and Finances, and the editorial board of the newspaper "List Opatija" and a member of local community council of Belvedere of city of Opatija). She is currently serving as a member of the Rector's Committee for creating suggestions for advancement criteria in the Republic of Croatia. Jelenc participated in TEMPUS project (2005), ERASMUS (2011), and CEEPUS (Slovakia 2013) exchange programs. She is an ERASMUS coordinator for Polish universities within the Faculty of Economics, University of Rijeka, and a member of the Academy of Management, Strategic Management Society, USA, and Community of Croatia and Society for Organizational Learning Croatia. She cocreated and is the current manager of the second generation of MBA "Business Performance Management" postgraduate program at the Faculty of Economics, University of Rijeka. She performed a role of quality manager (quality manager for ISO 9001:2008) and currently serves as a member of Quality Committee of Faculty of Economics, University of Rijeka. She published a book (*Sources of Competitive Advantage in XXI Century*), a number of conference papers, and journal contributions. She is teaching by using case-study methodology (Harvard Business School case-study workshop, wrote a chapter on case-study based on classroom experience with students, published several case studies), service learning methodology (promoting methodology within the University of Rijeka by web platform, video, and manual based on 7 years of experience in implementing methodology), and hybrid e-learning (scholarship for developing e-learning within the University of Rijeka). She is interested in strategic thinking and its development among managers and entrepreneurs.

About the Authors

Ivona Milić Beran is a senior assistant at the Maritime Department, University of Dubrovnik, Croatia, where she has worked since 2003. Her primary teaching responsibilities and interests are in the areas of quantitative methods and statistics. She currently teaches graduate and undergraduate courses in mathematics and statistics. Her major research interests are system dynamics, quantitative methods, statistics, mathematics, decision making, and computer simulation. She has authored or coauthored several scientific papers and three book chapters. She has published articles in academic and professional journals and also participated as researcher at national scientific and professional projects. She presented her work on several conferences at home and abroad. She is a member of Croatian Operational Research Society and also a member of System Dynamics Society.

Arabella Mocciaro Li Destri is an associate professor of business economics and management at the University of Palermo, Italy. She has been a visiting scholar at the Sloan School of Management, Massachusetts Institute of Technology in Boston; visiting professor of Business Policy at the IAE Business School in Buenos Aires, Argentina; and visiting research scholar at the Tuck School of Business at Dartmouth. In 2015, she will be a visiting associate professor at the Tuck School of

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Gandolfo Dominici is an associate professor of Marketing at the Dep. SEAS of the Polytechnic School of the University of Palermo, Italy, where he is chair of marketing since 2004. He is the scientific director and cofounder of the Business Systems Laboratory, Italy. He is a member of the Directors Board of the World Organisation of Systems and Cybernetics (WOSC) and aboard member of the Consorzio Universitario di Economia Industriale e Manageriale (CUEIM). He is author of more than 55 published articles and books. He is editor in chief of the International Journal of Markets and Business Systems, of the International Journal of Electronic Marketing and Retailing, and of the International Journal of Digital Culture and Electronic Tourism. He is a member of the editorial board of 13 international peer-reviewed journals. He has been a keynote speaker and board member in a number of international conferences. His main research interests are marketing, e-marketing, sustainability, CSR, new product development, systems thinking, and organizational cybernetics.

Želimir Dulčić is a full-time professor at the Faculty of Economics, University of Split, Croatia. He is currently a module leader for the courses at the undergraduate, graduate, and postgraduate levels, such as enterprise organization, business organization, strategic analysis, strategic management, strategic hotel management, corporate management, corporate strategies, and business ethics. He has coauthored seven books. He has written and published over a hundred of categorized scientific papers and more than 50 professional papers. He has participated in the creation of 30 scientific research studies, professional studies, investment programs, and commercial projects. He has actively participated in the work of 80 national and international scientific conferences, seminars, symposiums, conferences, and conventions. More than 200 graduate, final, and master's theses, as well as seven doctoral theses, have been defended under his mentorship. Within the special programs of scientific training, he has spent some time abroad, namely, Italy (Bologna, Venice), the USA (Washington, New York), and Great Britain (Stoke-on-Trent, Glasgow). He is currently the head of the Department for Management and the head of the joint postgraduate (doctoral) studies organized as a cooperation between the Faculty of Economics in Split and the Faculty of Economics at the University of Mostar (Bosnia and Herzegovina).

Davor Filipović is an assistant professor at the Faculty of Economics and Business, University of Zagreb, Croatia. After finishing four semesters at Fairleigh Dickinson University, he graduated at the Faculty of Economics, University of

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Valentina Ivančić is a young researcher at the Faculty of Economics, University of Rijeka, Croatia, where in 2010 she enrolled in the PhD study in the field of business economy. Additionally, she holds seminar classes on subjects strategic management, quality management, market research, and promotion. She has published in the area of strategy implementation, product and firm differentiation, corporate social responsibility, and quality management. As a part of her doctoral thesis, she runs a research on factors affecting strategy implementation success. The research contribution will be in the preparation of an integrated model of strategy implementation which should enable managers of all hierarchical levels to improve their knowledge and contribute in the process of strategy implementation.

Zorica Krželj-Čolović is an assistant at the Department of Economics and Business Economics, University of Dubrovnik, Croatia, where she has been teaching since 2003. Her primary teaching responsibilities and interests are in the areas of management, leadership, human resources, management of small business, and entrepreneurship. Her major research interest is in the area of management of small business. She has authored or coauthored several scientific papers. She has published articles in academic and professional journals. She has been an active presenter at several international scientific conferences. She has been a member of the organizing committee of Third Regional Meeting & International Scientific Conference of Management Departments and Dubrovnik International Economic Meeting (DIEM) in 2015.

Marko Kuveždić is a PhD student at the Faculty of Economics and Business, University of Zagreb, Croatia. He took his master's degree in analysis and business planning at the Faculty of Economics and Business, University of Zagreb. He is employed as an analyst in Investment Banking in Zagrebačka banka, part of UniCredit group. His area of interest is strategic management, international management, and finance.

Gabriella Levanti is an assistant professor of business economics and management in the Department of Economics, Management and Statistics at the University of Palermo, Italy. She received her PhD in Management from the University of

Catania, Italy. She has been a visiting scholar at the IESE Business School, Spain. Her research interests include the processes of knowledge transfer, sharing, and cocreation in interorganizational networks, the structural dynamics of interorganizational networks, the role of leadership in interorganizational networks, and the role of the incubation process for the success of research spin-offs.

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Contents

Past and Future: Neostrategic Management

Lara Jelenc and Ivona Vrdoljak Raguž

Abstract By providing the extended history of strategic management discipline, we offer an insight for the future development. Apart from classical tracks within strategic management, new directions—forming neostrategic management—are trying to find synergy with complementary disciplines like entrepreneurship, cognitive and social psychology, spiritual and religion movements, sociology, and anthropology. We suggest an additional role of consultants in strategic management—an emerging profession of neostrategic knowledge broker, as a bridge serving as the translator of research results by helping practitioners to utilize the scientific insights in everyday business environment.

1 Introduction

Strategic management established itself as the stable discipline and found a niche in the management literature. As strategic management has the role of helping managers how to lead the firms in the future, this chapter has the task to offer a review of the past and the future of strategic management discipline itself. The extensive history offers insights explaining factors that contributed the popularity and importance of strategic management. The historical development brought the need of consultants and their contribution in teaching and training practitioners before business schools did. Since that time, a large amount of knowledge has been created, and it needs to find a way toward practitioners. We propose the additional function of consultants in order to develop strategic management in the future. We conclude this chapter by presenting the current tracks within the strategic management which are interdisciplinary approached by exploring remaining *black boxes* of strategic management.

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2 Strategic Management Development

Due to the multidisciplinary area like strategic management, there are many various influences that gave direction and defined the scope of this discipline. Two generic sources (Cummings, 1993, p. 133) of strategy development were the biological route that acknowledged that natural competition has been around forever, following the principles of Darwin's selection, and the second route which is the traditional heritage of military analogy.

Bruce D. Henderson was one of the loudest voices who supported the idea of biological origin of the strategy vividly explaining Professor Gause's principle of competitive exclusion (Henderson, 1989, p. 189). According to this experiment, no two species can coexist that make their living in the identical way. Henderson used this experiment as the metaphor for competitiveness of the firms in the marketplace. Only the fittest adopt, survive, and prosper until they displace their competitors or outgrow their resources (Henderson, 1989, p. 140). Strategy in that context is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. In this research, business strategist can use their imagination and ability to reason logically to accelerate the effects of competition and the rate of change. In his words, the strategy requires the ability to understand the complex web of natural competition defining the management of natural competition, and that is how it compresses time (Henderson, 1989, p. 140).

One of the critiques of this approach (Cummings, 1993, p. 133) argues that strategy is a process that occurred which is the very antithesis of the evolutionary concept of chance and necessity, and strategy implies that a rational choice has been made. This is the argument why he proposes the second route of strategy—military tradition.

The source of military strategy roots can be found in the books *The Art of War* by Sun Tzu, old Greek, Foch and *On War* by von Clausewitz (1976). Looking closely, both of them have the same root—fighting for survival, led either by nature or by human brain. The ultimate goal was survival, which human beings started to excellerate to higher level of luxury, well-being, and fulfillment of greedy and egoistic individual needs.

Initially, *strategos* referred to a role (a general in command of an army). The word is a compound from *stratos* (army or encamped army spread out over ground) and *agein* (to lead), the art of leading an army (Cummings, 1993, p. 133). Historically, the title was coined in conjunction with the democratic reforms of Kleisthenes (508/507 B.C.), who developed a new sociopolitical structure in Athens. He instituted ten tribal divisions which acted as both military and political subunits of the district of Athens. At the head of each tribe was elected a strategos. Collectively, the ten incumbent strategoi formed the Athenian war council (Cummings, 1993, p. 133). Later it came to mean "the art of the general," which is to say the psychological and behavioral skills with which he occupied the role. By the time of Pericles (450 B.C.), it came to mean managerial skill (administration, leadership, oration, power). And by Alexander's time (330 B.C.), it referred to the skill of employing forces to overcome opposition and to create a unified system of global governance (Mintzberg & Quinn, 1992, p. 4). Strategos was invented at a point where winning sides relied no longer on heroic individuals, but rather on coordination of many units of men each fighting in close formation. The term strategy is more defined by Frontinus in the first half century A.D. as "*. . .*everything achieved by a commander, be it characterized by foresight advantage, enterprise, or resolution" (Frontius & Strategems I, cited in Cummings, 1993, p. 134).

2.1 Foundations of Strategy in Business

The first economist-mathematicians using the rules of war in economy are von Neumann and Morgenstern in the work *Game Theory and Economic Behavior* (1944). The Industrial Revolution helped the thought of modern management to develop, especially in the works of Stuart, Smith, Watt, Owen, Arkwright, and others. The principles of specialization, control, personnel policies, standard operating procedures, scientific management, and planning were laid down largely as mechanistic procedures. In the early twentieth century, writers such as Fayol, Church, Sheldon, and Brech brought mechanistic approach to embrace the integration of specialized activities within the organization. American contributions of Taylor, Gilbreths, Halsey, and Towns consolidated this science of management in explaining internal organizational activities (McKiernan, 1997, p. 791).

Chester Irving Barnard, as both practitioner and theorist, expressed his ideas only in the form of two books and few articles, but presented management issues as the combination of science of organization and the art of organizing. He was aware of the importance of system view of the organization and emphasized the importance of communication in the formal and informal organization. His ideas contained the seed of two different trends of organizational theory that were to dominate for the next three decades: institutional theory represented by Philip Selznick (1957) and decision-making school represented by Herbert Simon (1947). In his most famous book, *The Functions of the Executive* (1938), he summarized three functions of the executive: the establishment and maintenance of the system of communication, the securing of the essential services from individuals, and the formulation of the organizational purpose and objectives. When discussing about business decisions that are actually not based upon economic motives, *This is something that business men seldom admit, and of which they are frequently unaware. Prestige, competitive reputation, social philosophy, social standing, philanthropic interests, combativeness, love of intrigue, dislike of friction, technical interest, Napoleonic dreams, love of accomplishing useful things, desire for regard of employees, love of publicity, fear of publicity—a long catalogue of non-economic motives actually condition the management of business, and nothing but the balance sheet keeps these non-economic motives from running wild* (Barnard, 1962, pp. 14–15).

Simon, as he called himself monomaniac (Simon, 2001, p. 501), always wished to understand decision-making and problem-solving processes in individuals, organizations, and the economy as a whole. He used different methods and viewed stands from economics, political science, psychology, computer science, administrative theory, public administration, cognitive science, and philosophy to understand decision-making. He coined across *bounded rationality* as an important element in actual organizational behavior, by stating that bounded rational agents experience limits in formulating and solving complex problems and in processing (receiving, storing, retrieving, transmitting) information (Williamson, p. 533 cited in Simon, 2001). He criticizes Fayol's platitude and Taylor's "economic man" assumptions, proposing the "administrative man" who pursues his self-interests but often does not know what they are, is aware of only some of the possible decision alternatives, and is willing to settle for an adequate solution than continue looking for an optimal one (Simon, 1997, p. 45). In *Administrative Behavior* (Simon, 1997, p. 46), he defines the top which makes "what" decisions and the bottom "how" decisions. Each goal in the means-end hierarchy is an end to things below it and a mean to those above it. Activities can only be evaluated against the goals above it. Goals can be delegated to different units which simplify the decision-making process for participants. One more thing worth mentioning in the field of administrative behavior is *satisfying*—a behavior which attempts to achieve at least some minimum level of a particular variable, but which does not strive to achieve its maximum possible value, while a priority is attached to the attainment of other goals.

Chandler, unorthodox business historian, was particularly influential in shaping the business and economic historians' intellectual agenda (John, 1997, p. 160). Chandler (1977, p. 2) claims that in many sectors of the economy, the visible hand of management replaced what Adam Smith referred to as invisible hand of market forces. The market remained the generator of demand for goods and services, but modern business enterprise took over the functions of coordinating flows of goods through existing processes of production and distribution and of allocating funds and personnel for future production and distribution. In this way, the rise of modern business enterprise brought with it managerial capitalism. The modern, multiunit enterprise, by its very act of administrative coordination, brings imperfect competition and misallocation of resources (Chandler, 1977, p. 4). This multiunit business enterprise grew in size and diversity, and the management of such enterprise administrated by salaried managers replaced the small traditional family firm. The ownership of the firms and management of the firm are separated. Modern enterprise was the institutional response to the rapid pace of technological innovation and increasing consumer demand in the United States during the second half of the nineteenth century (Chandler, 1977, p. 12). Chandler's work is characterized by the maxim "strategy precedes structure" which became a byword of corporate management. The second contribution was explicit behavior model: those businesses which, like other organizations, are governed by inertia. They change the overall direction (which Chandler calls their "strategy") only when forced by competitive pressures, to do so, and the change in strategy is likely to be successful only if accompanied by decisive change in organizational culture. According to

Chandler, strategy is “the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals,” while structure is “the design of organization through which the enterprise is administrated” (Chandler, 1962, pp. 13–14). *Strategy and Structure* was a book for business manager—a book that explained the sea to the fish who swam within it.

2.2 Business Policy and Strategic Management Era

In the academic year 1911–1912, the Harvard Business School starts offering a course in Business Policy lecturing Arch Shaw. The purpose was to develop an approach to business problems from the top management point of view. At Shaw’s urging, this course and others used the case method of instruction in a manner similar to that developed at the Harvard Law School. Business policy soon became the core course of the curriculum at the Harvard Business School, and the case method is the primary method of teaching. Societies, journals, university training, and specialized consultants were flourishing by the 1920. Even then they were still uniquely American and did not appear in any strength in other economics until after World War II (Chandler, 1977, pp. 467–468). By attending and participating at the same meetings, by reading and writing for the same journals, and by having attended the same type of college courses, these managers began to have a common outlook as well as common interests and concerns (Chandler, 1977, p. 468). One of the most influential textbooks is *Policy Formulation and Administration—A Casebook of Senior Management Problems in Business* written by Christensen, Berg, Salter, and Stevenson first edited in 1951 as well as the Newman’ textbook *Administrative action* from the same year. The two reports in 1959 (Gordon & Howell, 1959; Pierson, 1959) encouraged the application of academic research to business problems. Speaking directly to the matter of undergraduate business education, Gordon and Howell (1959) recommended that the capstone of the core curriculum should be a course in business policy. The objective of this course was to give students an opportunity to combine what they learned in separate business fields and to utilize this knowledge in analyzing complex business problems. Similarly, authors noted the “obvious” need for an integrating case course in business policy on the graduate/masters business education (Kesner, 2005, p. 672).

In 1960s, the most eminent works are in the form of books: *Business Policy: Text and Cases* (1965/1966) textbook written by Learned, Christensen, Andrews, and Guth, *Corporate Strategy* (1965) written by Ansoff, and *Strategy and Structure* (1962) written by Chandler. These seminal works provide the foundation for the field for strategic management. They advanced the domain of strategy beyond the traditional focus of merely a capstone course about functional integration.

During the 1950s and 1960s, the focus of the course during this period was still oriented toward integration (of other disciplines) and culmination (of a multiyear academic program). The course was rarely seen as having a unique discipline separate and apart from traditional functional areas (Kesner, 2005, p. 672). Throughout the 1970s and early 1980s, the field evolved and matured quickly. More emphasis was placed on strategy as a differentiated discipline, separate and apart from the other functional areas. This, in turn, led to the emergence of doctoral programs in strategic management—a key step in developing faculty members uniquely trained to teach and conduct research in the area.

The examining committees of the American Assembly of Collegiate Schools of Business (AACSB) linked the accreditation process, specifically *standard E* called for a course which emphasized the "study of administrative processes under conditions of uncertainty, including integrative analysis and policy determination at the overall management level". Although not explicitly identified a "business policy" or "strategic management" course, it ultimately had the effect of motivating school administrators to include one or more courses in their core curriculum for undergraduate business majors (Unterman, 1979 cited by Kesner, 2005, p. 672). Survey results from the early 1980s revealed that 96 % of 198 schools surveyed required business policy in their AACSB—accredited undergraduate programs (Eldredge and Galloway, 1983 by Kesner, 2005, p. 672).

As a child of the 1960s, strategic management had roots in the efforts of early policy scholars to develop means of cross-disciplinary integration for the purposes of performance and increased efficiencies (Rumelt, Schender, & Teece, 1995). The field has traversed four areas in its development during the past century, each with a distinctive paradigm built upon the one before. Strategic management thought began with the "policy-making" era in the early part of the century, then moved to a more proactive "policy and planning" approach after World War II, then to the "initial strategy" era of complex organizations operating over large geographic areas and serving a multitude of markets with numerous products, and finally to the current era of "strategic management" which deals with organizational performance and growth and the systems and strategies used to achieve such growth (Schendel & Hofer, 1979; Summer et al., 1990 cited by Meyer, Neck, & Meeks, 2006, p. 26).

At the beginning of the field, a very active stream of research related to strategic planning. Planning was seen as crucial to coordinate the disparate activities within firms and to fix activities to the needs of the environment. Certainly, for some time the field was perceived as strategic planning, not strategic management (Michael, Storey, & Thomas, 2002, p. 48). The field starts to be known as the strategic management incorporating content from strategic planning and business policy. The new emphasis on strategy brought changes (Newman & Logan, 1976, p. v): more stress on anticipating change in the business environment, more need to be responsive to adverse pressures, and deeper search for new combinations of activities that generate synergistic benefits.

As the research of strategy has articulated and developed in diverse directions, Bourgeois (1980) articulated the distinction between strategy process and strategy content. He suggested that strategy process represents a unique domain that addresses the question of "how" strategy is enacted, in contrast to strategy content that addresses the question of "what strategy" (Dess & Lumpkin, 2005, p. 3).

Recognized variations between researched questions became separate directions which developed their own distinctive constructs and paradigm among themselves. Although it was regarded as the sign of the matureness of the field, it came to the moment where more and more researches realized that the development of separate directions does not imply development of the field. Rather, it contributes to the development of the self-fulfilling scientific interest in the research.

Rajagopalan, Rasheed, and Datta (1993) note that "the absence of integrative models has resulted in process research remaining fragmented, characterized by limited theory building and empirical testing" (p. 350). Similarly, Pettigrew laments that "Strategic process research has been narrow in focus and its undoubted contribution has been obscured by the lack of explicit discourse about its analytical foundations" (Pettigrew, 1992, p. 5). Such a lack of integration, however, is viewed by many as a major strength and attraction of the strategic management field because its multidisciplinary nature draws on disciplines such as economics, sociology, behavioral sciences, marketing, finance, and so on. This certainly adds to the richness of both theories construction and research methodologies (Dess & Lumpkin, 2005, p. 3).

Apart from the traditional and formal ways of perceiving and performing strategy process, there are few alternative streams of direction that search for the more effective way of strategic management. Scholars in the field of strategic management have been too focused on their research topic that they neglected the strategist in the company dealing with everyday problems and difficulties. The two following alternative paths of strategy are just a few sources that strategist use when facing a complex unknown problem.

The most prominent journal in the field, *Strategic Management Journal*, is the representative of the best articles in the strategic management research society. One of its editors, Schendel (1995, p. 1), wrote that if our field is to continue its growth and develop important linkages between research and practice, as it must, then we need to improve our research and understand that relevance comes from rigor. Mintzberg (2005, p. 4) expressed his critique on these words that methodological rigor often comes on the way of relevance and people are too concerned about doing their research correctly that often fail to do it insightfully. *The Journal* is predominantly apart from the practice focusing more on the methodology and robustness and less on the creative ideas dealing with practice (Mintzberg, 2005, p. 4).

3 Developing Intermediating Role of Neostrategic Broker

The consultants have always been always the inspiration for strategy. Newman, according to Mintzberg's opinion (Mintzberg, 1990, p. 172), might be the real father of the concept of business strategy in academe. In his textbook dated in 1951, he tried to show the nature and importance of strategy, but confessed that the overall ideas originated in McKinsey consulting practice, more precisely in the McKinsey publication in 1932.

Consultants have filled the gap between the practitioners and the academia. Practitioners felt that the environment has changed and there were some new occurrences in their business and they asked for help. The academia replied with the scientific approach which was not helpful to day-to-day problems in the firms. Academia followed the principles of scientific rigor and methodology and slowly lost the rhythm with practitioners. Their languages start differentiating. Academia found the mission to get enrolled in the social sciences and catch up with the reputation and methodological correctness of natural sciences, and practitioners went on their way toward the development of the business models and contingency approach as they appeared. Consultants came as the leverage between the two of them while they started to suggest interesting business solutions which were far away from scientific rigor and were not according to scientific principles. They worked with the clients, and after following their problems, trends, environment, and competition, they offered a solution. After several years of giving solutions, they realized that firms were not so much different and that some common rules may apply.

This moment was crucial for BCG matrix, experience curve, McKinsey 7 S, and many other models which were business solutions for some of their clients generalized for other firms. Consultants knew how to present and market their ideas to the general management public and make their ideas popular in every day routine. The work of consultants became a very lucrative business, and after a while, bookshops are full of "quick and fix" recipes on how to become a successful manager in just 5 min or in 10 lessons.

Consultants became the bridge between the science which starts to act as the spectator in the business arena, making detail analysis and studies over the problems that happened in business. Ginsberg and Abrahamson (1991) specifically consider that consultants may play an important role, since they bring good problem-solving and coaching skills along with a more unprejudiced view of the environment.

After several decades of working on development of strategic management discipline, researches have produced a considerable amount of knowledge load that is useful for the management development and strategic managers in particular. At the same time, as the knowledge is loading in journals, conferences and academia practitioners have never been more lost facing disruptive changes and turnarounds of their business environment. Scientists serve as consultants and use the information from practitioners' platforms as the database for the research but rarely stay with the company while implementing a solution or model suggested by research.

On the other hand, the criteria for publishing in scientific journal is rising the standard for methodological rigor following numerous procedures for validity, reliability, and proficiency level of using statistical methods. If scientists have the goal of publishing in journal, they need to devote a lot of time and resource to meet continuously rising demands of publishing. A rigor has won over relevance.

The importance of the classical role of consultants in strategic management has never been greater in the times of underdeveloped discipline of strategic management. At the very beginning, they overtook the role of creating models, approaches, and theories in order to meet the practitioners' demand. The time seems to have changed. There is a need for consultants to change their role or for new agents to appear on the market. There is an evident desperate need for a knowledge broker (Meyer, 2010; Pielke, 2007) that would be able to serves as the translator of the scientific products of researchers and be able to adjust it to the needs of practitioners.

The role of, in this case, neostrategic knowledge broker would be to translate and make theories and results useful. The idea of emergent profession of knowledge broker (Meyer, 2010) is relatively new and still emerging. Recently, the US scientific contents introduced a criterion for evaluating scientific projects equal to intellectual merit-broader impact which is exactly the role of knowledge broker.

Additionally, neostrategic agent would have the role of a spokesman of practitioners defining challenges for scientist and demand for more research on specific topics. The bridge between science and practice should be created bidirectionally, providing more efficiency and efficacy in the research process. In this way, social science in the discipline of strategic management will better serve society and its development.

4 Out of the Classical Strategic Management Framework: Interdisciplinarity of Strategic Management or Directions of Neostrategic Management

As a result of reflecting on practice challenges, strategy started to divorce from strategic planning since the early 1990s and refocused on other fields: competition, strategic alliances, diversification, top management, governance, mergers and acquisitions, strategic decision-making, international strategy, strategic learning, etc.

The directions for furthering down development of strategic management were found in a disperse directions. The essence was in coming back to the essence of practice, process, and multilevel approach to strategy. The development of strategic management discipline is directed toward topics that are shared with other disciplines creating a combination of perspectives and views. We argue that the development of strategic management is in the combination with other domains and disciplines forming neostrategic management, refreshing the current views of classical tracks within the strategic management with the knowledge transformed from other disciplines. Until this current moment, the directions are recognized as the academic tracks on international conferences and scientific journals. These are:

- Strategy and entrepreneurship creating strategic entrepreneurship
- Strategy and spirituality creating spiritual management
- Strategy and cognitive psychology creating behavior strategy and cognition
- Practice turn in strategy (influence of ethnography, anthropology, sociology) creating strategy as practice

One of the well-accepted combinations of disciplines is strategic entrepreneurship. The article that set the scenery for strategic entrepreneurship was Ireland, Hitt, and Sirmon's (2003) articles in *Journal of Management* and *Strategic Entrepreneurship Journal*, which promote the idea of marrying strategy and entrepreneurship.

Spirituality and Religion found their place by theoretical advances or empirical evidence they can offer in management (Tischler, Biberman, & Altman, 2007). Journals like *Journal of Management*, *Spirituality & Religion* or *Journal of Spirituality, Leadership and Management* offer a place to explore energy level sources that are beyond human reasoning explaining parts of management still unexplored by rational reasoning and existing knowledge base.

Psychology plays an important role in explaining the nature of human being and its behavior as individual and as a group or organization. Special emphasis on cognition and social psychology contributes to strategy through approaches to studying managerial and organizational cognition like mental models, social construction, culture and cognition, emotions, intuition, etc.

Scholars reply to practitioners continuing demand for answers. As much as the trends of "practice turn" appeared in contemporary organization and social theory (Brown & Duguid, 2001; Orlikowski, 2002; Schatzki et al., 2000 cited in Whittington, 2002, p. 119), practice perspective has infiltrated strategizing and organizing too. The practice turn has been interpreted as appreciation of the skill by which people make with the resources they have in their everyday lives (De Certeau, 1984). There is a stronger focus in people than organizations, the routine as opposed to change, and situated activity rather than abstract processes. The intellectual orientation is Aristotelian, interested in the practical wisdom that gets things done as well as the detached truths of conventional science (Tsoukas and Cummings, 1997 cited in Whittington, 2003, p. 120).

Starting with Whittington's confession (Whittington, 2003, p. 124) about the lack of answers to simple practical practitioner's questions about strategy and organization, he urged for a turn in strategy research. The turn actually grew as much as the formal activity of the Strategic Management Society. Strategy research did take a *practice* turn (Chia, 2004) putting the activity-based form of inquiry (Hendry, 2000; Jazabkowski, 2003; Johnson, Melin, & Whittington, 2003; Whittington, 1996, 2002) into the focus of academic interest forming a *strategy as practice*, relatively new group of scholars trying to make closer connections between theory and practice.

The community of scholars applies a variety of different theoretical approaches, such as practice perspectives on organizations, sensemaking, discourse analysis, and script theory. They emphasize the linkage of strategic outcomes as an important component of their research as they ultimately need to be able to link the outcomes of (multiple) strategizing activities, events, and behaviors within the firm to more macro organizational, institutional and, possibly, even broader social contexts and outcomes. As a result, they are typically involved in in-depth qualitative research that enables to examine the inside of strategizing processes and marry the concern for both content and process and for both intentional and emergent activities and outcomes.

Recently, Whittington and Johnson proposed turning SAP research community into several directions (Whittington & Johnson, 2014): asking for more research on content strategy by exploring the role of the culture and national strategic management development (European engagement with practice) and the development of teaching of strategy. More specifically they urge to refocus on macro-institutional level developing international comparison of strategy practices, innovation, and change in strategy practice (institutional entrepreneurship) and critical examination of strategy practices (critical management studies).

5 Conclusion

Strategic management discipline has old roots and several decades of developing activities, finding itself in the stage of combining efforts and searching synergy with other disciplines in order to find ways of exploring *black boxes* of strategic management. We conclude that the existing knowledge needs to find a way to reach practitioners, by introducing neostrategic knowledge brokers. The channels of new knowledge are set by some classical and some new neostrategic management tracks that start to predominate strategic management research community.

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Structural Dynamics of Interfirm Knowledge Networks

Gabriella Levanti and Arabella Mocciaro Li Destri

Abstract In this chapter, we investigate the drivers of interfirm network structural dynamics and their influence on knowledge creation and diffusion processes that occur in such networks over time. Interfirm knowledge networks are complex webs of linkages connecting a variety of idiosyncratic firms within and across industries. Aimed to contribute to answer the recent calls for a more dynamic and multilevel view to understand network structures and processes, we leverage the complex network research to formulate a multilevel theoretical framework that clarifies the structural dynamics and knowledge creation and diffusion potential of interfirm networks.

1 Introduction

The chapter aims to scrutinize the drivers of interfirm network structural dynamics and their influence on knowledge creation and diffusion over time. Interfirm knowledge networks are complex webs of linkages connecting a variety of idiosyncratic firms within and across industries. By serving as conduits through which information, knowledge, and other resources flow and reputations are signaled (Owen-Smith & Powell, 2004; Poldony, 2001), they support cooperation in knowledge sharing and creation processes.

The growing interest in interfirm knowledge networks is mainly rooted in the strategic opportunities of knowledge exploration and exploitation that participating firms are able to recognize and capture (Gulati, Nohria, & Zaheer, 2000; Nooteboom, 2004; Paruchuri, 2010; Phelps, Heidl, & Wadhwa, 2012; Powell, Koput, & Smith-Doerr, 1996; Rothaermel & Hess, 2007; Schilling & Phelps, 2007; Whittington, Owen-Smith, & Powell, 2009). These opportunities have advanced management investigation to focus on network structure and processes and on how network structural characteristics influence the outcomes of the network as a whole and of the single participating firms.

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As known, the network perspective is mainly grounded in the tenets of social network analysis (Wasserman & Faust, 1994). Such studies have significantly contributed to move away from the mainstream economics-rooted individualist, atomistic behavioral assumptions, and explanations that consider individual decisions and exchange as independent, thereby leading to a more relational and contextual view, which fruitfully extends the boundaries of investigation to the intricate web of relationships in which firms are embedded (Gulati, 1999; Gulati et al., 2000). The network perspective has tendentially adopted a *static approach* that focuses primarily on how network structure affects network outcomes and networked firm performance (Rowley, Behrens, & Krackhardt, 2000; Schilling & Phelps, 2007). Network structure has been typically considered as *exogenously determined*, and relatively few studies have paid attention to the drivers underlying its genesis and evolution (Ahuja, Soda, & Zaheer, 2012; Gulati, Sytch, & Tatarynowicz, 2012; Rosenkopf & Padula, 2008). However, the clarification of network structural dynamics is the key to enhance our understanding of network knowledge performance over time.

Furthermore, Phelps et al. (2012) have underscored that the influence of knowledge properties (such as tacitness and complexity) on the performance of network knowledge creation and diffusion, as well as on network structure configuration, is an underexplored topic. The scrutiny of the role of knowledge properties and the nature of interfirm ties through which different types of knowledge flow also seem relevant for the comprehension of network structure dynamics. Based on these initial indications, in this chapter, we focus on the following research question: what are the drivers underlying the dynamics of network structure and the consequent knowledge creation and diffusion potential of such networks?

In order to make the proposed contribution, the remainder of the chapter is organized as follows. Section 2 presents a concise review of the literature on the structural and relational characteristics of interfirm connections. Section 3 develops a theoretical framework that, focusing on both the structural and the relational characteristics of network connections, typifies two relatively distinct levels in the network structure: (a) the mesolevel and (b) the macrolevel of analysis. This section, drawing on studies that originate from complex network research, elucidates the models according to which the dynamics of the two levels of network structures unfold. Finally, conclusion proposes some concluding remarks.

2 Theoretical Background

Previous research on interfirm knowledge networks tends to scrutinize in a separate way the *structural* and the *relational characteristics* of network connections.

2.1 The Structural Characteristics of Interfirm Knowledge Networks

Studies on the structure of interfirm knowledge networks have mainly scrutinized two opposite structure typologies (i.e., sparse vs. dense) and their influence on knowledge network outcomes. Research on *dense network structures* shows how closure and density promote cohesion and social coordination (through mechanisms such as trust, mutual commitment, familiarity) that improve knowledge sharing and coproduction, as well as innovation adoption and implementation (Dyer & Nobeoka, 2000; Hagen & Choe, 1998; Reagans & McEvily, 2003). Whereas research on *sparse network structures* suggests that the presence of structural holes increases knowledge diversity, thereby fostering creativity and knowledge creation (Baum, Calabrese, & Silverman, 2000; Burt, 1992, 2004; Gargiulo & Benassi, 2000; McEvily & Zaheer, 1999). Studies emphasizing the benefits of both dense and sparse structures for knowledge and innovative network outcomes have found empirical support for their perspectives.

Some researchers try to reconcile these conflicting results by means of a contingency approach since it is unlikely that a specific network structure may be universally beneficial (Ahuja, 2000; Gilsing & Nooteboom, 2005; Hagedoorn & Duysters, 2002; Nooteboom, 2004; Phelps, 2010).

In a similar vein, an increasing number of scholars suggest that industry-level interfirm networks (Powell, White, Koput, & Owen-Smith, 2005; Rosenkopf & Padula, 2008; Rosenkopf & Schilling, 2007), or the main component of industry-level networks (Baum, Shipilov, & Rowley, 2003; Gulati et al., 2012), self-organize in a small world structure, i.e., a structure simultaneously characterized by the properties of high local clustering and high global connectivity (Newman, 2003; Watts & Strogatz, 1998). The small world network structure emerges from (a) the processes of activation of a multitude of local ties that culminate in densely connected clusters (Baum et al., 2003; Gulati et al., 2012) and (b) the processes of activation of a few bridging ties (Gulati et al., 2012; Rosenkopf & Padula, 2008) with firms located in different network clusters (i.e., semi-distant partners) or in the network's periphery and outside the network (i.e., distant partners). These bridging ties create shortcuts across network clusters that contribute to reduce the average path length of the interfirm network.

In particular, the property of high local clustering provides information and knowledge sharing capacity and knowledge cocreation capacity to network actors. High global connectivity (i.e., short average path lengths to a wide range of firms) entails the possibility to tap into an extended set of heterogeneous information and knowledge rapidly and with low distortion. Accordingly, the combination of local density and global efficiency ensured by small-worldliness enhances network knowledge and innovation performance (Schilling & Phelps, 2007).

2.2 *The Relational Characteristics of Interfirm Knowledge Networks*

Another stream of research in the network field concentrates on the role of tie strength in affecting the creation and diffusion of different knowledge types (such as, tacit vs. explicit, simple vs. complex, context-specific vs. general, and so on). This particular stream of research includes studies on firm ego networks (Capaldo, 2007; Mariotti & Delbridge, 2012; McEvily & Marcus, 2005; Tiwana, 2008), as well as on intraorganizational (Hansen, 1999, 2002), and interpersonal knowledge networks (Levin & Cross, 2004; McFadyen, Semadeni, & Cannella, 2009; Reagans & McEvily, 2003; Uzzi & Spiro, 2005).

These studies have identified the benefits and pitfalls that the activation of strong and weak relationships entails. In particular, the activation of *strong relationships* involves the establishment of a set of coordination and integration mechanisms that, on the one hand, support the processes of repeated interaction between actors that allow the accomplishment of specific knowledge goals (Nooteboom, 2004). On the other hand, they protect network actors from the risks associated with cooperative activities (Gulati, 1995; Gulati & Gargiulo, 1999; Gulati & Singh, 1998). These circumstances facilitate the sharing of complex and highly contextual knowledge (Dyer & Nobeoka, 2000; Hansen, 1999, 2002; McEvily & Marcus, 2005), as well as the cogeneration of new knowledge and capabilities (Dyer & Hatch, 2006; McEvily & Marcus, 2005; Tiwana, 2008).

At the same time, being embedded in strong ties may turn into a constraint over time due to high degrees of knowledge overlap among interacting firms (Nooteboom, 2004; Uzzi, 1997) and the enhanced conformity to established ideas and norms (Cattani & Ferriani, 2008; Stam & Elfring, 2008). In time, these conditions may produce inward-looking myopia (Dyer & Nobeoka, 2000; Levinthal & March, 1993), which limits the innovative capabilities of the firms involved in strong relationships (Ahuja, Polidoro, & Mitchell, 2009; Capaldo, 2007; Schilling & Phelps, 2007).

The activation of *weak ties* exposes firms to an extensive array of heterogeneous information, ideas, and simple and explicit knowledge originated in multiple domains. This situation spurs the generation of new business ideas (Burt, 2005; Powell et al., 2005; Uzzi & Spiro, 2005). In addition, weak ties support the process of identification of potentially valuable partners (Mariotti & Delbridge, 2012; Rosenkopf & Schleicher, 2008) by providing information about the quality (i.e., the value potentially associated with the sets of knowledge and capabilities) and trustworthiness of firms that operate in unrelated industries and technological domains and that are located in distant geographic areas (Whittington et al., 2009). On the other hand, weak ties limit effective action taking (Obstfeld, 2005; Uzzi, 1997), as they are frequently unable to support the mobilization of the knowledge and capabilities required to implement the new business ideas and the collaboration opportunities identified (Burt, 2004).

Accordingly, network actors need to simultaneously activate both types of ties in order to seize the different benefits they provide and deal with their pitfalls (Burt, 2005; Capaldo, 2007; Obstfeld, 2005; Uzzi, 1997).

3 The Dynamics of the Multilevel Network Structure

The literature referred to above shows the relevance of both relational and structural properties of network connections for the efficient and timely accomplishment of different knowledge processes. In order to simultaneously take into consideration the relational and structural characteristics of network connections, we single out two relatively distinct levels of analysis in the network connective structure:

1. The local level of dense clusters of firms connected through strong ties, which we indicate as the "mesolevel" (Baum et al., 2003; Giuliani & Bell, 2005; Gulati et al., 2012);
2. The global level of the overarching whole network connections that link firms through weak ties (Kilduff & Tsai, 2003; Provan, Fish, & Sydow, 2007), which we identify as the "macrolevel".

In particular, as the two distinct levels of network structures are characterized by different relational and structural properties, we posit that, on the one hand, each of them is able to provide an idiosyncratic contribution to network *knowledge processes and performance*. On the other hand, each level exhibits idiosyncratic *structural dynamics*.

In order to elucidate the structural dynamics of the two levels identified, we draw on the contributions that originate from complex network research (Amaral, Scala, Barthélémy, & Stanley, 2000; Barabási & Albert, 1999; Newman, 2003; Newman, Barabási, & Watts, 2006; Watts & Strogatz, 1998). These studies regard all networks (e.g., biological, social, technological, and so on) and explain the models according to which network structures evolve.

In particular, based on the scrutiny of large-scale real-world networks, complex network research underscores that all networks (or at least a significant part of all networks) evolve toward a small-world structure (Watts & Strogatz, 1998). Furthermore, the dynamics of formation and expansion of overall network structures may be limitless or limited by the emergence of constrains (Amaral et al., 2000; Dorogovtsev & Mendes, 2003; Newman, 2003; Newman et al., 2006). In the former case, the expansion of network size follows a *scale-free model*, characterized by a degree distribution with a tail that decays as a power law (Barabási & Albert, 1999). In detail, the progressive creation of new ties among extant or new network actors (resting on the logic of preferential attachment according to actor centrality degree) leads to the emergence and self-reproduction in time of a network structure that (independently from network size) is typified by a small but significant number of actors with a very high centrality degree.

On the other hand, the expansion of network size may be limited by the appearance of constraints due to the costs of creating new links associated with a limited capacity of the actors to manage an increasing number of network connections (Amaral et al., 2000). If the level of constraints limiting network expansion is small, the network follows a *truncated (or broad-scale) scale-free model*, characterized by a degree distribution that has a power law followed by a sharp cut-off. This situation leads to a network structure in which there are fewer extremely well-connected actors than would be expected if the tail of the degree distribution strictly has/had a scale-free regime.

If the constraints limiting network expansion are sufficiently high that power law disappears altogether, the network follows a *single-scale model* (Amaral et al., 2000), characterized by a degree distribution with a fast decaying tail. This circumstance leads to a network structure typified by lesser disparities and in-homogeneities among actors in the process of network development than in the scale-free network model.

To identify the specific models of structural dynamics displayed by the macrolevel and the mesolevel of analysis of interfirm knowledge networks, we draw on the relational and structural properties that characterize each of these levels.

3.1 The Structural Dynamics of the Mesolevel of Interfirm Knowledge Networks

The *mesolevel* of an interfirm knowledge network consists of strong and dense interfirm connections. These connections support the achievement of efficient and timely joint processes of exploitation of complex and context-specific knowledge and of capabilities (Hansen, 1999; McEvily & Marcus, 2005). Also, they support rapid and smooth processes of cogeneration of new knowledge and capabilities (Capaldo, 2007; Dyer & Nobeoka, 2000; Schilling & Phelps, 2007).

The activation and maintenance over time of strong and dense interfirm connections is costly and time consuming (Gulati & Singh, 1998; Mariotti & Delbridge, 2012). As a result, network firms face constraints in managing and sustaining an extensive number of strong and dense ties. This condition is known as network overload (Elfring & Hulsink, 2007). Concurrently, repeated interactions within network clusters lead to a decrease in the benefits associated with network collaboration, due to the progressive overlap of the sets of knowledge and capabilities pertaining to the firms embedded in these network clusters (Nooteboom, 2004; Rowley et al., 2000; Uzzi, 1997), leading to a reduction in the firms' innovative capabilities (Ahuja et al., 2009; Schilling & Phelps, 2007).

The increasing costs related to the high level of network overload at the mesolevel and the decreasing benefits related to recurring interactions within network clusters lead to a situation in which the costs of network collaboration begin to exceed the benefits. Accordingly, the expansion of the mesolevel of an interfirm knowledge network is limited. Taking advantage of the models of structural dynamics elaborated within complex network research, the aforementioned considerations allow us to propose that the mesolevel of an interfirm knowledge network exhibits a *single-scale network model* (Amaral et al., 2000; Dorogovtsev & Mendes, 2003; Newman, 2003).

3.2 The Structural Dynamics of the Macrolevel of Interfirm Knowledge Networks

The *macrolevel* of an interfirm knowledge network consists of weak and sparse interfirm ties that connect an extensive range of heterogeneous firms. This situation supports the accomplishment of efficient and timely processes of information dissemination, information brokerage, and transfer of explicit and simple knowledge (Burt, 1992; Gargiulo & Benassi, 2000; Hansen, 1999; Levin & Cross, 2004; McEvily & Zaheer, 1999; Reagans & McEvily, 2003; Tiwana, 2008).

The activation and maintenance in time of weak and sparse connections require low tie-specific investments (Williamson, 1985) and narrow efforts in terms of resources, commitment, and time. These circumstances make these ties flexible and relatively inexpensive vis-à-vis strong and dense ties (Hansen, 1999; McFadyen et al., 2009). As a result, network firms face limited constraints in managing and sustaining an extensive number of interfirm weak and sparse ties, and thus the network of these ties is characterized by low issues of network overload (Mariotti & Delbridge, 2012). On the other hand, the expansion of ties at the macrolevel of the interfirm network leads to an increase in the benefits associated to network participation owing to the enlargement of the variety of the information, ideas, and knowledge disseminated through this network.

The low level of costs related to the progressive increase in number of connections pertaining to the macrolevel of an interfirm network and the increasing benefits related to this progressive expansion originate a situation in which the costs tend to be lower than the benefits. Accordingly, the expansion of the macrolevel is not constrained by the achievement of a threshold beyond which the pitfalls surpass the advantages of network collaboration activities. These considerations allow us to propose that the macrolevel of an interfirm knowledge network self-organizes as a *small world structure*, following a *scale-free network* or a *truncated scale-free network model* (Amaral et al., 2000; Barabási & Albert, 1999; Dorogovtsev & Mendes, 2003; Newman, 2003).

4 Conclusion

The present study differs from previous research in three important ways. First, rather than the structure of a firm's ego network[1] (Kilduff & Tsai, 2003), we consider the structure of the *whole network*. While the lager part of extant research on interfirm *knowledge networks* explores how firm network positions and firm ego network structures influence the main firms' knowledge outcomes (Ahuja, 2000; Baum et al., 2000; McEvily & Zaheer, 1999), only a handful of recent studies emphasizes the role of the whole network structures. Focusing on the whole interfirm network, instead of taking an interfirm-level perspective, is critical to illustrate the structure of collective action and how network dynamics emerge and transform as interfirm interactions unfold, with ramifications for all the network actors (Powell et al., 2005).

Second, we consider both *structural and relational characteristics* of network connections. Previous research on interfirm knowledge networks has focused primarily on the effects of structural characteristics (i.e., density, clusterability, and connectivity) of whole network structures on knowledge outcomes (Baum et al., 2003; Gulati et al., 2012; Powell et al., 2005; Rosenkopf & Padula, 2008; Schilling & Phelps, 2007). Another stream of research in the network field concerns the role of tie strength in affecting the creation and diffusion of different knowledge types. Bridging the findings of the aforementioned studies, we examine how the consideration of *both* relational and structural properties of network ties influences structural dynamics of interfirm knowledge networks.

Finally, we propose a *multilevel framework* to explain the link between structural dynamics and network knowledge potentials. Early network inquiry has focused mainly on a single level of analysis (Rosenkopf & Padula, 2008; Schilling & Phelps, 2007). Recently an increasing number of scholars have underscored that a more satisfactory comprehension of network phenomena can be achieved only by advancing more dynamic and multilevel views (Gulati et al., 2012; Moliterno & Mahoney, 2011). The adoption of a multilevel approach allows us to better understand how global and local properties and dynamics of interfirm knowledge networks affect knowledge creation and diffusion in time.

In particular, relating the knowledge processes and structural dynamics with the relational and structural characteristics of the network connections, the essay underscores that the mesolevel of the interfirm network provides network firm support in the accomplishment of specific projects aimed to effectively and timely exploit existing knowledge sets as well as to cogenerate new knowledge within the network clusters. In addition, the mesolevel is typified by lesser disparities and heterogeneities among network firms in the process of interfirm connection

[1] Egocentric or organization-level theories are concerned with attempting to explain how the involvement of an organization (the ego-firm) in a network affects its actions and outcomes. Network-level theories scrutinize properties and features of the network as a whole and, ultimately, how collective outcomes may be generated (Provan et al., 2007).

development. At the same time, this development process is not limitless rather is constrained by network overload and by the decreasing benefits of recurring interactions. Accordingly, network firms need to carefully analyze and assess the costs and benefits generated by their strong and dense connections (Ozcan & Eisenhardt, 2009).

The macrolevel of the interfirm knowledge network spurs the generation of new business ideas and the identification of valuable collaboration opportunities. In so doing, it may deal with the inertial tendencies that characterize the mesolevel. The advantages provided by this level increase with the expansion of its connections that leads to an enlargement of the heterogeneity of the information, ideas, and explicit and simple knowledge that are diffused through it. The expansion of macrolevel connections is limitless (or typified by low constraints) and, on the other hand, is often characterized by the existence of a small but significant number of firms that are extremely well connected (i.e., hub firms). These hub firms leverage their prominence to affect the dynamics of formation of network ties at both the levels of the interfirm network (Burt, 2005; Gulati et al., 2012; Paruchuri, 2010). This situation allows hub firms to grasp more advantages from network participation than firms that reside in the networks' periphery (Aldrich & Kim, 2007).

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Strategic Networking in Hospitality Industry

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Abstract This chapter brings a new dimension to the analysis of strategic networking in the hospitality industry. The mechanism of strategic networking serves to improve the ability of hotel enterprises to offer competitive products. This chapter provides an overview of various forms of strategic networking in case of hotel enterprises to illustrate how some of its forms work in practice. The process of clustering in hotel enterprises, as a form of strategic networking, is also presented. The regional and national competitiveness of local companies in global business conditions increasingly depends on the ability to achieve mutual cooperation at the local level. Thus, the efficiency of clusters is used to measure the competitiveness of hotel enterprises. Strengthening of competition is an issue related to the entire economy, but given the specifics of hotel industry and the prevailing structure of small and medium hotel enterprises, clustering is suited to this sector. It is very important for the sector of small and medium hotel enterprises as it helps strengthen and preserve the market position of domestic product, improves the quality through facilitated market performance, and increases market recognition.

1 Introduction

Strategic networking must become an imperative in the hospitality industry, as is the case with other industries. In tourism and hospitality, strategic networking was used to achieve the following various functions of a hotel enterprise: marketing strategy; cooperation among hotel enterprises in a destination; obtaining resources, information and advice; and networking of activities between hotel enterprises and other entities within the network.

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Cooperation between hotel enterprises and other companies and organizations in tourism is closely connected to the destination development strategy. Strategic networking also helps individuals (owners, managers, other companies, organizations or groups of people) to associate with other similar or same entities. Such networking should allow them to exchange resources, ideas, conclusions and other activities which would yield better business results. In most of the literature and researches, authors believe that entrepreneurs aim at strategic networking activities to ensure competitive advantage, which means that networking offers a number of business advantages.

Due to the development of new technologies that directly affected the transformation of organizational structures and the way of doing business, the answer to this situation is found in strategic networking which is flexible, dynamic and efficient form of organizational structure. Therefore, the hospitality sector is marked by dramatic growth in networking activities and various forms of inter-organizational relations.

Since hotel enterprises do not have the capacity to provide an independent financing of innovative and development projects, they opt for strategic networking so as to deliver innovative products and services, obtain the necessary capital investment, accomplish credibility in the tourism market, etc. Hence, strategic networking in the hospitality provides hotel enterprises with a variety of opportunities for further growth and development. Strategic networking in the business development stage of hotel enterprises reduces the risk of failure and offers numerous advantages otherwise hardly achievable. So, hotel enterprises team up so as to obtain the necessary resources and implement certain activities required to meet the growing demands of a customer, where it should be noted that networking is not static, but dynamic, which means that the development of hotel enterprises leads to the development of strategic networking.

2 Literature Review

Strategic networking must become an imperative for all industries, including the hospitality. It seems that around the world more attention has long been attributed to the importance of strategic networking in tourism and hospitality (Augustin & Knowles, 2000; Chathoth & Olsen, 2003; Copp & Ivy, 2001; Lynch, 2000; Morrison, 2002; Pavlovich, 2003; Telfer, 2001). For Augustin and Knowles (2000), the cooperation between hotel enterprises and other businesses and organizations in tourism is closely connected to the destination development strategy. In his research on the level of cooperation between the wine industry and tourism in the Niagara Region, Telfier concluded that formal and informal cooperation and vertical and horizontal links exist between all sectors including agriculture, transport, etc.

According to Fombrun (1982), Davern (1997) and O'Donnell et al. (2001), the definition of strategic networking would be that it is a set of planned or unplanned relations between enterprises in order to accomplish business or social objectives.

In the hotel industry those would be relations between hotel enterprises and other economic and noneconomic entities. In most of the literature and researches, authors believe that entrepreneurs aim at strategic networking activities to ensure competitive advantage, which means that networking offers a number of business advantages. Jarillo (1993) and Castells (2005) believe that taking part in strategic networking allows the following: greater flexibility required to improve business opportunities, faster response to market demand and cooperation with other companies, i.e. with their forces and capabilities. When speaking about the strategic networking of small and medium enterprises, the literature provides various forms of cooperation between small and medium enterprises. One of the most important aspects of such which is particularly relevant for the hotel industry is clustering.

Strategic networking model was first mentioned in the 1980s of the last century when most researches confirmed that many companies used strategic networking to facilitate internationalization. The authors agreed that companies within the network would depend on the control of resources performed by other companies in the network, but such position also allowed them to use other resources.

By conducting numerous empirical researches, the authors have irrefutably proven that social and inter-organizational strategic networking enables the successful launch of business ventures and faster realization of competitive advantage by small and medium hotel enterprises (Birley, 1985; Butler & Hansen, 1991; Greve, 1995). Although there are many different researches in scientific literature that describe strategic networking, the concept of strategic networking and the clustering process of small and medium hotel enterprises with the same or similar business activities have hardly been explored in either theoretical, conceptual or methodological terms.

According to Nooteboom (1999), there are three kinds of linkages among enterprises: vertical, horizontal and diagonal. Vertical linkages refer to the exchange of goods and services between the suppliers and users within the value chain. By using shared resources of production and distribution, horizontal linkages will merge complementary and substitute goods, while diagonal linkages will merge various goods that can be complementary in terms of research, marketing and distribution.

Butler and Hansen (1991) identify three types of strategic networks: social network, business-focused network and inter-organizational strategic network. They suggest that in the initial stage of development of small and medium hotel enterprises the entrepreneur gets familiar with new business ideas, thanks to the social networks. The strategic business-focused networks then develop gradually and are influenced by the nature of entrepreneur's social networks. The inter-organizational strategic networks in the phase of business development not only reduce the risk of failure but also provide advantages to small and medium hotel enterprises which could not be achieved independently.

Hughes (1986) points out that the growth of hotel enterprises can easily be achieved through internal and external forms. Internal form, whereby a hotel enterprise retains its corporate identity and independence, is achieved by expanding the product range, by including the introduction of new goods and services, by increasing sales, etc. External form is realized through horizontal, vertical and diagonal forms, while these can also occur in internal form. Hughes further states that the horizontal form is realized between two hotel enterprises at the same production level, i.e. the delivery of services, where goods or services are the same or similar. The aforementioned Hughes' classification, set as a starting point, corresponds to the attitudes of the majority of cited authors, and it is widely accepted in literature covering this field.

According to Forde (2000), horizontal strategic networking provides greater opportunities for participation and inclusion of marginalized groups. It also contributes to better coordination of local programmes and policies.

The production type of business cooperation is a backward vertical strategic networking. According to Holloway (2006), vertical strategic networking is genuine and it moves within the framework of supply chain services in tourism. A forward vertical strategic networking (or downward, as Holloway calls it), actually, means networking between higher and lower levels in the chain, and an example of that is when a tour operator purchases a chain of travel agencies. A backward vertical strategic networking means the purchase of hotel enterprises or airlines by a tour operator who thus provides necessary elements for the "production" of package tours with airlines and hotel enterprises emerging as suppliers.

Diagonal strategic networking offers a number of benefits arising from the synergy in management, internal and external organization of interrelated activities (tourism and culture) where one activity can generate profits that will spill over to the weaker one. Cunill (2005) perceives diagonal strategic networking of hotel enterprises through the economy of competencies, so the cost reduction can be achieved through the strategic networking in the production of a range of goods and services. The author points out that the aforementioned economy of competencies differs from the economies of scale because it primarily depends on the assortment, while the economies of scale depend on the quantity of products, services and their combinations.

As for the diagonal strategic networking, some authors, like Rojo (1988), either put it on a par with or attribute to the conglomerate diversification. It is corroborated by the data stating that in the entire hotel industry diagonal strategic networking means establishing connections with economic entities which are not part of a tourist sector but belong to other industries.

Day and Wensley (1988) view the diagonal strategic networking with the economic entities through the acquisition of new benefits with simultaneous decline of the realized or existing advantages over competitors. They take into account the proportional advantages of superiority in resources and expertise which are used in business operations of hotel enterprises. The emphasis is put on professional competencies of employees that set their company apart from the competitors.

The research that Frey (2002) conducted in 2002 showed that 63.9 % of small and medium hotel enterprises in Switzerland formed strategic networks with other companies; 21.7 % were not a part of any network, but were ready to join, while only 14.3 % were not affiliated nor wanted to be in foreseeable future. The largest share of small and medium hotel enterprises was involved in horizontal strategic networking (90.4 %) at the national level (50.7 %), while a significant portion became a member of international networks (41.1 %). Small and medium hotel enterprises involved in this research mostly teamed up in the field of marketing (89.7 %), accommodation (43.3 %), procurement management (42.1 %) and technology (40.7 %).

3 Forms of Strategic Networking in Hotel Industry

Strategic networking in hotel industry is becoming one of the most important guidelines for the modern business operations of a hotel enterprise. The awareness of benefits arising from the cooperation and networking becomes a necessity for small and medium hotel enterprises if they want to maintain or achieve new competitive advantage so as to accomplish strategic goals.

Strategic networking prompts exchange of knowledge, skills and all kinds of resources between independent enterprises in the hotel industry and individual hotels with the aim to achieve common and individual goals. With these forms of cooperation, hotel enterprises can achieve much better results in strengthening their market position than through individual market performance. Hotel enterprises gain benefits such as cost reduction, lowering of prices, acquiring new technological knowledge and various skills (in design, production, marketing), etc.

The success of strategic networking depends on the reciprocal interrelation of members that were often competitors before networking. By defining the fields where they can achieve top results and by focusing their operations on them, they become partners, who depend on each other, and so the final product or service cannot be achieved without the skills and methods resulting from that partnership. Strategic networking helps members achieve a combined interest; all members committed their personal interest to that of networking. Such networking creates an effect of synergy by enhancing the competitive position of individual members.

Strategic networking ranges from formal joint ventures, in which two or more hotel enterprises have equal shares, to short-term contractual agreement where small and medium hotel enterprises accept the short-term cooperation for specific task (new product development, introduction of new services, penetrating new markets, etc.) and to long-term contractual agreements with new forms of strategic networking. Strategic networking of small and medium hotel enterprises with other companies or economic and noneconomic entities can take many forms—clusters, strategic partnerships, strategic alliances, entrepreneurial zones, virtual organizations and constellation-based partnerships (Morić Milovanović, 2013). Porter gave a framework for improvement of economic competitiveness of the local and national economy. His analysis states that local factors such as environmental protection and knowledge and motivational factors make an important contribution to the success of individual companies. He stresses the need for a stable political environment in which enterprises can effectively operate and produce goods according to market needs in a business environment with local suppliers, proper infrastructure, educational institutions and human resources. Clusters occupy central position in this process.

According to the Global Competitiveness Report 2011, Croatia occupies the 94th place out of 144 countries in terms of cluster development, and it is in the 110th place with regard to the value chain breadth which links suppliers to mass producers. In Croatia more than 500 companies have joined clusters that employ more than 25,000 people. Most of these clusters are in the production sector, but tourism and agriculture are also very well covered (Ministry of Entrepreneurship and Crafts, Croatia, 2013). In the hospitality industry, clusters mostly cover the domain of services and can be set off by natural features of the region where they operate. In the hotel industry, clusters are mostly informal and thus business relations are weaker and superficial. When these clusters meet economic crisis, they are stable and less sensitive to it. The effects of clustering on the hotel industry are positive and their presence is key to the appeal of a destination. In the hospitality industry, clusters can occur naturally, but functional analysis of the concentration of hotel enterprises proves that the form and development of clusters mostly depend on the initiatives taken by local companies and local governments associated with the existing natural resources and potentials (Dragusin, Constantin, & Petrescu, 2010). Concentration in a cluster is based on an integrated tourist offer which works on the principle of fusion of tourist attractions, physical and communication infrastructure, accommodation, transport, travel agencies, farmers and other accompanying services into one recognizable offer. Since vertical networking of enterprises in the hospitality industry, which usually includes the chains of travel agencies, small and medium hotel enterprises and airlines, is a frequent networking model, especially at the international level, their impact at that same level is crucial for the positioning of particular regions, i.e. destinations in terms of development in the tourism market.

The second model of networking involves “horizontal” connections between and within hotel enterprises (tourism and accompanying activities) in a cluster where each company manages dual goals of competitiveness and cooperation in business, which is the subject of common interest and business activities (e.g. joining forces in their demand to the government to obtain certain benefits or to avoid negative consequences of government activities). Such demands are associated with the abolishment of the visa regime, reduction in taxes (VAT), ensuring the status of exporters for the tourist sector, etc. This implies various interactions between different participants who determine the ability of a cluster in the hospitality industry to be competitive, to grow and develop and at the same time to be aware of the benefits. Other participants who are out of cluster should adapt their roles to the basics that determine the competitiveness of a cluster.

The hotel industry clusters are present in different geographic areas, starting from the city, i.e. local level (Business Tourism Cluster in Denmark; Hong Kong Cluster), then regional (Galapagos Cluster in Ecuador; Eastern Tourism Cluster in Great Britain) to the national level (Dragusin et al., 2010). The number of employees within the cluster in the hotel industry is highly variable: from 7,000 (Wales Tourism Cluster) to 153,000 employees (Amusement Tourism Nevada Cluster in the United States) and to 284,000 (London Cluster in Great Britain).

It is interesting to point out that several clusters, i.e. their members, arise from different industries, e.g. in the case of Wales and Northwest Cluster in Great Britain or Southwest Cluster also in Great Britain, their members stem from 15 different industries, including the hospitality. There is an evident development of tourism clusters in the developing countries, whereby a cluster represents a possibility of pooling various economic and noneconomic entities. The most important tourism cluster is established on the Cote d'Azur as a result of development of the agricultural cluster that sought market to sell surplus foods.

There are several 3-star to 1-star clusters in the hotel industry in developed countries, e.g. Italy has 12 recognized clusters, Spain has eight, Austria has six, France and Switzerland have four clusters each and Germany has two (www.clusterobservatory.eu/index.html. Accessed September 15, 2012). Most of them are just agglomerates that limited the networking among cluster members and they do business exclusively on formal basis.

The number of members in a cluster is important for its sustainable development in the hotel industry (Erkuş-Öztürk, 2011). In this respect, the development of enterprises in the hotel industry with the help of a cluster networking model accomplished through travel agencies and local farmers represents an important factor of their survival and enhancement of competitiveness. Cluster development is a regional response to the competition brought by globalization.

The organization of cluster management has been established in many industries in Croatia. Croatian Employer's Association founded the National Centre for Clusters which provides better financial, administrative, personnel and other requirements for a successful project implementation. Apart from this institution, National Competitiveness Council is in charge of the cluster work supervision and monitoring. There are several tourism clusters, but their members complain that much less is invested in them than in the rest of the economy. There is no institutional support to small and medium hotel enterprises because state institutions are focused on large hotels and privatization processes. Best known are the Zagreb and Slovenia (Redžepagić, 2006) tourism cluster (multinational), then the Dalmatian small and family hotel cluster and the Istrian tourism cluster. The Dalmatian tourism cluster was initially mostly financed by the USAID through the National Competitiveness Council, while Istrian was supported by the largest tour operators and privately owned hotels. Istrian clustering model shows an alternative approach, as opposed to the nationally recognized model of establishing clusters. The difference is that the coordination with central government is limited, the communication exists mainly at the regional and local level with maximum participation of investors and entrepreneurs from Istria. This shows the weak national policy regarding the development of this tourist destination, and it also points to the importance of capital as a prerequisite for the clustering process while also showing a very wide communication at all levels.

One of the market's most recognizable and most common forms of long-term strategic networking in modern business is strategic partnership. The strategic partnership is a formal agreement between two or more parties that commit themselves to share finances, skills, information and/or other resources with the purpose of achieving common goals (Morić Milovanović, 2013). The aforementioned shows that strategic partnerships in hotel industry allow hotel enterprises to improve their core competencies in cooperation with companies or tourism entities that have complementary skills. Against that background, in order to have effective strategic partnerships in balance and fulfil the originally set goals, they have to possess the combination of the following elements (Brock, 2004):

– Risk distribution—each partner bears the risk in partnership (no disproportionate share of the risk within the partnership).
– Resource distribution—appropriate level of resources is invested by each partner, be it about capital, human resources, knowledge, technology, etc.
– Prize distribution—each partner is equally entitled to prizes and they work together to achieve mutual success.
– Common vision—partners share a common view on the strategy, goals and results of strategic partnership.
– Common values—partners share common values and culture that form the background of their relationship. Due to the common background, partners can solve problems, which ultimately lead to further strengthening and consolidation of relationship.

In the hotel industry strategic partnership is considered to be a tool to increase sales (travel agencies), a tool of growth in market share and a tool of growth of small and medium hotel industries. In order to make it possible to build a long-term and effective relationship in which all interested parties would be satisfied (Wallace, 2004), it is necessary to examine the elements such as trust among partners, definition of the mission and goals of hotel enterprises, definition of the hotel product, self-evaluation, definition of boundaries, legal aspects, exit strategy, etc.

Strategic partnerships in hospitality industry are a key element in different business strategies. No hotel company can do everything independently, especially in case of turbulent tourism market. This is why strategic partnerships in the hotel industry established between hotel enterprises and other business entities related to the service sector are becoming an important means for providing better solutions and achieving greater value for guests, better access to new tourism markets and development of knowledge, skills and hotel enterprises as a whole.

For hotel enterprises the most important advantage of joining the strategic partnership is the possibility of business competition which would not be possible if acting independently. Due to the lack of capital, small and even medium hotel enterprises cannot enter the emitting markets alone and thus join the strategic partnerships with travel agencies that bring them guests.

Tourist market opportunities arise from the uncertainty, inconsistency, wrong timing, lagging behind or leading in the tourism market development and technological development and inertia. In the attempt to conquer the market, it is often necessary to add facilities to the hotel enterprise, and the easiest way to accomplish this is through strategic networking.

One example of strategic partnership in the Croatian hotel industry is TUI AG, the largest global travel agency that is in a strategic partnership with Karisma

Hotels Adriatic (KHA). Its worldwide success is confirmed by its presence in 180 countries, 30 million visitors per year, leading position in over 30 of the world tourism markets and airline management with fleet of 141 aircraft (http://www.dalmacijanews.com). In June 2013 Karisma Hotels Adriatic bought the hotel enterprise Koločep at a public auction for 36.4 million kunas. It has 150 rooms and in the second phase of the project 70 accommodation units are planned to be added. This is how this hotel enterprise formed the strategic partnership with other service companies (http://www.dubrovniknet.hr; Accessed August 8, 2013). KHA will change its name to Kalamota Island Resort and improve its star rating to 4+.

Strategic alliances represent coalitions of enterprises created with the aim of achieving strategic business goals (Tipurić & Markulin, 2002). Strategic alliances differ from other forms of strategic networking because they are created to accomplish long-term objectives and plans of enterprises and because they are focused on improving the competitive position in the national and international market (Clarke-Hill, Robinson, & Bailey, 1998).

In strategic alliances, enterprises pool their technological and financial resources to accomplish common business goals without merger. From the strategic point of view, strategic alliances are cooperative agreements between current and future competitors in the market. The extent of links and cooperative activity is limited by detailed contractual relations.

For most enterprises strategic alliances proved to be effective in accelerating development, entering new markets, increasing productivity and reducing the investment risk (Morić Milovanović, 2013). Strategic alliances also contributed to greater productivity, efficiency and quality, while at the same time they reduced the pressure regarding the time required for market positioning and for the profit realization. In strategic alliances, with joint cooperation, both sides wish to gain certain advantages, such as access to new geographic markets and resources, sharing the costs or risks and exchange of technology.

One of four basic classifications of strategic alliances is functional alliance. Functional alliance integrates certain basic functions between two sides to achieve specific goals and to establish a functional managerial relation. Functional alliances are usually used to continue or enhance research and development projects, to share the costs, to provide geographic access to the market and in general to improve distribution or sales activities. According to the aforementioned characteristics, functional alliance best corresponds to strategic alliances in the hotel industry, particularly in large hotel enterprises, i.e. international hotel chains.

In domestic and foreign tourism market, strategic alliances in the hotel industry are limited. With the strategy to enter tourism markets by means of strategic alliances, hotel chains such as Holiday Inn and Hilton Hotels have been developed, and their relationship is based on franchise agreement, joint marketing activities and management contracts.

In the hotel industry for many years, strategic alliances have primarily been focused on franchise contracts. In the hospitality industry around the world, there are many examples of franchise agreements signed between the accommodation facilities and restaurants, while in Croatia that number is very small. Holiday Inn, Best Western, Quality Inn, Sofitel, Hyatt, Cendant, McDonalds and Burger King are just a few examples of strategic alliances established to expand the business in domestic and international markets (Chathoth & Olsen, 2003).

The development of strategic alliances in the hospitality industry includes contractual agreements between hotels and restaurants, e.g. between Hilton Hotels and restaurants Trader Vic's, Benihana, Ruth's Chris Steak House and Damon's; Four Seasons with Dice Ristorante; and Holiday Inn with Damon's, Denny's, Ruth's Chris Steak House, TGI Friday, etc. (Chathoth & Olsen, 2003). Hotels and restaurants are joining strategic alliances to become financially sustainable. Restaurants thereby help hotels have positive financial indicators and vice versa. Joining into strategic alliances shows that enterprises specialized for particular product and service segments in the hospitality industry will lead to sharing of the resources and skills to reduce the risk exposure.

Strategic alliances are formed between hotel equipment suppliers and hotels. An example of this is a strategic alliance between Marriott and AT&T and Marriott and interior designer and furniture manufacturer Steelcase Inc. The result of this strategic alliance is equipping the rooms with furniture and ergonomic workstations, design and office chairs, two-level desks that allow more working space and space for equipment, two sockets and a PC modem connection on top of the desk and lights that cover the entire desk. This type of room provided hotels with additional revenue of 15–20$ per room (Barker, 1995).

The future successful enterprises in the hospitality will sell their products and services together with their partners in strategic alliances. Examples that demonstrate the development through strategic alliances are The Leading Hotels of the World and Relais & Chateaux that share marketing activities and technology. These hotel enterprises "work together on marketing activities, linking their own Web sites, Internet portals create and share mutually the necessary data" (Cline, 2000).

4 Clustering of Hotel Enterprises

The term cluster is adapted to specific features of the tourism industry whose product is established at the destination through the joint activities of hotel enterprises and other entities related to the tourism product. Regional and national competitiveness of local enterprises in global business conditions increasingly depends on the ability to cooperate at the local level. So, the competitiveness of one destination compared to the other is increasingly measured by the efficiency of its clusters.

Most widely accepted is Porter's concept of clusters. His analysis is mainly focused on traditional activities, but there are references to the tourism industry (Porter, 1998): "In a typical tourism cluster the quality of visitor's experience not only depends on the appeal of primary attractions (beaches and historic sites), but also on the quality and effectiveness of complementary sectors such as hotels, restaurants, commercial distributors, and transport capacities. That is why cluster members are interdependent; good performances of one can enhance the success of the others". For Porter clusters comprise mutually connected enterprises and suitable suppliers, as well as a number of institutions, including universities, branch organizations and agencies.

There are no standardized clustering models. Initiation, organization and implementation of tourism clusters in developed and developing European countries are quite different due to different levels of economic development and social capital.

Strengthening of competition is an issue of the EU economy in general, but because of the specific features of the hospitality industry and also because of a large number of participants in the supply chain and a prevailing structure of small and medium hotel enterprises, clustering is increasingly implemented in this sector. It is evident that hotel enterprises represent an ideal framework for clustering. The basic business model in the hospitality industry, achieved by means of clusters, means connecting the economy of small enterprises to ensure the competitiveness in the market. In order to implement and achieve this, there must be a catalyst, an enterprise acting as "cluster leader".

Clusters in hotel industry imply the interaction between various contributors, including the competing companies belonging to different or similar sectors, such as the following: accommodation, transport, travel agencies and tour operators, various suppliers, tourist attractions, noneconomic organizations (banks, insurance companies, etc.) and educational and state institutions. Interaction refers to the connection between hotel enterprises, their suppliers and tourists. This is the "vertical model" of networking that will result in partnership based on the exchange of information, joint business and confidence as a very important element.

Concentration in a cluster is based on an *integrated tourist offer* which functions on the principle of *fusion* into one recognizable offer of tourist attractions, physical and communication infrastructure, accommodation, transport, travel agencies, farmers and other accompanying services. Since vertical networking of hotel enterprises, which usually involves the chains of travel agencies and airlines, is a common networking model, especially at the international level, their effect at the same level is crucial for the positioning of separate regions (developing destinations) in the tourist market.

Switzerland, Austria and Germany stand out as countries with highly developed business cooperation in the form of clusters between hotel enterprises. Although clusters are mostly associated with small and to a smaller extent with medium hotel enterprises, there are a few large hotel enterprises joined in clusters. In case of large hotel enterprises, the most common form of strategic networking is strategic partnership, while for international hotel chains it is strategic alliance, especially when clustering with airlines and tour operators. For example, one of the major international hotel chains is "The Leading Hotels of the World", and it is the most prestigious group of horizontally connected individual hotel enterprises. The association was founded in 1928 and was named "Luxury Hotels". It was the result of cooperation of several European hoteliers. The key elements of success are the policy of outstanding selection (almost all are five-star hotels) and efficient real-time booking system (Rispoli & Tamma, 1995).

Few large hotel enterprises are horizontally involved in clusters, with their competitors at the national level, and most often they make use of clusters in the field of marketing, procurement management and information and communication technology. The French “Accor Group”, whose main activity is hospitality industry, has developed complementary activities by associating with tour operators, travel agencies and companies from other sectors. They also vertically merged into a cluster with rent-a-car companies and airlines. In 1999 a hotel company “Sol Melia” from Spain signed a contract with the Moroccan government to join the project that covered the hotel industry development, the promotion of achievements in tourist infrastructure and incomes and educational programmes for human resources in the hospitality industry.

In the newer regions of Europe, with the rise of new destinations, clusters have received the best confirmation by integrating hotel enterprises and other entities in Russia (Pyatigorsk and Kislovodsk area) and Armenia where Armenian Hotel Association joined into the cluster with the Association of Restaurateurs, Union of Tour Operators, Association of Tour Guides, Airlines and Private Sector (CAPS, Tourism Survey, 2006).

The Sultanahmet cluster in the area of Istanbul is well known in Turkey. This is one of the oldest tourist centres in Turkey, and the purpose of the cluster was to improve and restore the position of Istanbul whose share in Turkey’s tourism was in decline. Since visitors of this cluster come mainly from the EU countries, large hotel enterprises, tour operators, travel agencies, airlines, bus companies and ship companies increased their shares in this area, and the cluster sought to facilitate interaction with the EU by participating in the EU programmes (The Competitiveness Institute, 2000).

Apart from the horizontal networking of large hotel enterprises in clusters, there are numerous examples of vertical networking. Thus, in Pescara, Italy, there is a cluster “Amici del Turista A.T.” whose membership is open for hotel and restaurant enterprises. The activities of this cluster are booking, helping guests who stay in hotel enterprises, promotional activities, participating in fairs and workshops in Europe and designing of package holidays for beach tourism, cultural tourism and event tourism.

Business cooperation with local business entities within the cluster is considered to be indispensable for the development of tourism activities. Therefore, small and medium hotel enterprises form clusters with local industry to implement joint programmes more easily. In this case there is partial overlapping of services provided by cluster members whose dominant activity is not tourism and hospitality, and their success depends on the ability to accept part of the responsibility brought to them by particular business cooperation within the cluster.

Since hotel industry involves a number of accompanying activities that generally originate from different sectors, from this arises the question of the approach to the classification of these activities within the cluster even though they partially participate in cluster operations, while their main activity belongs to another branch.

Clusters are very important for the sectors of small and medium hotel enterprises for strengthening their market position of domestic product and its preservation on the market, for quality improvement through facilitated market performance and for the increase of market recognition. It is therefore important for these hotel enterprises to strengthen their competitiveness by strengthening the cooperation in the region and by means of these clusters offer various and interesting tourist products. An example of horizontal cluster is a business cooperation of two small hotel enterprises, “More” from Dubrovnik and “San Rocco” from Brtonigla in Istria.

Record number of tourist inflow was generated in 2012. The area of the Northwest Istria cluster concluded last year with the 4 % growth in overnight stays. Namely, the total of overnight stays was 3,843,114 which meant 150,000 more overnight stays than in 2011. The number of tourists who stayed in the region increased, so there were 659,281 tourist arrivals, i.e. 3 % more than the previous year. Guests mainly came from Slovenia (Juričić, 2013). All this resulted in increased competitiveness of the destination and of small and medium hotel enterprises that are members of this cluster. This Northwest Istria cluster has done the most in terms of gourmet products that make it quite recognizable because of good restaurants, wineries and olive grove itineraries enriched with the offer of small and medium hotel enterprises and rural holiday houses.

Medium hotel enterprises Istraturist and Laguna from Novigrad, which clustered in 2013, plan to invest a significant amount of money to improve services and appearance of their capacities. Investment will comprise further raising the quality of the camp, Park Umag, renewal of accommodation and improvement of services in the Sol Umag Hotel. It will also cover other projects that will improve the tourism infrastructure, such as beaches, tennis centres and football fields.

Modern organization and easier emergence in the tourism market, with the aim of more efficient business activities of small and medium hotel enterprises, are the basis of a cluster in which a whole range of business entities operating in the hotel industry will gladly participate. However, the development of cluster is a relatively complex process, especially for small and medium hotel enterprises because it requires the cooperation of the representatives of government, small and medium hotel enterprises, local authorities, unions, financial institutions, educational institutions and many other companies related to tourism and hotel industry. In case of small and medium hotel enterprises, the predominant forms of clusters are regional, horizontal and vertical.

Surely it can be said that small and medium hotel enterprises may gain various benefits by joining the clusters (Morić Milovanović, 2013). This may include the increased accommodation occupancy, i.e. extended season for small and medium hotel enterprises; increased employment, especially of the young; innovation; strengthening of expertise and know-how; improving the quality of current services and products within small and medium hotel enterprises; increased productivity; better use of potential of small and medium hotel enterprises; etc.

5 Conclusion

Strategic networking is necessary in modern business practices in hotel enterprises. Strategic forms of networking enable small and medium hotel enterprises to expand the business cooperation, to have better access to resources and to increase the flexibility, speed and quality of business. On the other hand, it allows the pooling of various business activities that were previously separated and also enables the networking of compatible and formally independent hotel enterprises, suppliers, consumers and even competitors connected by modern information and communication technologies with the purpose of achieving common objectives by sharing skills, costs, competencies and market. When joining the clusters, apart from connecting the value chains of enterprises in the same or similar sector, there is also linking of small and medium hotel enterprises with providers of financial and consulting services. Such clusters expand their networks even to the university level and research institutes in the region. That cooperation allows for increased intellectual and technological capital of small and medium hotel enterprises in the cluster. By adding and creating the value through joint cooperation, they all become stakeholders of the final joint product or service.

Clusters in hotel industry have a significant impact on their members, including the access to local suppliers, farmers and economic and noneconomic entities important for the tourism industry. For hotel enterprises joining the cluster leads to the cost reduction, support of public and local institutions, foreign investments, setting up new businesses, employment, innovation, competitiveness and strengthening of regional cooperation. Clusters in hotel industry can create the majority of opportunities for the development of regions or areas in which they operate, thus accelerating the technological development and growth due to the synergic effects. Hotel enterprises, as integral parts of the cluster, have numerous business benefits: faster and easier access to market information, the possibility for easier and more cost-efficient acquisition of specialized inputs and technical support, the possibility to participate jointly in large orders, enabled strengthening of market development and lower promotional costs, the use of group transportation to minimize transport costs and cost sharing for ISO certification.

Strategic partnerships in the hotel industry have grown at an extremely high rate in the last 20 years. Hotel enterprises rather join strategic partnerships for easier new market penetration and increased market share than act independently. Successful small and medium hotel enterprises will turn their business strategies towards strategic partnerships as a source of competitive advantages. Strategic partnerships record a steady growth in the hotel and all other industries. However, it must be emphasized that resources, brought by synergic effects from strategic partnerships, when combined, become sources of competitive advantages for small and medium hotel enterprises. Not all resources in the strategic partnership will have the synergic effects, so by combining some of them, hotel enterprises will gain competitive disadvantages. Hence, hotel enterprises must efficiently consider the prosperity of a future strategic partner. Notwithstanding some drawbacks, the synergic effects that result from the combined resources should be superior to the individual potential of hotel enterprises and their competitors.

Strategic alliances in hospitality industry recorded a remarkable growth. Hotel enterprises use strategic alliances for easier domestic and foreign tourist market penetration. Future business strategies of hotel enterprises will almost certainly be focused on networking into strategic alliances as sources of competitive advantage. The first step for a hotel enterprise is to recognize that none is able to operate individually and to be competitive in the market without pooling with other business entities with which it usually cooperates regardless of networking. Hotel enterprises joined in strategic alliances will have the possibility for more efficient return on invested capital funds. By sharing their own resources, they will provide synergic effects that will positively affect future business operations.

Hotel industry clusters break down the boundaries between hotels and other enterprises, associations, institutions, competent authorities and ordinary people. They focus on strengthening the economic basis, such as infrastructure, workforce development and social capital. Hospitality industry clusters allow for innovation, achieving high business standards, and they increase the competitiveness of hotel enterprises in the tourist market.

In terms of their size, large hotel enterprises do not join strategic clusters in a large number, as is the case with small and medium hotel enterprises. Several European countries are leading in clustering among large hotel enterprises and their clustering with other tourist, economic and noneconomic entities, although also in small numbers. Large hotel enterprises, with regard to the capacity of their offer, can become a part of strategic alliances, i.e. partnership associations bound by a contract and not of a cluster whose members joined it through the word of mouth because a cluster is a voluntary organization that does not have to be based on a contract. This is why few large hotel enterprises join clusters.

Small and medium hotel enterprises tend to associate in clusters because of their size and flexibility enabled by the size. By means of clustering, small and medium hotel enterprises stimulate growth and development of their business, boost the creation of new jobs, encourage innovations and competitiveness and strengthen the interregional cooperation. The aforementioned example of a cluster shows that clusters increase the number of overnight stays and incomes for small and medium hotel enterprises, which also contributes to their competitiveness in the tourism market. The problem of Croatian small and medium hotel enterprises is that only the Istria County recognized the importance of clustering in order to continue with their business and survive in the tourism market. All other counties in Croatia have not sufficiently recognized the importance of clustering even though things have begun to move forward in this matter. On the whole, small and medium hotel enterprises, as compared to the large ones, tend to join strategic clusters. Large hotel enterprises are mainly associated in strategic alliances and strategic partnerships because of their size and the possibility to adapt since clusters may be established without contracts which can be a problem for large hotel enterprises. Large hotel enterprises prevail in international hotel chains that are significantly different from clusters.

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The Foundations of Strategic Thinking: Effectual, Strategic, and Causal Reasoning

John Pisapia, Lara Jelenc, and Annie Mick

"The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking."
—Albert Einstein

Abstract In this chapter, we dissect the differences between strategic planning and strategic thinking and suggest that traditional methods of planning no longer yield the benefits as in the past. Our analysis lays this failure on the use of a causal reasoning logic that alone no longer benefits organizations. Then we also examine foundational beliefs underpinning strategic thinking by examining the connections among the logic of entrepreneurial, causal, and strategic reasoning. In this analysis we distinguish two binary forms of thinking—causal and effectual—to frame our discussion, and then in the Hegelian tradition we press on to form a higher category of transcendent reconciliation through dialectic synthesis to introduce strategic reasoning. We end by picturing how strategic thinking concepts can form a new organizational change model that supersedes traditional planning. We call this model the strategic thinking protocol, which incorporates the logics of yesterday, today, and tomorrow.

1 Introduction

There is clear agreement that the idea of strategic planning is good. After all, who doesn't want to see the future, find new possibilities and recognize threats that facilitate or hinder our search for success, and then establish and seek to position the organization in terms of its environment through a series of cascading goals and objectives? While change is also seen as inevitable; success is not. Unfortunately, it has been estimated that between 70 % and 90 % of all change efforts fail (Axelrod,

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Axelrod, Jacobs, & Beedon, 2006; Covey, 2004; Sirkin et al., 2005). Although change is unavoidable, planned change does not appear to be the answer.

The reason strategic planning works less well today is due to its most important feature of a heavy reliance on rational and linear assumptions of cause and effect about events. When this type of thinking is applied to complex adaptive systems with dynamic networks acting in parallel and reacting to what other entities are doing, organizational control is threatened (Holland, 1995).

2 The Difference Between Strategic Planning and Strategic Thinking

Strategic planning represents yesterday's logic. It's a process that inventories, sorts, analyzes and assesses substantial amounts of data. It relies on causality, linearity, and rationality. One of the results is a strategic plan which many times display hierarchies of goals that cascade throughout the organization all tied to the central plan. This reliance may result in narrowing vision, creating a rigidity of the process, destruction of commitment, increase of politics, shortened tenure of lead administrators, and the process itself becoming more important than the results. Such consequences lead to an inability to predict the future in times of complexity. While the process worked well in the pre-digital world where the future could be predicted, it works less well in today's more dynamic environments.

Strategic thinking represents today's logic. Clearly the planning world embraces strategic thinking even though it's a hazy concept to scholars as well as practitioners. Strategic thinking requires the ability to analyze influencing factors inside and outside the organization to discover strategic direction that should guide the organization's decision-making and resource allocation for a period of 3–5 years. Bonn (2001), Graetz (2002), Liedtka (1998), and Mintzberg (1994) are among many who draw a clear distinction between the systematic nature of pre-identified strategies called strategic planning and the more integrated perspective of strategic thinking.

Mintzberg (1994), for example, noted that thinking strategically is distinct from conventional conceptions of thinking and planning. The hallmark of traditional strategic planning is an analysis which requires logic, reasoning, linear and rational thinking. It involves being able to manipulate words and numbers. Strategic thinking, on the other hand, places a premium on synthesis and integration and requires the ability to examine new possibilities dealing with large chunks of information and the ability to pull pieces together into a big picture. It involves being able to recognize patterns and visual images. In strategic thinking, not only are the data sources different but the analysis of the data is different than strategic planning. Heracleous (2003, p. 44) suggests that strategic thinking can be described as a form of double-loop learning where existing assumptions and action alternatives are challenged, whereas strategic planning can be seen as a form of single-loop learning involving thinking and acting within a certain set of assumptions.

Our perspective is that strategic thinking is concerned with identifying variation in the organization's environment, extracting meaning through synthesis which guides development of an organization's aspiration, core values, and priorities. This perspective mutes the impediment to creative thinking, which is a perceived deficiency of traditional planning models.

In Table 1, we use Liedtka's (1998) framework and Pisapia's (2009) key elements as categories to describe how strategic thinking differs from strategic planning.

Table 1 The differences between strategic thinking and strategic planning

Dimensions	Strategic planning	Strategic thinking
Vision of the future	The future is predictable and can be specified in detail	Only the shape of the future can be predicted. Direction is more important than a detailed plan
Logic	Causal reasoning and analysis are hallmarks • Deductive • Quantitative	Strategic reasoning, synthesis, and integration are hallmarks • Inductive and deductive • Quantitative and qualitative
Strategy making	Strategy and change are separated Focuses on competitive positioning	Strategy and change linked Process of convergence, emergence, and cocreation Focuses on recognizing threats and finding opportunities
Process and outcomes	Creating plan is the ultimate objective Problem solving	Process is as important as plan Solution finding rather than problem solving Capacity to work in structured group processes
Control	Asserts control through measurement	Relies on self-management of sense of strategic intent embedded in minds of all members to guide their choices
Internal change model	Control—creates a push organization	Social, cognitive, political, and cultural—creates a pull organization
Strategic change	Vertically forced	Changes mindsets to take advantage of opportunities or cope with threats
Information needed	Data driven	Data and narrative driven
Value proposition	Not strong—uses measurement to control and coordinate activity What ends up on paper is important	Strong—uses values to control and coordinate activity What ends up in minds of people is important
Strategic listening	Moderate—listens to data and reports not new ideas	Strong—listens to stakeholders and innovators of industry
Strategic conversations	Discussion oriented	Dialogue oriented
Specifications	Maximum specifications	Minimum specifications
Strategic fitness	Fits to external environment	Fits to external and internal environment
Change initiatives	Large stand-alone initiatives	Small initiatives which build on each other—chunking

Source: Authors based on the work of Liedtka (1998) and Pisapia (2009)

Our review of the extant literature leads us to believe that the benefits of using a strategic thinking approach to planning outweigh the costs of time and resources required (Bonn, 2001, 2005; Graetz, 2002; Heracleous, 2003; Jelenc, 2008; Liedtka, 1998; Pisapia, 2009; Sloan, 2014). First of all, strategic thinking offers an integrated perspective of the organization which is needed for strategic decision-making processes. Strategic thinking promotes effective organizational change, particularly where members are proactive rather than passive. Thus, it results in creating a sense of cohesion to a group and organizational identity. Furthermore, a self-reference point in the mind of participants leads to self-managed employees and resulting in enhanced organizational learning. In the long run it helps change the mental models of leaders throughout the organization, thus facilitating the plan's execution and accelerating organizational and individual learning. From a leadership perspective it is more oriented toward recognition of the interdependencies of organizational units and less need for hierarchical control. In summary, strategic thinking suggests that clarification of values, aspiration, and later strategies creates an integrated perspective of mission and how to accomplish it. It is proposed that the ultimate result of strategic thinking is higher degrees of sustained performance.

3 The Positioning of Strategic Reasoning

Strategic reasoning, the foundation of strategic thinking, is formed from a synthesis of causal and effectual reasoning. We first identify two binary styles of thinking—causal and effectual—to frame our discussion of the types of reasoning that underlie strategic thinking. Then in the Hegelian tradition, we press on to form a higher category of transcendent reconciliation through dialectic synthesis to introduce strategic reasoning.

According to Sarasvathy (2001), causal thinking "rests on a logic of prediction" and effectuation on "logic of control (p. 243)." When we use causation strategies, we believe the future can be predicted and we can aim to hit a desired target. This type of reasoning is used extensively in strategic planning. Effectual thinking is different. Effectual thinkers believe, to an extent, that they can control the future. Causal leaders first predict an ideal solution and then assemble resources to implement it. Effectual leaders assess their resources at hand and then use them to shape and create a solution. Thus, those that employ effectual reasoning are, opposed to the general notion, more control oriented, while they create the future in which they will produce results. Causal thinking is concerned about planning, predicting, and preparing for the future with a more passive stand and less probable producing results in the future.

Sarasvathy also shares statements that illustrate the difference in the two styles. A causal thinker would say, "To the extent that we can predict the future, we can control it" (Sarasvathy, 2001). An effectual thinker would say, "To the extent that we can control the future, we do not need to predict it" (Sarasvathy, 2001). Her definition of effectuation further illustrates the difference between these two thinking styles. Effectuation, she says, is a set of strategies "that are primarily means-driven, where goals emerge as a consequence of stakeholder acquisition rather than vice versa" (Sarasvathy & Saras, 2004, p. 524; Sarasvathy, 2001). In effectual reasoning, since the shape of the future is always changing, contingencies are exploited as they arise. The focus is on affordable loss *in an effort to* maximize gain instead of focusing on the expected return itself (Sarasvathy, 2001).

Consider the case of *Chocolate Tears*, an organic chocolate company in its third year of operation. In the past the company has always bought local television advertising but this year found out that there has been a significant price increase. Can you differentiate between the casual and effectual styles in the two scenarios presented?

Scenario 1

The CEO decides that continuing television advertising in the form of commercials as has been done for the previous three years is a great goal because sales increased as television ad increased. She decides to sit down with her management team and look at the existing budget. The team identifies areas where the budget can be stretched thin in order to channel funds to the television ad campaign.

Scenario 2

The CEO tells her management team that with the increase of DVRs and ways to rent television and movies digitally, people may not even be watching the commercials with the same frequency. She tells her team that maybe it is time to look at the means and find different, more effective outcomes so that the company can avoid paying the high cost for the advertising. One executive says that his favorite talk show host highlights companies that send gift baskets. Another executive says television stars support companies that send volunteers for their favorite causes and recognize these companies on television. Yet another executive says she always sees products highlighted in magazines that are available in print and online. Upon due consideration, the CEO decides to send chocolate treats to television show hosts and high-profile magazines and assemble a team to coordinate volunteer hours at causes and campaigns, hoping, in turn, to receive free advertising, on television or in print, which can replace the current television ads.

If you thought the first scenario described causal thinking, you were correct. There is a set goal based on increases in profit and their share in the existing market. The team focuses on the budget as the instrument of influencing television advertising to increase profit and market share. In the second scenario, effectual thinking was highlighted. There is no set goal. Many outcomes can result by the unique combination of means. Contingencies are exploited to create new opportunities, showing response to change in a fluid manner. The company realizes that they may create a new market by implementing new approaches.

Sarasvathy (2001), the developer and champion of effectual thinking, takes a rather Hegelian view when she says that it is important for people to recognize the differences between causal and effectual reasoning but that one style is not better than the other. They are different and their strengths and weaknesses vary depending on the context. Actually, the more competent the entrepreneur, the more skillful he/she is in selecting the mode of reasoning to use in specific context

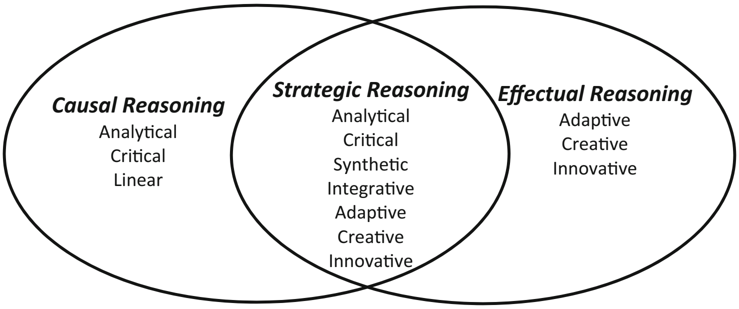

Fig. 1 The genesis of strategic reasoning. *Source*: Authors

(Sarasvathy, 2008). Through experience, knowledge and intuition develop by switching, balancing, and combining effectual and causal thinking. We call this type of switching, balancing, and combining skill strategic reasoning.

The heart of strategic reasoning is that it can be thought of as "seeing ahead and behind, seeing above and below, seeing beside and beyond, and seeing it through" (Mintzberg, 1994, p. 247). Hence, strategic reasoning merges causal and effectual thinking styles. As seen on Fig. 1, strategic thinkers use a synthetic/integrative logic, incorporating the skills of critical and creative thinking simultaneously. Whereas causation strategists think of ways to achieve a set goal by manipulating means, the effectual strategies think of ways to use existing means to reach multiple goals; strategic thinking takes all possibilities into account. The formulation and implementation of strategic thinking is constantly integrative and adjusting to the context. It is also interactive, taking input from all stakeholders. The organization does not set a concrete goal but instead propels the organization forward with a guiding mission and vision. While doing so, the shape of the future is visible, but goals and priorities are flexible. Strategic thinkers find ways to share and excel in the existing market but are open to new opportunities that arise. That means they adapt strategy and implementation on an ongoing basis instead of waiting until the end for evaluation.

The more frequent use of causal strategies can be tied to a management mindset and effectual thinking to the entrepreneurial mindset. Strategic reasoning rests in the middle of causal and effectual thinking and draws from both and provides the foundation for strategic thinker. This strategic reasoning mindset is illustrated in a third scenario from *Chocolate Tears*.

Scenario 3

The CEO decides that continuing television advertising in the form of commercials as has been done for the previous three year is a great goal because sales increased as television ad increased. She directs her finance manager to look at the existing budget and find ways to conserve money in case it is needed to pay for the advertising. The CEO then takes the suggestions of his team members to try new avenues. She appoints each team member for one alternative idea scenario providing each with a small amount of funds and arranges a new meeting in a month with the goal of feedback on actions, learning, and results. If the new ideas result in free advertising or even a different style of advertising, the *money put on reserve could be saved. If the ideas don't work out, the money conserved from the budget could be used to invest in the advertising. The CEO is open to different possibilities and will adapt and change the organization's approach as needed.*

Using the descriptions in previous paragraphs, we constructed Table 2 to provide a synopsis of the differences between causal, strategic, and effectual reasoning.

As seen in Table 2, strategic reasoning, which is formed from a synthesis of causal and effectual reasoning, is the foundation that strategic thinking rests on.

Table 2 The differences among causal, strategic, and effectual reasoning

	Causal reasoning	Strategic reasoning	Effectual reasoning
Environment	Predictive world	Predictive and non-predictive worlds	Non-predictive world
Ideas on the future	Attempts to predict the future	Attempts to find the future	Attempts to control the future by creating it
Vision of the future	Analyzes market to determine possible opportunities	Opens to possibility that direction may change	Analyzes means and resources to determine which opportunities to pursue
Way of thinking	Analytical and critical thinking	Strategic (i.e., analytical, critical, synthetic, creative, and effectual)	Effectual, creative, and innovative thinking
Approach to strategy formulation and implementation	Focuses on gathering means to create desired effect. Sticks to predetermined plan	Integrative, interactive, adapting, and adjusting to environmental forces and opportunities	Risk-taking and innovation. Proactively focused on the possibilities current means allow
Strategy process	Evaluates predetermined strategy and implementation	Adapts strategy and implementation as needed and sees doing this successfully as more important than evaluation	Identifies and uses contingencies Pays close attention to timing
Managerial role in strategy making	Uses strategic planning to manage means and guides organization toward preselected results Advantage seeking	Interprets internal and external influencing factors and establishes an aspiration to guide decision-making and resource allocation Managers at all levels are empowered to respond opportunistically to developing conditions	Manager changes and creates goals continuously based on contingencies Alerts to new opportunities that match the means available Opportunity seeking
Managerial role	Predicts what will happen next, target individuals who can help them	Navigates by focusing on their identity, knowledge, and relationships	Pursues ideas and pushes through reality to create new opportunities
Guiding question	What *should* I do?	What *can* I do and *change* I do it?	What can I do?

(continued)

Table 2 (continued)

	Causal reasoning	Strategic reasoning	Effectual reasoning
Outcome	Shares in existing market Outcomes are fixed	Shares in existing markets or creating new markets based on opportunities that arise	Creates new market Outcomes are not fixed or limited
Ideas on profit/loss	Focuses on defined strategies to maximize returns	Focuses on both maximizing returns and affordable loss	Focuses on affordable loss. Focuses on creating more options and opportunities in the future over returns
Ideas on competition	Focuses on analyzing competition in red ocean	Focuses on both analyzing competition, finding blue oceans, and creating strategic alliances	Focuses on creating strategic alliances and finding blue oceans
Ideas on exploitation	Exploiting competences (known situations and known skills)	Balancing between exploiting both competences and capabilities	Exploiting capabilities (unknown situation and unknown skills)

Source: Authors based on work of Sarasvathy (2001)

4 Strategic Thinking Protocol

Strategic thinking requires individuals and teams with growth mindsets that go beyond problem solving to solution finding in their thinking processes. According to Basadur (2004), "In today's much more complex world, many problems call for the combined expertise of multiple functions" (p. 117). The notion of strategic thinking as a process that can be used to define the destination and the way to get there resonates with many scholars. In fact, Liedtka (1998), O'Shannassy (2003), and Bonn (2005) contend that strategic thinking has to be formally managed through a deliberative process. Pisapia (2009) is one of few authors who attempt to define the steps involved in a strategic thinking model of planning (see Fig. 2). His strategic thinking protocol is part of an overall leadership strategy to change organizations. The method is grounded in a social cognition/political model of change used to alter mental models and is most appropriate for senior leaders which are comfortable with ambiguity and possess open integrative minds that can make sense of multiple interpretations in non-predictive environments.

The protocol outlines a process to develop a statement of strategic intent. Its guiding principles include: (a) transparency, all members get the same information; (b) create a shared reality and from that a shared direction; and (c) senior leaders who are open to new ideas and value and participate in the process and agree to (d) cultivate change by creating conditions that foster the strategies created by the process. If these principles are problematic to the senior leaders and adjustments cannot alleviate their concerns, then another process should be chosen. As one could surmise, a major reason to use the protocol is to create sustained not random change.

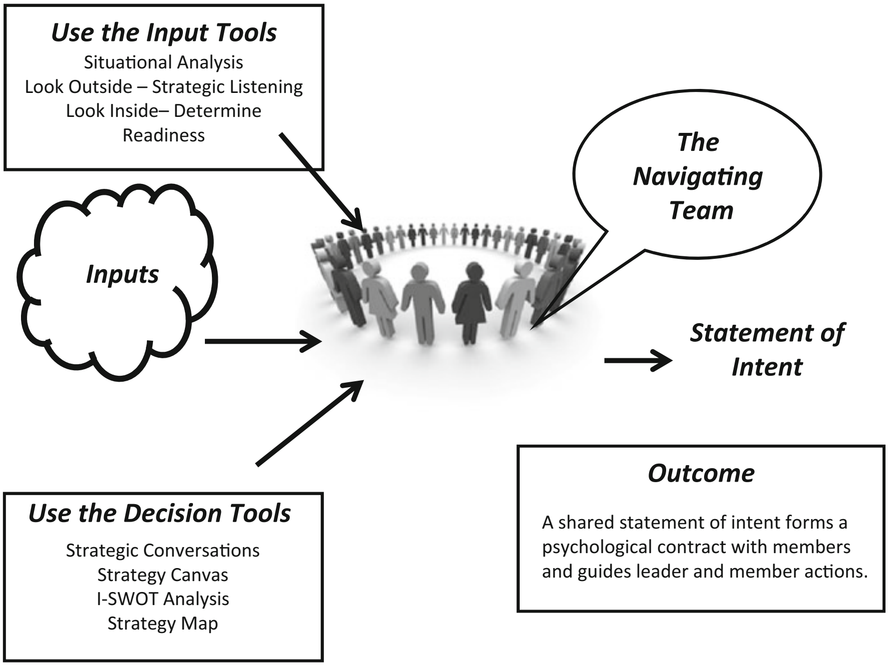

Fig. 2 The strategic thinking protocol. *Source*: Authors

The strategic thinking protocol is guided by a navigating team composed of the CEO, some senior leaders, and key opinion leaders throughout the organization. As seen in Fig. 2, strategic thinking begins with the establishment of structural components (establishing a navigating team, work plans, quantitative and qualitative data collection, and the statement of intent). However, strategic thinking outcomes stem from the use of the process components.

Guided by the principle of transparency, the navigating team processes quantitative and qualitative information gathered from external and internal stakeholders by (a) strategically listening to the external and internal environment through data, values, and narrative and (b) surfacing and sharing assumptions, understandings, and passions through strategic conversations which break the pattern of debate and the strength of a one-input perspective. Strategic conversations are used to advance both individual and collective views in developing a shared direction. All data are then subjected to the decision tools: strategy canvas (Kim & Mauborgne, 2005) and I-SWOT analysis (a SWOT applied to determine what are the strengths, weaknesses, threats, and opportunities relative to the agreed upon intent). By dialoguing on the information from the strategy canvas and the I-SWOT, the navigating team crafts the strategy map which describes what will be eliminated, de-emphasized, or advanced.

The protocol results in a shared statement of strategic intent—an actionable plan which forms the organization's point of view and serves as an orienting device around which organizational members can cohere. It contains an aspiration, or hope, for what the organization wants to become, a blueprint for organizational behavior, and the strategies that will move the organization toward their aspiration all on one page front and back. Crafted in this fashion, the statement of strategic intent forms a psychological contract with followers and guides the organization's actions. Since all strategy decays and must be recreated, it is suggested that the strategies found in a statement of intent should be viable for a 3–5-year period depending on environmental dynamism.

The strategic thinking protocol has the capability to create a shared reality and then a shared direction. Essentially, the protocol enables the whole organization to learn by enforcing an iterative process of listening, dialoguing, learning, and crafting until agreement is reached. Guided by the principle of transparency, all members have the opportunity to understand the problems faced and the opportunities which exist and can participate in crafting the direction that will be taken.

5 Conclusion

In this chapter we outlined the differences between strategic planning and strategic thinking. Then we burrowed into the foundation of strategic thinking to extract the core logic strategists' use. Our premise is that strategists who use strategic reasoning logic and apply the principles of strategic thinking to their planning processes will be able to create a shared reality and then a shared direction while developing the social capital and organizational capacity to meet the unique organizational features and complexities of organizations.

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Continuous Innovation of Strategy as a Key to the Success of Enterprises: Intensification of Strategic Orientations

Zijada Rahimić and Želimir Dulčić

Abstract The success of companies in today's fairly dynamic and uncertain business environment is largely determined by the capacity of organizations to respond to changes in the environment and to constantly work on innovation of their strategic orientation. In the future, development and long-lasting preservation of competitive advantages can be expected by companies that can quickly adapt to changes or create and foster change. The theoretical framework is based on generic strategies and styles of coping with environmental changes as basis for innovation of the strategy. A particular challenge of the presented empirical research is the analysis of reaction model by top managers in Bosnian–Herzegovinian business entities in relation to changes in the environment as well as the identification of their capability and willingness to constantly innovate strategies. Aim of the study is to highlight the significance of strategic orientation intensification in companies in order to strengthen existing and build new market positions. The research results can help managers to find answers about ways to react to changes in the environment and improve the strategic competence which is derived from the ability of their visionary and creative thinking and knowledge of all employees in the company. Therefore, a continuous development of existing and construction of new core competencies is highly advised, or simply said, a development of learning organizations.

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1 Introduction

Contemporary management theory and practice have been based on the fact that economic events take place in the increasingly dynamic, complex, and unpredictable business environment. Aggressive competitive race with its roots in rapid and unexpected changes in the environment has not been an exception in most industrial segments. In accordance with this statement, particularly interesting is the significance of such environment for the company as well as the competencies that exist within the enterprise for coping with constant uncertainty. Often advocated is the approach that a change within the enterprise is the only solution in coping with the dynamics of environmental changes. Thereby, it is not so important whether the change occurs suddenly, revolutionary, or the change is a continuous and long-term process, i.e., a planned evolution. Far more important is to know whether the company is changing or it is creating and encouraging change.

Recognizing and responding to important environmental changes in a timely manner by the enterprise is one of the toughest challenges of strategic management. In that case, the change can be an opportunity for a company to achieve success and to strengthen its competitive position. At the same time change can be an opportunity for the company if it can manage creation and direction of the change toward long-term success. It is understandable that the attitude of the enterprise toward the environment depends on its abilities and capacities to react to changes or capacity to initiate changes as well as the capacity to continuously innovate its strategic orientations. In order to better understand and present the relationship of enterprises toward change, in the first part of the chapter, we will briefly introduce the characteristics of today's business environment. Then we will analyze the ways of reacting to changes in the company with emphasis on the continuous need to innovate strategies. Aim of the second part of the chapter is to represent attitude of top management of Bosnian–Herzegovinian enterprises toward changes in the environment and to analyze their ability to adjust to those changes or their capability to encourage and create changes.

2 The Characteristics of Today's Business Environment

In the recent years, growing uncertainty and complexity of changes significantly contributed to increasing ambiguity in the planning of future business activities. In particular, shorter cycles between major economic crises are considered as a symptom of the growing environmental insecurity. Thus, Bordo et al. (2001) in their study found that the frequency of such economic events since 1973 has doubled. Shocks like the oil crisis in 1973, the Asian crisis in 1997, cracking the Internet bubble in 2001, or the last financial crisis in 2008 clearly show how economic development has become uncertain and difficult to predict. Strategic direction and the success of the company are strongly affected by changes in market conditions and changes in the technological environment. Changes in market conditions can be seen in the following:

- Changes in the demographic structure of the population.
- According to Piller (1998), the average consumer is becoming less anonymous.
- The trend of unsatisfied consumers with products and services which is reflected in weakening of their loyalty.
- Increased bargaining power of consumers due to mass production and saturation of the market, which contributes to that even clear strategic commitment to differentiation, is no longer sustainable according to Homburg, Staritz, and Bingemer (2008). In order to help top managers, authors propose an integrative concept of differentiating product (Product Differentiation Excellence).
- The growth of product markets in developed countries has slowed, which means that it is needed to develop new products in line with expectations of buyers with high quality and affordable prices.
- The success of expense leadership is that the price is the only factor for making decisions about purchase.
- By focusing on one strategy, a company often cannot take the advantage of market opportunities. In addition, it is easier to imitate a company that follows a one-way strategy.
- According to Wulf et al. (2012), new concepts of research and development such as Simultaneous Engineering have contributed to the reduction of product development time in the extent that innovative enterprise can keep technological leadership only for the short period of time. For example, in the automotive industry, such innovation cycles in the last three decades on average shortened from 11 to less than 6 years.
- Shorter product life cycles and faster obsolescence of knowledge (product and market know-how).
- Finally, the natural environment has an important role. Mass production led to lavishing attitude toward the natural raw materials.

Changes in the technological environment are reflected in new production technologies (flexible manufacturing systems and computer-integrated manufacturing), thanks to which it is now possible to simultaneously achieve high quality, flexibility, and productivity which were previously impossible. According to Schwenker and Boetzel (2007), multiple potential of information and communication technologies as well as open borders between economic zones contribute significantly in reducing transaction costs.

From the perspective of strategic management in any case, it is not enough simply to state that the conditions in the competitive environment significantly changed and that changes are turbulent and unpredictable. The dynamics and uncertainty of changes in the competitive environment D'Aveni (1995) described as a hypercompetition and underlined that a stable competitive environment in the future would be an exception. Therefore, the changes presented above should be considered as new possibilities of action in terms of building and maintaining competitive advantage.

2.1 Methods Enterprises Respond to Changes in the Environment

The basic premise for building long-term sustainable competitive advantage of an enterprise is that dynamic changes in the environment should not be neglected. According to Reinhart (1999), the way of an enterprise's dealing with changes in the environment directly affects its competitive position, both on the current markets and the markets of the future. Therefore, it is necessary to identify typical ways of reactions of an enterprise to changes in the environment. An enterprise can ignore the dynamic changes in the environment, can try to minimize the consequences of those changes, and can adapt to changes or even create and encourage change. In addition to the mentioned four ways of companies' behavior toward changes, which rely on the attitudes of D'Aveni (2003) and Hümmer (2001), in a literature often are listed only two possible ways and those are to avoid change and to overcome the changes.

Strategy of Negation The enterprise can ignore changes in the environment for two reasons: (a) because they do not observe the changes or (b) see them, but they are not considered dangerous. In such enterprises, there is no change of strategy as well as the organizational structure. Negation of dynamic changes can be conscious and unconscious. In the first case, the enterprise detects changes in the environment, but it deliberately ignores them. For example, during the temporary declination of demand, the enterprise does not take measures for short-term adjustments. It is of special importance to properly calibrate registered changes in the context of the situation in the enterprise. Decline of demand may be the result of short-term fluctuations, but it may also be due to changed needs of customers. In this second case, ignoring changes can have fatal consequences for the enterprise. However, it is no apology for the enterprise if changes in the environment are not registered and an enterprise does not recognize the necessity of reaction to changes. It is irrelevant whether the negation of changes in the environment is conscious or unconscious; it is linked with high risk.

Coping Strategy With coping strategy it is intended, as well as with negation strategy, to maintain the status quo. An enterprise aims to "silence, suppress," and to overcome or to control the dynamic changes in the environment, as well as to stabilize the current market relations. It is about the defensive reaction to changes. Top management of the companies continues to follow existing strategic commitment and avoids principled changes of strategy or organizational structure. A typical example of coping strategy is the constriction of input barriers as the reaction to the threat of potential competitors. The possibility of the threat silencing or to control is reflected in the initiation of state policy measures directed toward import restrictions for foreign competitors or by subventions for domestic industries. Coping strategies as a reaction to dynamic changes in the environment can be successful only in a limited period of time. Efforts of companies to control the changes were mostly associated with risk because the enterprise cannot antagonize constantly to the changing environment of competitors. Therefore, this strategy is justified to follow only a limited time and as long as it is needed to create a space for action.

Adjustment Strategy is also a reactive strategy. Unlike the coping strategy, where companies try to minimize impact of change, with the adjustment strategy, enterprises seek to optimally adapt to dynamic changes in the environment in order to optimally utilize the situation. There is no resistance in the enterprise in relation to the changes. In the framework of adjustment to externally induced changes of the environment, a completely new strategic direction and remodeling of the organizational structure, processes, and culture of an enterprise may be required. Typical examples of this type of adjustment strategies are measures of restructuring, reengineering processes in the enterprise, and building of new competencies, which are of strategic importance to the amended conditions of competitive race. All measures of reaction to expected changes, which are the measures taken before the changes, are considered as adjustment strategy. Highly important for the success of enterprises is the ability to estimate future changes in the environment, in order to be able to timely prepare and increase its reaction abilities.

Enforcement Strategy is reflected in the efforts of companies to actively shape the environment through proactively creating and encouraging changes and defining the new "rules of the game." In this case, the enterprise is observed as the initiator of dynamic changes as opposed to the previous three ways of reactive behavior of enterprises to changes in the environment. The primary goal of this behavior is competitive advantages building shaking the status quo, which is monitored as destabilization of the existing market conditions and further forcing of dynamic change environment. Strategy of active shaping of the future through innovations of the final product, which is propagated in the concept of key competencies, can be seen as the enforcement strategy. In this case the enterprises on the basis of specific resources and capabilities create and encourage changes by themselves. Even the strategy of actively creating of the future in a time of dynamic and turbulent changes in the environment and more complex demands of market, caused by such changes, propagates itself as the only reliable strategy for the survival of enterprises.[1]

Unfortunately, there are frequent cases in which strategic planning managers are acting in a way as if they conduct business in a predictable market even when they are active in unstable industrial segments. Successful managers consciously adapt their leadership style to the characteristics of the environment. Depending on the degree of predictability of changes in the environment (industrial segment) and the flexibility or the possibility of launching a change, Reeves, Love, and Tillmanns (2012) argue that managers can follow one of the four core strategic styles: classical, adaptive, formative, and visionary.

[1] More on the importance and necessity of creating the future by creating a strategic architecture and based on the strategic challenges: Hamel and Prahalad (1995) in Wettlauf um die Zukunft.

Classic style is appropriate for a predictable environment in which it can be very difficult for change to occur. Companies want to achieve the best possible market position by using their individual skills and resources and following created plans for many years.

Adaptive style is recommended for unpredictable markets that are difficult to change. The biggest goal of the company in such a dynamic environment is flexibility, faster changing goals and tactics, and the short diversion, increase, or reduction of resources. This means that planning cycles may be shorter than a year or to continuously plan within the company.

Formative style is appropriate in industries in which business markets may change, but they are unpredictable. The essence is to change the environment to their advantage before the competition. The company is often concentrated on the creation of attractive new markets, standards, technology platforms, and business practices. Planning cycles are short, or even planning is a continuous action, so that the flexibility is in the first place.

Visionaries do not view the environment as given (something that cannot be changed), but as something that can be shaped to their own advantage. Sometimes companies do not only have the opportunity to create the future, but even they are already familiar with that future and can tell how it will continue to unfold. In such cases, courageous strategies are required—in which entrepreneurs create entirely new markets or in which top managers create a completely new vision for the company.

The success of the chosen style depends on the realistic assessment of the environment, but also it depends on the organizational culture, which should enable and support the successful implementation of the strategy. A lot of managers do recognize the importance of adaptability, but implementation and application of strategies depend on the organizational culture as well. Classical strategies, which are directed toward the effects of economies of scale, can create a culture focused on efficiency and the elimination of variation. That prevents experiments and disables effects of the formation of learning, which is crucial to the adaptation strategy. In cultures where the company is punishing failure, adaptive strategies and formative strategies cannot be well developed.

Company or its parts may follow different styles of strategies. Style changes may be needed when a company comes into a new phase of its life cycle. In any case, a company that always adapts its strategic style to the market environment is a significant step ahead compared to other competitors and is expected to be more successful.

Although on this occasion, the so-called generic strategies in dealing with the dynamics of changes in the environment were referred to separately, they, similarly to Porter's generic strategies (cost leadership, differentiation and focusing) in the practice of the companies, often meet as hybrid strategies that are a combination of different types of strategies. Otherwise, in some situations it is extremely difficult to delineate whether it is about coping strategy or dynamics of the strategy of creating changes, as actions aimed at coping can cause significant changes in the industrial segment. Thus, an enterprise may follow several different strategies for different situations and in one case can ignore the changes, in another case to make the moves for overcoming or adjustment to changes, and can simultaneously and intensively work on creating new products and conquering of new markets.

It is obvious that especially the last two decades are characterized by the efforts of theoreticians and practitioners to find the right strategy or to create a new concept of strategic management of the company in a dynamic and uncertain environment. Starting from the weaknesses of the traditional strategic planning, new concepts are focusing on companies' greater flexibility and strategic innovation capability. Innovation ability of the company in terms of strategy is becoming a key success factor according to Hamel. However, according to Reeves (2012), a survey by the Boston Consulting Group conducted in 120 companies, a lot of managers in practice still rely on concepts that are suitable (appropriate) for a stable, predictable environment even when they conduct business in a highly unstable sector. On the other hand, according to Matzler (2009), research shows that the company will be more successful if its managers react to the demands and changes in the environment in a timely manner. Precisely with the aim of clearer recognition and assessment of blind spots and weak signals in the external environment, the so-called 360-degree stakeholder feedback was created. Wulf, Krys, Brands, Meissner, and Stubner (2011) argue that using this instrument enables a company to better prepare for the future and achieve a decisive competitive advantage. Otherwise, Lafley, Martin, Rivkin, and Siggelkow (2012) state that the recent literature is characterized by the wealth of research that aims to help managers in strategic planning and to link clear analysis and creative thinking. Wolf and Hanechen (2012) also argue that it helps to develop strategic concepts and visionary business models for new market creation and/or to fundamentally change the old market and similar. Thus, according to a paper by Casadesus-Masanell and Ricart (2011), IBM Institute for Business Value, in its semiannual Global CEO Survey conducted since 2006, reports that the development of innovative business models becomes a major, the most important priority of top managers in all sectors (industries). It is obvious that the changes in the business environment, including deregulation, technological advances, globalization, and sustainable development, have contributed that the discussed topic became again the center of attention and interest of theoreticians and practitioners in the field of strategic management.

2.2 *Continuous Innovation of Strategies as the Key to Success*

If we start from the fact that permanence of changes is the only reliable constant in forecasting the future, it is little likely that an enterprise with the same strategic orientation will achieve the same competitive position in the future. These estimates rely on the experience of many companies which had problems to preserve long-term competitive advantages with unchanged way of business. The basic condition for long-lasting success is the ability of companies to constantly innovate their business models in line with changes in the environment. The basic condition for long-term success is the ability of companies to constantly innovate their business models in response to changing environments. According to a research, Economist Intelligence Unit from 2005, over 50 % of managers (CEO) shared a common belief that innovation of business model will in the future be even more important to the success from the innovation of products or services. One research conducted among executive managers of the IBM company from 2008 came to the same results. Almost all interviewed CEOs have stated that they must adapt their business model. More than the two thirds said that determinant changes are necessary. And in these economically hard times, some of the CEOs are already ready to respond to the constant changes in the market through innovations of business models, according to Clayton, Mark, and Henning (2009). In their paper, Wulf et al. (2011) believe that the company will remain competitive only if managers timely adapt the business model to the changing environment. Companies that do not constantly revise their business model will quickly fall behind in the competition. According to Hoehmann (2014), particularly successful are companies that have demonstrated business concept and strategic commitment systematical analysis and continuous further development as they work to identify new business fields to join them. Therefore, it can be said that the innovation of strategies is a key of the long-term, successful development of enterprises, since they significantly contribute to the preservation of competitive advantages.

In essence, strategy innovation represents the new definition of work in a way of critical review of current activities and the dominant understanding of the business in light of the new identified opportunities in the environment. For example, such a proactive definition of the business in its essence can have a buyer, the key competencies, and products. According to Zahn and Foschiani (2001), the most important ideas for strategy innovation arise from:

– Answers to questions about so far non-served groups of customers, about entirely new segment of customers or a new segmentation of the current customers.
– Further development of existing core competencies or their diversification into new fields of application as well as the development of new competences of the company and acquisitions of key competence subcontractor in order to improve existing or create new jobs.
– The identification of so far unidentified, just incurred or known, but still unsatisfied desires of customers, for example, examination or observation of customers and establishing cooperation with the most important customers.

Montgomery (2008) also points out to the importance of observing the buyers when creating the strategic orientation that is to the need of creating values in accordance with the wishes and expectations of buyers and differentiation of products and/or services offered by competitors. Within that it emphasizes that the created can be assessed if the market, environment, or the world is simply observed with and without the enterprise. More precisely, which loss could be felt if the concrete enterprise would no longer exist? Questions that the top managers should ask are the following:

– Who would feel the consequences of closure of enterprises and why?
– What group of buyers would miss the enterprise and why?
– How long will it take another enterprise to fill the resulting gap?[2]

It is evident that answers to the mentioned questions give the reason and purpose of the existence of enterprise that should stand in the epicenter of the strategy. How M. Porter says an effective strategy not only shows what an enterprise should do, but indirectly it also shows what it must abandon. According to Porter (2008), it should be based on specialness, the uniqueness, which represents the attempt to create a unique mix of values through the conscious combination of activities for the buyer. Kim and Mauborgne (2007) go further by pointing out the limitations of the concept of “value creation” and propose a different strategic logic called “value innovation.” Value innovation focuses on the fact to make the competition irrelevant and not on defeating the competition. So it creates a shift in the value for buyers and for the enterprise and opens new uncompetitive market space. Irrelevant of which strategic logic is followed, in today’s dynamic, turbulent, and quite suspenseful environment, the strategy should be seen as a dynamic process which timeframe creation is daily, continuous, and steady.

If the new definition of work and in line with that the strategic repositioning is not undertaken only once in the enterprise, but several times, then it can be described as intensification of strategy is present in the enterprise, which includes both short-term orientation toward efficacy and the orientation toward predictable and more secure future. Through intensification of strategy, the enterprise is able to simultaneously strengthen existing and build new market positions. Assumption for that is the successful coexistence of the old and new jobs, which in the ideal case support and complement each other. If an enterprise operates in a relatively stable competitive environment, then the current and future operations may be established on just one strategy. However, in turbulent and dynamic environment with a latent danger of the strategy, it should in the same measure be oriented short-term and long-term and cannot meet both the current and future requirements. Abell (1999) has created the term “dual strategy,” which means the simultaneous development of the so-called today-for-today and today-for-tomorrow strategies. The first strategy represents the fundaments for specific strategic focusing toward current activities of the enterprise. The essence of the strategy is in harmonizing key functions with the critical factors of success. “Today-for-tomorrow” strategies have significantly further focus toward key competencies and determination of critical factors of success in the future, identification and positioning of future operations, and formulating the system of strategic objectives of the enterprises.

[2] These questions are asked to top managers within the Executive Program at Harvard Business School. Similar question was asked by Sam Palmisano in 2003, as CEO of IBM, to 320,000 associates: “If our company disappears overnight, how would the world be different tomorrow?”

According to Hamel and Välikangas (2003), a strategy focused on creating the future should have far greater importance, whether it supports the revolutionary changes or it is about an adjustment strategy, in relation to the strategy, which the enterprise is striving to defend current or even competitive positions from the past. That the enterprise would not become a "victim" of environmental turbulence, it requires that the number of strategic alternatives for the strategy innovation is not less than the volume of changes in the environment. The same author believes that in the future only those enterprises which are in the innovation strategy as effective as in the production of products or services rendered will be successful. As an instruction or explanation, Hamel gives the mathematical fraction, where in the numerator we have volume and frequency of strategic changes and in the denominator required time for that, costs and emotional energy. Companies that want to survive in a turbulent world should increase the numerator and to the same extent endeavor to reduce the denominator.

The basis for the strategy innovation, regardless of whether the enterprise is in a turbulent or a stable environment and whether it develops and follows simple or dual strategy, is a strategic competence. Strategic knowledge that is strategic competence is based on knowledge of all the associates, which firstly needs to be identified in order to complement each other within the enterprise. Possession of strategic competences is seen as the intangible asset that is necessary to be constantly maintained and further developed.[3] Maintenance and development of strategic competences must be supported by encouraging strategic thinking throughout the enterprise and by the democratization of the strategic processes. Thus, in no way it can come into consideration the separation of the creation strategy from its implementation, as it was the case with traditional strategic planning.

Also, the outsourcing of responsibilities of development strategies is out of question. The top management of enterprises cannot depend on the competence of the consulting agency, but should develop its own strategic thinking as a key competence. Development of its own strategic capabilities, with the aim of innovating strategic orientation and thus of a better positioning in the competition, is considered to be the sole and effective protection from the competitive pat position. Ability of enterprises in the future depends on its ability to develop new strategies, to test and implement them. It means that the creation of long-term sustainable competitive advantages of enterprises is only possible by creating and intensifying strategic orientation that relies on the continuous development and intensification of key competencies.

[3] Ability of an enterprise is precisely reflected in the effective coordination and flexible combination of existing, potential, and required competencies.

3 Empirical Research on the Reactions from Bosnian–Herzegovinian Enterprises Toward the Changes in the Environment

Regarding the fact that the business environment is quite dynamic and uncertain and that Bosnia and Herzegovina is a specific business environment (the process of transition, the complexity of the political and economic environment), subject to this part of the chapter is presentation and analysis of the manner in which the Bosnian–Herzegovinian companies react to changes in the environment. As a methodological framework of analysis, a model of generic strategies in relations with the dynamics of changes in the environment was used. The aim of the research is to determine the attitude as well as the capabilities of the top managers in the analyzed companies to constantly innovate strategic orientation in accordance with changes in the environment. The research was conducted through the method of survey on the basis of earlier-prepared questionnaire.

3.1 Characteristics of the Statistical Sample

The selection of a statistical sample was conducted by an "intended sampling" method. The total of 90 questionnaires was distributed and 48 questionnaires from different companies were returned, properly filled out. The response rate is 53 %. These companies are considered to be representative and relevant for this research. The chosen companies have various ownerships. They operate in four typical Bosnian–Herzegovinian industrial segments (sectors): food industry, textile industry, lumber industry, and production of medicinal herbs and products on the basis of medicinal herbs, and they are geographically dispersed. The statistical sample covered 16 micro companies (from 2 to 10 employees), 16 small companies (from 10 to 50 employees), 7 medium-sized companies (from 50 to 250 employees), and 9 large companies (above 250 employees).

3.2 Analysis of the Survey Results

Through the analysis of the answers obtained from managers of 48 companies, it has been established that the strategy of negation has been present in 5 % of the analyzed companies. It means that those companies have been exposed to high risk since they do not react at all to the changes in environment. As stated earlier in the chapter, disregarding changes can be conscious and unconscious. In the course of the interview, we have come to a discovery that such disregarding was conscious because the top management had an opinion that it is not necessary to react to those changes.

A total of 20 % of analyzed Bosnian–Herzegovinian companies intends to maintain the status quo. As a matter of fact, we are talking here about companies which do intend to "silence," to surmount, or to control dynamic changes of the environment as well as to stabilize current market relations. As an explanation given by the top management of these companies about the defensive reaction to changes was that they have been trying to make the space for an action that is for building new competences. It is to expect that in the very sense, which is in the aim of building key competencies, 20 % of the analyzed domestic companies intend to surmount the changes in environment.

According to the results of the research, among the observed Bosnian–Herzegovinian companies, the adjustment strategy dominates because 45 % of the companies intend to build a better competitive market position through fast reaction and adjustment to the changes in the environment. This means that domestic companies do not try to create new business segments and new industries, but instead they are trying as much as it is possible to position themselves in the existing industrial segments. With regard to that, the management of those companies has to give exceptional attention to the promptness of the reaction because competitive position of those companies does not depend only on capability to react, but to the great extent also on the speed of reaction.

Although even 70 % of Bosnian–Herzegovinian companies behaves reactively to the changes in the environment, the statistical analysis of the data obtained in this research still shows us that even in 30 % of the cases, companies intend to boost changes in order to build a long-term sustainable competitive advantage through proactive action (Fig. 1). Throughout the research, both theoretical and practical, it has been found that the abovementioned attitude toward changes in environment is primarily based on the competence of top managers for visionary, creative, and proactive thinking. Besides the fact that questioned managers have expressed determination for one of the four offered generic strategies in dealing with the dynamics of changes in the environment, it is important to emphasize that they have highlighted how there is no exclusive determination for one strategy that is for one variant of (re)action. Figure 1 shows us the structural classification of how one enterprise reacts to the changes in environment.

It is very interesting to observe impact strength of factors from the environment on the change of the top management's attitude toward changes. A factor of

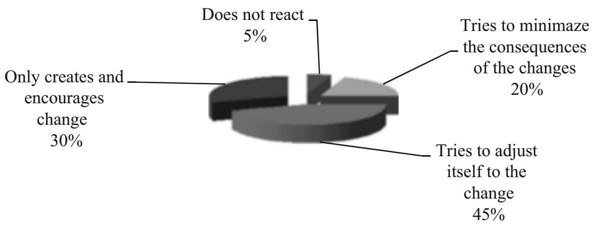

Fig. 1 Structural classification of how an enterprise reacts to the changes in the environment. *Source*: Authors

political–legal, economic, sociocultural, and technological environment (PEST concept) has been observed and analyzed. Unfortunately, the impact strength of the factors that influence the most is the impact strength of political–legal factors. The impact strength expressed in the coefficient of the multiple correlation is 0.7271 which means that 72.71 changes of the top management's attitude toward changes emerged under the impact of changes in political–legal factors (tax politics, regulation of external trade and external trade regime, governmental stability, labor law, environmental laws, regulations on joint investment, monopoly legislation). Following are the sociocultural factors (demography of the population, social mobility, change of life style, change on consumers attitudes, levels of education, attitudes about work and free time) and economic factors (business cycles, interest rates, unemployment, foreign currency fluctuation and inflation, investment rate, power (energy) availability and price, money stocks). The least impact strength on the change of the top management attitude have the change of technological factors (governmental investment in research, governmental and industrial focus on technological efforts, new findings and developments, speed of technological transfer, rate of time limitations). The impact strength represented with coefficient of multiple correlation has been 0.5148. We are free to make conclusion that these indicators are partly worrying, but in some part the answer lies in the fact that industrial segments covered by the analysis are not technologically intensive. However, those were the predominant industries in Bosnia and Herzegovina—sectors that the state can build up the competitive advantage on. We can observe these indicators as warning signals to the top management.

The next step in research was to find out whether the innovation of strategic determinations has been represented and to which extent. We can get answers to this question if we compare two graphic illustrations (Figs. 2 and 3). Figure 2 shows the strategic determination of the analyzed Bosnian–Herzegovinian companies,

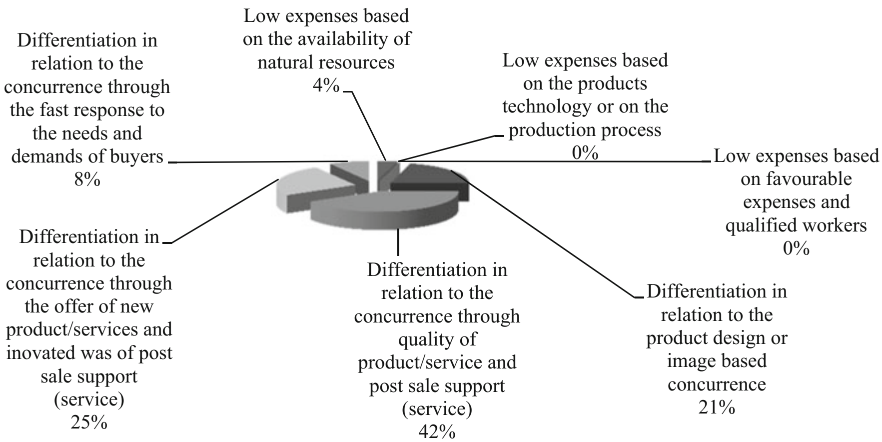

Fig. 2 Structural classification of the competitive strategies of companies in the main line of business. *Source*: Authors

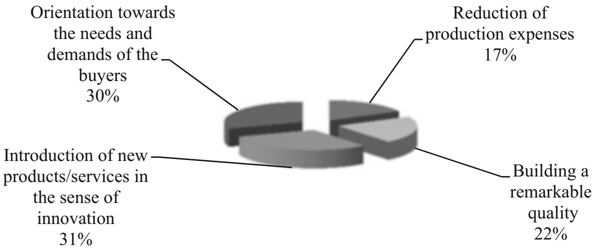

Fig. 3 Structural classification of the determination directions of enterprises in the following years. *Source*: Authors

more precisely their main strategic business units. An obvious dominance of the differentiation strategy, more precisely of the differentiation-focused strategy, is obvious if we take into consideration the size of the market segment that is the degree to which the market has been covered.

Certain changes for the next time interval in determinations of companies can be noticed by comparison of this graphic illustration with the graphic illustration number 3 which shows the structural classification of companies' determination directions for the coming years. An innovation of the strategic determinations according to the system of dual strategies has been present among the observed Bosnian–Herzegovinian companies. Strategies, defined on the basis of the existing key competences and in accordance with critical factors of success, have the character of the so-called today-for-today strategies, while the future strategic determinations ("today-for-tomorrow" strategies) lie on somewhat changed fundamental building blocks of concurrent advantages (Fig. 3).

Comparative analysis of two time-different strategic orientations leads to the conclusion that the top management of domestic enterprises will seek to reach far more closer to customers in the future and to that end it seeks to improve the cost position and innovate its products. Companies have the intention to remain responsible for the preservation of quality, with the provision that the care about quality will be directed both externally and internally in the direction of cost reduction. It is exactly in this way of focusing, which is based on segmenting customers based on own key competencies, hidden the secret of preserving long-term competitive advantage of companies and, therefore, it should still continue to be supported by the top management of the analyzed Bosnian–Herzegovinian enterprises.

Strength of factors impact from the environment according to the PEST concept has been analyzed and statistically processed for the change of strategy. Again, the greatest impact has political–legal factors, whose impact strength was expressed in multiple correlation coefficient of 0.9269. This means that a 92.69 % of changes of the strategic orientation have emerged under the influence of political–legal factors. It is followed by changes in sociocultural factors, changes in economic factors, and at the end of the technological factors. Seen from the survival angle and long-term sustainability of the competitive advantages of the analyzed companies, these indicators are also quite disturbing and the starting point for a couple of additional questions such as:

– Will Bosnian–Herzegovinian enterprises be able to survive and develop in the markets of the future?
– Are they going to take over the role of followers in a timely manner since they usually do not have the capacity to act as “first-movers”?
– Are they going to be able to adapt to significant changes within the current industrial segment or to engage in new business sectors?

The only answer to all these questions was that the changes do not occur so quickly in the industrial segments in which these enterprises conduct business activities and that long-term survival of their enterprises is not endangered. Having regard to the type of business activity or industrial segment to which the companies analyzed belong to, this response is partly understandable, but not justified from the angle of reflection on the future. Therefore, top managers of the analyzed Bosnian–Herzegovinian enterprises should be aware that changes cannot be seen as a “tornado,” which may bypass the enterprise, but as a reality and a chance for survival and development of enterprises. Thereby, the reliance on the concept of key competencies can significantly help to the management in which forces for success are not seen in the size and wealth of a company’s tangible resources, but in the abilities of creative and proactive reflection and the existence of the so-called strategic stretch, i.e., significant differences between the strategic challenges and the actual abilities of the enterprise. Of course, this can be achieved only by creating a learning organization climate dominated by a positive attitude toward change, support to new ideas and culture of permanent acquirement, and transfer of knowledge.

4 Conclusion

Based on the fact that companies operate in environments characterized by high turbulence, dynamism and instability of changes, and starting from the specifics of business environment in Bosnia and Herzegovina which is reflected by the transitional process and the complexity of political and economic system as well as from the estimate that the market dynamics and market uncertainty foreseeable in the future will even get rougher, it can be concluded that managing of enterprises will be a complex and challenging task. Enterprises are required to develop high flexibility and capacity for adjustment, but also the ability of proactive response to changes in the environment for building and preserving the competitive advantages. Therefore, the basic guideline to the companies in a competitive market positioning should be a formulated strategy and their strategic orientation.

The basic assumption for building long-term sustainable competitive advantage of companies is that the changes in the environment cannot be ignored. Changes should be seen as new possibilities of action in order to build and preserve the competitive advantages of enterprises. The way and speed of coping with changes in the environment will directly depend on companies’ competitive position in the current and future markets. Competition of the future is based already in one part of today's position, and, as a matter of fact, in general competition represents rivalry in a timely manner, the reaction speed, and the speed of creating change. It can be said: "It is not the big that eats the small... It is the fast that eats the slow," based on which the small companies cannot find justification for their failure in being poorly equipped with resources comparing to large companies.

Depending on the capabilities of their own, enterprise needs to decide for the reaction in terms of adjustments to changes or for the action, i.e., creating and initiating change. Referent Bosnian–Herzegovinian enterprises often seek to build a better competitive position with fast response and adjustments to changes in the environment. Although the negation or ignoring the dynamics of changes in the environment is rarely present in the referent enterprises, its existence cannot be justified. Developing a long-term preservation of competitive position has been recommended to companies as the best way to proactively create and encourage change and to impose "rules of the game" in their industrial segment.

Attitude of an enterprise toward changes will directly affect its strategic orientation, i.e., whether it will persistently follow the previously formulated strategy or whether it will work toward innovation of its strategic orientation in accordance with changes in the environment. Foundation for innovation of strategy should be strategic competence, which is an intangible asset that arises from the knowledge of all the employees and the ability of visionary and creative reflection of the top management of the enterprise. A constant development of existing and building of new key competencies is required for the purpose of innovation of strategic orientation. This also encourages the development of the so-called learning organizations and learning companies. At the end, we may conclude that in a dynamic and fast-moving environment, long-lasting sustainable competitive advantage can be built only by those enterprises that are able to produce innovation of their strategic orientation.

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Building Bridges Between Entrepreneurship and Strategic Thinking

Lara Jelenc and John Pisapia

Abstract In this chapter, we present two bridges linking entrepreneurial and strategic thinking. The first bridge links the research of individual entrepreneurial behavior and strategic thinking skills. We found that *systems thinking* was the strongest predictor of all three elements of individual entrepreneurial behavior (risk-taking, innovativeness, and proactiveness). The more often the entrepreneurs in our sample used systems thinking, the higher was their predisposition for risk-taking, innovativeness, and proactiveness. Furthermore, all subscales of strategic thinking (systems thinking, reframing, and reflecting) significantly influenced *proactiveness*. These links enable entrepreneurs to decide how to respond, act, and/or exploit possibilities. The links we found between strategic thinking skills and entrepreneurial behavior were strong enough to recommend that strategic thinking skills should be learned, trained, and practiced by entrepreneurs, leaders, and managers at all levels of the organization. The second bridge positions strategic thinking as a link between the effectual and causal reasoning continuum. The strategic thinking research suggests that strategic thinkers employ cognitive ambidexterity. It suggests that strategic thinkers use strategic reasoning skills in analytical, critical, synthetic, integrative, adaptive, and creative, and innovative thinking to switch back and forth between causal and effectual reasoning and thus are able to gather as much information about situations as possible before acting. We concluded that by linking entrepreneurship and strategic thinking, we gain a clearer understanding of the gap between entrepreneurial thinking and action, as well as strengthening the ability to see and recognize opportunities. The chapter concludes with five propositions to further develop the links between entrepreneurship and strategic thinking.

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1 Introduction

Entrepreneurship has been an intriguing domain of research for many decades. What makes it intriguing is that the entrepreneurship literature is dispersed in a number of directions and approaches (Shane & Venkataraman, 2000). At the center of early definitions of entrepreneurship were two phenomena: the presence of lucrative opportunities and the enterprising individual (Venkataraman, 1997a, 1997b). Shane and Venkataraman's (2000, p. 218) later definition involved the nexus of three phenomena: the presence of an opportunity, the presence of enterprising individuals who can "see it," and the presence of enterprising individuals who are capable enough to respond to it irrespective of the existing resources. This definition has gained traction among scholars (Busenitz & Barney, 1996; Kaish & Gilad, 1991; Rosenberg, 1994; Sarasvathy, Simon, & Lave, 1998; Shaver & Scott, 1991; Stevenson, Roberts, & Grousbeck, 1989).

Following Shane and Venkataraman, we suggest that entrepreneurs recognize and exploit opportunities that others fail to see and in doing so find and/or create the future. This definition suggests that entrepreneurs have different characteristics, think differently, behave differently, and work differently than non-entrepreneurs. One barrier to making this definition actionable is the perceived gap between entrepreneurial thinking and behaving. Some scholars have bypassed this chasm by moving directly to the firm level and using the construct of entrepreneurial orientation (EO) to describe the extent to which a firm is entrepreneurial and its relationship with firm performance. Thus, they leapt over the chasm at the root of understanding individual entrepreneurial behavior and its relationship with EO and performance. A second barrier to making the definition actionable is the inability of some to "see" and "recognize" opportunities when they are presented. Some scholars attribute this abyss to the continued emphasis on traditional strategic planning regimes that have failed to perform in the digital era as well as in times of certainty. Many scholars (Bonn, 2001; Graetz, 2002; Heracleous, 2003; Liedtka, 1998; Mintzberg, 1994) and practitioners alike believe the bridge to the future is built on the tenets of strategic thinking which places a premium on the ability to synthesize and see patterns and double loop learning.

In this chapter, we attempt to build bridges that pave the way to overcome the obstacles we identified by returning to the core of entrepreneurism, the individual, how they think, how they behave, how they work. Then we explore ways to bridge, integrate, and combine the knowledge of entrepreneurship, individual entrepreneurial behavior, and causal and effectual reasoning with strategic thinking. The chapter begins with describing three core constructs, individual entrepreneurial behavior, effectuation, and strategic thinking. These descriptive paragraphs are followed by using these three constructs to describe two bridges that connect entrepreneurship literature to strategic thinking research. One bridge links individual entrepreneurial behavior with strategic thinking. The second bridge links effectual thinking with strategic thinking. Hence, we argue that entrepreneurial behavior and effectuation are mindsets and tendencies of entrepreneurs which can benefit from using strategic thinking skills to develop the capabilities and competences needed for opportunity recognition, growth, prosperity, and development of entrepreneurial venture.

2 Individual Entrepreneurial Behavior

Entrepreneurial orientation (EO) theorists hijacked individual entrepreneurial behavior (IEB). It happened something like this. Schumpeter (1942) viewed entrepreneurship as an individual characteristic which was later transformed by Drucker (1970) and Mintzberg (1973) as the capacity and possible strategy mode of the firm. Thus, entrepreneurial orientation (EO) became nested as a firm-level construct that was first introduced by Miller (1983), later developed by Covin and Slevin (1988, 1989), popularized by Lumpkin and Dess (1996), and statistically improved by Covin and Wales (2012). The measurement of entrepreneurial orientation consisting of risk-taking, innovativeness, and proactiveness is well positioned in the entrepreneurship literature as an acknowledged and accepted construct for measuring a firm's entrepreneurial orientation (e.g., Covin & Slevin, 1989; Miller, 1983; Poon, Ainuddin, & Jumit, 2006; Richard, Barnett, Dwyer, & Chadwick, 2004). Later attempts by Lumpkin and Dess (1996) to add autonomy and competitive aggressiveness to the original scale proved not to provide consistent results but are still used by some researchers to try to expand the descriptors of EO.

- *Innovativeness* is the predisposition to engage in and support new ideas, novelty, creative processes, and experimentation which may result in opportunity recognition, resource allocation, new products, technological leadership, and services (Lumpkin & Dess, 1996). Innovativeness has been measured as a function of the willingness of managers to suspend former beliefs in order to explore new alternatives and reward experimentation (Karagozoglu & Brown, 1988 cited in Stewart, 2014, p. 37). Innovation is a term implying all sorts of new activities and willingness to depart from the existing and venture beyond the current state of the art (Kimberly, 1981).
- *Proactiveness* is the predisposition to anticipate future environmental changes and demand, find and exploit opportunities, and act upon them by launching new products, services, and technologies ahead of competitors (Covin & Slevin, 1988, 1989; Miller, 1983). It is crucial to have the initiative, to be the first mover vis-à-vis competitors in the market place, to excel in identifying opportunities (Hughes & Morgan, 2007), and to have the predisposition to be a leader (Covin & Slevin, 1989; Miller, 1983).
- *Risk-taking* is the predisposition to take bold actions by committing resources to new projects in the pursuit of an opportunity even when the project has an uncertain outcome or some degree of uncertainty (Covin & Slevin, 1988; Khandwalla, 1977; Miller & Friesen, 1982). Entrepreneurs in comparison to managers have a significantly greater risk-taking propensity (Stewart & Roth,

2001). Moreover, entrepreneurs have cognitive biases that reduce the perception of risk (Simon, Houghton, & Aquino, 2000) and a higher tolerance for risk (Townsend, Busenitz, & Arthurs, 2010 cited by Stewart, 2014).

- *Competitive aggressiveness* is a firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position and compete for the existing demand, that is, to outperform industry rivals that already exist in the marketplace (Lumpkin & Dess, 1996).
- *Autonomy* is the predisposition to gain independence from authority in order that independently minded individuals have freedom to create and have their ideas realized (Lumpkin & Dess, 1996). From a firm perspective, it is the authority given its individuals, teams, or departments to conceive and carry out a business concept to completion (Hughes & Morgan, 2007; Lumpkin & Dess, 1996).

Miller (2011), in his revised paper, calls for new and neglected paths of measuring EO. One of these neglected paths was followed by Joardar and Wu (2011, p. 337); Lau, Shaffer, and Au (2007); Lumpkin and Erdogan (2004); and Poon et al. (2006) to go back to the Schumpeterian origins and to measure entrepreneurial orientation at individual level. Even Miller (2011) points out his belief that in small "simple" firms entrepreneurship would be driven by the personality of the leader and that leaders with the internal locus of control would be more entrepreneurial and thus would their firms.

There are two streams of research concerning entrepreneurial orientation measured as an individual behavior of entrepreneurs and senior managers. One stream of research follows the path of Kolman, Christofor, and Kuckertz (2007), Bolton and Lane (2012), and Bolton (2012) which simply transforms and applies the EO constructs directly at individual level. The barrier EO creates is that scholars say EO when they describe IEB. Consider the research of Joardar and Wu (2011) who found that entrepreneurs with higher individual entrepreneurial orientation perform better than those with lower IEO. Jelenc and Pisapia (in press) argue that, based on Baum and Locke (2004); Baum, Locke, and Smith (2001); Markman and Baron (2003); Poon et al. (2006); and Rauch and Frese (2007), the behavior of a small entrepreneurial firm and that of the entrepreneur are likely to be the same. In line with the emerging literature, they defined individual entrepreneurial behavior (IEB) as the behavior entrepreneur's exhibit when discovering and exploiting entrepreneurial opportunities. They retained the original notion that entrepreneurs could be identified by numerous scholars by their innovativeness, proactiveness, and risk-taking behaviors (e.g., Covin & Slevin, 1989; Miller, 1983; Poon et al., 2006; Richard et al., 2004).

The second stream of research has focused on finding more appropriate individually based characteristics (Krueger, 2003), i.e., those that would relate with the elements of the entrepreneurial orientation construct. This approach follows new construct development procedures. For example, the extant literature makes numerous references to the premise that founders and entrepreneurs "think" differently than other individuals or business executives (e.g., Busenitz & Barney, 1997). But it is far less clear where this "cognitive difference" originates from (Baron, 1998, 2007; Foo, Uy, & Baron, 2009). Some scholars attribute it to traits (Baum et al., 2001; Ciavarella, Buchholtz, Riordan, Gatewood, & Stokes, 2004; McClelland, 1961; McClelland, Atkinson, Clark, & Lowell, 1953; Zhao & Seibert, 2006; Zhao, Seibert, & Lumpkin, 2009). Other scholars attribute it to attitudes, alertness, and intentions (Boshoff & Scholtz, 1995; Harris & Gibson, 2008; Robinson, Stimpson, Huefner, & Hunt, 1991; Shariff & Saud, 2009; Stimpson, Huefner, Narayanan, & Shanthakumar, 1993; van Wyk & Boshoff, 2004), and still others to mindsets (Ireland, Hitt, & Simon, 2003).

3 The Effectuation Approach

Effectuation is a theoretical approach championed by Saras Sarasvathy (2001) to describe how expert entrepreneurs think and act. The key assumptions of the theory are that effectuation works well in times of dynamism. In such times, entrepreneurs create unpredictable strategies (Wiltbank, Dew, Read, & Sarasvathy, 2006) based on heuristics and control. Control in this sense is not about controlling the future but the means that are available and can be applied to an opportunity. Traditional strategic management theory begins with the premise that to control your destiny, you must first predict the future. In the effectuation approach, the future is cocreated from human action and not from strong forces dictating the business environment. According to Sarasvathy (2001), the better you can control the future, the less you need to predict it. Entrepreneurs control the future by using the resources at their disposal and think of new ways of how to combine them. Since they use only those resources under their control, they do not need to predict the future because the main starting point is not the future but rather the present in which the entrepreneurial identity, resources, and possibilities that arise from contacting the shareholders are the main features. Therefore, the entrepreneur relies on him/herself, his/her available resources, the potential shareholders, and their involvement in his/her venture process.

In the effectuation approach, entrepreneurial reasoning diverges from classical causal reasoning. The research of Read and Sarasvathy (2005) resulted in five observations that explain the differences in effectual and causal reasoning. First, expert effectual thinkers use forward thinking instead of backward thinking. People that use causal reasoning work toward a goal and then prove their action was on-target with information. However, effectual thinkers do the opposite. They "use information cues to *take* action" (p. 17). Second, expert effectual thinkers rely on information to make decisions, but they don't always rely on predictive information. They realize that information is based on the current context, which is constantly changing, and does not account for effect of the action itself. Third, elite effectual thinkers think beyond what *should* be done and imagine what *can* be done. They are creative thinkers. Fourth, effectual thinkers rely on contingencies in their strategy. Instead of thinking causally, setting a goal, and working toward the goal, effectual thinkers realize parts of the plan might fail. Therefore, they plan parts and then make decisions on what actually happens or visualize many different paths.

In effectuation theory, entrepreneurs not only think differently but also behave differently than less skilled individuals. In this theoretical framework, expert entrepreneurs utilize a set heuristics to fabricate new artifacts such as ventures, products, opportunities, and markets (Read, Song, & Smit, 2009; Sarasvathy, 2001; Sarasvathy & Dew, 2005; Wiltbank, Dew, Read, & Sarasvathy, 2009). Sarasvathy (2008) coined five principles of effectual thinking: bird-in-hand, affordable loss, crazy quilt, lemonade, and pilot-in-the-plane, to describe these behaviors.

Bird-in-Hand The *bird-in-hand* principle means assess the means you control. Entrepreneurs start with the resources they possess to take immediate action (Sarasvathy, 2008). They start with who they are and what means they possess. They are not goal dependent. To the entrepreneur, goals are flexible and can be changed, moved, or compromised if the environment demands. They implement this task by performing an inventory of their own identity and the resources at their disposal. They do this by asking a set of iterative questions. *Who am I?* What are my personal characteristics, personality, and preferences and individual choices? Then they ask. *What do I know?* What are my knowledge, expertise, and capabilities? *Who do I know?* Who can connect me people that I can ask for help, assistance, partnership, and funding in the process of cocreation.

Affordable Loss The *affordable loss* principle means limit your risk by investing what you can afford to lose at each step. Causal reasoning advocates would calculate risk by predicting potential yield and then if acceptable invest necessary resources. Some would say, if the risk reward ratio was very strong, they would "bet the farm." Effectual thinkers see the risk reward calculation differently. They would not "put all their eggs in one basket." They determine how much they can afford to lose and step back from an investment if costs escalate above this mark. Dew, Read, Sarasvathy, and Wiltbank (2009) suggest four questions to determine the affordable loss that can be taken on by the entrepreneur. First, can the undertaking be executed and implemented? Will it be attractive and well accepted on the market? Am I able to accomplish it? Do I really want to devote energy and time to accomplish it? Based on the answers to these questions, the entrepreneur sets the limit of investment they can afford to lose. Until they reach that level, all the mistakes and failures are acceptable as an investment and source of learning. By adhering to this disciplined approach, they reduce the chances of falling into the trap of escalating their commitment (Staw, 1981) and invest money, time, or energy into a failing project or product hoping that the trend will change.

Make Lemonade The *make lemonade* principle refers to embracing and leveraging surprises. During the course of trying to exploit an opportunity, things happen that were not expected. The uncertainty these unexpected events create cannot be avoided, but they cannot be totally predicted. Rather than trying to avoid them, Sarasvathy (2008) suggests that the best strategy to employ is to know how to use the current situation to your own benefit; “make lemonade out of lemons.” They interpret the “bad” news and seek clues to make the project work.

Crazy Quilt The *crazy quilt* principle means share the risk with a network of likeminded individuals. Entrepreneurs share their ideas with other people, engaging them to join, collaborate, and cocreate the new venture. People join in with their own values, goals, and motivation and change the original founder’s idea. Negotiate only with stakeholders who are willing to make actual commitments. New partners share their ideas, reduce the risk, bring their own resources, create new possibilities, and alternate the original goal. Effectual thinkers create the quilt not to actually sell their product but rather to acquire new ideas, new markets, new customers, and new future success. As the quilt forms, the opportunity is embraced and new opportunities emerge.

Pilot-in-the-Plane The pilot-in-the-plane principle refers to focusing on things the pilot controls, means, processes, and, hopefully, outcomes. This principle is supported by the sense of freedom and autonomy that being one’s own boss brings. The pilot believes the future is made, not predicted nor found. Entrepreneurs do not see a predetermined society and do not perceive constraints. Hence, they perceive themselves and their partners and shareholders as the force that can reshape, redirect, and recreate the future. Their role is active and directed toward those elements that they have control over. They leave out elements that they cannot control from their business model if possible. Their action and proactiveness is perceived as positive and powerful, cocreating a better future.

4 Strategic Thinking

Given, the fact that the lack of the strategic thinking capability is recognized as the major detractor of economic performance (Bonn, 2001; Zabriskie & Huellmantel, 1991), the definitions of strategic thinking found in the existing literature are perplexing. Whatever unexpected and/or underresearched happens in practice; people blame it either on the supremacy of strategic thinking or its lack (Jelenc, 2009). The many mystifications and interpretations of its meaning may be due to its cognitive character and that it is under-theorized (Stubbart, 1989, p. 326; Torset, 2001, p. 3–12). These conditions make it elusive to define, measure, train, or learn, as well as how to think strategically. The lack of research is understandable because strategic thinking skills are elusive due, in part, to the difficulty in determining and measuring the cognitive components of strategic thinking (Rosche, 2003, p. 1). Consider, for example, Mintzberg’s (1994) description of strategic thinking. He said it can be thought of as “seeing ahead and behind, seeing above and below, seeing beside and beyond, and seeing it through” (1994, p. 247).

The first attempts at defining the term and the main elements of strategic *thinking skills* came from Bonn (2001), Liedtka (1998), Jacobs (1994), and Mintzberg (1991). Jelenc (2009) and Jelenc and Swiercz (2011) proposed systems thinking, hypothesis generation and testing, focused intent, time, professional capability, conceptual flexibility, future vision, political sensitivity, intuition, and uncertainty/paradox/disequilibrium as the essence of strategic thinking.

Strategic thinking skills are not teachable but are learnable and trainable skills (Horwath, 2014; Pisapia, 2013; Sloan, 2013). Horwath (2014) based his work on three disciplines of advanced strategic thinking: coalesce (combining insights in order to create an innovative business model), compete (creating a system of strategy to achieve competitive advantage), and champion (bringing strategic thinking to everybody). Sloan (2013) is more precise with skills. She focuses on critical dialogue, critical thinking and critical inquiry and identifies five critical attributes of strategic thinking: imagination, broad perspective, juggle, no control over and desire to win.

Pisapia (2009) presented the complete leadership framework, *the leader's wheel*, by naming six habits of a successful leader: assuring, anticipating, aligning, articulating, artistry, and agility. The agility habit focuses on skills in strategic thinking. Pisapia, Reyes-Guerra, and Coukos-Semmel (2005) and Pisapia (2009) formulated strategic thinking skills as systems thinking, reframing, and reflecting skills. Systems thinking refers to the leader's ability to see systems holistically, by understanding the properties, forces, patterns, and interrelationships that shape the behavior of the system, which hence provides options for action. Reflecting refers to the leader's ability to weave logical and rational thinking, through the use of perceptions, experience, and information, to make judgments on what has happened, and the creation of intuitive principles that guide future actions. Reframing refers to the leader's ability to switch attention across multiple perspectives, frames, mental models, and paradigms to generate new insights and options for actions.

Pisapia (2009) also developed the strategic thinking questionnaire (STQ) to test his strategic thinking constructs. The STQ was psychometrically validated by Pisapia, Morris, Cavanaugh, and Ellington (2011) and the resulting reliabilities (alphas) of the STQ subscales ranged from *reframing* (0.73), *reflection* (0.76), to *systems thinking* (0.77). The STQ has been translated into Chinese, Malay, Hindi, Turkish, Farsi, Polish, Arabic, and Croatian. It has been used in research and for training purposes.

5 Bridging Individual Entrepreneurial Behavior with Strategic Thinking

Both individual entrepreneurial behavior and strategic thinking are constructs based on the individual even though they are perceived at firm level as the organizational source of competitive advantage. Yet, without individual level capacity, it is not possible to develop an organizational culture conducive to "first to market, with the right product, at the right price" mentality. Thinking strategically and acting entrepreneurially at the individual level are the foundation of the firm being able to think strategically and act entrepreneurially. Building this bridge solidifies the link to corporate profitability.

From our research, (Jelenc & Pisapia, in press) we argue that there is a relation between individual entrepreneurial behavior and strategic thinking skills (STS) which enables entrepreneurs to create and later on to sustain the business. The research was performed using the STQ on entrepreneurs in 136 IT firms in the Republic of Croatia. The correlation of constructs was weak, but positive ($r = 0.220$, $p < .001$). The regression analysis showed that STS significantly predicted IEB, $b = 0.220$, $t(125) = 2.605$, $p < .10$. *Strategic thinking skills* explained a significant proportion of variance in individual entrepreneurial behavior, $R^2 = .041$, $F_{(1,125)} = 6.788$, $p < .10$.

In this study, *systems thinking* seemed to be a crucial strategic thinking skill; this means that if you had to have one skill, it would be systems thinking, but in previous research using the STQ, it was demonstrated that the three skills work in tandem, so all are important. Similarly, we found that systems thinking influenced all three elements of individual entrepreneurial behavior. Reframing and reflecting joined systems thinking as important predictors of proactiveness.

In relationship to risk-taking, the regression analysis showed that *systems thinking* significantly predicted *risk-taking*, $b = 0.292$, $t(125) = 3.538$, $p < .001$. *System thinking* explained a significant proportion of variance in *risk-taking*, $R^2 = .079$, $F_{(1,125)} = 12.515$, $p < .001$. *Risk-taking* is associated with both the reduction of the perception of risk (Simon et al., 2000) and a higher tolerance for risk (Townsend et al., 2010). In this case, raising the knowledge on systems raises the ability of *risk-taking*. Risk-taking is considered as a self-understood characteristic specific for entrepreneurs. At least at first glance. Actually, the *risk-taking* is based on a relative criterion. In comparison to non-entrepreneurs, entrepreneurs take higher risk. However, it should be noted that the level of taking higher risk is defined subjectively. Moreover, it is possible that an entrepreneur has a higher tolerance to risk because he/she does not necessarily perceive uncertainty as a source of anxiety or discomfort. Consequently, an entrepreneur does/may not see risk as a situation that should be escaped from or stabilized. He/she may see it as a context for innovations and an opportunity to act proactively on the market. If there was no risk, he/she would not have anything to benefit from.

In relationship to innovativeness, the regression analysis showed that *systems thinking* significantly predicted *innovativeness*, $b = 0.174$, $t(125) = 2.040$, $p < .05$. *Systems thinking* explained a significant proportion of variance in *innovativeness*, $R^2 = .023$, $F_{(1,125)} = 4.162$, $p < .05$. The essence of *innovativeness* emerges from two points: being open-minded for new options and being ready to engage in creation of changes. Being open for new options implies recognizing that current state of reality is relative, flexible, and prone to changes. It is better that these changes are self-introduced than forced by competitors or market trends. *Systems thinking* could contribute to *innovativeness* by providing rational sources of patterns and interrelationships that already exist and, at the same time, lack on the market.

In relationship to proactiveness, results show that all three strategic thinking skills (systems thinking, reframing, and reflecting) enable higher levels of entrepreneurial proactiveness. Proactiveness, as the initiative taken by the entrepreneur, implies first-mover activities such as introducing a new product/service on the market (Covin & Slevin, 1988, 1989; Miller, 1983), acting opportunistically and exploiting market opportunities (Lumpkin & Dess, 1996), anticipating opportunities, and showing a forward-looking initiative (Hughes & Morgan, 2007).

Since innovativeness is more based on openness and readiness for new challenges, proactiveness is based on actions directed toward identifying the real opportunities among many ideas, by anticipating environmental change, their realization, and proliferation for the purpose of being the leader and first mover in the market place. Proactiveness picks ideas and places them in the right market place, at the most suitable moment and in the most appropriate manner.

Again, *systems thinking* significantly predicted *proactiveness*, $b = 0.341$, $t(125) = 4.206$, $p < .001$. *System thinking* explained a significant proportion of variance in *proactiveness*, $R^2 = .110$, $F_{(1,125)} = 17.687$, $p < .001$. *Systems thinking* is essential in understanding, based on already-known combinations, processes, and interrelatedness, the possibilities on, whereas *proactiveness* contributes with new ideas and suggestions.

Systems thinking is a more formative way of getting insights into environmental trends and the existence of lack of market demand. In order to operationalize a new idea in the business context, it is necessary to know the network of players on the existing market and if there are potentials for creating a new market, new rules, and new players.

Reflecting and *reframing* are additional skills that significantly relate to higher levels of *proactiveness*. This is achieved through new insights based on current experience and by questioning assumptions and shifting mental models. *Reflecting* is a general ability for self-administered process of learning from experience, events, competitors, and the process itself. *Reflecting* significantly predicted *proactiveness*, $b = 0.271$, $t(125) = 3.256$, $p < .001$. *Reflecting* explained a significant proportion of variance in proactiveness, $R^2 = .066$, $F_{(1,125)} = 10.604$, $p < .001$.

Reframing helps in understanding the existing state of things and at the same time helps in one's try to position him/her differently in the market to achieve a competitive advantage. *Reframing* significantly predicted *proactiveness*, $b = 0.349$, $t(125) = 4.318$, $p < .001$. *Reframing* explained a significant proportion of variance in proactiveness, $R^2 = .116$, $F_{(1,125)} = 18.641$, $p < .001$.

These findings capture the essence of the relationship between the use of strategic thinking skills and individual entrepreneurial behavior. The relation is set in two directions: predictive power of *systems thinking* on all elements of individual entrepreneurial behavior and the predictive power of all elements of strategic thinking skills on *proactiveness*. Although this is just one study, it demonstrates that a relationship exists, and through replications in different industries, the strength of the findings can be determined.

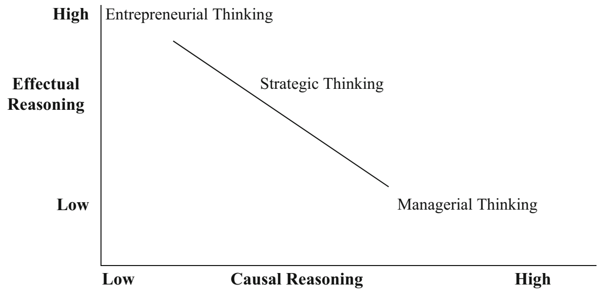
6 Bridging Effectual Thinking and Strategic Thinking

Causal and effectual reasoning have been thoroughly contrasted in the extant literature (Pisapia, Jelenc, & Mick, 2015; Read & Sarasvathy, 2005). As seen in Fig. 1, a heavy reliance on effectual reasoning results in entrepreneurial thinking, while a heavy reliance on causal thinking results in managerial thinking. The bridge between these two types of thinking is strategic thinking. Figure 1 presents the relationship between entrepreneurial, strategic, and managerial reasoning.

The traditional view on entrepreneurship research is based on rational decision-making models, seeking to predict the future and uncover competitive advantages. In fact, Bird (1989) and Drucker (1998) claimed that most opportunities are discovered through purposeful search procedures. These models use causal reasoning, which begins with a given goal, a competitive analysis of capabilities, threats, and opportunities and ends in a prediction of the future. Analytics and analysis are at the center of causal reasoning. Causal reasoning is useful in cases when the future is predictable and the environment stable. Thus, managers who tend to use a causal logic use discipline, control, and monitoring to reduce complexity. In such environments, causal reasoning helps managers choose. Causation underpins the traditional strategic planning processes as well as managerial thinking.

However, effectual reasoning, created and championed by Saras Sarasvathy (2001), argues that entrepreneurs try to control their future rather than predict it. Effectuates assume that opportunities are not waiting to be discovered. They are created by the entrepreneur and her/his partners. Improvisation and bricolage are at the center of effectual reasoning (Baker, Miner, & Easley, 2003; Baker & Nelson, 2005). From their perspective, entrepreneurs start with a rough idea of what means they possess: who they are, what they know, and who they know. They use counterfactual thinking to remain open to change, in that they exploit unexpected knowledge, not existing knowledge (Fischer & Reuber, 2011). Sarasvathy suggests that entrepreneurs determine their goals according to the resources they possess. Then, they determine the downside of their actions and set an affordable loss figure to manage their risk (Dew, Sarasvathy, & Read 2009). If they can afford it, they pursue the opportunity by attempting to get customers and income early in the process by networking with self-selected stakeholders and thus spreading the risk to others (Chandler, DeTienne, McKelvie, & Mumford, 2011).

Fig. 1 The relationship of entrepreneurial, strategic, and managerial thinking (*Source*: Authors)



Whereas the causal thinker believes that the future is predictable and the effectual thinker believes the future can be controlled, the strategic thinker believes that only the shape of the future can be predicted (Pisapia, 2009). Thus, the strategic thinker envisions potential futures and devises new strategies to move the organization toward an evolving future, while creating a horizontal alignment internally. Synthesis is at the center of strategic thinking (Mintzberg, 1991; Pisapia, 2009). Strategic thinkers use strategic reasoning which blends causal and effectual logic and adds synthesis, creative and divergent thought processes. The strategic way of reasoning enables intelligent opportunism, openness to new experience, and a holistic view of the organization and environment (Bonn, 2001; Senge, 1990) which leads to an intentional but emergent strategy (Hamel & Prahalad, 1994) that focuses attention on the gap between the current reality and the intent for the future. The key questions the strategic thinkers ask are "What if" and "If. . .then." The outcome of strategic thinking is an integrated perspective, invention, and a sense of direction (Pisapia, 2009).

We propose positioning strategic thinking in the middle of the effectual-causal continuum proposed by Sarasvathy. While there are clear differences between causal and effectual reasoning, corporate executives, even those in Sarasvathy's study group, use both forms of reasoning. They also apply strategic thinking. Strategic leaders employ cognitive ambidexterity: they switch back and forth between causal and effectual approaches. The importance of strategic thinking for entrepreneurs goes pretty much unchallenged because it deals with sensing future opportunities and making judgmental decisions to capture these opportunities (Casson, 1982; Dragoni, Oh, Vankatwyk, & Tesluk, 2011; Hebert & Link, 1988) which results in assessing, estimating, and inferring the likelihood of an event to occur and establishing a preferred future to fit to the environment and choosing courses of action (Hastie, 2001).

More closely, the relation between entrepreneurial and strategic thinking is interesting. The differences between entrepreneurial and strategic thinking come from the context in which they are used. Both of them are alternative research directions within the domain of entrepreneurship and strategic management. They are practice-based approaches explaining real-time activities in the office and not abstract paradigms of a specific school of thought. Their elements, concepts, heuristic processes, and pragmatic vocabulary are not usually seen in other types of approaches in literature. Both of them have developed as a response to the call from practitioners to bring together the research and the challenges practitioners face and not as separate worlds and self-efficacy approaches.

Starting from definitions, both of them have common key elements. The entrepreneurial definition can be adjusted to fit strategic thinking definition and the other way round the definition of strategic thinking to fit entrepreneurial thinking. The element in common is the agent who has responsibility and power to make decisions about creating purpose, direction, action, and the allocation of resources when creating new value. The only difference is in the size of the firm and the formality of the role in company in which they are practiced.

The way of thinking is based on the heuristics of the entrepreneur/top manager. He/she is (in both roles) using far from rational, linear, causal, and predicted decisions. His/her behavior is based on heuristics, depending on the situation, context, and the combination of all theoretically known types of behavior. It is not a dichotomous type of behavior and theory does not offer such a wide range of behavioral types.

Both entrepreneurial and strategic thinking are oriented not necessarily to the predefined goal that needs to be achieved but toward the process. The process brings unexpected changes, adjustments, and creation of new goals and definitely concludes as the best way of using resources in given circumstances. The process recognizes both formal procedures and those informal as of equal importance. The type of strategy used is defined as unpredictable; it is better not to follow and/or to be followed by the competition.

The content of both types of thinking is based on the dynamic processes and heuristic tools explained with the vivid labels in case of effectuation and wide concepts in case of strategic thinking. Both types of thinking support an active role in creating the future, expending the perception of barriers and cognitive limits of individuals.

The best way to promote both types of thinking is to put them in relation to performance. In practice people certainly know when there is a lack of entrepreneurial or strategic thinking, but when you express this lack in monetary units, the attention in practice and literature put them on the top of the priority list. In order to succeed, it is important to find appropriate measures for each type of thinking.

7 Conclusion

In this chapter, we presented two bridges linking entrepreneurship and strategic thinking. First, we linked individual entrepreneurial behavior with strategic thinking skills. We found that s*ystems thinking is* the strongest predictor of all three elements of individual entrepreneurial behavior (risk-taking, innovativeness, and proactiveness). While *systems thinking potentially has* the most practical usage for entrepreneurs, the entrepreneur needs a wide array of cognitive skills to call upon. Each of the three strategic thinking skills contributes to the entrepreneur's ability to take risks and be innovative and proactive. Skill in s*ystems thinking is* essential to recognize the patterns forming the opportunity and the interdependencies among opportunities and actors. It enables risk-taking, innovativeness, and proactiveness. Skill in *reframing* is vital to recognize new opportunities and being open to different ways of acting on them. It enables proactiveness and could be developed by listening to customers, stakeholders, and employers and seeing the creation process from different perspectives. *Reframing* could be perceived as the source of competitive advantage, as it emerges from trying to think differently than other competitors. *Reflecting* has a wide range of uses. It is an important skill to make sense of the information entrepreneurs collect through systems thinking and reframing and from this sense making develop wisdom that helps nurture the heuristics that guide much of entrepreneurial work. *Reflecting in action* can also be used in practice to generatively process information. Most importantly *reflecting for action* can enable one to decide how to respond, act, and/or exploit possibilities (Pisapia, 2009). As we saw in our findings, reflecting enables proactiveness. The links we found between strategic thinking skills and entrepreneurial behavior were strong enough to recommend that strategic thinking skills should be learned, trained, and practiced by entrepreneurs, leaders, and managers at all levels of the organization.

Our second bridge between entrepreneurship and strategic thinking positioned strategic thinking, as a link between the effectual and causal reasoning continuum. We noted the binary nature of causal and effectual reasoning which needed a synthesizing function. The extant literature speaks of strategic thinkers employing cognitive ambidexterity (see Pisapia et al., 2015). They use analytical, critical, synthetic, integrative, adaptive, creative, and innovative thinking skills to switch back and forth between causal and effectual approaches and thus are able to gather as much information about situations as possible before acting.

We began this chapter by suggesting that entrepreneurs recognize and exploit opportunities that others fail to see and in doing so find and/or create the future. We suggested that one barrier to making this definition actionable was a perceived gap between entrepreneurial thinking and behaving. The second barrier we identified was the inability of some to "see" and "recognize" opportunities. By suggesting possible bridges between entrepreneurship and strategic thinking, we hoped to open new research questions within the domain of strategic entrepreneurial literature. Hence, we extracted several propositions from our discussion of the relationship of entrepreneurship and strategic thinking that could be further tested in different settings.

Proposition 1 Does the use of strategic thinking skills by entrepreneurs influence the enactment of the entrepreneurial principles of a bird in hand, affordable loss, crazy quilt, make lemonade, and pilot in the plane?

Proposition 2 Does the use of strategic thinking skills by entrepreneurs enhance their ability to spot opportunities?

Proposition 3 Does the use of strategic thinking skills by entrepreneurs enhance their risk-taking, innovativeness, and proactiveness in firms other than IT sector?

Proposition 4 Is there a causal link between the entrepreneur's use of strategic thinking skills, their individual entrepreneurial behavior and entrepreneurial action principles, and firm performance?

Proposition 5 Does the entrepreneur's use of strategic thinking and entrepreneurial thinking skills coexist or dominate the firm's entrepreneurial orientation at different stages of development?

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Failing Strategy Implementations

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Abstract Strategy implementation is recognized as the source of frustrations and the black box of strategic management processes. This chapter summarizes research attempts in defining implementation problems and critical factors. Further on, based on previous empirical results, it suggests an integrated strategy implementation model. We suggest that the core of the integrated model includes factors like resources, communication, people, control mechanisms, operative planning, and time. Strategy formulation is the antecedent of strategy implementation. The relation between formulation and implementation could be influenced by outer and inner environment (culture, structure, and leadership). The basic conclusion is that multiple factors should be considered simultaneously when developing and implementing a strategy.

There are two points that ought to be kept in mind when studying strategy implementation process. The first one is the hierarchical level of the respondents included in the empirical research. Namely, most research is founded on responses provided by top managers ignoring middle, low, and nonmanagerial perspectives. The second is to focus research on different levels the strategy refers to. Most research has been focused on business and less on the corporate level of organizations.

1 Introduction

Strategy implementation, as a part of strategic management process, is one of the least studied areas and (Kaufmann, 1993) and at the same time an enigma and source of frustration in many companies (Noble, 1999), the *Achill's heel* of the strategic management process (Roney, 2004).

The reason for that lies in the lack of conceptual models (Noble, 1999) and comprehensive theories (Wernham, 1985) on which strategy implementation can be

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built on. For a certain period of time, implementation was not considered as a part of strategic planning activities (Dyson, 1990; Reimann and Ramanujam, 1992 cited by Kaufmann, 1993). Atkinson (2006) argued that the essence of this problem lies in the fact that strategy implementation suffers from a general lack of academic attention. The other possible explanation is that strategy implementation is not a neglected but rather a very developed research field, but hinder under different names. Namely, all activities focused on strategy execution and implementation have been developed either under general management science, operational management, or organizational behavior principles or not under strategic planning or strategic management. The streams within the field of strategic planning included systems and organization theorists and pragmatic practitioners (Kaufmann, 1993). From the mid-1980s to 1990s, the alternative streams of *strategy implementation*, apart from analytical and operational management, were quality approach (Deming, 1986), reengineering (Martin, 1993), and management by objectives or MBO (Odiorne, 1987).

The research on strategy implementation was usually based on implementation obstacles (Alexander, 1985) and rarely on implementation models. This chapter want to offer a summary of contemporary issues in strategy implementation and proposes a further step in researching the black box of implementation (Miller, Wilson, & Hickson, 2004) elaborating possible approaches to develop useful implementation models.

2 The Importance of Strategy Implementation

The influence of implementation on the final results is not questionable; implementation is an important factor in operating organizations (Schilit, 1987) having a strong impact on organizational effectiveness (Sproull & Hofmeister, 1986) and thus organizational performance (Hrebiniak & Joyce, 1984). The standards for judging whether an organization is well managed are based on good strategy making combined with good strategy implementation (Chaneta, 2007). Insufficient endeavor in each step can nullify good decisions (Kalali, Anvari, Pourezzat, & Dastjerdi, 2011).

Strategy implementation has been regarded by some authors as more important than the strategy itself (Harrison & Pelletier, 2000; Hrebiniak, 2006; Robbins & Coulter, 1996; Schneier, Shaw, & Beatty, 1991).

First of all, the term *strategy implementation* does not have a universally accepted definition. The work of Li, Guohui, and Eppler (2008) identified three distinct conceptions of the term:

- The first approach, **the process perspective**, perceives strategy implementation as a sequence of consecutive steps that are carefully planned and executed. The proponents define it as the execution of assignments (Kotler, 1984); a highly complex and interactive process (Wernham, 1985); a managerial exercise of putting a chosen strategy in place (Thompson & Strickland, 2003); a lively

process (Reid, 1989); a process inducing various forms of organizational learning (Lehner, 2004); a process that takes longer than formulation (Hrebiniak, 2006); and an iterative process of implementing strategies, policies, programs, and action plans that allows a firm to utilize its resources to take advantage of opportunities in the competitive environment (Harrington, 2006).
- The second approach treats strategy implementation as a series of more or less concerted (but often parallel) actions and examines these actions from a **behavior perspective**. It is defined as a series of interventions concerning organizational structures, key personnel actions, and control systems (Hrebiniak & Joyce, 1984); a series of decisions and resultant actions which commit resources to achieving intended outcomes (Grinyer & Spender, 1979); actions initiated within the organization (Varadarajan, 1999); a hands-on operation and action-oriented human behavioral activity that calls for executive leadership and key managerial skills (De Kluyver & Pearce, 2003); and those senior-level leadership behavior and activities that will transform a working plan into a concrete reality (Schaap, 2006).
- The third approach is to combine the first two perspectives, process and behavior or action perspective, into **a hybrid perspective**. Within this approach, it is defined as the sum of activities and choices required for the execution of a strategic plan—the process by which strategies and policies are put into action (Wheelen & Hunger, 1992), an action-oriented process that requires administration and control (Govindarajan, 1988), and the step-by-step implementation of the various activities that make up a formulated decision-making strategy. Moreover, strategy execution can also be treated as a cognitive process (Singh, 1998).

Taking these prior definitions and considerations into account, we accepted the definition provided by Li et al. (2008) which define strategy implementation as a dynamic, iterative, and complex process, which is comprised of a series of decisions and activities by managers and employees, affected by a number of interrelated internal and external factors to turn strategic plans into reality in order to achieve strategic objectives.

The importance of implementation has been recognized in a number of eminent professional studies and relevant research continuously proving that strategic implementation matters; however, throughout the years, no significant improvement has been offered in this field:

- Two studies published in the Fortune magazine: one in 1982 (Kiechel "Corporate Strategists Under Fire"), according to which less than 10 % of well-formulated strategies are successfully implemented, and the other in 1999 (Charan and Colvin, "Why CEOs Fail"), indicating that 70 % of firm bankruptcies are linked to poor implementation.
- Studies from various sources have reported implementation failure rates between 60 % and 90 % (Kaplan & Norton, 2005).
- Johnson's study (2004) finds that 66 % of corporate strategies are never implemented.

- Some studies note that organizations fail to implement up to 70 % of their strategic initiatives (Beer & Nohria, 2000; Miller, 2002).
- Studies concluded that nine out of ten strategies fail to be implemented successfully (http://strategyimplementation.wordpress.com/2009/02/04/strategy-implementation/; Accessed November 26, 2014).
- A professional study published in The Times 1000 indicates that 80 % of top managers approved to have the right strategy, but only 14 % of them thought that these strategies were properly implemented (Cobbold & Lawrie, 2001).
- A research conducted by the Ashridge Strategic Management Centre in the UK indicates that only 11 % of companies employ a fully-fledged strategic control system (Collins, Young, & Goold, 2012).
- An *Economist's* survey of 276 senior operating executives in 2004, found that a discouraging 57 % of firms had been unsuccessful at executing strategic initiatives during the 3 preceding years (Allio, 2005).

The variety of studies concluded that strategy implementation was and still is one of the crucial challenges no matter the country, sector, and life-cycle of the firm or management competences.

3 Identifying Strategy Implementation Problems

All companies face a number of different problems when implementing a strategy, for example, the question of how to identify the factors that influence the implementation process or how to effectively monitor the implementation process in order to ensure superior performance.

During last three decades, a number of authors (Alexander, 1985; Al-Ghamdi, 1998) proposed a more or less similar list of implementation problems. The level and the scope of analysis defined a more or less granulated vocabulary to denote strategy implementation problems. Sometimes the problems are identical, but labeled differently, thus giving the impression of a "new" problem. Actually the list is quite long, overlapping at times, loaded with cause-effect syndromes, and there are cases in which the source of the problem is found among the consequences of the very same problem.

One of the first extended lists, offering an overview of strategy implementation problems based on research of medium-sized and large US firms (Alexander, 1985), identified the following obstacles, the last five added by Al-Ghamdi (in 1998):

- The implementation process took more time than originally allocated.
- Major problems surfaced which had not been identified earlier.
- Coordination was not sufficiently effective.
- Competing activities distracted attention from implementing this decision.
- Capabilities of employees involved were insufficient.
- Training and instruction given to lower level employees were inadequate.

- Uncontrollable factors in the external environment had an adverse impact on implementation.
- Leadership and direction provided by departmental managers were inadequate.
- Key implementation tasks and activities were not sufficiently defined.
- Information systems used to monitor implementation were inadequate.
- Advocates and supporters of the strategic decision left the organization during implementation.
- Overall goals were not sufficiently well understood by employees.
- Changes in responsibilities of key employees were not clearly defined.
- Key formulators of the strategic decision did not play an active role in the implementation.
- Problems requiring top management involvement were not communicated early enough.
- Deviation from original plan objectives.
- People are not measured or rewarded for executing the plan.
- Lack of feelings of "ownership" of a strategy or execution plans among key employees.
- Lack of understanding of the role of organizational structure and design in the execution process.
- Insufficient financial resources to execute the strategy.

In 2000, Beer and Eisenstat conducted 12 case studies and identified 6 strategy implementation barriers:

- Senior management's top-down or laissez faire policy
- Unclear strategy of conflicting priorities
- Ineffective senior management team
- Poor vertical communication
- Poor coordination among functions, businesses, or boundaries
- Inadequate down-the-line leadership skills and development

The authors describe the interactions between these six strategy *killers* and group them into three categories: the quality of direction, quality of learning and quality of implementation.

In his survey based on 94 interviewed firms in various industries, Johnson (2002) identified five reasons why strategic plans fail:

- Lack of employee motivation
- Inadequate communication
- No plan behind the idea
- Passive management
- Poor leadership.

Hrebiniak's (2005) extensive research of 400 companies extends Alexander's list by adding additional factors that may affect successful strategy implementation:

- Lack of feelings of "ownership" of a strategy or execution plans among key employees

- Not having guidelines or a model to guide strategy-execution efforts
- Lack of understanding of the role of organizational structure and design in the execution process
- Inability to generate "buy-in" or agreement on critical execution steps or actions
- Lack of incentives or inappropriate incentives to support execution objectives.

Within this thorough empirical study, the author observed that managers are often trained to plan but rather rarely to execute strategies. A lot of managers plan effectively, but do mistakes in identifying, addressing, and eliminating major obstacles during the implementation process.

Kalali et al. (2011) comment there is no alignment between processes, work systems, and other organizational dimensions with organizational strategy. Kalali's empirical research identifies the following problems (Kalali et al., 2011):

- Resource limitation: money, material, and human resources are insufficient for strategic decision implementation.
- Background: organization is notorious for being unsuccessful in implementing its strategic decisions.
- Poor and improper communications: information and knowledge transfer is poor in the various units of the organization.
- Conflicting goals and priorities: goals and strategies of the organization are multiple and divergent with each other.
- Environmental uncertainty: unpredicted problems happen while implementing the strategies.
- Disharmony: coordination of executive activities is poor and inefficient.
- Incapable human resource: the employees who are involved in the strategy implementation lack necessary capabilities.
- Improper management team: the leadership and guidance required from managers of any level of the organization are not enough and proper.
- Inefficient operational planning: activities and key duties are not defined with enough detail.
- The lack of support by senior managers: the CEO, the members of the board of directors, or top-level managers do not support the strategy implementation adequately.
- Non-assessability of implemented strategic decision: the criteria of the success of strategic decision are not definite and clear.
- Non-acceptor organizational culture: beliefs and values of the employees of organization are conflicting with implementing the considered strategy.
- Divergent organizational structure: the current organization structure prevents from the implementation of the strategy.
- Noncommitment of decision makers: decision makers do not have enough commitment to implement the strategy.
- Unclear strategy: the decided strategy is not clear and well defined.
- Non-convergence of organizational varied aspects to considered strategy: there is no alignment between processes, work systems, and other dimensions of the organization with the organizational strategy.

Empirical studies have been presented in chronological order to show that even after a 25-year span between the first and the last presented empirical research, the same problems still exist.

4 Grouping Implementation Problems

Most research isolates one or two factors (e.g., the role of top management or communication) and investigates their impact on operational and/or financial performance (Alexander, 1985; Forman & Argenti, 2005; Heide, Grønhaug, & Johannessen, 2002; Hrebiniak & Snow, 1982; Peng & Litteljohn, 2001; Rapert, Velliquette, & Garretson, 2002; Rapert & Wren, 1998; Schaap, 2006; Schmidt & Brauer, 2006; Smith & Kofron, 1996), although a more realistic approach proposes to take into account multiple factors and their interrelated effects (Dawson, 2003; Pettigrew et al., 2003).

The summary is based on the factors identified by Beer and Nohria (2000) and Johnson and Scholes (2002). They suggest that a mix of three critical elements is required in order to have a successful strategy implementation: two from prescriptive planning (hard) and one from process (soft) approaches. The planning approach elements include having an appropriate organizational design to implement strategy well (Mintzberg, 1979) and having an appropriate resource allocation and control—the way this is done shapes the context for deploying strategy (Langfield-Smith, 1997). The third, i.e., the process elements, is managing change. It focuses on identifying barriers to change and managing political issues, communication, and changes to organizational routines (Pettigrew & Whipp, 1991).

The following classification provides a summary of common problems in strategy implementation:

- *Inappropriate strategy or poor connection between strategy and implementation*

A strategy presents a complex sophisticated document almost impossible to follow and implement. The strategy usually fails in translating strategic decisions into short-term actions. Additionally, deviation from original plan objectives is one of the most detected implementation obstacles. In daily operations, the link with strategic ideas is usually lost, and the overcomplex strategy remains a wish list. In such situations, managers at middle and operational levels reach for rapid and poorly elaborated decisions that are not linked with the formulated strategy but offer short-term solutions. In the short run, this enables firms to survive, but does not lead to above-average results. Such situations can be an indicator of the fact that the objectives were set according to too high standards and as such were not properly estimated.

- *Poor alignment of strategy implementation and the organizational structure*

Inappropriate organizational structure implies dissonance between the way current operations are run and the organizational flows of both operation and communication defined by the strategy. Structural shortcomings and drawbacks are manifested through the lack of clear guidelines for middle and lower management levels, inadequate training, and divergent goals and priorities. An adequate organizational design facilitates communication and the coordination of processes among functions and divisions respecting planned deadlines and budgets. The organizational structure is characterized by the size of the workforce and its characteristics, the number of established vertical and horizontal communication channels, established lines of authority, and responsibility among key implementers.

- *Poor alignment of strategy implementation and the existing organizational culture*

The task of developing an organizational culture implies two distinctive activities: setting corporate values and a communication strategy in order to achieve employee commitment. The values are rarely well known and, if known, are often misused and manipulated. Corporate values clearly define and constantly enforce development of a strong implementation network of supporters. A well-established culture is devoted to business integrity and is a precondition for introducing changes.

- *Limitation of resources or inappropriate resource allocation*

In this section, we refer to human, financial, and material resources indispensable in strategy implementation. No strategy can be implemented without using resources, even inappropriate ones. To accomplish strategic goals, resources must be carefully planned and distributed. Human resources are an indispensable factor in strategy implementation, the one through which firms develop most of their competitive advantages. Competitive advantages in particular depend on employees' capabilities. For this reason, managers must carefully select and develop the workforce potential, both at management and operational levels and the explicit or tacit levels.

- *Poor management and leadership*

As empirical research shows, senior management does not pay due attention to the execution of the strategy during its implementation stage. We see this in cases where once the strategic plan has been created, the attention of the top management diverges to day-to-day business operations thinking that the strategy will be implemented as a result of natural processes and courses of actions. At the end of the process, the responsibility is on the middle and lower management levels who did not accomplished their part of the job due to the lack of links with the strategic perspective. The participation of the top management in the implementation process is essential because they verify if each of the ideas set in the strategy plan is being properly developed. During the implementation process, the strategy creators and executors have to cooperate intensely.

The implementation obstacles are particularly emphasized at the middle management level. Managers are at the center of the hierarchical pyramid and are considered to be the main actors in translating the plan into action. Middle managers are involved daily in the implementation and seek solutions for operational levels. Poor results disclose situations in which employees are not promptly and properly trained and informed to accomplish set goals.

- *Inefficient operational planning*

When the budgets and procedures are set in place, operational planning is the following step in the implementation process. Operational plans elaborate strategic objectives and ensure continuous monitoring of undertaken activities. Inefficient operational planning is manifested in situations when resources are reallocated to other activities, making it impossible to accomplish strategic objectives within the planned timeframe.

- *Inadequate responses to environmental forces*

Environmental forces have a moderating effect between the implementation process and operational performance. Competing activities are the most mentioned problematic factor in the external environment. The system of sensing, recognizing, and analyzing changes in the environment enables the company to reduce the level of uncertainty and improve the quality of its decisions.

- *Lack of monitoring current operations within a company*

Once the strategy has been created, validated, aligned, and communicated, the next step is to ensure that it is implemented in the form it is created. This control step includes measuring, reviewing, and updating the strategy. Interactive control systems focus organizational attention on strategic uncertainties and provoke the emergence of new initiatives and strategies (McDaniel, 1999). Without implementation, control, and performance measurement, a business process cannot be improved. Continuous monitoring allows feedback information to reach top management levels. Measuring business performance metrics need to be balanced, which includes more than financial indicators. It should capture both operational and strategic measures; it should not be biased; and the metrics of a specific function or department has to be aligned with the corporate one.

5 The Integrated Strategy Implementation Model

Strategy implementation received more attention from practitioners than from researchers. Operationalizing the implementation was in the focus of many consultancy agencies and of marginal interest to academic researchers. The way how to do something or put into practice was considered to be more of a manual issue and less an issue of coordination, skill, art, or science. The consultancy agencies found a perfect niche in helping businesses in their implementation, the task researchers always put last on their priority list. One of the proofs in favor of this is that the most popular books used in teaching strategic management (David, Hunger, Wheelen, Hitt, Ireland, Hill, Jones, Dess, Lumpkin, Thomson, Grant) devote most of their chapters to environmental scanning, formulation, and control. The parts dealing with implementation are divided in sections such as corporate governance, strategic leadership, strategic entrepreneurship, and organizational issues on control. Again it is all about distinctive fields of research, but little about practical suggestions on how to implement strategy.

In 1982, the consultancy firm McKinsey, actually its project leaders Peters and Waterman, was the first who found a large audience in the business press with their implementation framework. The 7-S model posits that organizations are successful when they achieve an integrated harmony among three *hard S* elements: strategy, structure, and systems, in addition to four *soft S* elements, skills, staff, style, and shared values. Although they discussed each of these factors individually, they did not provide clear examples and explanations for the relationships and interactions between the factors. In their book *In Search of Excellence* (1982), they explained the following themes:

- *Getting on with it*—managers usually think too long and do not start with action.
- Losing touch with the floor and customers makes managers make strategic decisions that end in failure—*stay close to the customer*.
- Freedom to take decision leads to creating, initiating, and proposing better solutions—*foster innovation and entrepreneurship*.
- Taking care of quality by listening, learning, and leading employees—*productivity through people*.
- Managers should lead with their example, closely looking at the value-driven activities and have hands-on-approach—*management showing its commitment*.
- One should focus on the field one has mastered—*stick to the knitting*.
- Keep the business, process, and company simple and keep the staff lean—*simple and lean*.
- Keep the values centralized and keep reminding everybody about them, keep all the rest decentralized—*autonomy in shop-floor activities plus centralized values*.

A revision of the 7-S model was proposed by Higgins in 2005. Higgins (2005) noted the absence of resources as one of the crucial components in the framework and proposed adding this category to the model (Bhatti, 2011).

Ten years after Peters and Waterman introduced the 7-S model, Kaplan and Norton (1992) presented the balanced scorecard (BSC), a new measurement approach distributing performance objectives and measures in four perspectives:

- *The financial perspective* describes the tangible outcomes of the strategy in traditional financial terms, such as return on investment (ROI), shareholder value, profitability, revenue growth, or lower unit costs.
- *The customer perspective* defines the drivers of revenue growth. It includes generic customer outcomes, such as satisfaction, acquisition, retention, and growth, as well as the differentiating value proposition the organization intends to offer to generate sales and loyalty from targeted customers.

- *The internal process perspective* identifies the operating, customer management, innovation, regulatory and social process for creating and delivering to the customer value proposition and improving the quality and productivity of operational processes.
- *The learning and growth perspective* identifies the intangible assets that are most important to the strategy. The objectives in this perspective identify which employee skills and competences and what kind of climate are required to support the value creating internal processes.

Managers use the scorecard to describe and communicate their strategy, to align strategy objectives on corporate, business and functional level and shared services to create synergies, to set priorities for strategic initiatives, to report on and guide the implementation process. Both models stress interconnectedness and help managers align their organization for effective strategy execution (Kaplan & Norton, 2006).

The existing works on strategy implementation resulted in grouping factors largely influencing strategy implementation as follows:

- External and internal variables (Alexander, 1985; Noble, 1999)
- Hard and soft variables (De Wit & Meyer, 1999; Guth & MacMillan, 1986; Hrebiniak & Joyce, 1984; Wernham, 1984)
- Context, content, process, and outcome variables (Boryson & Bromiley, 1993; Dawson, 2001; Okumus, 2001, 2003; Pettigrew, 1987, 1992; Schmelzer & Olsen, 1994; Tan, 1999; Van der Maas, 2008)

In 2001, Okumus resumes the Pettigrew's model proposed in 1987. Okumus stated that it is the combination of all factors together that makes the transformation possible. Any inconsistency with one factor influences the other factors and, subsequently, the success of the implementation coherence between the implementation factors in situations of dynamic and complex change. Okumus (2003) proposed the following implementation factors: strategy development, environmental uncertainty, organizational structure, organizational culture, leadership, operational planning, resource allocation, communication, people, control, and outcome. The factors are grouped in the following groups (Okumus, 2003):

- *Strategic content* includes the development of a strategy emphasizing new initiatives and participation.
- *Strategic context* is further divided into external and internal contexts. The internal context includes organizational structure, culture, and leadership, while the external context includes the changes in the company's macro- and microenvironment.
- *Operational process* includes operational planning, resource allocation, communication, people, and control. *Operational planning* implies preparing, planning, and piloting activities; *resources* refer to resource allocation, information, and time limitation; *communication* implies the selling activities of the strategy in multiple modes; *people* refer to recruitment, training, incentives, and developing competencies; and *control* implies monitoring and feedback activities.

- *Outcome* includes results of the implementation process whether they are intended or unintended.

Our approach to implementation is based on the Okumus (2003) model alternated in a few elements and upgraded by adding several assumptions concerning the implementation process in practice.

Firstly, the core of the implementation model includes a set of operational process factors: resources, communication, people, control mechanisms, operative planning, and time. We think that time needs to be a separate element due to the fact that the implementation process in almost all the cases takes more time than originally planned and time dimension has not been analyzed and separately included in the implementation models so far. Being able to follow the rhythm of implementation steps is a sign that company owns appropriate knowledge and competencies in realizing plans. Strategy can be successful just in case the results are delivered in a specific timeframe. The essence is to follow the dynamics of implementation during the process.

Strategy formulation antecedes strategy implementation. The relation between strategy formulation and its implementation could be influenced by the outer (Aguilar, 1967; Choo, 2001; Daft & Wieck, 1984) and the inner environment (culture, structure, and leadership). The consequences of the strategy implementation could be directly depicted in organizational and performance results. Figure 1 presents the integrated model of strategy implementation. The overriding assumption of this framework is that multiple factors should be considered simultaneously when developing and implementing a strategy. Some frameworks combine several elements under one factor, while others refer to each of these areas as a key factor. It is important to conclude that none of the factors can be isolated or omitted.

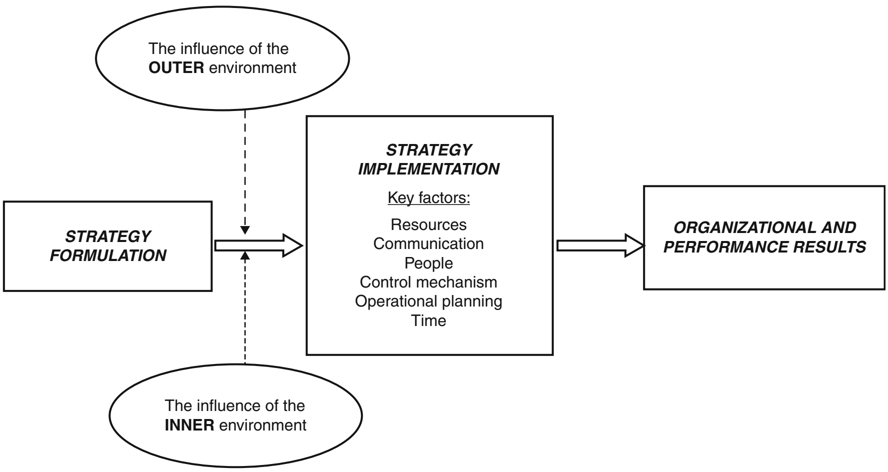

Fig. 1 The integrated model of strategy implementation (*Source*: Authors based on the work of Okumus (2001, 2003))

Secondly, there are two aspects that should be taken into account when performing empirical research on strategy implementation. When performing any kind of meta-analysis of strategy implementation literature, one should be careful when generalizing the conclusion due to the respondents' hierarchical position in the empirical research. Namely, at most the strategy implementations are based on the conclusions of top managers, while the perspectives of middle, lower, and nonmanagerial positions are poorly considered (Grönroos, 1995). The role of the middle-level management was taken into consideration only by a few of researchers (Kuyvenhoven & Buss, 2014; Salih & Doll, 2013). Depending on their position and power, the collected information must be interpreted and weighted in a different manner. The need to include all levels is acknowledged by several authors, (Alexander, 1985; Noble, 1999; Nutt, 1990; Rapert, Lynch, & Suter, 1996) with the aim to resolve the identified problems in strategy implementation (Dooley, Fryxell, & Judge, 2000; Floyd & Wooldridge, 1992a; Heracleous, 2003; Noble, 1999; Rapert et al., 1996).

The second point of view is in a way connected to the first point regarding the empirical research of strategy implementation, and this is to consider the level of analysis, i.e., is it founded on corporate, business, or functional perspective? While only a couple of papers analyze strategy implementation at corporate level (Schmidt & Brauer, 2006; Wernham, 1985), quite a great number of them looks at it from the business-level perspective (Gupta & Govindarajan, 1984; White, 1986; Govindarajan, 1989; Govindarajan & Fisher, 1990; Skivington & Daft, 1991; Floyd & Wooldridge, 1992b; Waldersee & Sheather, 1996; Nilsson & Rapp, 1999; Chimhanzi & Morgan, 2005; Olson, Slater, & Hult, 2005; Schaap, 2006; Brenes, Mena, & Molina, 2008). Very few perform the research on strategy implementation from the functional level, e.g., implementation of a marketing strategy (Chimhanzi, 2004; Noble & Mokwa, 1999; Piercy, Kaleka, & Katsikeas, 1998; Sashittal & Wilemon, 1996).

6 Conclusion

Strategy implementation is still a hot potato in strategic management literature. As the normative stand has not yet been developed, there are no fundamental theories to support the development of strategy implementation research. The listing of problems has been neither changed nor improved during past decades. Despite the technological advancement and organizational knowledge about human beings and their behavior, the problems remain the same and do not show any indication of improvement. The same stands for the factors influencing strategy implementation. New list, groups, and classifications have been developed during the years but have had no actual result.

A more elaborative approach lies in formulating models which take into account a number of factors simultaneously without trying to ignore any of them. This chapter provides a contribution in form of an integrated model of strategy implementation and provides two guidelines for performing empirical research on strategy implementation. Researches should take into account different organizational levels of respondents included in their empirical research and not neglect middle, lower management, or nonmanagerial perspectives on strategy implementation. Moreover, the focus of strategy implementation research should be switched from business-level strategies to corporate and functional-level strategies.

Strategy implementation is still in its early development stage and is lagging behind strategy formulation and strategy evaluation. Hopefully, this chapter will speed up strategy implementation and contribute to its significance in the strategic management development.

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Leading Strategically: Process-Based Approach for Driving the Changes in the Organization

Lenka Theodoulides

Abstract Organizations in frequently changing environments often seek leaders who are able to formulate visionary and strategic goals and lead people in organization toward the fulfillment of the strategic plan. In turbulent times when organizations are facing an uncertain future, the process of setting up a strategy which can help the organization gain or maintain competitiveness cannot be accomplished by one charismatic and capable individual—the leader. It is rather a complex and diverse process that merges various knowledge, skills, and experiences from a number of professionals and their expertise. This requires a process-based approach viewing the organization as a system where external and internal processes and frequent changes influence the overall performance of the organization and its people. We have defined this perspective as the process-relational-based leadership model which consists of two main elements. The first part is related to reflection, critical thinking, leading, and following actions, and the second part is focusing on the interactions between leaders and followers where emphasis is given to motivation and an attitude toward change. Leadership is about "foreseeing" a successful future for the organization. It is therefore our goal to contribute to the development of process theory in regard to leadership which can address these challenges.

1 The Role of Leadership in the Organizational Environment

In businesses and organizations, "leadership" is often contrasted with "management." Management is typically defined as "getting things done through others." In comparison, leadership is defined as "getting others to do things." Thus, leadership is intimately tied up with motivating and influencing others. As Kotter (1996) states, "the whole purpose of systems and structures is to help normal people who behave in normal ways to complete routine jobs successfully, day after day. It's not

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exciting or glamorous. But that's management." In addition to Kotter's approach for leadership and management, Henry (2011) adds that leadership is about change and change requires an adjustment in people's behavior. An effective leader will ensure that the organization's vision is in line with its employees' own value system.

As the business environment becomes more complex and is changing continuously, organizations need to be more flexible and alert. The leadership topic has been researched and studied significantly, and a broad theory has been created. We have been looking at the leadership from an organizational point of view, and our analysis is shifting from the traditional approaches toward a process-based perspective focused on process, dynamism, and the impact of leadership on the organization's and people's performance.

1.1 Development of the Leadership Theories

With historical management theories, leadership includes concepts such as inspiring, engaging, and motivating employees so they would work harder and achieve the organizational goals. A lot of emphasis has been given to the leader's ability to influence others through its personal authority. Much of the literature on leadership focuses on "characteristics" of good leaders (Maxwell, 1993; Sekova, Durian, Kucharova-Mackayova, Minarova, & Theodoulides, 2013). These characteristics, however, are often too general to be of much practical value to someone trying to become a better leader.

For instance, to say that good leaders are "gifted optimists" or are "honest" and "inspiring" provides little practical basis for specific skills development or improvement. These are typically judgments about our behavior made by others. In its broadest sense, leadership can be defined as the ability to influence others toward the accomplishment of some goal. That is, a leader leads a collaborator or a group of collaborators toward some end.

In some organizations where there is more emphasis on the operating and controlling activities, there is lack of a leading function. The vision is developed as a single exercise of one individual, usually by the executive manager without sharing it with the organization and with no support of other people. The role of leadership is to create a shared and jointly discussed vision of where the organization is aiming to get to and to formulate strategies to bring about the changes needed to achieve the vision.

As Henry (2011) states, dissemination of leadership allows organizations to deal effectively with increasing change in their competitive environments. The biggest challenge for every organization is to blend the distinct actions of leadership and management so that they complement each other within the organization.

Frequently, descriptions of effective leadership emphasize what has been effective in a particular business, culture, or environment (Blanchard, 2009). However, the actions, style, or characteristics that make a leader "good" in one context may be ineffective or devastating in another.

Some studies of leadership focus on the outcomes of effective leadership, pointing out that good leaders "create vision," "mobilize commitment," "recognize needs," etc. However, simply knowing about these goals is not enough. The key to actually achieving them involves having the mental and behavioral skills required to put them into practice.

For example, Senge (1990 cited by Maxwell, 1993) argues that "leadership is about influence, when there is a genuine vision; people excel and learn, not because they are told to, but because they want to. Many leaders have personal visions that never get translated into shared visions that galvanize an organization."

For instance, Blanchard (2009) argues that leadership was defined as an influence process for many years. However, in her latest book, she admitted the change of leadership definition (Blanchard, 2009) and defined it as the capacity to influence others by unleashing their power and potential to impact the greater good.

Another point of view is presented by Wilson (2010) who stated that the research on leadership has been too scientific for this highly interpretative subject matter. Leadership might be considered as an art rather than a science and there are no recipes to guarantee success.

The literature on leadership is vast, yet it offers models and theories about leader's behavior and different styles and answers how those skills can be developed or which leadership style to use. A dramatic shift from ego and personality-centered leadership during the 1980s and 1990s toward contingency approaches has been observed and lately called the post-heroic approach in leadership with emphasis on the occurring humility and emotional intelligence. The summary of the major theories and concepts of leadership is presented in the Appendix.

Among all the ideas and theories about leadership, three aspects stand out—people, influence, and vision. The contemporary view on leadership sees leadership as the needs of organizations toward change. Technology, economic conditions, labor conditions, and social and cultural diversity have made significant influences on leadership in recent times where most organizations function under the high turbulence and uncertainty of their environment (Daft, Kendrick, & Vershinina, 2010). We can see that with transformational leadership where the leader envisions the changes of the company and he or she is setting the new goals for the organization and for individuals.

The authors Bass and Avolio (1993), Hamel and Breen (2007), Beerel (2009) and Kotter (1996) underline the leadership function as facilitating, guiding, and managing change. In this sense, exercising leadership concerns mobilizing oneself and others (followers, subordinates, or the entire organization) to adapt to the new realities of change and perpetually seek new possibilities.

Kotter (1996) insists that the central issue is never a strategy, structure, culture, or systems. The core of change lies in changing the behavior of people, and behavioral change happens mostly by speaking about people's feelings. The task of leadership is primarily about dealing with people's capacity to new realities, i.e., their ability to transform and change (Beerel, 2009).

The process of leading the change is discussed and analyzed in the last section of this chapter where we emphasize the context and process aspect of leadership toward strategy creation through acceleration of changes in the organizational environment.

1.2 New Realities in the Leadership Theory

For more than 50 years, the name Peter Drucker has been synonymous with management and leadership issues. Drucker, an author, professor, and consultant, has long been recognized as the father of modern management. Thankfully for most of us, Drucker has observed that there is nothing such as a "leadership personality" as leaders come in all flavors, styles, and temperaments. This is because it's what a leader knows and does that spells effectiveness. Drucker elaborated in several of his books (1999, 2001, 2003) the role of leadership and made the following observations:

- Leadership is a social function and has mostly to do with people, not things and procedures.
- Leaders know the value of foresight. You can't predict the future but you must assess the future aspect of present events.
- Leaders focus on opportunities, not problems. Most organizations assign their best resources to problems, not opportunities.
- Decisions that leader takes about people are the ultimate control mechanism of an organization. This is where people look to find out what real values you hold.
- All work is work for a team. No individual has the skills or ability to do every job. The purpose of a team is to make strengths more productive and weaknesses irrelevant (adopted from Drucker, 1999, 2001).

New leadership theories have been developed since the beginning of the 1980s. Goleman's concept of emotional intelligence (1995) defines it as crucial skills for successful leaders, and this has started the discussion of what leadership should do for the organization operating in an uncertain and frequently changing environment. The emphasis is given on identifying the leadership role in strategy formulation and its implementation. A challenge for leaders is to create an organizational environment where everyone contributes to a strategic architecture, where people continually learn, seek the opportunities, and support changes.

Burns (1978) has identified the new leadership approach and style, i.e., transformational leaders. This concept has been studied by many researchers (Bass & Avolio, 1993; Bennis & Nannus, 1985; Conger & Kanugo, 1987; Kotter, 1996; Shamir, House, & Arthur, 1993). They all present the transformational leadership with its focus on strategic goals, vision, and self-actualization. The effect of this leadership is that it inspires or motivates followers; gains commitment from them; changes attitudes, beliefs, and/or goals of individuals; changes the norms of the organization; and helps individuals to see problems in new ways (Landrum, Howell, & Paris, 2000). These theories on transformational leadership have enhanced a qualitative shift from studying the role of leaders toward focusing more on process of leading people toward their actions, building relational networks, and reaching higher performance through collaboration and intellectual stimulation.

Nicholls (1988) has pointed out that a fair amount of confusion has arisen in leadership research because there are three fundamentally different perspectives, i.e., meta, macro, and micro perspectives of leadership. *Meta-leadership* creates a "movement" in a broad general direction. Meta-leadership links individuals, through the leader's vision, to the environment. In doing so, it releases energy and creates enthusiastic followers. In *macro-leadership*, the leader's role in creating a successful organization is fulfilled in two ways: path-finding and culture-building. Path-finding can be summed up as finding the way to a successful future. Macro-leadership activity can influence individuals by linking them to the entity—be it the whole organization or just a division, department, or group. The leader influences the individual by supplying the subordinates with answers to such questions as: What is this organization all about? Where do I fit in? How am I valued and judged? What is expected of me? Why should I commit myself? In such a process, the leader creates commitment in members of the organization.

In contrast to both of these, *micro-leadership* focuses on the choice of leadership style to create an efficient working atmosphere and obtain willing cooperation in getting the job done by adjusting one's style on the twin dimensions of task and relationship behavior. The leader directs people in organizations in the accomplishment of a specific job or task. If the leadership style is correctly attuned, people perform willingly in an efficient working atmosphere.

The people's view of leadership in an organization is influenced by the knowledge of their performance and by the extent of how they are organized and informed about what action is required and what work has to be done. These two aspects were studied through the Bryman's questionnaire in 1987 such as a work consideration and its initiating structure, and they were defined as effective attributes of leadership in organizations (Wilson, 2010).

1.3 Strategic Leadership

The principles and qualities of leadership are the key concepts foundational to most of the theories, e.g., contingency and situational theories, style theories, or emotional intelligence of leaders. They have been identified among many successful leaders and applied to a number of leadership approaches. In the emerging views of leadership, leaders are people who are committed to creating a world which people want to belong. This commitment demands a special set of models and abilities in order to effectively and ecologically manifest the visions which guide those committed to change. It involves communication, interaction, and managing relationships within an organization, network, or social system to move toward one's highest aspirations.

In 2002, Garry Hamel published his work "Leading the Revolution" where he provided some profound advice on how to be alert to new realities and how to respond effectively. He stressed the importance of imagination, curiosity, and creativity that come with learning to see and being different. Hamel insisted it is essential to perpetually seek new possibilities. He stated that we should challenge our mental models and deconstruct existing beliefs (Beerel, 2009).

Goleman (1995), Goleman and Boyatzis (2002) in his works about the emotional intelligence develops this concept further and defines the primal job of leadership as being emotional. He states that the leader in any human group has been the one to whom others look for assurance and clarity when facing uncertainty or threat or when there's a job to be done. The leader acts as the group's emotional guide.

After studying the theories related to strategic management, observing, and researching and with interviews with leaders at all levels of organizations and in different industries, it can be summarized that regardless of position or industry, strategic leadership demonstrates the following five qualities:

Collaborative—the best strategies, plans, products, and processes emerge from a collective effort. The leaders allocate and develop valuable resources and actively seek out others' ideas and opinion and convey enthusiasm about achieving important goals. They believe that collaboration motivates people to do their best and establishes the base for learning, knowledge creation, and sharing processes.

Inventive—there are always new and different ways to serve people, to be more efficient, and to make work easier. They question traditional methods and look for unconventional solutions to unmet dilemmas and needs.

Skilled—the presence requires balancing the demands of multiple critical tasks where both technical and interpersonal skills are crucial to achieving results. Leaders view learning as a lifelong process for themselves as well as for all people as it takes continued practice and experience to becoming fully competent and capable in diversified jobs.

Visionary—foreseeing and painting an inspiring and better future for the organization and people around it. They believe that others should contribute to the future and participate in its realization. Leaders inspire and motivate people with both actions and words.

Mindful—respecting the human needs and realizing others' feelings are important. Leaders have a strong sense of organizational values and act in alignment with them. The long-term best interest of others and the organization is at the center of their decisions and actions.

Leading Strategically as Process

The latest theories focused on the transformational leadership are concerned with an articulation of the vision and recognizing the patterns of how things are done. Due to the fact that it includes a showing of direction, pacing, and directing the actions for followers, it is described more as a process rather than a pattern of behavior. The leading process focuses on initiating and setting externally referenced challenges which are connected to the vision, the mission, and the strategic goals. That also requires expressing a clear understanding of the strategic

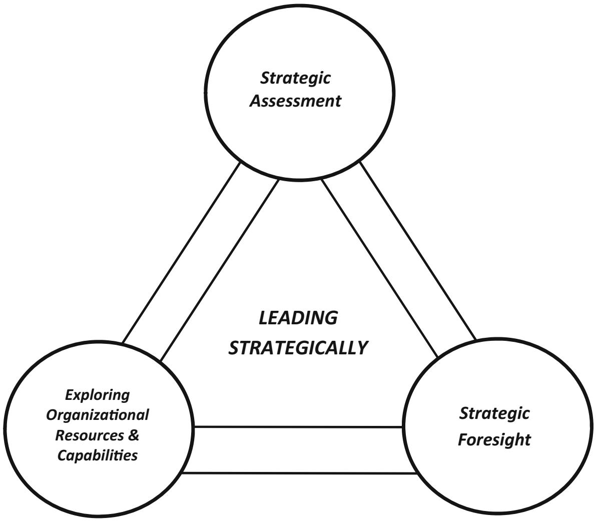


Fig. 1 Process of leading strategically (*Source*: Author)

architecture through action and constructing dialogue where appropriate activities are built.

In Fig. 1, the process of leading strategically consists of three main parts, i.e., strategic foresight, exploring organizational resources, and implementation of the strategy. Leading is characterized as a systemic, exploratory distributed process in which emphasis is on the building of coalitions with employees and partners with the developing of the organizational network where different aims, behaviors, and outcomes of various organizational units are lead toward one common strategic goal. A good leading process involves following what is constructed by an environmental response to the way it is led. Strategists lead the construction of an image of the environmental conditions and the key exchange relations therein: the environment follows the description given.

The presence is characterized by frequent and continuous changes, increasing requirements on the complexity of the managerial decisions; formulation of the strategy is the result of the collectivist work with the main focus on exploring organizational resources and capabilities. This approach is introduced in Fig. 1 as the process of leading strategically. The strategy implementation phase requires continuous leading of all the people in the organization toward achieving their goals where the self-development and learning process is present in their everyday work.

The leadership is defined as the process where its content and approach may vary. The different leadership styles and behaviors have been observed, and the concept of effective leadership based on identification of the difference between management and leadership and rigid goals, rather formal and structured relations between supervisor and subordinates, has been developed. We have defined those concepts as the system-control perspective of leadership.

The process character of any leadership and interactions between leaders and followers has brought our research and study to develop the theory of a **process-relational perspective** of the strategic leadership in organizational settings.

2 Process-Relational Perspective of Leadership

The role of leadership in both processes, i.e., process of formulating a strategy as well as in the implementation process, is essential. The ability of leaders to envision the strategic orientation, to set up and communicate the strategic goals, and to guide the coworkers across the organizational structure on fulfilling these targets is essential for an organization to succeed. As organizations grow, expand, or diversify, the increased complexity is made more difficult in establishing a cooperative culture, building core competences, and empowering people to generate ideas and creativity. The number of various processes over the organizational structure is developed which require the leader's competence to identify them and understand their impact on the overall strategy.

We have defined this new approach as the "process-relational perspective of leadership" (Table 1).

Leading people's performance in an unstable external as well as in an internal environment, where the diversity of the team and performed tasks occur frequently, has strengthen the shift from the traditional approaches toward a more complex leadership process. The process-relational-based leadership approach emphasizes the development of the balance between the achievements of the strategic goals together with building the relationship network with all groups inside and also outside of the organization.

The process-relational-based leadership can be defined as the entire concept which connects the main functions of *strategic planning* (process of formulation strategy and setting up strategic goals, vision, and mission), *initiating the process of strategy implementation* (communicating the goals with coworkers), *constructive and continuous feedback* (assuring and keeping the right direction), *continuous*

Table 1 System-control versus process-relational perspectives

System-control	Process-relational
Focus on leader	Focus on the process of leading
Focus on subordinates	Focus on coworkers and networks
Leadership separate from management	Leadership as an integral part of management
Unitary concept	Pluralistic concept
Clear, strictly defined goals and rigid organizational processes and functions	Wide spectrum and complex goals, frequent changes, and modifications of organizational process are expected

Source: Author based on the work of Hay and Hodgkinson (2006), p. 147 and Uhl-Bien, 2006, p. 665

support (encouraging and empowering), *information flow* (two-way flow), and *evaluation and assessment* (motivation and reward).

2.1 Leadership Within the Organizational Processes

The authors Eriksson-Zetterquist, Mullern, and Styhre (2011) state that leadership is one of the more important groups of activities carried out in an organization, and it is linked to the formal aspects of organizing. The formal structure is part of the context in which leadership is realized. Context is a broad concept, and it covers a wide range of aspects that can shape the conditions for leadership—formal structures, people, relations, culture, legislation, and technology are a few examples. There are two important contextual factors that show how intimately leadership and organizations are connected. The first factor, *organizational structures*, makes the leadership carried out by people set in formal positions in a formal structure, what is usually referred to as *managers*. The second factor, *values*, deals with societal trends that influence the way leadership is exercised and how it is accepted by people, what is referred to as *followership*.

Daft et al. (2010) discuss the relations between leaders and followers and state that leaders can develop an understanding of their followers and how to help them to be most effective. There are no good leaders without good followers.

Kelley (1995) came up with two dimensions which described the quality of followership. The first dimension is the quality of independent, critical thinking versus dependent, uncritical thinking. Independent critical thinkers are mindful of the effects of their own and others' behavior on achieving goals. They can weigh the impact of their boss's and their own decisions and offer constructive criticism, creativity, and innovation. Conversely, a dependent, uncritical thinker does not consider possibilities beyond what he or she is told, does not contribute to the cultivation of the organization, and accepts the supervisor's ideas without thinking (Daft et al., 2010).

The second dimension of followership is active versus passive behavior. An active follower participates fully in the organization, engages in behavior that is beyond the limits of the job, demonstrates a sense of ownership, and initiates problem-solving and decision-making. A passive follower, by contrast, is characterized by a need for constant supervision and avoids taking responsibility.

In managerial theory, Ghoshal and Bartlett (1995) studied 20 organizations in the US, Europe, and Japan where the understanding of the importance of processes over structures was described. They identified three distinct processes: *entrepreneurial process, competence-building process, and renewal process*. Together they constitute what Ghoshal and Bartlett refer to as a firm's "core organizational processes." There are characterized in more details as follows:

1. **The entrepreneurial process** seeks to motivate employees to manage their operations as if they belonged to them. To institute an entrepreneurial process

requires a culture that recognizes the capabilities of individuals in the organization. Top executives need to understand that individuals perform more effectively when they are trusted to work, utilizing their own self-discipline rather than a formal control system. A self-discipline approach requires the leaders to adopt a supportive and coaching role.

2. **Competence-building process**. Large organizations need to be able to exploit the vast amount of knowledge of the employees that exists in their different businesses. This requires a competence-building process which coordinates the distinctive capabilities or core competencies across those businesses. The role of leaders is to ensure that the competencies are coordinated across different organizational units. They help individual employees to adopt the organization's values and goals to build a sense of community.
3. **The renewal process**. This process is designed to challenge company's strategies and the assumptions behind them. The role of leaders is to proactively shake up the organization's status quo, effectively mediate the resulting conflicts, and support employees' creativity and sharing of knowledge. The result of this process over structure is the creation of an organization in which individual employees are willing and able to innovate (Ghoshal & Bartlett, 1995).

2.2 Systemic View on the Leading Process

Leadership is, by nature, complex and dynamic with the humanistic perspective where man is in the center of all interactions between the leader and his or her people within the organizational environment. An extension of the humanistic perspective that describes the organizations as open systems, which are characterized by entropy, synergy, and subsystem interdependence, is defined in the system theory of organizations.

Zavadsky, Zavadska, Sakal, Pomfyova, and Hrdinova (2012) define the systemic approach as the complexity of thinking, problem-solving, and related actions where everything is considered in both external and internal interrelations and connections.

The organization system consists of five components: inputs, a transformation process, outputs, feedback, and the environment. The complexity of dynamic systems is constituted by the intricate relationships between all components and leadership in such systems and is based on the complex interaction between the leader and his or her people, which represents a systemic view of the organization (Daft et al., 2010).

Peter Senge (1990) in his book *Fifth Discipline: The Art and Practice of Learning Organizations* defines the system thinking as the ability of leaders to integrate all knowledge and understanding of all facts into deeper and more complex understanding of the world around the organization.

Cole (2013) states that when studying a system (social or economic), both the structure and the agents within the structure need to be studied together. With the study of leadership, it is important to study the effects of the leaders on the followers as well as the followers on the leaders.

This systemic view shall be the fundamental attitude or philosophy of the leaders to understand the changes in both external and internal environments. Leaders are expected to be able to develop such processes and practices inside of the organization where all employees look and solve problems, share their knowledge and experiences, and are engaged in continuous experiment and improvement.

Systemic thinking is at the root of effective problem-solving and the ability to create functional teams. The ability to think systemically in a practical and concrete way is probably the most definitive sign of maturity in a leader's behavior.

In order to lead the processes and people in an organization successfully toward better results and the achievement of strategic goals, a strong emphasis is given to establishing a flow of information between units, departments, and individuals across the entire organization. Certain fundamental information is expected to be provided and gathered on a continuous basis to individuals, departments, SBUs (Strategic Business Units), and within the whole organization. This flow of information is a two-way process, from leaders to people and vice versa. This information flow represents the inputs and outputs to the examined system.

Effective leadership needs to identify the size and character of the system and works with information from all aspects of the system. The system might consist of three main elements such as the organizational unit, the closer or wider environment, and the individuals. In order to clarify the content and character of the organizational system and its environment, there are a few fundamental questions to be raised:

- What are our (department, SBU, organizational) and individual goals? What is the primary purpose of our/my facility?
- Who are my internal customers or partners with whom my work results depend on? Who counts on the output of our/my work?
- How does our/my team support the results of the whole organization?
- To whom do we/I serve our products or services?

The answers to these questions guide the leadership process and the leaders to focus on the results as well as on the people who are contributing to the success of the organization. It can help them to see the value of their work and to understand the complexity of their performance and its impact on the others within the organization (Fig. 2).

In the complex and fast-paced external and internal environment of every organization, people seek out others they can count on. They want to work with people they can trust and who have what it takes to address and overcome daily challenges. Leadership plays an important role as it searches and provides the information, support, and encouragement to people. All these attributes are based on social and interpersonal interaction, reflection, and trust that make the leading process dependent on the quality of the relations and as a reflection of the conditions and various types of behavior in the organization.

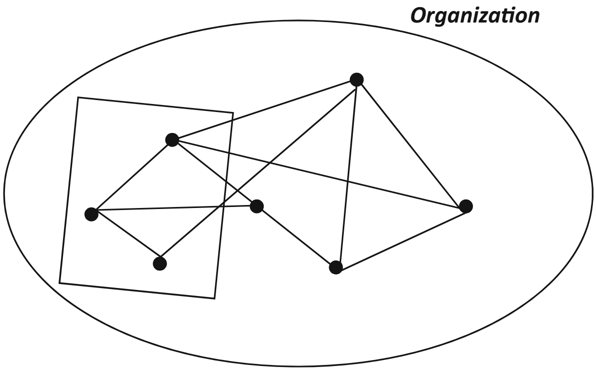


Fig. 2 Big picture as a complex system (*Source*: Author)

2.3 Process of Leading as a Social Interaction

In the previous parts, the leadership has been defined as a complex system which is not constituted merely by the sum of its components but also by the intricate relationships between these components. The leading process is a part of the various dynamic systems which are characterized by the complexity, interactions, and influencing the flow of relations.

Drucker (2001) was a pioneer in this interactionist method, where the leadership is based on the complex interaction between a leader and his or her people, as followers. The value of this complexity approaches to leadership is to understand the organizational systems and principles, as well as to focus on the human beings behind all these processes. This interactionist and relations-based framework enables us to move over the simplistic views of leadership and to highlight it as a social process and to define the causes of professional success of efficient leaders.

The leading-following process has been enriched by the reflection (dialogue between leaders and followers) and action which two other processes of learning and knowing represent. The presented model in Fig. 3 shows the sequence, interactions, and response which happens within the entire leading process.

People are considered to be an important resource for any organization which can create a distinctive capability as a prerequisite to achieving a competitive advantage, provided they are led and developed properly. In such occasions, the learning and knowledge sharing make a crucial impact on leading the people toward the achievement of their goals.

The leaders are often in the roles of coaches, mentors, or even teachers of their subordinates. The individuals are an essential part of the social process of which quality is predetermined by the ability and readiness of the leaders to implement and use the reflection in this process. This is a new way of leading the organizations where the complexity of all processes, interactions, and relations has to overlap in order to perform successfully.

We define **reflection** in the leading process as careful thought and as a sign of critically considering all of the processes which make impacts on the organization's

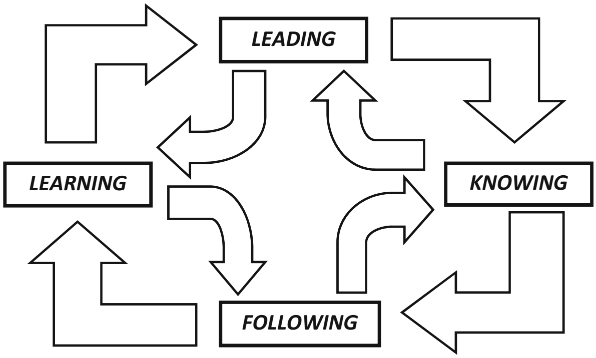


Fig. 3 Leading-following model (*Source*: Author)

results as well as on individuals' performance and behavior (Theodoulides & Jahn, 2013).

We focus on reflection, critical thinking, and the learning process as the main fundamentals of the social interaction between the leader and the individuals.

Critical thinking ability has been already mentioned as a necessary skill not only for trustworthy and efficient leaders but also to be able to develop their active followers. Cottrell (2005) defines critical thinking as a cognitive activity, associated with analytical and evaluative ways which use the mental processes such as attention, categorization, selection, and judgment. The process of critical thinking has been described as follows:

– Identifying other people's position
– Evaluating the evidence for alternative points of view
– Weighing up the opposing arguments and evidence fairly
– Being able to read between the lines, seeing behind the surface
– Recognizing the techniques used to make certain position appealing more than others
– Reflecting on issues in a structured way, bringing logic and insight to bear
– Drawing conclusions
– Presenting a point of view in a structured, clear, well-reasoned way

Badinska (2012) states that critical thinking requires those mental processes which help people to plan, evaluate, and assess their learning process and judgment.

We have conducted a questionnaire based on the reflective analysis among 77 executives from various industries. By raising six fundamental questions, we have tested their attitude which shall reflect critical thinking and systemic approaches toward the leading process. The reflective analysis is based on setting up weights for the observed criteria in the range from 1 to 10 in relation to which criteria has the most impact on the final outcome of the leading process. The simple algorithm has been developed which allows us to measure the executives' performance, and it also shows an average value, i.e., a certain trend in leadership process. The measurement was in the range from 1 to 99, and assessment matrix has been used for this quantitative–qualitative evaluation.

Table 2 Reflective analysis

Criteria	Weighting	Standard or expected value	Tested sample no: 77 executives		Trend
			Maximum	Minimum	
1. Do I share information and knowledge with my subordinates or colleagues?	6	65	93	19	54
2. Do I evaluate processes and progress both in a quantitative and qualitative way?	10	75	93	29	48
3. Do I give and receive continuously feedback?	8	79	80	15	44
4. Do I think about what is going on?	7	67	93	42	52
5. Do I design simple and clear systems?	5	62	95	10	49
6. Do I understand the big picture?	9	77	99	29	59
Total score in value		3,244	3,845	1,515	2,303
In %		72 %	85 %	34 %	51 %

Source: Author

The expected standard performance has been also proposed, and this should give a feedback to executives in what aspects their scores were below standards. The basic structure of reflective analysis is shown in Table 2.

We were concerned with the self-reflection of the executives—leaders. Our objective was to identify and to explain the effects of these criteria on an organization and its people. Less value was reached in the process of giving and receiving feedback. This simple but very important tool plays the crucial role in the leading process due to strong impact on the development and improvement of people's potential. We define the effects of constructive and effective feedback in the section related to motivation where we also propose the implementation of feedback into leading process as the most important prerequisite to the established process-relational approach in organizations.

The most successful leaders have been characterized as the perpetual learners. The explanation to this is that knowing how to lead people is a skill that can be learned; the leader's work is under the influence of continuous changes and new situations which, now more than ever, requires new and creative decision-making skills; and the final argument is that good leader coaches his or her followers toward higher performance results and self-realization.

The Kolb's learning cycle (1976) develops the traditional model of the learning process based on experience. The learning cycle consist of the main four parts, as described in the Fig. 4. We have modified this traditional model by implementing the reflection tool as an important approach for effective leadership (Theodoulides & Jahn, 2013).

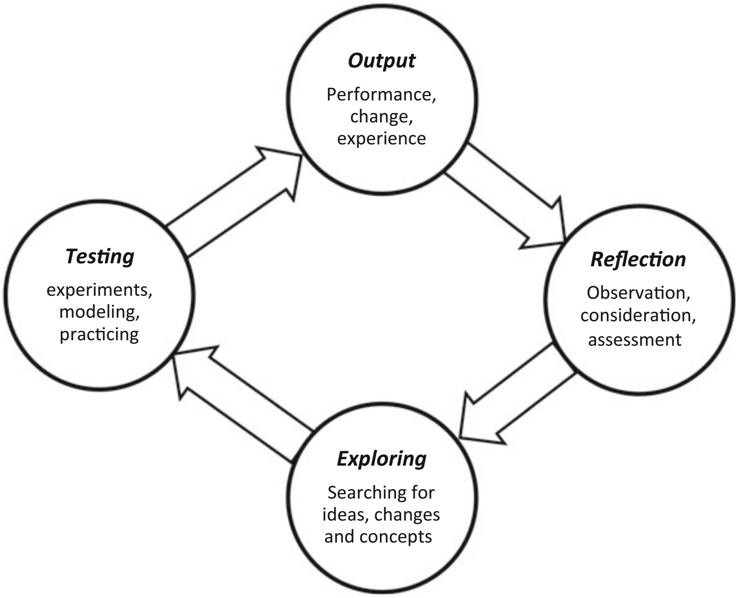


Fig. 4 Learning process based on the reflection (*Source*: Theodoulides and Jahn (2013))

The development of the learning environment, where the people are led and motivated to learn, has a huge impact on every organization. The most effective learning processes are those which are supported through social interactions that occur, directly by doing the work, not in the classroom, and are those where the intuition, reflection, creativity, and experience are present (Kokavcova, 2011).

All these attributes, i.e., learning and reflection based on the critical thinking, were implemented in the development of the process-relational-based leadership model (see Fig. 5) as the valuable result of our studies, conducted research, and testing of this complex model in various organizations.

2.4 Motivating Through the Leading Process

People in an organization differ in many aspects including variations in stereotypes, values, interests, needs, and habits just to name a few. But one thing they have in common, they expect recognition when they perform and deliver their tasks. When we recognize others, we are letting them know that they and their effort are valued. Recognition communicates a message about what behaviors and results are important to an organization. Recognition is a powerful motivator that encourages risk taking, initiative, and individual growth. It can also play a strong role in helping organization fulfill the strategy and meet its objectives. There are several approaches and skills used in the leadership process for recognizing and reinforcing

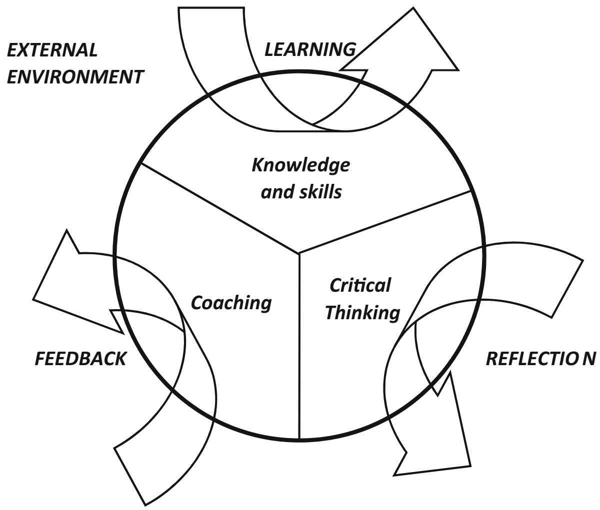


Fig. 5 Process-relational perspective of leadership (*Source*: Author)

the behavior that lead to the right results. Most of them are related to the process of motivation, which is a very vast theory of discussion.

Motivation is defined as a dynamic and psychological process, in which relations between subjects (internal motivation) and environment (external attributes of motivation) create a tension, and the focusing of actions which after the decision-making process, lead towards the target (Sekova et al., 2013).

Kormancova and Kovalova (2013) state that motivation is internal to each individual and derived from an individual's desire to achieve goals, accomplish tasks, or work toward meeting expectations.

Motivating, in general, represents an essential part of the leading process. Leadership uses a variety of tools, techniques, and theories to motivate people toward accomplishing their tasks which are required by the organization.

In this part of the chapter, we emphasize on those tools which are connected to the process-relational approach where the key is to maintain learning, knowledge sharing, and building mutual respect and relationships. The process of continual and transparent evaluation and assessment provides information that calls attention to people's performance so that he or she is successfully led to achieve goals and meet the expectations. On the other hand, leaders can evaluate the strengths and capabilities of people, build openness and trust, and develop their sensitivity to people as well as to situations.

Gostick and Elton (2007) describe the motivation principle in four main elements, which are *setting up the objectives, communication, trust, and responsibility*. The objectives are easily measurable as communication is a two-way process where the reflection of different opinions is valued and discussed. Trust and credibility have to be built and maintained through long-lasting experiences, and people have to be taught and led to be responsible for their decisions and actions.

The leadership process uses this kind of motivational approach in order to bring the best ideas into the strategic goals. The important instrument to effectively leading the people's performance, communication, and the establishment of mutual respect and trust between leaders and employees is feedback. At the heart of providing feedback is an understanding of what can be achieved and what are the others' strengths and capabilities that match the organizational goals and strategies. Feedback by its nature is about sharing information in order to discover what can be improved and how a new quality of relations could be developed.

Whitmore (2009) states that feedback is a tool which evaluates reality, proposals, or ideas about improvement and thus helps with real learning and an increase in performance.

Providing feedback on a regular basis can create important precondition for the development of employees and also for the improvement of all processes within the organization. Certain basic steps are proposed when implementing the feedback process with leading actions:

– By implementing the processes of providing and receiving feedback across the organization that is a transparent assessment and evaluation of all processes that can be established.
– This can be a first step in changing the inefficiency process in the entire organization.
– It is crucial to explain to people the meaning and reasons for implementing the feedback process as a tool to communication and the mutual discovery of the areas for potential change.
– The feedback process needs to have a structure and set up procedures to be able to be rich in homogenous information for assessment and evaluation.
– Understanding and learning of how it can be used as a motivating tool for helping and developing capable works of labor.

In the process of providing feedback, emphasis is given to establish the environment for opened communication and to lead the people to express their ideas and opinions freely. That can be assured by raising simple questions such as: What makes you do the task this way? What other suggestions do you have? How can we achieve this goal? What obstacles do you envision?

Through our analysis and research, we identify three important ways which all contribute and develop the process-relational concept of leadership (see in Fig. 5); those are reflection, learning, and interactions based on feedback process.

We suggest these main steps on how to perform the complexity of the proposed model of the process-relational-based leadership approach:

1. *Focus on the situation, issue, performance, or behavior*. This means that the core of leadership is to deal with facts, results, and situations objectively and look for more evidence in order to be able to think in complexity and understand the interconnections.
2. *Maintain the self-confidence and self-esteem of others*. The leaders have the power to build the people and focus on their strengths and their potential, not on

their weaknesses. When people are tough and feel free to express their opinion and ideas without fear or criticism, they are more willing to learn new things, take risks, and be creative.

3. *Maintain constructive relationships*. The strategy cannot be done by one person; it requires a collectivist mindset that results in the development of strong partnership based on mutual trust and respect. By sharing information, concentrating on the strengths of the people, and developing a learning culture, strong relationships are created. This leads to strong partnerships that will help the organization face any challenge that arises.
4. *Take initiative to make things better*. Work proactively, search for new opportunities, make continual improvements, search for various points of view, be sensitive toward the signals for change, encourage others to express their ideas, and establish effective communication flow. By surveying all these signals for improvement, the organization's chances for success can increase.
5. *Lead by example*. As organizations face new challenges, the need for leadership is expected. People watch leaders and follow their lead. Being a trustworthy leader means setting a good example—even in the face of setbacks. By actively honoring the leader's commitments, admitting to one's own mistakes, and staying receptive to new ideas, you will motivate others to do the same.
6. *Think beyond the moment*. Every action or decision produces consequences. Consider what impacts on others the decisions and actions will have and avoid those actions which bring personal benefit at the expense of others. That relates to high morale and the ethical aspects of leadership. Anticipating the future helps prevent minor, manageable problems from turning into bigger crisis.

Given the complexity and uncertainty that surround most organizations, we assess the leadership process in directing the strategic change and look at some main attributes of how leadership is focused on the enhancement, guidance, and management of people for accepting change.

3 Leading the Process of Change

The significance of organizational change is self-evident in times when a large percentage of projects of change have failed to deliver the desired outcomes and the business environment has become more and more adapted to continuous change and unpredictability. Organizations can expect to face the need for even more changes in the future, at an ever-increasing pace.

Despite this broadly accepted "truth" about change, organizations today encounter significant difficulties in both the timely recognition of the need for change and successfully leading and managing the change process when it is introduced. The severity of these dilemmas becomes intensified, as the pace of change in the external environment accelerates and as organizations are affected by developments in the outside environment (like the current economic recession). Internal problems also required the introduction of change, which is painful to their own people and challenging to design and implement effectively.

This emerging reality shows that leading and changing organizations appear to be more difficult and more important. Given the rapidly changing environment in which organizations operate, there is little doubt that the leadership's ability to guide and manage change successfully needs to be a core competence for organizations.

John Kotter (1996) has defined the leading change process in an 8-step process where he outlined how organizations can avoid failure and become adept at change. By improving their ability to change, organizations can increase their chances of success, both today and in the future. Without this ability to adapt continuously, organizations cannot thrive. The process consists of these steps (Kotter, 1996):

1. Establishing a sense of urgency
2. Creating the guiding coalition
3. Developing a change vision
4. Communicating the vision for buy-in
5. Empowering broad-based action
6. Generating short-term wins
7. Never letting up
8. Incorporating changes into the culture

The strategy acceleration assessment tool developed recently by Kotter International (2014) focuses on strategy implementation process where five main parts were questioned: *context* (current status of the organization's new strategic direction, circumstances that led to the need for a new strategy, progress and satisfaction with strategy implementation), *scale* (determined by the dimensions and scale of the implementation process), *structure* (the role of senior leader's involvement, direct reposts, team creation for implementation, and specific actions and projects consistent with the change vision), *process* (critical process steps that determine the speed and outcome of strategy implementation), and *people* (factors that affect the changing population to accelerate and speed the process of change and implementation).

In the process part, the role of senior leaders in changing the vision has been pointed out very clearly. Kotter states that leadership alignment is critical for a strategy to be successful. They need to be clearly and consistently aligned before engaging the rest of the organization. Also, leaders may believe the need for a new strategic direction is obvious, but without a clear articulation of those reasons, gaps in peoples' understanding of the new strategy that will arise and create barriers to implementation (Kotter, 2014).

Australian Bendigo Bank is becoming recognized worldwide for its approach to managing change and growth through the leadership process based on leadership work with the community and focus on engaging, empowering, and participation. The Bendigo Bank has designed the process of change around six soundly based principles (Vallence, 2006):

– *Engagement*—debate and even disagreements about change are healthy.
– *Continuity*—the past, the present, and the future are respected.
– *Commitment*—it follows from the change process being clear to everyone.
– *Connectedness*—a good change process can build relationships.
– *Learning*—learning from change is valued.
– *Shared vision*—the big picture is shared with everyone.

Global research in change management is conducted by PROSCI (2014) regularly including 822 organizations worldwide where the best practices were observed and which results have been published recently in its benchmark report. Participants in the study identified the most common mistakes by managers and supervisors in times of change. The top five mistakes in managing the change process were identified by participants:

1. Lack of visible support and involvement, assuming employees would automatically embrace and engage in the change without encouragement and assuming that a project team was responsible for communication and engagement surrounding the change.
2. Failing to understand or listen to employees' concern; forums for employee questions, concerns, and feedback were not instituted.
3. Insufficient communication to impacted employees—communications were unclear regarding change details, context, drivers, impacts, business cases, and benefits.
4. Resisting the change by managers—via publically expressing negative messages about change, indicate to employees that the change was not important or would not last and deliberating withholding information.
5. Poor and inconsistent leadership and lack of coaching, feedback, and support of employees throughout the change process.

The process-relational-based approach proposes that leadership should focus on people's strengths and aspirations rather than on problems and what people are doing wrong. It recognizes that people are most often their own best experts of the circumstances of their own lives, that their strengths and capacities are the most powerful catalysts for change. It is they who will be affected by change and who need to be the shared co-owners of that change.

While the strengths approach acknowledges that it is important to seek expertise, it cautions that sometimes leaders can use power over others, either deliberately or inadvertently by assuming to know not only about what's best for others but also about other people's experience, capabilities, and skills. Power over approach reflects a hierarchical role of leadership that fundamentally disrespects and disempowers people. It can easily be used as an instrument for creating passive dependence, keeping people in "their place," assigning blame, and framing people as resistant or uncooperative.

When thinking about leading the change as one of the main expectations of what leaders should deliver to the organization, our process-relational-based approach might be a bit confrontational. It explicitly counters the prevailing traditional image of strong leadership with an alternative set of propositions:

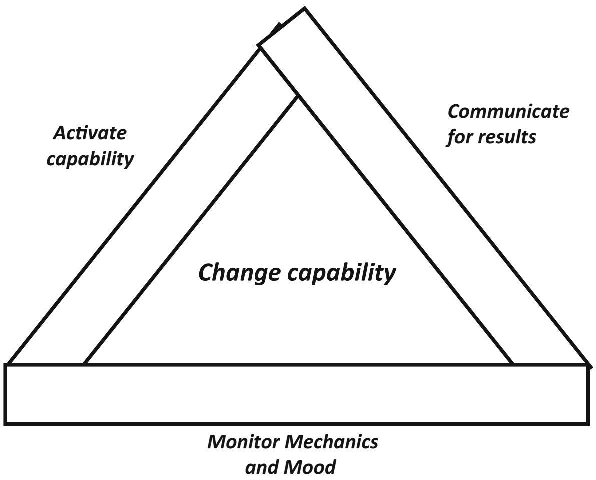
– Leadership is a function that is realized within the complexity of organizational context and reflects all processes conducted in organizational systems.
– The purpose of the leading process is the creation and maintenance of effective, respectful, and sustainable change.
– Everyone in every team is, should be, and can be an agent of change, that is, involved in leadership.
– The success of any change depends on the ability of individuals to understand the purpose and meaning of the change and willingness to adopt new behaviors.

Change permeates every aspect of organizational life, making long-term stability an artifact of the past. That's why, for most organizations, the ability to change is among the few remaining long-term competitive advantages.

To be change focused, organizations need to have leaders who can develop change-capable people. Based on the results of our longitudinal research and several consulting assignments in practice, we develop a model which can be a tool for leaders to build the confidence and flexibility of their employees toward constant organizational change. The proposed model of leading the process of change in Fig. 6 consists of three main functions that lead toward change and has emphasis on the leadership role in developing the change capability in the organization.

1. ***Activate capability:*** Focus on the main practices that point out the external realities and activate change capability inside of an organization.
   – Expand the awareness of business realities to help people see the need for change and motivate the focused effort.
   – Spotlight strengths and successes to generate confidence and momentum and diffuse pessimism.

Fig. 6 Model of leading the process of change (*Source*: Author)



- Embrace experimentation to foster an environment that allows for high levels of involvement and learning.
- Encourage meaningful involvement to build a sense of ownership, make better decisions, and bring better results.

2. ***Communicate for results:*** emphasis is on the creation of the dynamic dialogue that promotes actions and results:

   - Provide information to others need about change at the right time and in a form that works for them. Employees want the right information, and this unit shows how to capture their hearts as well as their minds when communicating.
   - Encourage constructive feedback to know what people really think and feel about change. Straightforward dialogue is central to change results; therefore, it is essential to know firsthand how provided information is understood and interpreted.

3. ***Monitor mechanics and mood:*** Establish the commitment to make change happen and to make the transition process successfully.

   - Make progress clear to all by creating a system of regular short progress updates and reality checks that encourage open, candid discussion about progress.
   - Coordinate resources that support the change effort: how to stay in touch with changing resource needs and find creative ways to meet them.
   - Revisit systems, practices, and policies to identify any that hinder progress and take action to adjust or replace them.
   - Respond to resistance by applying various managerial techniques (coaching, critical thinking, feedback, mentoring, etc.) to create conditions that reduce resistance and encourage commitment to change.

To be change-capable, the organization needs leaders who can develop the change-capable people who can lead the process from the realization for the need for change, activate the new ideas, and transform them into new and innovative ways. The success of every change initiate depends on individuals willing to adopt new behavior.

4 Conclusion

The topic of leadership is frequently discussed among academics as well as practitioners. The study of this topic suffers from too many definitions, not too few. Among all the ideas and theories about leadership, three aspects stand out—people, influence, and vision. As the business environment becomes more complex and is changing continuously, the question “what leadership is the most suitable in uncertain times?” is raised often in the organizational environment. In this sense, exercising leadership represents the ability to be able to adapt to the new realities of change and to be able to “foresee” new possibilities and strategies.

In order to reflect on these trends and also requirements of business, we have conducted the research with the main aim of developing the model of the leading process which would reflect the elements of strategic thinking and need for change. In this chapter, we introduced the new perspective of leadership, called process-relational-based approach, that in our view contributes to the success of leadership performance, which can be defined as follows: (1) reflection based on critical thinking to explore organizational resources and capabilities, (2) process of learning new skills and sharing new knowledge, and (3) developing interactions and relations within the organizational system.

On the basis of the reflection analysis of the research results, we developed two specific models which support the process-relational perspective of leadership. Those are the leading-following model and leading the process of change model. We believe that these two models clearly underline that any leadership action is process based where the people's interactions play a crucial role to fulfill the strategic goals and create ability to cope with changes.

Appendix

The major leadership theories and concepts

Approach	Description	Work-related characteristics	Represented
Leadership traits	Personal social characteristics, intelligence, values, and appearance	Characteristics of effective leaders—expected qualities and required skills	Stogdill (1948)
Behavioral approaches	Style theories	Consideration and initiating structure	Ohio State studies, Bryman (1987)
		Autocratic, democratic, and laissez-faire	Likert (1961), Lewin et al. (1939)
	Two-dimensional leadership theory, i.e., leadership grid	Task-oriented and people, relations-oriented behavior	Michigan studies, Blake and Mouton (1964)
Contingency approaches	Situational theory	Relationships between leader's style and follower	Hersey and Blanchard (1977)
		Match the leadership style with the situation most favorable for his/her effectiveness	Fiedler (1967)
	Path-goal theory	Adaptability of leaders to switch their behaviors in order to increase subordinates' motivation by clarifying the behaviors necessary for task accomplishment and rewards	Yukl (2006)

(continued)

Approach	Description	Work-related characteristics	Represented
Contemporary leadership theories	Level 5 leadership	Development of leadership hierarchy based on humility, developing of others rather than touting leader's ability and accomplishments	Collins (2001)
	Interactive leadership	Values: inclusion, collaboration, relationship building, and caring	W.L. Gore and Associates
	Spiritual theory	To create a vision, coupled with value congruent across the individual, empowered team, and organizational levels and foster organizational commitment and productivity	Fry (2003)
	Servant leadership	Placing a higher priority on the needs and purposes of the individual followers above the goals and objectives of the organization	Greenleaf (1977), Farling (1999), Patterson (2003)
	Emotional intelligence and leadership performance	Leaders' ability to recognize their own emotions and the emotions of others. Emotional intelligence is manifested in self-awareness, self-regulation, motivation, empathy, and social skills	Daniel Goleman (1995), Goleman and Boyatzis (2002)
Change approach	Charismatic, visionary leadership	Ability to motivate subordinates to transcend their expected performance	
	Transformational leadership	Foundation for innovation, vision and strategy formulation, and change	Burns (1978), Bass & Avolio (1993)
	Leading the change	Development of the 8-step model of how to lead the process of change in an organization	John Kotter (1996)
	Systemic leadership	Consider leadership as fundamentally concerned with the process of change. The change process begins with why and what needs to change, and execution and implementation of change	Beerel (2009)

Source: Author

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Multinational Corporations: The Changing Strategic Orientation in the Twenty-First Century

Najla Podrug, Davor Filipović, and Marko Kuveždić

Abstract There has been much attention and debate on global integration versus local responsiveness and likewise whether to standardize or adapt to local circumstances when operating abroad. It is believed that the world is globalized more than ever, but how does that reflect on businesses and multinational corporations? According to Rugman's research at the beginning of the 2000s, only few corporations from the Fortune Global 500 could be actually considered as global, with truly global sales and operations. By Rugman's methodology, corporations were classified as home-region oriented, bi-regional, host-region oriented, "near miss" global, or global. Regions North America, Europe, and Asia Pacific are determined as equivalent geographical regions. Similar research was conducted based on the Fortune Global 500 2012 ranking, 10 years later. Changes have happened. For example, out of nine truly global corporations in 2002, only three remained global in 2012. These are IBM, Sony, and LVMH. Furthermore, stream of revenues have changed for many other MNCs due to their internal strategic decisions and due to external market forces. All these relevant aspects are discussed in the chapter.

1 Introduction

Globalization—the growing integration of economies around the world and the increasing international activities of companies—has been one of the most intensively discussed topics over the recent decades. In the second decade of 2000s, it is believed that the world is globalized more than ever. How does that reflect on businesses and multinational corporations?

It is the international dispersion of activities that characterizes a multinational corporation (MNC). We understand the term MNC very broadly as referring to

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companies with routine cross-border activities. The complexity of MNCs regarding the multiple geographical markets and the dispersed activities within the company often renders centralized management models ineffective and inefficient. The acknowledgement of the increased relevance of foreign subsidiaries and the observation that some subsidiaries take over strategic roles within the MNC led to a conceptualization of the MNC as a network.

The main point of this chapter is to highlight that even the largest and most successful MNCs experience different internationalization paths and paces. Not all of them adopt strategies that are strong, gradual, and not clustered in time. It is a fact that when any enterprise goes international, it must face the so-called liability of foreignness, i.e., the cost of undertaking social, political, and economic risks when venturing into unfamiliar markets. Thus, companies have a strong tendency to first expand into the immediately surrounding regions, before expanding into regions that are further away.

The debate about global integration (standardization) versus responsiveness (adaptation) has recently been supplemented with perspectives that emphasize regionalization. According to Rugman's research at the beginning of the 2000s, only few corporations from the Fortune Global 500 could be actually considered as global, with truly global sales and operations. This could be seen as unexpected because the Fortune Global 500, published by Magazine Fortune, is a list comprised of top 500 companies in the world measured by revenue.

The purpose of this chapter is to explore leading MNCs in globalization/regionalization/localization spectrum. In order to capture dynamics, new research was conducted based on the Fortune Global 500 2012 ranking, thus 10 years after. Considering that a decade in a dynamic business world is a long period of time, changes have happened. Stream of revenues have changed for many MNCs due to their internal strategic decisions or due to increased market forces. Some of them merged, as Sanofi and Aventis, or were acquired, as Compaq by Hewlett Packard, or even split as Daimler/Chrysler did. Some of the MNCs dropped out of the Fortune Global 500 ranking because their environment dramatically changed and their industries became outdated, which only confirms that average life expectancy of a multinational corporation, Fortune 500 or its equivalent, is between 40 and 50 years. This exploratory study can be a starting point for further in-depth analyses. The chapter sheds light on the globalization/regionalization debate by illustrating current realities of international business.

2 Literature Review

There are different views on defining what global strategies of MNCs are. For Levitt (1983) globalization implies that the focus of a global strategy ought to be standardization of products and marketing. In reality, globalization is far more complex than this and requires the development of more complex strategies to reflect this. Yip (1992) argued that an industry may be more or less global in several aspects, according to the strengths of each of its globalization drivers. Yip's concept of total global strategy is, therefore, not rooted in the idea of global standardization but rather in the idea that global strategy must be flexible. Bartlett and Ghoshal (1989) found that managers often oversimplify the choices available to them. They found erroneous management attitudes such as a belief that it had to be global strategy versus local responsiveness, centralized versus decentralized key resources, or strong central control versus subsidiary autonomy. Bartlett and Ghoshal argued that strong geographical management, business management, and worldwide functional management incorporating a differentiated organization with extensive coordination to adapt to local and global needs. In fact, there is much in common between Yip's approach and the approach advocated by Bartlett and Ghoshal.

Stonehouse, Hamill, Campbell, and Purdie (2000) highlight that under certain circumstances business may elect to adopt an international regional strategy as opposed to a global, multi-domestic, or transnational strategy. Prahalad and Doz (1987) argued that, although businesses must be multimarket competitors, they may benefit from choosing to operate in certain critical markets. These are markets which, at the minimum, are reliable "profit sanctuaries" of the key competitors in that market, provide volume and include state-of-the-art customers, and have competitive intensity which allows suppliers to achieve reasonable margins.

Rugman distinguishes global strategies by using revenue model where more than 20 % of revenues come from each of the three regions (North America, Europe, and Asia). Simply, the main advantage of this approach is its main flaw at the same time. Many scholars try to improve the definition by introducing additional measures. In his work, Asmussen (2009) proposes an index of regional and global market penetration. Fisch and Oesterle (2003) propose a model in which sales distribution of an ideal global firm must match the distribution of global GDP. Asmussen (2009) explains it with the example of Swedish and US economy. If an economy constitutes 1 % of global GDP as Swedish does and 29 % as the US economy does, we should require both Swedish and US firms to have 1 % of their sales in Sweden and 29 % in the USA. On the other hand, there are some concerns when it comes to threshold. Osegowitsch and Sammartino (2008) worry that both home- and host-region thresholds are overdetermined. If a firm reaches 50 % threshold from home-region sales, then host-region sales become moot. In addition they argue that no theoretical grounds are offered for the precedence of the home-region threshold in the classification system, other than an assertion that home-region sales in excess of 50 % reflect and constrain decision priorities. The similar reasoning stands behind 20 % threshold for host sales. In their work Delios and Beamish (2005) made two modifications. They added analyses with a 10 % threshold, since an even distribution of subsidiaries around the seven regions of the world they identified would yield a 14 % distribution in each. The second modification that was made was to consider the world to consist of seven geographic regions (Asia, Africa, Europe, the Middle East, North America, Oceania, and South America) rather than the three triad regions. Rugman and Verbeke (2004) based their research on sales data of MNCs even though all previous researches had used macro-level information on FDI. Reasoning behind taking corporation sales was inconsistency or inappropriateness of the data. However, Dunning, Fujita, and Yakova (2007) say that it would be useful to see if the macro-data on FDI stocks and flows support or contradict the claim of Rugman and Verbeke that the great majority of the international sales by MNCs is either home-region or bi-regional oriented. What Dunning sees as an issue is that corporations originating from large and richer countries such as the USA and Japan have lower (relative) propensity for globalization. So that was the reason why he introduced outward and inward FDI data.

When it comes to defining home, host, or bi-regional strategy, there are not so many polemics. Rugman and Verbeke (2004) categorize MNCs as home-region oriented if at least 50 % of revenue comes from their home region. Many authors who have adopted this approach came to similar conclusions, as Rugman and Verbeke did, that majority of firms are home-region oriented. Beleska-Spasova and Glaister's (2009) research made on British export firms supports Rugman and Verbeke's findings. Out of 365 British corporations, 82 % are home-region oriented, 7 % host-region oriented, 4 % bi-regional oriented, and 5 % globally oriented. Hejazi (2007) based his research on US MNCs and came to the same conclusions. In his research, where he used the US Bureau of Economic Analysis data for all US MNCs, 74.56 % of sales is reported to intra-regional sales. Research on Asian MNCs led to the same conclusion. Of the top 75 Asian firms, 66 of them were home oriented.

In their work, Osegowitsch and Sammartino (2008) somehow sum up the major objections to Rugman and Verbeke's methodology. They argue that without making strong theoretical grounds for the threshold in the classification system, inferences about corporation's strategy, based solely on its geographic revenues, are quite troubling.

Interestingly, the literature on globalization/regionalization/localization has, with only few exceptions (Perera, Rahman, & Cahan, 2003), focused on product-oriented business. Services are crucially different because they do not have a physical reality—they are intangible—hence, they cannot be patented, stored, or displayed. Unlike products, the quality and essence of a service can vary not only between service providers but even within one service provider from customer to customer, and/or over time, which means that services are rather heterogeneous. These features (intangibility and inseparability of production and consumption) are central to the decision regarding standardization versus adaptation. Intangibility increases purchase risk for customers. The opportunity to overcome this risk and achieve competitive advantage in the service industry lies in services' differentiation, which is obtained through reputation of consistent quality on delivery of a specific service. Standardization in this context is more difficult if not impossible to achieve at the level of the upstream activities. However, when operating across borders, standardization can be achieved for downstream activities such as marketing (Kolk & Margineantu, 2009). The second service-specific feature—inseparability of production and consumption—involves the direct interaction between the service supplier and the customer. This implies that due to different regulatory systems, languages, and cultural backgrounds, national responsiveness—the adaptation of service offerings to local markets—is also highly relevant (Li & Guisinger, 1992; Campbell & Verbeke, 1994).

3 Methodology

Rugman used the Fortune Global 500 list that is comprised of top 500 companies in the world measured by revenue. These companies are considered as the world's largest MNCs. Every year, companies are ranked by total revenue for fiscal year ended on or before March 31 of the observed year. The revenues are from the reports that are published and reported to a competent government agency where the company is registered. Revenues are observed at consolidated level; thus, they include subsidiaries' revenues. Also, they include reported revenues from discounted operations but exclude excise taxes. Banks' revenues are the sum of gross interest income and gross noninterest income. Mutual insurance companies' revenues include premium and annuity income, investment income, realized capital gains or losses, and other income but excludes deposits.[1]

By using the Fortune Global 500 list, Rugman classified corporations as home-region oriented, bi-regional, host-region oriented, or global. For the corporations on the verge of the classification expression, "near miss" global corporations are used. Home-region-oriented corporations are those that derive at least 50 % of their revenues from their home region. Bi-regional corporations are those that derive at least 20 % of their revenues from two regions but less than 50 % in any of the regions. Host-oriented corporations are those with more than 50 % of their revenues in foreign region. Global corporations are the ones with more than 20 % of revenues from each of the three main regions of North America, Europe, and Asia Pacific but less than 50 % in any of regions.

Regions such as North America, Europe, and Asia Pacific are determined as equivalent geographical regions. Each corporation, when reporting its revenue by geographical areas, uses an approach accordingly to its organizational structure or importance of a market. Thus, to calculate intra-regional sales, some adjustments had to be made.

To calculate intra-regional sales in Europe, data on Europe as a whole were given preference. For corporations that only report for the European Union, this number was used to estimate Europe as a whole. Asia Pacific region refers to Asia and Oceania. North America is defined by Canada, Mexico, and the USA.

4 Discussion

In this research, annual reports from 49 MNCs were analyzed. They were selected from Rugman's classification from 2002 where out of 500 corporations from the Fortune Global 500 list, 320 corporations were home-region oriented, 25 were bi-regional, 11 were host-region oriented, and only 9 were truly global corporations. For 120 corporations there were no data and for 15 data were insufficient.

[1] http://money.cnn.com/magazines/fortune/global500/2012/faq/

Here, data for all 9 global corporations, for all 11 host corporations, for all 9 "near miss" global corporations were analyzed, and data for 10 corporations from home-region-oriented corporations and 10 corporations from bi-regional corporations were examined. They were chosen from the list, starting with the largest corporation by revenue.

4.1 Global Corporations

Out of nine truly global corporations in 2002, only three remained global. These are IBM, Sony, and LVMH. Three of them, Philips, Nokia, and Intel, became bi-regional. Coca-Cola and Flextronics became home-region-based corporations and Canon can be considered as "near miss" global corporation. From these nine corporations, only one progressed on the list, Coca-Cola, ranked 239 in 2002 to 212 in 2012. Interestingly, Coca-Cola owns its progression to revenue increase in the home region, North America. Coca-Cola, a symbol of globalization, stopped being a company with global strategy in 2011 when its revenues from North America were 54.27 % of the total revenues. From 2009 to 2012, there is increase in revenues from home region of 4–5 % in average. Seven corporations regressed. Philips was the corporation to regress the most, 164 places, and Intel the least, only 9 places. Therefore, it can be concluded that these global corporations' revenues grew less than the revenues of the Fortune Global 500 corporations in general. When expressed by weighted average, intra-regional sales decreased by 1.48 %, sales in North America by 4.12 % and in Europe by 5.23 %. There was an increase in revenues in Asia Pacific region by 4.58 % (Table 1).

4.2 Bi-regional Corporations

Out of 25 bi-regional corporations identified by Rugman, 10 largest were analyzed. The biggest two, Toyota Motor and British Petroleum, remained ranked as they were in 2002 list. Nissan Motor and EADS improved their rank and six corporations regressed. Moreover, Motorola dropped out of the Fortune Global 500 with huge decline in revenues. Intra-regional sales in 2012 dropped significantly compared to 2002 for 8.8 %, North America sales for 7.6 %, Europe 5.01 %, and Asia Pacific with the lowest drop of 3.46 %. When it comes to classification, six corporations remained bi-regional, three became global, and Motorola became home-region-oriented corporation due to lower revenues in Asia Pacific and Europe (Table 2).

Table 1 Change of strategic orientation of global corporations (2002–2012)

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	% intra regional 2012	% intra regional 2002	Change	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/ Pacific % of total sales 2012	Asia/ Pacific % of total sales 2002	Change	Type 2012
19	57	↓38	IBM	North America	106.9	43.15	43.50		43.15	43.50		32.59	28.00		24.26	20.00		GLOBAL
37	87	↓50	SONY	Asia/ Pacific	82.2	29.97	32.80		20.10	29.80		21.44	20.20		29.97	32.80		GLOBAL
143	307	↓164	PHILIPS	Europe	35.2	27.38	43.00		32.96	28.70		27.38	43.00		7.48	21.50		BI-REGIONAL
147	174	↓27	NOKIA	Europe	53.8	31.00	49.00		15.00	25.00		31.00	49.00		40.00	26.00		BI-REGIONAL
162	173	↓9	INTEL	North America	53.9	20.92	35.40		20.92	35.40		12.88	24.50		66.20	40.20		BI-REGIONAL
190	224	↓34	CANON	Asia/ Pacific	44.6	19.52	28.50		27.04	33.80		31.29	20.80		19.52	28.50		NEAR MISS GLOBAL
239	212	↑27	COCA-COLA	North America	46.5	59.38	38.40		59.38	38.40		18.72	22.40		15.39	24.90		HOME
388	489	↓101	FLEXTRONICS	Asia/ Pacific	29.5	51.32	22.40		29.27	46.30		19.41	30.90		51.32	22.40		HOME
459	n/a	Not listed	LVMH	Europe	30.1	33.00	36.00		22.00	26.00		33.00	36.00		35.00	32.00		GLOBAL
				Weighted average	53.6	35.07	36.56	−1.48 %	29.98	34.10	−4.12 %	25.30	30.53	−5.23 %	32.13	27.59	4.54 %	
				Total	482.8													

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

Table 2 Change of strategic orientation of bi-regional corporations (2002–2012)

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	% intra regional 2012	% intra regional 2002	Change	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/ Pacific % of total sales 2012	Asia/ Pacific % of total sales 2002	Change	Type 2012
4	4	=	BP	Europe	386.5	20.19	36.30		35.02	48.10		20.19	36.60		n/a	n/a		BI-REGIONAL
10	10	=	TOYOTA MOTOR	Asia/ Pacific	235.4	28.20	49.20		25.50	36.60		10.80	7.70		28.20	49.20		BI-REGIONAL
58	42	↑16	NISSAN MOTOR	Asia/ Pacific	119.3	24.12	49.70		35.17	34.60		14.95	11.00		24.12	49.70		BI-REGIONAL
68	139	↓71	UNILEVER	Europe	64.6	29.04	38.70		32.82	26.60		29.04	38.70		38.14	15.40		GLOBAL
138	n/a	Out of 500	MOTOROLA	North America	8.2	53.63	44.00		53.63	44.00		8.17	14.00		5.11	26.00		HOME
140	231	↓91	GLAXOSMITHKLINE	Europe	43.9	30.20	28.60		31.71	49.20		30.20	28.60		8.46	n/a		BI-REGIONAL
153	125	↑28	EADS	Europe	68.3	42.04	44.90		11.91	44.90		42.04	44.90		29.11	10.20		BI-REGIONAL
158	187	↓29	BAYER	Europe	50.8	39.53	40.30		22.39	32.70		39.53	40.30		21.47	16.10		GLOBAL
210	309	↓99	L. M. ERICSSON	Europe	34.9	25.55	46.00		21.50	13.20		25.55	46.00		27.27	25.90		GLOBAL
228	404	↓176	ALSTOM	Europe	27.4	42.28	45.10		12.24	28.00		42.28	45.10		21.65	16.10		BI-REGIONAL
				Weighted average	103.9	33.48	42.28	−8.80 %	28.19	35.79	−7.60 %	26.28	31.29	−5.01 %	22.61	26.08	−3.46 %	
				Total	1,039.2													

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

4.3 Host-Region-Based Corporations

Host-region-based corporations were comprised of eight corporations from Europe, two from Asia Pacific, and one from North America. Manpower corporation from North America remained host-region based in 2012 research. News Corp. from Asia Pacific also remained host-region based in 2012 research. Another corporation from Asia Pacific, Honda Motor, became bi-regional, generating less revenue in North America region and more in Asia Pacific region. Among the European corporations, three remained host-region based, two became home-region based, one bi-regional, one near miss global, and one, Daimler who split from Chrysler, became global. What is significant when analyzing host-region-based corporations, their intra-regional sales increased 5.03 % (Table 3).

4.4 Home-Region-Based Corporations

Among home-region corporations, the least changes happened. Out of ten analyzed corporations, eight remained home-region based. Only Philip Morris became global. In between two researches, Philip Morris split into Philip Morris USA and Philip Morris International. The reason was to give more freedom to Philip Morris International to pursue sales growth in emerging markets. As could be seen from analysis, the goal was accomplished. Most of the analyzed home-region-based corporations come from North America region, five of them. Three corporations come from Europe and two from Asia Pacific. The intra-regional sales dropped 12.76 %. On average, sales in North America dropped 7.74 % and in Asia Pacific 3.9 %. In Europe, sales increased 2.99 % on average (Table 4).

4.5 Near Miss Global Corporations

In Rugman's research in 2002, there were nine corporations who could be considered near miss global corporations, missing only few percent in one of the regions to be considered truly global. Among those corporations there were no corporations from Asia Pacific region. Five corporations come from North America region and four from Europe region. In 2012 four corporations became truly global, Nestle, 3M, McDonald's, and Eastman Kodak. Exxon Mobile and Anglo American are in 2012 research considered bi-regional. Sanofi, Hewlett Packard which acquired Compaq, and Royal Dutch/Shell Group remained near miss global corporations (Table 5).

To sum up, in 2002, out of these 48 analyzed corporations, 10 of them were home-region oriented, 10 were host-region, and 10 were bi-regional. All global corporations were taken into account, nine of them, and nine "near miss" global

Table 3 Change of strategic orientation of host-region based corporations (2002–2012)

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	% intra regional 2012	% intra regional 2002	Change	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/ Pacific % of total sales 2012	Asia/ Pacific % of total sales 2002	Change	Type 2012
20	18	↑2	ING GROUP	Europe	150.6	51.59	35.10		29.94	51.40		51.59	35.10		18.40	3.40		HOME
38	243	↓205	ROYAL AHOLD	Europe	42.1	40.45	32.80		59.55	59.20		40.45	32.80		n/a	0.60		HOST
41	64	↓23	HONDA MOTOR	Asia/ Pacific	100.7	34.17	26.90		32.66	53.90		8.95	8.10		34.17	26.90		BI-REGIONAL
136	44	↑92	SANTANDER CENTRAL HISPANO GROUP	Europe	117.4	37.99	44.30		63.13	55.70		37.99	44.30		n/a	n/a		HOST
245	374	↓129	DELHAIZE LE LION	Europe	29.4	23.00	22.00		65.40	75.90		23.00	22.00		n/a	1.00		HOST
301	331	↓30	ASTRA ZENECA	Europe	33.6	29.01	32.00		39.97	52.80		29.01	32.00		19.43	5.20		NEAR MISS GLOBAL
364	332	↑32	NEWS CORP.	Asia/ Pacific	33.4	17.38	9.00		55.46	75.00		27.15	16.00		17.38	9.00		HOST
476	495	↓19	SODEXO	Europe	22.3	41.09	42.00		38.47	50.00		41.09	42.00		n/a	n/a		BI-REGIONAL
482	500	↓18	MANPOWER	North America	22.0	14.47	19.10		14.47	19.10		66.28	68.60		5.43	n/a		HOST
487	n/a	↓	WOLSELEY	Europe	21.0	53.45	28.70		46.55	66.30		53.45	28.70		n/a	n/a		HOME
n/a	21	n/a	DAIMLER	Europe	148.1	34.53	29.90		23.88	60.10		34.53	29.90		22.04	n/a		GLOBAL
				Weighted average	70.0	34.29	29.25	5.03 %	42.68	56.31	−13.63 %	37.59	32.68	4.91 %	19.47	7.68	11.79 %	
				Total	699.5													

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

Table 4 Change of strategic orientation of home-region based corporations (2002–2012)

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	% intra regional 2012	% intra regional 2002	Change	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/ Pacific % of total sales 2012	Asia/ Pacific % of total sales 2002	Change	Type 2012
1	3	↓2	WAL-MART STORES	North America	446.9	70.44	94.10		70.44	94.10		n/a	4.80		n/a	0.40		HOME
3	19	↓16	GENERAL MOTORS	North America	150.3	60.84	81.10		60.84	81.10		16.76	14.60		6.98	n/a		HOME
5	27	↓22	FORD	North America	136.3	60.27	66.70		60.27	66.70		25.89	21.90		n/a	n/a		HOME
9	22	↓13	GENERAL ELECTRIC	North America	147.6	47.39	59.10		64.74	59.10		19.69	19.00		15.75	9.10		HOME
12	115	↓103	MITSUBISHI	Asia/ Pacific	70.5	78.56	86.80		2.98	5.40		3.58	1.70		78.56	86.80		HOME
15	11	↑4	TOTAL	Europe	231.6	67.18	55.60		8.62	7.40		67.18	55.60		n/a	n/a		HOME
21	12	↑9	VOLKSWAGEN	Europe	221.6	66.05	68.20		11.97	20.10		66.05	68.20		11.36	5.30		HOME
22	47	↓25	SIEMENS	Europe	113.3	52.60	52.00		27.87	30.00		52.60	52.00		19.53	13.00		NEAR MISS GLOBAL
23	247	↓224	SUMITOMO	Asia/ Pacific	41.3	56.03	87.30		19.57	4.80		8.29	n/a		56.03	87.30		HOME
24	355	↓331	PMI & PM USA	North America	31.1	21.90	57.90		21.90	57.90		30.45	25.80		20.04	n/a		GLOBAL
				Average	159.0	58.12	70.88	−12.76 %	34.92	42.66	−7.74 %	32.28	29.29	2.99 %	29.75	33.65	−3.90 %	
				Total	1,590.4													

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

Table 5 Change of strategic orientation of near miss global corporations (2002–2012)

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	% intra regional 2012	% intra regional 2002	Change	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/Pacific % of total sales 2012	Asia/Pacific % of total sales 2002	Change	Type 2012
2	2	=	EXXON MOBILE	North America	452.9	39.61	37.50		39.61	37.50		24.32	8.90		9.92	10.40		BI-REGIONAL
8	1	↑7	ROYAL DUTCH/ SHELL GROUP	Europe	484.5	39.88	46.10		19.56	46.10		39.88	46.10		31.53	n/a		NEAR MISS GLOBAL
55	71	↓16	NESTLÉ	Europe	94.4	26.61	31.60		46.70	31.40		26.61	31.60		26.69	n/a		GLOBAL
117	31	↑86	HELWETT PACKARD	North America	127.2	35.00	38.00		35.00	38.00		37.00	36.00		19.00	n/a		NEAR MISS GLOBAL
230	201	↑29	SANOFI	Europe	48.7	35.46	32.10		29.93	38.80		35.46	32.10		19.79	6.40		NEAR MISS GLOBAL
316	368	↓52	3M	North America	29.6	33.90	46.90		33.90	46.90		23.90	24.60		30.70	18.90		GLOBAL
340	410	↓70	MCDONALD'S	North America	27.0	31.58	40.40		31.58	40.40		40.31	31.90		22.29	14.80		GLOBAL
341	360	↓19	ANGLO AMERICAN	Europe	30.6	26.57	46.10		5.09	18.90		26.57	46.10		47.92	17.80		BI-REGIONAL
380	N/A	Out of 500	EASTMAN KODAK	North America	6.0	33.93	48.50		33.93	48.50		32.76	24.70		20.57	17.20		GLOBAL
				Weighted average	144.6	33.61	40.80	−7.19 %	30.59	38.50	−7.91 %	31.87	31.33	0.53 %	25.38	14.25	11.13 %	
				Total	1,301.3													

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

corporations. In 2012 we ended up with 49 analyzed corporations because DaimlerChrysler split. In 2012 there were 13 home-region-oriented corporations, 5 host-region oriented, 13 bi-regional, 12 global, and 6 "near miss" global. The decrease happened among host and "near miss" corporations and home, bi-regional, and global corporations are the ones which number increased.

Out of 48 corporations analyzed, for 27 of them, it was possible to find exact data on geographic sales as Rugman did in his research. These corporations comprise 4 corporations from North America region, 16 corporations from Europe region, and 7 coming from Asia Pacific region. Therefore, the following analysis focuses on geographical overview of strategic orientation change of European, American, and Japanese MNCs.

4.6 Geographical Overview of Strategic Orientation Change

Historically, the internationalization process started with European corporations. The period before the First World War was characterized with transportation difficulties, time-consuming and undependable communication, and differentiated national markets. Bartlett, Ghoshal, and Beamish (2008) stated that consequently European corporation started with their internationalization as decentralized federations. Table 6 indicates contemporary internationalization processes. There are 16 corporations from Europe that can be compared with Rugman's research when it comes to reporting on geographical sales. In general, some significant changes have happened. Revenues from Europe decreased 1.97 %. In average, European corporations generate less revenue in North America, 9.19 %. The most significant change happened in Asia Pacific where revenues increased 11.36 % in average. In 2012 classification most of the corporations are bi-regional, six of them. After bi-regional corporations come four home-region-based corporations, then three global corporations, two near miss global corporations, and at the end one host corporation. Fifty percent of the analyzed corporations changed their classification.

Due to the technological dominance, American corporations experienced massive progression in the 1950s and 1960s. American MNC developed as coordinated federations that are characterized with subsidiaries with limited autonomy. Data on MNC from North America region is limited to General Electric, IBM, Coca-Cola, and Eastman Kodak. Three corporations regressed on the list; moreover, Eastman Kodak dropped out of the Fortune Global 500. Coca-Cola was the only one to progress, for 27 places. No significant changes happened in geographic distribution of the revenues. Intra-regional sales dropped for 1.41 %, sales in Europe increased 2.42 % and 1.19 % in Asia Pacific. Only IBM remained global, with even stronger sales in Europe and Asia Pacific. Coca-Cola went from being global to home-region-based corporation and Kodak became truly global. General Electric increased proportion of their sales in Asia Pacific but decreased in North America. Due to the 20 % of revenue that cannot be attributed, GE became near miss home-region-based corporation (Table 7).

Table 6 Overview of change in strategic orientation of European MNC

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	Revenue in bn US 2002	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/ Pacific % of total sales 2012	Asia/ Pacific % of total sales 2002	Change	Type 2002	Type 2012
8	1	↑7	ROYAL DUTCH SHELL	Europe	484.5	135.2	19.56	15.60		39.88	46.10		n/a	n/a		NEAR MISS GLOBAL	NEAR MISS GLOBAL
15	11	↑4	TOTAL	Europe	231.6	94.3	8.62	8.40		67.18	55.60		n/a	n/a		HOME	HOME
20	18	↑2	ING GROUP	Europe	150.6	83	29.94	51.40		51.59	35.10		18.40	3.40		HOST	HOME
21	12	↑9	VOLKSWAGEN	Europe	221.6	79.3	11.97	20.10		66.05	68.20		11.36	5.30		HOME	HOME
136	44	↑92	SANTANDER CENTRAL HISPANO GROUP	Europe	117.4	30.4	63.13	55.70		37.99	44.30		n/a	n/a		HOST	HOST
140	231	↓91	GLAXOSMITHKLINE	Europe	43.9	29.5	31.71	49.20		30.20	28.60		n/a	n/a		BI-REGIONAL	BI-REGIONAL
147	174	↓27	NOKIA	Europe	53.8	27.9	15.00	25.00		31.00	49.00		40.00	26.00		GLOBAL	BI-REGIONAL
153	125	↑28	EADS	Europe	68.3	27.6	11.91	33.70		42.04	44.90		29.11	10.20		BI-REGIONAL	BI-REGIONAL
158	187	↓29	BAYER	Europe	50.8	27.1	22.39	32.70		39.53	40.30		21.47	16.10		BI-REGIONAL	GLOBAL
210	309	↓99	L. M. ERICSSON	Europe	35.0	22.4	21.50	13.20		25.55	46.00		27.27	25.90		BI-REGIONAL	GLOBAL
228	404	↓176	ALSTOM	Europe	27.4	20.7	12.24	28.00		42.28	45.10		21.65	16.10		BI-REGIONAL	BI-REGIONAL
301	331	↓30	ASTRA ZENECA	Europe	33.6	16.5	39.97	52.80		29.01	32.00		19.43	5.20		HOST	NEAR MISS GLOBAL

341	360	↓19	ANGLO AMERICAN	Europe	30.6	14.8	5.09	18.90		26.57	46.10		47.92	17.80		NEAR MISS GLOBAL	BI-REGIONAL
459	N/A	Not on the list	LVMH	Europe	30.1	11.0	22.00	26.00		33.00	36.00		35.00	32.00		GLOBAL	GLOBAL
476	495	↓19	SODEXO	Europe	22.3	10.6	38.47	50.00		41.09	42.00		n/a	n/a		HOST	BI-REGIONAL
487	n/a	Out of 500	WOLSELEY	Europe	21.0	10.4	46.55	66.30		53.45	28.70		n/a	n/a		HOST	HOME
				Weighted average	108.2	42.7	25.00	34.19	−9.19 %	41.03	43.00	−1.97 %	27.16	15.80	11.36 %		
				Total	1,571.5	613.6											

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

Table 7 Overview of change in strategic orientation of MNC from North America

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	Revenue in bn US 2002	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/ Pacific % of total sales 2012	Asia/ Pacific % of total sales 2002	Change	Type 2002	Type 2012
9	22	↓13	GENERAL ELECTRIC	North America	147.6	125.9	47.39	59.10		19.69	19.00		15.75	9.10		HOME	NEAR MISS HOME
19	57	↓38	IBM	North America	106.9	85.9	43.15	43.50		32.59	28.00		24.26	20.00		GLOBAL	GLOBAL
239	212	↑27	COCA-COLA	North America	46.5	20.1	59.38	38.40		18.72	22.40		15.39	24.90		GLOBAL	HOME
380	n/a	Out of 500	EASTMAN KODAK	North America	6.0	13.2	33.93	48.50		32.76	24.70		20.57	17.20		NEAR MISS GLOBAL	GLOBAL
				Weighted average	76.8	61.3	45.96	47.38	−1.41 %	25.94	23.53	2.42 %	18.99	17.80	1.19 %		
				Total	307.1	245.1											

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

Japanese corporations started their internationalization in the 1970s. Since they lacked the international experience, they used entirely different strategic approach and focused on manufacturing efficiency and economies of scale. Japanese competitive advantage was founded on quality and strict control of product development combined with their national and organizational cultural values. Data for the period of 2002–2012 indicates that their intra-regional sales, better to say intranational sales because they all report on Japanese market, decreased significantly, 12.63 %. Honda Motor is the only corporation to increase the proportion of its sales in Japan. In average, revenues from European region increased 3.58 %, but revenues from North American region decreased 5.12 % in average. Two out of seven corporations changed their classification. Canon went from being global to near miss global, losing proportion in Asia Pacific region, and Honda Motor went from being host-region-based corporation to bi-regional due to decrease in proportion in North America. Considering the rank on the Fortune Global 500, Toyota kept the same position, Nissan progressed 16 places, and 5 corporations regressed (Table 8).

5 Conclusion

This chapter has brought together current knowledge on traditional international strategies displayed in globalization, and it has presented us how those strategies change due to internal and external factors.

The data, for these 27 corporations analyzed together, confirm that on average intra-regional sales decreased 4.83 %, from 47.56 % in 2002 to 42.72 % in 2012. Sales in North America region dropped for significant 7.25 % on average, from 35.98 % in 2002 to 28.73 % in 2012. In Europe region there were no significant changes at all, only 0.02 %, while Asia Pacific region increased by 1.51 %. Among these 27 corporations, in average 99.45 % of revenues was assigned to the Triad regions. In 2012, 93.70 % of the revenues was assigned to the Triad region. This data shows that there was a slight shift of the economic flows outside the Triad region, 6.30 % of the total sales. Even though the change accounts for only 5.75 %, the number is significant compared to 0.55 % in 2002. Also, it is interesting to notice that in all three regions, intra-regional sales dropped.

When it comes to change in strategy, the biggest changes happened among host-region-oriented corporations. In 2002 there were six of them and in 2012 only one, Santander Central Hispano Group. The number of home-region-oriented corporations increased by two, Coca-Cola from being global and Wolseley from being host-region oriented. Bi-regional corporations increased by two as well. The number of global corporations remained the same, same as the number of "near miss corporations." It was necessary to introduce a new term, near miss home, because with the available data General Electric sales in the home region fell below 50 % threshold.

A glance at the Fortune 500 list by countries shows trend on "Triad decentralization" especially if we take into consideration that North America is sometimes

Table 8 Overview of change in strategic orientation of Asian MNC

Rank 2002	Rank 2012	Change	Company	Region	Revenue in bn US 2012	Revenue in bn US 2002	North America % of total sales 2012	North America % of total sales 2002	Change	Europe % of total sales 2012	Europe % of total sales 2002	Change	Asia/Pacific % of total sales 2012	Asia/Pacific % of total sales 2002	Change	Type 2002	Type 2012
10	10	=	TOYOTA MOTOR	Asia/Pacific	235.4	120.8	25.50	36.60		10.80	7.70		28.20	49.20		BI-REGIONAL	BI-REGIONAL
12	115	↓103	MITSUBISHI	Asia/Pacific	70.5	105.8	2.98	5.40		3.58	1.70		78.56	86.80		HOME	HOME
23	247	↓224	SUMITOMO	Asia/Pacific	41.3	77.1	19.57	4.80		n/a	n/a		56.03	87.30		HOME	HOME
37	87	↓50	SONY	Asia/Pacific	82.2	60.6	20.10	29.80		21.44	20.20		29.97	32.80		GLOBAL	GLOBAL
41	64	↓23	HONDA MOTOR	Asia/Pacific	100.7	73.1	32.66	53.90		8.95	8.10		34.17	26.90		HOST	BI-REGIONAL
58	42	↑16	NISSAN MOTOR	Asia/Pacific	119.2	49.6	35.17	34.60		14.95	11.00		24.12	47.50		BI-REGIONAL	BI-REGIONAL
190	224	↓34	CANON	Asia/Pacific	44.6	23.9	27.04	33.80		31.29	20.80		19.52	28.50		GLOBAL	NEAR MISS GLOBAL
				Weighted average	99.1	73.0	23.29	28.41	−5.12 %	15.17	11.58	3.58 %	38.65	51.29	−12.63 %		
				Total	693.9	510.9											

Sources: "The Fortune Global 500," 2002; "The Fortune Global 500," 2012; and annual reports for 2012; M.Rugman, A. (2005). The regional multinationals: MNCs and "global" strategic management. Cambridge: Cambridge University Press

considered as the USA and Asia as Japan. Out of 500 corporations, 89 % were from the Triad region. In 2012 that ratio fell to 67 %. All three regions contributed to the fall, but the USA was contributing the most. The number of US corporations is falling since 2001 from 197 to 170 in 2006 to 132 in 2012 that makes only 55 % of the number of corporations in 1981. On the other hand, China had no representative in 1991. In 2006 it had 20 corporations in the list and in 2012, 73 corporations. Are these corporations' prosperity comes from development of their internal economic flows, GDP growth, and increased purchasing power of its own citizens, or it comes from involvement into global trade? The same question applies for other countries outside the Triad region. Also, it would be interesting to identify what has caused the decline of the corporations that are no longer among the biggest 500 in the world, to which extent it could be connected to strategies in terms of adaptation and standardization.

The evidence is that most of the world's largest firms are stay-at-home multinationals. The world of international business is a regional one, not a global one. It is likely that the upstream end of the value chain can be globalized more easily than the customer end, because upstream location-specific investments are not one-sided (in the sense of lacking reciprocal commitments from other economic actors involved, which is a critical problem at the customer end).

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Toward International Entrepreneurial Orientation and Networking of Born Global Firms

Jurgita Sekliuckiene

Abstract The chapter summarizes the insights from international entrepreneurship literature focusing on the entrepreneurial orientation, drivers of internationalization, and network relations of born global firms. These ventures pay attention to knowledge-intensive products and innovations, have accelerated internationalization, and exploit a global niche from the earliest days of their foreign operations. This paper highlights the connection of international entrepreneurial orientation and networking of born global firms as well as points out the acceleration role of network for entrepreneurial born global. The qualitative analysis has been performed based on information technology born global firms founded by Lithuanian entrepreneurs. Empirical results highlight the drivers for rapid internationalization, necessity of entrepreneurial orientation, and born global firm's relations with upstream, downstream, and horizontal partners. Results suggest that creation of networks and active involvement in entrepreneurial ecosystem is one of the key success factors for the scope of international expansion.

1 Introduction

Rapid changes in business world reflect internationalization of firms, globalization of production, and innovations in business models. Thus, researches focused on international entrepreneurship as well as internationalization of small and medium enterprises (SMEs) increased in number in the fields of strategic management and international business during the latter decades. International entrepreneurship is the interdisciplinary field which integrates researches on international business and entrepreneurship (Mainela, Puhakka, & Servais, 2014). And internationalization can be defined as a "combination of innovative, pro-active, and risk-seeking behavior that crosses national borders and is intended to create value in organizations" (McDougall & Oviatt, 2000). Later the particularity of international

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entrepreneurship was named through “the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services” (Oviatt & McDougall, 2005). Researches on international entrepreneurship topics involve the researches on SMEs that begin their international activity from the very beginning of their establishment, have limited resources but clear strategic vision, and are oriented on innovative activity and have entrepreneurial orientation (Jones, Coviello, & Tang, 2011; Keupp & Gassmann, 2009; Kiss, Danis, & Cavusgil, 2012). Such firms often pay special attention to knowledge-intensive industries (Kalinic & Forza, 2012). The early internationalization is stimulated by a strong innovation culture and interest to pursue international markets (Zijdemans & Tanev, 2014). Such firms are called international new ventures or born global firms. Entrepreneurial orientation and associated opportunity identification as well as exploitation of the rapid internationalized firm distinguish born global firms from other international firms (Dimitratos, Plakoyiannaki, Pitsoulaki, & Tüselmann, 2010). Coombs, Sadrieh, and Annavarjula (2009) and Keupp and Gassmann (2009) analyzed the speed of born global firms’ internationalization. Oviatt and McDougall (2005) named essential key sources of rapid internationalization: knowledge and international networking. Born global firms adopt innovation approach by sourcing key external knowledge from external partners and acting in networks. Born global firms have to mobilize their resources through collaboration and relations with important upstream, downstream, and horizontal partners. According to Cannone and Ughetto (2014), the accelerated international expansion process, and the form that it takes on, may encompass elements of the entrepreneurs’ traits; of the networks, to which they are connected; of the domestic environment; and of firm’s business activities. This research aims to disclose the fragment of born global international expansion process by focusing to coherences of entrepreneurial orientation and networking. The aim of the article is to survey how important entrepreneurial orientation in pursuing for rapid born global firm’s internationalization is and what the relevance of network relations is. The empirical research has been performed by analyzing born global firms of Lithuanian information communication technologies by interviewing 28 entrepreneurs. It should be noted that scholarly interest in entrepreneurship in emerging economies has grown in the last decade and several researches in the area exist (e.g., Bruton, Ahlstrom, & Obloj, 2008; Manev & Manolova, 2010; Yang & Li, 2008). However, they typically focus on exploring limited geographical regions (Kiss et al., 2012). The chapter adds novelty to the existing literature by linking entrepreneurial orientation and networking of SMEs in emerging market context.

2 Born Global Firms, International Entrepreneurial Orientation, and Network Approach: Theoretical Framework

The intensifying influence of technologies and changes in international environment determined that firms rapidly internationalize their activity from its beginning. During the last 20 years, a number of traditional SMEs have accelerated their international commitment by exporting or investing in distant countries despite limited market knowledge, limited use of networks, and limited international experience of the entrepreneurs (Kalinic & Forza, 2012). The most common term to identify these firms is "born globals," but there are other terms like high technology start-ups, international new ventures, and international entrepreneurs (Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008; Knight & Cavusgil, 2004). As Luostarinen and Gabrielsson (2006) highlight, at the beginning of their activities, born global firms sell up to 50 % of their production outside their countries and export their production up to 25 % to the foreign markets (Andersson & Wictor, 2004).

In analyzing the phenomenon of born global firms, the approach of international entrepreneurship is used in this article. Entrepreneurship positively influences born global firms. Mainela, Pernu, and Puhakka (2011) point out that entrepreneurship can be defined as process determining the creation of a new business by using available resources and international networks of an enterprise. In order that business would be able to react to the time challenges, it is important that features of an entrepreneurial organization, i.e., innovative, proactive, tolerating changes and subject to risk, learning, able to solve problematic situations, fostering team, and group work culture, would manifest. Entrepreneurial internationalization speed is enabled by technology, motivated by competition, mediated by the entrepreneur's perceptions, and moderated by the knowledge intensity of the opportunity and a firm's international networks (Oviatt & McDougall, 2005). International entrepreneurship of born global firms is associated with internationally oriented and experience, proactive, risk-taking behavior that crosses national border, innovativeness, networking, international experience and learning, and level of technical and know-how knowledge (Dib, Rocha, & Silva, 2010; Oviatt & McDougall, 2005; Roudini & Osman, 2012; Thai & Chong, 2008). The firm's entrepreneurial orientation contributes to its ability to create processes, practices, and decision-making activities that are linked with successful entrance to foreign markets (Knight & Cavusgil, 2004; Roudini & Osman, 2012). The identification of possibilities in new markets becomes the inseparable feature of an entrepreneur. Opportunity recognition and exploitation in international contexts are also regarded as fundamental to the international entrepreneurship field (Dimitratos et al., 2010). According to Mainela et al. (2014), international opportunity is a situation that both spans and integrates elements from multiple national contexts in which entrepreneurial action and interaction transform the manifestations of economic activity.

Networks and entrepreneurial cognitions are key determinants of international-opportunity-based entry to foreign markets.

Firm's industry-specific features and environment can influence firm's becoming a born global company. Low capacity of the market and competition intensity in the home market can stimulate firms to internationalize their activity from the beginning of their activity. Cannone and Ughetto (2014) argue that together with competition, other factors connected to home country conditions can encourage or even force early internationalization upon entrepreneurs. The financing structure can be one of them. Low availability of private equity finance in a home country can encourage early internationalization and motivate entrepreneurs to move into countries where they have a chance of receiving funding (Mathews & Zander, 2007). The importance and growth of technologies can also influence internationalization decisions. Referring to Andersson, Gabrielsson, and Wictor (2004), firms operating in industries characterized by rapid technological change are forced to internationalize rapidly to avoid obsolescence of technology or imitation processes. This is especially important for the firms functioning in the industry of information communication technologies when more ordinary products can be rapidly copied. Country's technological infrastructure, innovations' system, as well as ecosystem favorable to create R&D can stimulate the growth of technology-oriented born global firms and their development beyond the country's borders. Macroeconomic aspects such as uncertainty and dynamism of the business environment, intellectual property protection, regulations, and trade barriers also stimulate or limit possibilities for development.

The existence of favorable entrepreneurial ecosystem in the country including infrastructures, networks, business incubators, and clusters also are key drivers of internationalization. Referring to Cannone and Ughetto (2014), not only entrepreneurial orientation and external environment but also network relationships built up by the entrepreneur are key drivers for the scope of international expansion. Gilchrist (2009) states that a network is a movement and share of ideas and information about foreign markets, knowledge, practice, and experience, as well as exchanges among members aiming at common interest of creating added value in a particular field. The network of born global firms comprises of relations among firms and external members (such as customers, suppliers, business agents, competitors, universities, and others), who could have an ability to propose something in exchange of something to other members of the network (Hite & Hesterly, 2001; Zhou, Wu, & Luo, 2007). In addition, for the use of social networks, born global firms are able to master global market information and effectively apply it to the business expansion (Freeman & Cavusgil, 2007; Schulz, Borghoff, & Kraus, 2009). Access to international personal and business networks and formal and informal networks influences an entrepreneur's ability to acquire external resources to use for the development, production, and launching of a product. A born global company may mobilize resources through external networking and relationships to pursue its goals (Johansson, 2005). Entrepreneurial enterprises are situated in a network of existing and to-be-formed relations with important upstream (suppliers, parent company), downstream (distributors, customers), and horizontal actors

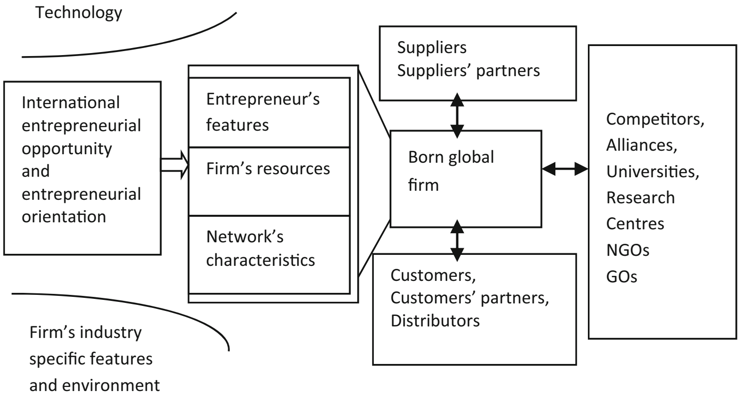

Fig. 1 Theoretical framework (*Source*: Author)

(competitors, alliances, universities). As Fig. 1 shows, the coherence process between international entrepreneurial orientation and networking of born globals begins with a potential international entrepreneurial opportunity. International opportunity identification depends on internationalization drivers: industry-specific features, technology, entrepreneur's and firms' features, and ecosystem in networks relations.

3 Methodology

Qualitative study method was selected in this research due to the several reasons. Firstly, it is pursued for deeper understanding of the complex phenomenon in order to disclose the phenomenon of born globals (preferences of small and medium enterprises, their relations when functioning in networks) as well as the context (entrepreneurial orientation and international entrepreneurship). Secondly, the research is of pilot character in order to identify essential problems and tendencies; in the future this would allow performing more thorough researches. In addition, the analysis of empirical researches' problem in emerging markets has been missing; thus, exploratory qualitative research is the suitable research method.

The empirical research has been performed in one of CEE countries—Lithuania—byinterviewing the managers of one of high-tech sectors, IT born global firms. On the basis of Lithuanian Statistics Department (2013), 2,185 firms belonged to Lithuanian IT sector in 2012. In 2012 in IT sector, small businesses with up to nine employees (84.3 % of all IT firms) dominated. IT firms are actively internationalizing their activities; that is why the number of born global firms is growing rapidly in this sector. Over the past 3 years, Lithuanian IT services export grows in the average of 54 % (Enterprise Lithuania, 2014). The national, internationally recognized, type network —Infobalt Lithuania Association—consolidates information communication

Table 1 Details of investigated firms

Firm's size by number of employees	Number of employees in Lithuanian SMEs/in foreign subsidiaries	Year of establishment/beginning of international activities	International sales ratio (%)/firms
1–9	5/7; 8/0; 3/4; 4/0; 3/0; 6/1; 4/0; 7/1; 4/4	2008/2008; 1991/1995; 2011/2011; 2012/2012; 2008/2011; 2004/2005; 2003/2004; 2002/2008; 2007/2008	25–50/2; 51–75/6; >75/1
10–49	10/0; 25/15; 25/0, 30/2; 30/8; 29/0; 23/0; 14/0; 30/0; 10/0	2009/2009; 2003/2003; 2009/2010; 2005/2007; 2007/2009; 1997/2000; 2003/2005; 2001/2001; 2004/2007; 2012/2012	25–50/1; 51–75/5; >75/4
50–249	80/30; 41/22; 50/0; 56/20; 55/50; 80/2; 210/0; 78/32; 65/0	2005/2005; 2008/2009; 2000/2002; 2002/2003; 1996/1996; 2005/2006; 2002/2002; 1998/2001; 1995/1995	25–50/1; 51–75/5; >75/3

Source: Author

technology firms in Lithuania. Based on the data of the Association, around 150 Lithuanian IT firms export on a regular basis. Other firms are limited to the local market or export their production to foreign markets occasionally. The research sample was 28 firms that were selected from Infobalt Lithuania database, accepted to be surveyed by using an interview method. The following criteria for choosing respondents for qualitative research have been selected: (1) the company should be involved in international activities and expanded market abroad in the first 3 years from the establishment and (2) income derived from foreign markets includes more than 25 % (see Table 1).

Most firms that took part in the research are of micro size (9 firms had up to 9 employees; 10—small ones, which had 10 to 50 employees; and 8—small-sized ones, up to 249 employees). The surveyed firms performed (operated globally) their activity in the markets of the European Union countries, the USA, Asia, and Africa. Soft products and services were mostly exported to the USA, Latvian, and German markets.

This research is the part of large-volume research in analyzing the internationalization of Lithuanian IT born global firms and strategic decisions of firms' activity. The research questions, which are focused to the topic of this article, were based on the theoretical insights by Johansson (2005), Möller and Halinen (1999), and Oviatt and McDougall (2005), on which the theoretical framework is proposed. The following research blocks have been formed: (1) external drivers for internationalization, which motivate SMEs to get integrated into international activities, (2) the expression of entrepreneurial orientation, and (3) networking with partners.

The selected firms' entrepreneurs or individuals from management teams agreed to participate in an hour-long semi-structured interview. The exploratory study was carried out in April–May 2013. The limitation of this study is that the obtained results cannot be generalized or applied to the entire population of the born global IT firms in Lithuania. The sample is not representative for the population, but it is significant if compared to IT firms that started their international activities in the first 3 years from their establishment.

4 Results

The results of the empirical researches have shown that the Lithuanian born global information telecommunication technologies firms that took part in the research internationalize their activity's operations during the first 3 years from their establishment, some of them from the beginning of their activity. The employees of most firms work only in Lithuania by servicing international markets in distance. The firms that function in Lithuanian IT sector distinguished in their international orientation operate globally; their service export comprises the greater part than the services provided for the Lithuanian market. Firms start their international activity using their finances; later they pursue to attract investors. The detailed research results are presented in Table 2.

External internationalization drivers make the small market as well as intensive competitiveness of Lithuania. The strongest external factor influencing these firms is the rapid development of information technologies; this determines the particularity in industry. The need for high-tech firms' products in foreign markets enables Lithuanian born global firms to export their products, which are competitive in the markets of advanced economy countries. Among enterprises of this sector, the following internationalization forms prevail: the opening of a division in a foreign country and networking; however, licensing and establishment of corporate enterprises are fragment.

The need for more sophisticated products strengthens the competitive advantage of Lithuanian IT sector's firms in foreign markets and helps to start and maintain more effective relations with business partners, to find new customers. Political situation and uncertainty of Lithuania do not make much influence upon internationalization of the firms. Most born global firms that took part in the research are able to proactively react to environment changes and show interest in future prognoses; they create innovations of the process and product.

Vision, flexibility, ability to adapt in an indefinite situation, and formation of a team become very important. Other entrepreneurial features necessary for a manager were named as follows: communicativeness, team formation, and flexibility in indefinite situations. The enterprise's available financial resources and international experience of employees were accelerators for the beginning of internationalization only for the part of the enterprises (15 out of 28 enterprises). Other enterprises began their activity having used the finances of the EU structural funds and not having any experience in foreign markets. Thus, the SMEs that took part in the research more often take risk though they do not have the experience of international activity and they function proactively.

The accelerator of internationalization becomes the entrepreneurial ecosystem, Lithuanian business support agencies (like Enterprise Lithuania), and partnership

Table 2 Summary of the respondents' narratives

Variables	Description/empirical results	Meaning and illustration
External drivers	Risk diversification and small market Increasing competition in the international market An accelerating pace of information technologies—specific of the industry	"In Lithuania there was no market which can be oriented for service," "the Lithuanian market is too small for us," "in Lithuania we did not find our market segment," and "it is necessary not to forget that competition is intensive; thus, the enterprise has constantly to observe local and international markets," "technological decisions change rapidly; thus, internationally recognized certification and constant development of soft products help us to maintain the competitive advantage"
Entrepreneurial orientation	Features of an entrepreneur: vision, open-mindedness, experience in foreign markets, proactiveness, ability to take risky decisions, interest in future forecasts, team leadership	"It is important that the manager would be able to view broadly and insight as well as use possibilities available for the enterprise"; "possession of vision, insight, and intuition helped me to achieve the success of the company in Lithuanian and foreign markets"; "the manager has to be the team leader, has international experience, and take risk for possible dangers"; "the manager has to always be able to anticipate several steps forward, to concentrate employees for mutual aim and to orient toward constant precedence, to be able to insight future prognoses, as well as to predict what will be necessary for consumers in the future"
	Entrepreneurial features of SMEs: ability to respond rapidly to changing customer needs and environmental factors, innovativeness, proactiveness	"The enterprise has to be innovative and to be able to work both during the successful period and when we face economic crisis. I think that we are successful in doing this as during the crisis we succeeded to enlarge our profit on the contrary than for others. Thus, the ability to adjust and react to the changes is very important for any enterprise, especially the one that functions internationally." "Only

(continued)

Table 2 (continued)

Variables	Description/empirical results	Meaning and illustration
		continuous observation of environment can determine creation of new products as when you observe environment, you see what the market lacks and how it would be possible to fill the gap rapidly"
Actors in ecosystem, upstream, downstream, and horizontal partners	National associations and organizations supporting business Lithuanian firms Foreign firms The role of universities	"Our main partners are foreign firms. And we have lots of benefits from the cooperation with them." "Cooperation with Lithuanian organizations helps to compete abroad, and we are cooperating with Lithuanian Business Support Agency, Enterprise Lithuania." "When a task-specific knowledge is needed, then we appeal to Lithuanian firms with necessary expertise for that." "Collaboration with universities brings us considerable benefit. Cooperating with educational institutions, we organize surveys and idea development workshops." "One of our main partners is Kaunas University of Technology with an innovative platform, start-up space, and a variety of technological solutions and services"
Scale and scope of the networks	Partner finding methods: Internet, the recommendations of friends and foreign partners, international exhibitions, fairs and conference, Lithuanian institutions, which provide business support Entry modes using collaboration initiatives: foreign subsidiary, networking	"The employees go to conferences in the USA, European countries, and Russia. Though participation prices are high, the acquired knowledge and contacts with potential partners, which we make, pay dividends for us." "The best way for us to find foreign partners we might collaborate with is through the partner search database provided by Association of Lithuanian Chambers of Commerce, Enterprise Lithuania, Startup Lithuania" "… as we function in different countries, the entrance into them was also different; in one of them, we established our

(continued)

Table 2 (continued)

Variables	Description/empirical results	Meaning and illustration
		division; we provide services by means of networking in another one"; "we export our services to every country where we function, we do not have any division or another enterprise in them"; "we perform our activity having got the license from Israel, and we apply this method to all countries where we work"; "in one country, we possess an enterprise, in the other we established a division; we provide services for others by export in collaborating with distributors"
Linkages between horizontal, upstream, and downstream actors	Use of cocreation Formal and informal relationships: insufficient use of formal and informal relationships	"To begin business I got very much due to my contacts and relations from previous years when I was wage earner." "Our customers are our partners, since cooperation with them improves our quality of services provided"; "clients help us to figure out pros and cons of the services provided in the most efficient way," "as everywhere, very important to have personal connections." "We do not need formal network relations as we make everything by ourselves"
Benefits of being involved in collaboration initiatives	Creation and production of innovative products, competitive advantage, consolidation in the foreign market, research and development activities, resources sharing	"While collaborating, not only we transfer our knowledge to partners, but also we get a lot of information from them which is useful for our activity." "In cooperation with business firms, we gain experience which is applied in reality. Our position in the foreign markets is consolidated by the network"

Source: Author

support among born global firms and their partners. Innovation centers or start-up spaces of a university as partner work like platforms for new entrepreneurial firms, providing them with support, knowledge, and infrastructure. However, not all firms use the infrastructure, which exists. Networking with partners takes place; however, not all firms use provided partnership benefits. Though some part of the firms

(25 out of 28) stated that they collaborated with foreign partners, Lithuanian partners (17 out of 28), customers in cocreation of services (13 out of 28), and educational institutions and universities (12 out of 28), only 15 out of 28 surveyed subjects state that they take part in international networks though referring to their experience, they name advantages of such partnerships. The research results have shown that 3–7 firms are usually running in the network. Few firms are involved in network with 14–15 firms: upstream actors (suppliers), downstream actors (distributors, customers), and horizontal actors (competitors). Most often it is relied on informal relationships. It is possible to state that network relations are strengthened by much greater experience in foreign markets; however, on the other hand, collaboration advantages are not used enough yet. Lithuanian IT born globals should strengthen this activity, particularly pursuing to increase scope and scale in international markets.

5 Conclusions and Discussion

This article has contributed to international entrepreneurship literature and especially in disclosing the importance of international entrepreneurial orientation and networks for born global firms. The research has confirmed that the features of managers of Lithuanian born global entrepreneurial firms as well as of the company help identify their possibilities in the market and contribute to the creation of entrepreneurial start-ups and development of their further activity both in Lithuanian and foreign markets. Proactiveness toward international opportunities, risk attitude, and innovativeness draws from active interaction with customers and cocreation with external partners. The results of the empirical research have confirmed that collaboration with upstream, downstream, and horizontal partners is the enabler for born global firms. However, Lithuanian firms do not use partnerships sufficiently; a certain part of them is not integrated into international networks and not sufficiently uses the partnership of business–science institutions. In Lithuania, development of the effective entrepreneurial ecosystem, when universities, research centers, and state institutions are actively involved, could accelerate larger number of enterprises' foreign operations and would induce to create more start-ups, which would function in foreign markets from the beginning of their activity. The research results carried out in Lithuania has confirmed that networks help recognize possibilities of international business and by means of partnerships to develop their activity beyond country's borders more intensively as the previous studies of born global firms established by Italian entrepreneurs (Cannone, Pisoni, & Onetti, 2014; Presutti, Boari, & Fratocchi, 2007). The research results have shown that the entrepreneurs' experience in foreign markets and available informal relations function as triggers for internationalization.

Limitations of this research initiate further researches. The small sample of this research does not allow generalizing the results for the entire sample; thus, further researches should encompass the larger number of firms and different sectors, in which born globals function. The comparative research by encompassing other countries of Central and Eastern Europe would also be useful in analyzing international entrepreneurial orientation of born global expression in different contexts. The analysis of particular cases in deepening the understanding of the behavior of entrepreneurial network actors as well as characteristics of network relations could also be the continuation of this research.

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Manufacturing Strategies in Selected European Countries

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Abstract Our contribution to the manufacturing strategy research is to identify the strategic manufacturing practices among manufacturers in selected EU countries and to identify differences, if any, among Croatia, Germany, Hungary, Ireland, Poland, and Ukraine. The Global Manufacturing Research Group (GMRG) is an international community of researchers studying the improvement of manufacturing supply chains worldwide, and the data was a subsample from the Round V GMRG. The multi-focus cluster appeared to compete on all capabilities (but dominantly on quality, cost, and delivery and in that order) and may be supporting the cumulative model rather than the trade-off approach which competes on a single competitive priority. This puts additional pressure on manufacturing companies which have to provide exceptional quality and reliable delivery at the price that is not significantly higher. These findings suggest that the manufacturing strategy needs to be focused at country level rather than as a global perspective with a single dominant model.

1 Introduction

Although service industries have come to play an increasingly important role in developed countries in recent years, the manufacturing sector still continues to make a significant contribution to gross domestic product (Mellor & Gupta, 2002). Manufacturing strategy is defined as the competencies that a firm develops around the operations function. Capabilities are developed once the manufacturing strategy dimensions have been decided upon (Größler & Grübner, 2006). However, manufacturing strategy is derived from business strategy which according to immense explorations still follows the Porter's (1980) generic strategy of low cost, differentiation, or focus (Ward & Duray, 2000). The type of manufacturing

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strategy that a firm chooses to emphasize will be dependent on its chosen competitive strategy. Competitive strategies in general and competitive tactics in particular exercise a great influence on a firm's performance (Andrews, 1971; Ansoff, 1965). The strategic role of operations has been emphasized as being important in the light of increasing fierce global competition, short product life cycles, and supply chains that are geographically dispersed in different regions of the world. A major portion of a product's cost is committed, controlled, or dictated by the manufacturing function. For example, it is generally accepted that for most products, the cost of materials accounts for more than 60 % of total product cost. As a consequence, the ability of the firm to compete on cost leadership at the business unit level is heavily dependent on the effectiveness of its cost reduction initiatives (Amoako-Gyampah & Acquaah, 2008).

Corbett (2008) emphasizes that manufacturing strategies should be researched continuously and cites only few studies that systematically empirically reviewed manufacturing strategies (Cagliano, Acur, & Boer, 2005; Frohlich & Dixon, 2001; Miller & Roth, 1994). Because of the changing nature of strategy, it should be regularly explored (Christiansen et al., 2003; Grant, Cadden, McIvor, & Humphreys, 2013; Martín-Peña & Díaz-Garrido, 2008). Similarly, studies on individual companies changing priorities are excessively deficient (Cagliano et al., 2005). According to Amoako-Gyampah and Acquaah (2008), most manufacturing strategy research has been restricted to contexts involving developed economies where strategy implementation is perhaps well understood and practiced.

For European manufacturing, only one study was found (Acur, Gertsen, Sun, & Frick, 2003), and it concludes that for the European IMSS companies, the most important competitive priorities (order-winners) are product design and quality, dependable deliveries, and conformance quality (these are the top three priorities). European companies tend to qualify for marketplace, i.e., to survive, by offering better customer service and faster deliveries (fourth and fifth priorities).

The intention of this chapter is to provide a wider sample of different European countries to understand manufacturing priorities similarities and differences. It is well known that North America and Asia have been leaders in developing quality and manufacturing philosophies and procedures to improve their performance (Gonzales, Quesada, & Mora-Monge, 2012); however, not much is written for the European region.

2 Literature Research on Manufacturing Strategy

In the history of manufacturing strategy, researchers have come to view it as the content and process of making effective use of production capability and technology to achieve business and corporate goals. Manufacturing strategy is affected by a number of factors including global competition, rapidly changing technology (both product and process), shorter product life cycles, use of quality as a strategy, shorter time to market for new products, demands for increased production flexibility, and many more factors. As evidenced by these factors, manufacturing strategy is complex and diverse in nature. Manufacturing strategies change over time, and different manufacturing strategies are adopted by companies within different regions and countries (Grant et al., 2013).

Literature on manufacturing strategy is divided into two streams: content based and process based (Acur et al., 2003; Boyer, Swink, & Rosenzweig, 2005; Minor, Hensley, & Wood, 1994). Content-based literature covers competitive priorities, competitive capabilities, best practices, and performance-related studies. From a manufacturing strategy perspective, strategic capabilities are a plant's contribution to a company's success factors in competition, i.e., the strengths of a plant with which it wants to support corporate and marketing strategy and which help it to succeed in the marketplace (Größler & Grübner, 2006). Resources are productive assets that are owned by the firm, whereas "capability" is the ability of the firm to efficiently exploit these resources, to manufacture products, or to develop services to achieve business objectives (Amit & Shoemaker, 1993). The capabilities are normally tacit, inimitable, and non-transferable and are firm specific. They are developed over a period of time through the interplay of the firm's resources (Amit & Shoemaker, 1993). Process-based literature deals with the implementation of manufacturing strategies, that is, how to implement best practices acknowledged by content-based literature. Dangayach and Deshmukh (2001) reviewed 260 articles published between 1983 and 2000 in scholarly journals and found that content-based literature prevails. Boyer et al. (2005) found the same distribution of research papers dealing with operations strategy (a limited number of studies dealing with the process of implementing operations strategy). This study contributes to the stream of content-based literature. A portion of data from the GMRG V study (dealing with EU countries) is analyzed in order to explore manufacturing priorities of European manufacturers.

There is no universal definition of competitive priorities/capabilities even though Peng, Schroeder, and Shah (2008) have made an attempt to clarify the definitions. Priorities are simple future plans, while manufacturing capabilities denote what a manufacturing company can do better than its competitor (Brown & Blackmon, 2005). Firms first establish their priorities, and then by means of operating practices (structural, infrastructural, and integration practices), they try to achieve their priorities and build their competitive capabilities in this process. In this study, a list of seven competitive priorities will be used, as defined by Martín-Peña and Díaz-Garrido (2008) because it is the most comprehensive list. Skinner (1974) argued that firms should focus on a selection of priorities only. Therefore, the aim of this study is to identify the combination of priorities that are most frequent in European manufacturing companies.

It is widely recognized that the clustering of manufacturing companies needs to be examined periodically to allow for paradigm shifts and changing environmental conditions (Grant et al., 2013). This research builds on existing studies on manufacturing strategy taxonomies in terms of manufacturing capabilities, strategic clusters, and discriminatory functions and identifies a new taxonomy with clusters and underlying dimensions that differ from previous studies. Through identifying a new taxonomy, the study contributes to the existing literature on manufacturing strategy and provides additional insights to complement the current body of knowledge on manufacturing strategy. Configuration models (classifying manufacturing strategies) are generally divided into taxonomies and typologies which both offer multidimensional views albeit with very different underlying purposes, characteristics, and theoretical statements. Taxonomy does not define an ideal type but classifies organizations into mutually exclusive and exhaustive groups and is empirical in nature. A typology provides a multidimensional model of ideal types, which is not empirically tested. The development of taxonomies and typologies are particularly useful when the purpose of the research is to establish the dominant patterns within organizations (Grant et al., 2013). Taxonomies are empirically based, while typologies are conceptual (Christiansen, Berry, Bruun, & Ward, 2003). Grant in his literature research found that the maximum number of clusters is four, albeit all authors named their clusters differently.

Part of the specialized literature (Porter, 1983; Skinner, 1969) explains that in order to drive competitiveness in the organizations, strategy should be oriented toward technology development. Therefore, technological development can provide the plant with a group of competitive weapons and with a better technological base, applicable to other products and markets. Only limited empirical studies have documented this link (Ortega, Garrido-Vega, & Dominguez Machuca, 2012). According to Collins and Cordon (1997), technology can even limit the output quality of products. A "technological capability" (Teece, Pisano, & Shuen, 1997: 521) is "the ability to perform any relevant technical function or volume activity within the firm including the ability to develop new products and processes and to operate facilities effectively." For example, according to McEvily, Eisenhardt, and Prescott (2004), firms with superior technological competencies tend to be more innovative and thus perform at high levels. Those firms with superior technological capability can secure greater efficiency gains by pioneering process innovations and can achieve higher differentiation by innovating products in response to the changing market environment. Porter (1985) also suggests that the technology employed or developed by the firm significantly determines any cost leadership or differentiation position and, in particular, the firm's ability to lead and sustain technological change in its industry ultimately confers a sustainable competitive advantage. And, since technological capabilities determine the firm's ability to perform R&D, such capabilities should positively enhance the firm's competitive advantage. For example, a firm engaged in a cost leadership strategy can further enhance the positive relationship between this strategy and performance if the firm also has considerable technological capabilities, that is, technological capabilities will likely enable the firm to pioneer more efficient manufacturing processes and lower the material content of its product, simplifying its logistics and/or enhancing scale economies (Porter, 1985). Similarly, superior technological capabilities also enhance the differentiator's competitive advantage by improving product quality, adding features and value, or enhancing economies of scope (Porter, 1985). Therefore, in this study, the link between manufacturing strategy and technology will be researched. Ortega (2010) shows that technological capabilities enhance the positive relationship between quality orientation and performance. The firm is able to take advantage of its technological capabilities to develop improvements in order to increase the quality of its products. This reinforces the effect of the differentiation strategy via quality orientation. Therefore, the availability of technological capabilities reinforces the positive influence of the differentiation strategy via quality, which results in a positive influence on the firm's performance. However, Demeter (2003: 206) finds that the link is not obvious.

Conformance quality (conformance to specifications) and on-time delivery are considered to be qualifiers (Hill, 1989, 2000; Hill & Hill, 2009); therefore, in this work, it is assumed that one group of manufacturers will put high emphasis on those manufacturing priorities. The second group will put a high emphasis on cost. However, literature shows that it is not possible to excel on all priorities and that trade-offs exist. There should be other groups that will emphasize on different combinations of priorities (Hallgren, Olhager, & Schroeder, 2011).

3 Methodology

The data were a subsample of the Round V GMRG data collection effort. The Global Manufacturing Research Group (GMRG) is an international community of researchers studying the improvement of manufacturing supply chains worldwide. The GMRG consists of leading international academic researchers from over 20 countries. These researchers developed the GMRG survey instrument to understand manufacturing and supply chain practices around the world. This survey instrument facilitates a global comparison of the effectiveness of manufacturing and supply chain practices (Whybark, Wacker, & Sheu, 2009). Since 1985, the GMRG has completed five rounds of the worldwide survey, and numerous publications have resulted from this effort. The GMRG code book is maintained in English. The measurement instrument for each round is developed following an extensive review of relevant literature. To ensure reliability and validity of the measurement items, both academics and practitioners are involved in the instrument development. The instrument is pre-tested within several manufacturing plants, and appropriate alterations are made to improve the clarity of the instrument. The survey questionnaires for all countries were translated and back-translated by several academic researchers. When translating the questionnaire into the language of the respective country, particular attention is paid to translation equivalence (Douglas & Craig, 1983) of the questionnaire versions by rigorous translating and back-translating rounds by language and subject matter experts.

The unit of analysis for the survey is the manufacturing site or plant, and all data are collected from plant managers as key informants within that site. There is an unwritten rule that targeted companies should have more than 10 employees. Managers were targeted since they were deemed to possess a comprehensive knowledge of the plant's operations, in addition to having insight into related functions. The managers were advised to solicit input from other functions, such as marketing and finance, when appropriate. Data were collected by individual members of the GMRG, who were requested to apply the most appropriate approach and the most suitable population frame depending on the country-specific circumstances (Whybark, 1997). This flexibility was afforded to the researchers owing to the complexity and length of the questionnaire, often requiring the key respondent to consult with other individuals within the firm, or the compilation of historical data and the calculation of indices. As such, most questionnaires were completed during an on-site visit (43 %) by the researcher, followed by Internet (29 %) and mail surveys (23 %) (Schoenherr & Narasimhan, 2012). The GMRG survey is tested for common method bias (Conway & Lance, 2010; Ota, Hazama, & Samson, 2013). A χ^2 analysis was conducted against early and late respondents to validate for nonresponse bias in each country (Armstrong & Overton, 1977). As no significant differences were revealed, nonresponse bias was not evident. The survey instrument uses observable and perceptual measures. However, past studies have demonstrated that perceptual measures are useful for empirical research that is related to managerial evaluations (Klassen & Whybark, 1999; Vickery, Droge, & Markland, 1993).

Cluster analysis used in this work is a multivariate approach, which classifies cases or variables into relatively homogeneous groups. Cluster analysis is mainly used for the formation of taxonomy (Hair, Anderson, Tatham, & Black, 1998). A cluster analysis was conducted to indicate the different manufacturing strategies employed by the different respondents.

Cluster analysis is useful for grouping cases, which have some commonalities. However, it offers no basis for drawing statistical inferences and is primarily an exploratory technique (Hair et al., 1998). Cluster analysis has been used in all articles dealing with profiling manufacturing strategies described in the literature overview part as the starting point for constructing the strategic groups. However, a problem occurs in using this method alone in this paper. That is due to the rule mentioned in Miller and Roth (1994), which suggests that the number of groups should be between n/30 and n/60, n being the sample size. For this study, it would mean that six groups should be constructed which might be too much as all researches developed no more than four groups. Therefore, this study has used a two-step method for constructing the groups (Christiansen et al., 2003). First, an initial grouping was made following statistical suggestions (seven groups for each priority one). This grouping was then refined and reduced to four groups according to cluster mean center differences.

4 Sample Description

For this study, only a portion of the GMRG V database is used, and the subsample consisted of 361 manufacturing plants in six European countries, as described in Table 1.

All industries are present, even though petroleum refining and related industries and tobacco products are underrepresented (Table 2).

Table 1 Description of the sample according to country and size of the plant

Country	Mean number of employees	Number of companies in the sample
Croatia	83	113
Germany	1,941	45
Hungary	258	36
Ireland	251	30
Poland	65	80
Ukraine	185	50
Total	361	354

Source: Authors

Table 2 Description of the sample according to industries

Industry	Number of companies
Food and kindred products	61
Tobacco products	1
Textile mill products	7
Apparel and other finished products made from fabrics and similar materials	11
Leather and leather products	4
Lumber and wood products, except furniture	14
Paper and allied products	11
Printing, publishing, and allied industries	4
Petroleum refining and related industries	0
Chemicals and allied products	13
Rubber and miscellaneous plastics products	24
Primary metal industries	6
Fabricated metal products, except machinery and transportation equipment	41
Industrial and commercial machinery and computer equipment	21
Electronic and other electrical equipment and components, except computer equipment	32
Measuring, analyzing, and controlling instruments; photographic, medical, and optical goods; watches and clocks	5
Manufacture of motor vehicles, trailers, and semi-trailers	14
Manufacture of other transport equipment	6
Furniture and fixtures	15
Stone, clay, glass, and concrete products	22
Miscellaneous manufacturing industries	25

Source: Authors

5 Results

The main focus of this study is to explore the differences in competitive priorities between countries. Therefore, we first start with descriptive statistics of priorities by countries (Figs. 1, 2, 3, 4, and 5).

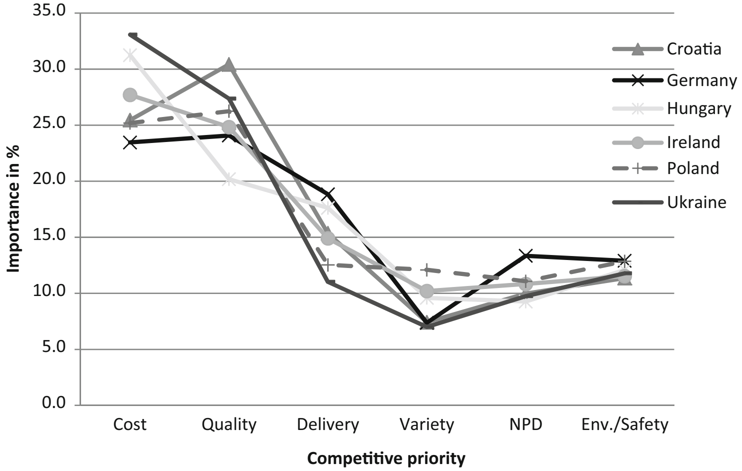

Fig. 1 Manufacturing priorities. *Source*: Authors

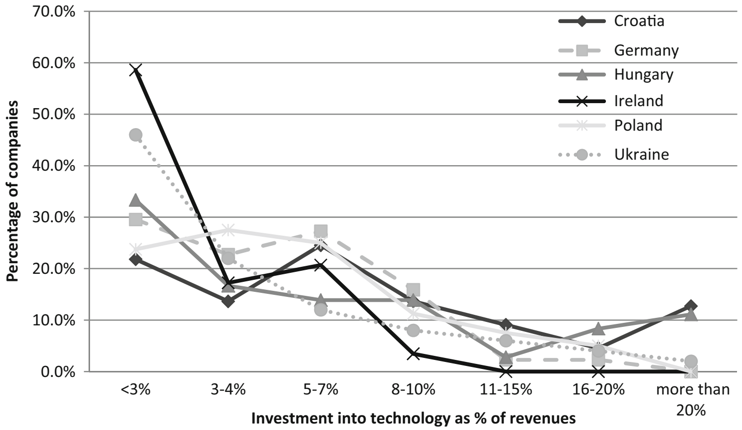

Fig. 2 Investment into technology. *Source*: Authors

The ANOVA F-test examines the overall group means and allows us to identify seven groups with different mean values. For this study, the F-statistic indicates strong evidence that one or more of the clusters differed from another on seven variables at the 0.001 level of significance. These seven variables were price, quality, delivery, flexibility, innovation, services, and environmental impact.

Initial clustering with seven clusters reviled seven significantly different clusters. However, looking into Fig. 6, one can see pronounced characteristics of the four clusters: cost, quality, variety (flexibility), and innovation. Therefore, in the second round, we reduced the number of clusters to four. Reducing to only four clusters, we obtain the following solution represented in Fig. 7.

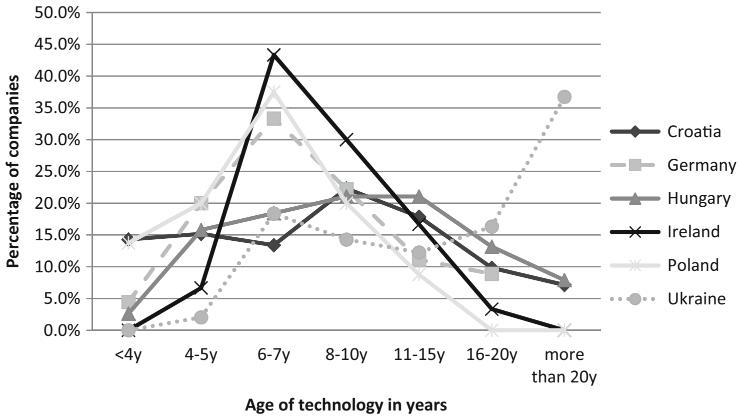

Fig. 3 Average age of technology. *Source*: Authors

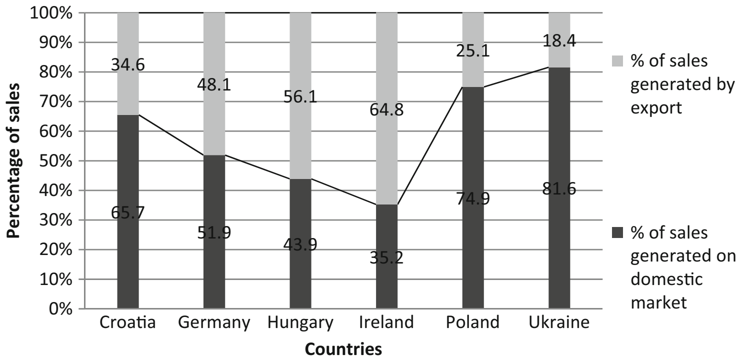

Fig. 4 Exports of total sales. *Source*: Authors

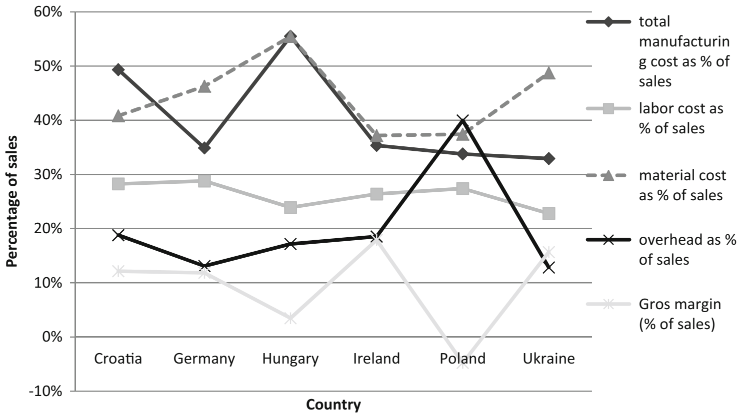

Fig. 5 Average cost structure. *Source*: Authors

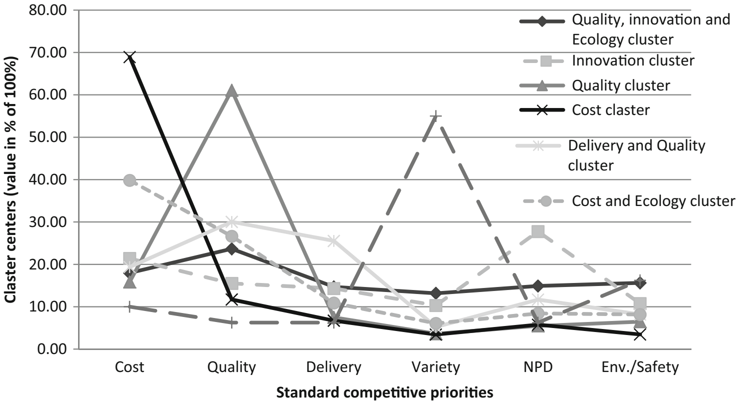

Fig. 6 Initial clusters. *Source*: Authors

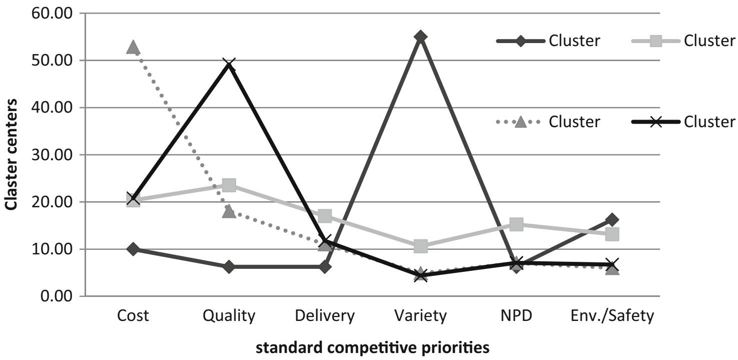

Fig. 7 Four-cluster solution. *Source*: Authors

Cluster 1 that competes on variety is present only in Ukraine, Poland, and Ireland, while all other clusters are present in all countries including cluster 3 which competes on cost, which is in disagreement with Grant (2013) who did not find cost competition in Ireland.

The number of companies in clusters according to countries is given in Table 3.

As it can be seen from Table 3, companies dominantly compete on all priorities, variety being the least important to that cluster (as seen in Fig. 7). Seventy-three companies compete dominantly on cost, 62 companies dominantly on quality, and four companies on variety, and 216 companies compete dominantly on quality, cost, and delivery.

The cost structure of the four clusters is presented in Fig. 8, and it can be seen that clusters that compete on cost have pronounced high material costs. The cluster that competes on variety (cluster 1, four companies) has higher labor cost which is in accordance with current operations management literature because this strategy

Table 3 Cluster representation by country

		Cluster number of case				
		CL 1 variety	CL 2 more priorities (quality, cost, and delivery)	CL 3 cost	CL 4 quality	Total
Country	Croatia	0	68	17	28	113
	Germany	0	34	7	4	45
	Hungary	0	23	13	1	37
	Ireland	1	19	6	4	30
	Poland	2	49	15	14	80
	Ukraine	1	23	15	11	50
Total		4	216	73	62	355

Source: Authors

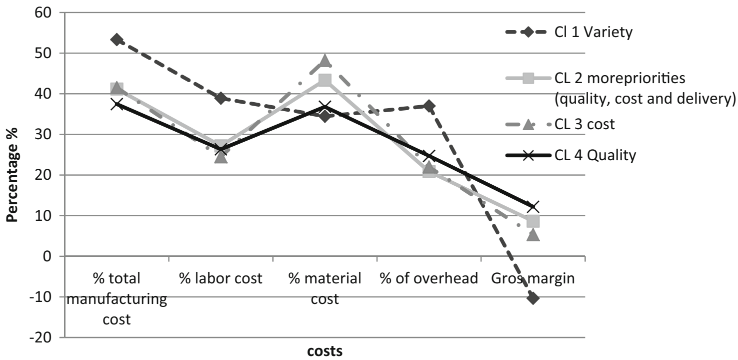

Fig. 8 Cost structure of clusters. *Source*: Authors

needs a well-skilled labor force. Also this cluster has high overhead cost probably due to depreciation of machinery.

Looking into the gross margin obtained as 100 %, costs (in %), one can see that all strategies obtain similar margins except the variety cluster which even has a negative gross margin, suggesting that this strategy is not worthwhile (Table 4).

Companies competing on quality or on more priorities (quality, cost, and delivery) have the newest equipment and invest more into technology. However, statistical differences are not significant, and we cannot conclude that those groups of companies invest more into technology. Those four companies competing on variety are companies with an average of 339 employees. Similarly, companies competing on more priorities are large (on average 459 employees). One would expect companies that compete on cost to be large; however, they on average have 273 employees. Companies dominantly competing on quality are smallest with an average of 126 employees. Even though there are differences in the means (technology, investment, size), the ANOVA table revealed no statistically significant differences between groups.

Table 4 Cluster, technology age and investment, size of the plant

Cluster number of case	Technology age (average years)	Technology investment (% of sales)	Number of employees
CL 1 variety	13.00	6.75	339
CL 2 more priorities (quality, cost, and delivery)	10.54	7.69	459
CL 3 cost	11.86	6.91	273
CL 4 quality	10.36	7.51	126
Overall mean	10.80	7.49	362
N	353	348	353

Source: Authors

6 Discussion

The multi-focus cluster appeared to compete on all capabilities (but dominantly on quality, cost, and delivery and in that order) and may be supporting the cumulative model rather than the trade-off approach which competes on a single competitive priority. Correlation analysis could be used to test the strength of relationships between competitive capabilities to determine whether the capabilities are mutually exclusive or not. This reinforces the findings of Kathuria (2000); Zhao, Sum, Qi, Zhang, and Lee (2006); and Sum, Kow, and Chen (2004) where a cluster competing on multiple priorities was identified. This was the largest group and implies that these companies are striving for excellence and are adopting a range of manufacturing capabilities rather than focusing on one.

Correlation analysis among priorities revealed strong trade-offs in all clusters, except that in the multi-focus cluster, the trade-offs are not as pronounced as in other three clusters. It shows that competing on more priorities is indeed not easy.

Even though several authors suggested that low price alone is no longer a viable business strategy and that low price together with conformance to quality may be a more realistic manufacturing strategy for manufacturers to pursue, we have found a cluster competing dominantly on price. Authors suggest that conformance to quality and delivery should be now considered as standard by companies. However, we did not find that cluster rather a cluster that competes on three priorities: quality, price, and delivery and in that order. There has, however, been evidence that significant levels of manufacturing activity have transferred to lower labor cost areas such as Eastern Europe (Grant et al., 2013). In our sample, we have such countries (Poland, Ukraine, and Hungary), but we found evidence of competing on price, quality, variety, or multi-focus priorities.

Even though McCarthy (2004) hypothesized that new manufacturing strategies as a consequence of evolution can be expected, his research does not provide evidence of new strategies. Similarly, even though we performed a two-step cluster analysis, starting with a larger number of clusters, we did not find evidence of some new manufacturing strategy.

It seems that technology is important on whatever priority company is competing. Companies competing on quality or on more priorities (quality, cost, and delivery) have the newest equipment and invest more into technology. However, the differences between those groups of manufacturing strategies (clusters) are not statistically significant, proving rather the opposite, that technology is important whatever manufacturing strategy is used.

Since environmental issues are a source of competitive advantage for firms (Hart, 1995; Sharma & Vredenburg, 1998) and the manufacturing area is the critical point where the firm acts on environmental impact, several authors recommend including environmental protection in the manufacturing strategy. Today, companies are under pressure from stakeholders to be eco-efficient. Those companies that can manage their resources more efficiently are likely to gain competitive advantage. Eco-efficient means to run manufacturing operations more innovatively, responsively, and ultimately on a sustainable competitive basis (Dangayach & Deshmukh, 2001).

7 Conclusion

These findings suggest that manufacturing strategy needs to be focused at country level rather than as a global perspective with a single dominant model. This study also extends (Grant et al., 2013) study which considered a large number of taxonomy studies; however, it empirically explored only the Irish manufacturing strategy taxonomy. Even though Grant et al. (2013) suggest that country-level manufacturing priorities will differ, we found almost all manufacturing strategies are present in all countries, which is intuitively logic. What differs in our study from previous studies is the fact that the largest cluster is represented by three priorities—quality, price, and delivery and in that order—which suggests that customers are not prepared to pay significantly more for quality and that this combination of priorities has become an order qualifier. This puts additional pressure on manufacturing companies which have to provide exceptional quality and reliable delivery at the price that is not significantly higher. Customers see significantly higher price for quality as a sign of company's inefficiencies and thus will not tolerate it for long time. Global and stronger competition has put even higher pressures on manufacturing companies.

This study has managerial implications in that the "multi-focus" cluster is competing on multiple priorities; managers must be aware that they need to develop a portfolio of capabilities rather than focusing on one.

In advanced economies, quality is now considered to be an order qualifier (Amoako-Gyampah & Acquaah, 2008). However, this study shows that an order qualifier is quality, cost, and delivery—that is, multi-focus putting an even higher pressure on manufacturing companies.

Investment into technology is very important as it reduces scrap, which means lower costs and more reliable deliveries. Company should plan regular improvement of their technology base. Overall, sample investment into technology is as high as 7 % of sales.

Christiansen et al. (2003) prove that in Denmark, low-cost strategy is equally successful as quality strategies. We found that all strategies are equally profitable except the variety (flexibility) strategy. This strategy produces losses and is not viable in the long run. However, it should be noted that in that cluster, there are only four companies and this cluster may present a peculiarity rather than a rule.

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Strategic Importance of Cross-Border Acquisitions for Emerging Market Multinationals

Dušan Marković, Branko Rakita, and Davor Filipović

Abstract Business environment has changed significantly during the last two decades under a rapid globalization. The growing number and power of multinationals from emerging markets is one of the most prominent results of these changes. From niche players in the global market or regional competitors in similar emerging markets, they became multinationals that are challenging world leaders, even in high intensive industries. As late followers in the global market, these companies are faced up with competition gap. Therefore, they use cross-border acquisitions to obtain strategic resources necessary to compete in the global market (technology, brands, marketing knowledge, etc.). They combine the obtained resources with their own cost advantage to reshuffle competition in the industry. To preserve targets' strategic resources, these multinationals retain the top management and give them great autonomy. Through this approach, the risk of acquisition failure is reduced, regardless of the fact that some cost synergies are not achieved. Two case studies, Lenovo and Tata Motors, from China and India, the major emerging markets, are used to show how emerging market multinationals rewrite motives and strategies for cross-border acquisitions.

1 Introduction

For more than two decades, economic liberalization and accelerated development of technology have been the drivers of increasing business globalization. One of the most important results of globalization is a greater role of emerging markets in global economy. Emerging markets have strengthened their ties with the world economy and became its most vibrant part. Growing economic power of emerging

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Table 1 Number of multinationals from China, India, the USA, and Japan in Fortune 500

	2008	2009	2010	2011	2012	2013	2014
China	29	37	46	61	73	89	95
India	7	7	8	8	8	8	8
USA	153	140	139	133	132	132	128
Japan	64	68	71	68	68	62	57

Source: Fortune Global 500 Database (2014)

markets is reflected in rising foreign direct investment (FDI) outflow which soared from more than USD 127 billion in 2004 (less than 14 % of the global FDI outflow) to more than USD 553 billion in 2013 (around 40 % of the global FDI outflow) (World Investment Report Database, 2014). Consequently, the number and power of emerging market multinationals (EMM) is rising. Table 1 shows the number of multinationals from China and India, as the leading emerging markets, and the USA and Japan, as the most significant developed countries, in Fortune 500 list.

During the analyzed period, the number of multinationals from China rapidly increased, the number of Indian companies was low and steady, and the multinationals from the USA and Japan significantly declined in number. Such trends brought EMM into focus of academic research (Chattopadhyay, Batra, & Ozsomer, 2012; Khana & Palepu, 2010; Ramamurti, 2012; Rugman, 2009).

Companies from emerging markets were considered to be producers of standardized products only, unable to develop any radical innovation (Vernon, 1966). Nowadays, this opinion is mostly abandoned and considered outdated due to rising power of some EMM (Lenovo, Haier, Tata, Infosys, Embraer, Huawei, Lukoil, Rusal, Cemex, etc.). Some researchers, nevertheless, argue that EMM can develop only gradual innovations due to inefficient institutions and specific social and cultural relationships (Abrami, Kirby, & McFarlan, 2014).

Internationalization of EMM is strongly affected by three determinants: (1) these multinationals usually lack superior technology and management knowledge, (2) governments encourage global expansion, and (3) frequent use of cross-border acquisitions (Peng, 2012). This chapter deals with these determinants, giving special focus to cross-border acquisitions. Theoretical arguments and results of the earlier research on aims of cross-border acquisitions made by EMM and management of acquisition process are supported by two case studies, Lenovo and Tata. These two companies made several cross-border acquisitions in the last decade that reshaped their global market position. They applied specific approach to integration of targets, giving them great autonomy, which enabled acquirers to obtain strategic resources and achieve full-scale synergy.

2 Determinants and Strategic Goals Behind Cross-Border Acquisitions Made by EMM

Growing power of EMM brings up the question whether traditional theories of multinationals can explain their internationalization paths. These theories point out that the multinationals possess some strategic resources, which are source of competitive advantage, and try to exploit them abroad (Dunning, 2000; Rugman & Verbeke, 2003; Verbeke, 2008). These strategic resources are usually intangible and cannot be subject to market transactions. Due to imperfections in the market of intangible resources, companies invest abroad to exploit additionally these sources of competitive advantage (Caves, 1980; Krugman & Obstfeld, 2003). However, EMM do not entirely fit in these theories. They lack cutting-edge technology, marketing and management skills, and globally recognized brands. Some researchers therefore argue that EMM base their competitive advantage primarily on the country of origin's specific advantage (surplus of low-cost labor force, cheap natural resources, huge and growing domestic demand, government incentives, etc.) (Rugman, 2009).

However, their competitive advantage lies in much more than mere capability to produce low-cost and poor-quality products. These companies expand their business activities simultaneously to developed and to emerging markets (Guillen & Garcia-Canal, 2009). In developing markets, they make use of their ability to do business under undeveloped formal institutions, unpredictable actions of informal institutions, weak legal protection, undeveloped infrastructure, and a broad base of poor customers (Yadong, Sun, & Lu Wang, 2011). In these markets, EMM are generally positioned as producers able to service the bottom of the pyramid (Prahald & Hammond, 2002) since they are familiar with the limited purchasing power of the customers and their specific needs.

EMM expansion into developed markets is driven by different motives. They penetrate into these markets primarily to learn new skills and to leverage the skills they already possess (Mathews, 2006), which enable them to develop new strategic resources. Strategic resources can be developed internally, through cooperation with strategic partners or via cross-border acquisitions (Barney & Tong, 2006). To boost their own competitiveness, EMM purchase the lacking market-based resources (technology solutions, components, hiring individuals with specific skills, etc.) and combine them with their own capabilities (additional services, low-cost manufacturing, designer skills, etc.) (Barnard, 2010). Besides hiring a number of managers who worked for Microsoft, Google, and Motorola, Xiaomi, the leader in Chinese smartphone market, hired Hugo Barra, the former vice president of Google, with the aim of developing a global strategy.

EMM's networking capabilities enable them to identify strategic partners and their strategic resources and to determine how to acquire them and finally how to adapt them to local conditions (Yadong et al., 2011). The obtained resources are used to improve own capabilities and expand abroad. This path sometimes goes from OEM, over ODM, to OBM (Ramamurti, 2012). Galanz is a good example of a company that has successfully passed these stages, now taking more than 50 % share in global sales of microwave ovens, either under its own or the strategic partners' brands. However, by using this strategy, companies run the risk of being stuck in the position of a subcontractor to global MNC, such as the case of some Chinese auto companies, with no prospects of establishing a global marketing position.

Besides the competitive forces in industry (Porter, 2008) and the available resources (Barney, 1991), institutional environment is another factor determining business decisions of a company (Peng, Wang, & Jiang, 2008). Therefore, the role of international acquisitions in EMM expansion can be properly understood only within the institutional context in which these companies operate. Institutions can affect cross-border acquisitions undertaken by EMM in two ways—indirectly, through inefficient institutions and, directly, through purposeful action of state authorities. Inefficient capital market (banks make soft loans to potential outward investors, inefficient internal capital market inside conglomerates, and family firms have access to cheap capital from family members) enables EMM to undertake acquisitions involving high risk and to pay higher premium than their competitors (Buckley et al., 2007).

In some emerging markets, governments directly stimulate cross-border acquisitions that could bring about strategic resources. This policy is carried out in the form of promotional measures and direct financial support (Yadong, Qiuzhi, & Binjie, 2010). Therefore, companies from emerging markets who are trying to acquire companies from developed economies are often considered to be representatives of government rather than business interests. Consequently, this can be a big obstacle to acquisitions in industries that developed countries consider strategically important (Bremmer, 2014). Thus, in 2009, General Motors, being in bankruptcy and under government control at the time, decided to break off the lengthy negotiations on sale of its troubled subsidiary Opel to auto parts producer Magna, although the financial offer was very attractive. Magna established partnership with Russian state-owned bank Sberbank and Russian vehicle manufacturer OAO Gaz Group to try to acquire Opel. Therefore, the US authorities estimated that through this acquisition, Russian companies would come into possession of cutting-edge technology and well-known brand, which would significantly impede the operations of American companies in strategically important auto industry.

For only one decade, from 2004 to 2013, the value of cross-border acquisitions made by companies from developing and transition countries increased from something over USD 30 billion, or about 15 % of the value of global acquisitions, to more than USD 186 billion, or 53 % of the global value (World Investment Report Database, 2014). Interestingly, one acquisition carried out in 2013 made a considerable impact of the total value of cross-border acquisitions made by emerging market companies in this year. This acquisition worth USD 54 billion was made by Russian state-owned company Rosneft who acquired TNK-BP. During the last decade, cross-border acquisitions made by EMM increased both in value and in number. From 2004 to 2013, the number of these acquisitions grew from 1,257, or about 16 % of global deals, to 1,807, which accounts for 21 % of global deals

(World Investment Report Database, 2014). The importance of cross-border acquisitions to EMM expansion is best depicted by the fact that in China (Li, Li, & Shapiro, 2012) and India (Ray & Gubbi, 2009), they became the most frequently applied investment strategy for penetration into foreign markets.

Previous studies have shown that the companies lacking cutting-edge technology opt for cross-border acquisitions rather than green field investments (Shimizu, Hitt, Vaidyanath, & Pisano, 2004). Cross-border acquisitions are, therefore, the predominant type of investment strategy applied by the EMM. Through cross-border acquisitions, EMM obtain the lacking cutting-edge technology and other intangible strategic resources needed to reinvent their business model (Christensen, Alton, Rising, & Waldeck, 2011). However, this type of acquisition involves considerable risks, such as how to identify the appropriate target and how to integrate it. Investors from developed countries believe that the acquisitions aiming at reinvention of the business model are too risky and destroy the value of the owners (Beishaar, Knight, & Van Wassenaer, 2001). However, some studies have shown that acquisitions made by EMM contribute to value creation for shareholders (Gubbi, Aulakh, Ray, Sarkar, & Chitoor, 2010; Ray & Gubbi, 2009). High degree of success of cross-border acquisitions from emerging markets is attributed to complementarity of target's and investor's resources. Targets provide EMM with access to developed markets and more affluent customers, implying much higher profit margins, and with advanced technology, globally recognized brands, and superior management competencies (Kale, 2009). On the other hand, target gains access to the acquirer's low-cost advantage, to additional cheap capital, and to large and growing demand in emerging markets (Knoerich, 2010). When Chinese car producer Geely acquired Volvo, it gained the access to cutting-edge technology and marketing knowledge. Simultaneously, Volvo was provided with fresh capital and access to fast-growing Chinese market, which turned from a marginal to the largest single market for Volvo only 4 years after the acquisition.

Acquisition of strategic resources from abroad enables EMM to offer cutting-edge technology products, variety, and customization at minimum price premiums (Williamson, 2010). Additionally, acquired competencies enable EMM to launch internally developed innovations that then become acceptable in developed markets (Govindarajan & Ramamurti, 2011).

3 Integration Options and Value Creation for EMM in Cross-Border Acquisitions

It has been reported that more than two-thirds of large M&A deals fail to create value for shareholders. The propensity for mergers and acquisitions' failure to meet anticipated financial and strategic objectives is corroborated by numerous studies which indicate that the rate of M&A failure ranges from 55 % to 70 % (Lodorfos & Boateng, 2006). Despite of the high failure rate, mergers and acquisitions are very popular choice for strategy implementation by multinationals. Absence of synergy realization between companies involved in the transaction is often attributed to the mistakes in the integration process. Therefore, integration process is one of the major determinants for the success of the acquisition in creating value.

Value creation often depends on the transfer of strategic capabilities between the acquirer and the target. The extent of the integration depends upon the degree of the strategic interdependence between the two firms as a precondition for capability transfer and value creation. The timing of integration also depends on the type of capability being shared or transferred. Rationalization of operating capacity is often done much faster than the transfer of functional and management skills. The strategic value creation logic behind the acquisition dictates the extent to which the capabilities of the two companies need to be merged within single organizational structure or maintained within single boundaries of the companies (Sudarsanam, 2010). According to Marks and Mirvis (2010), companies involved in a transaction need a high-level vision of the end state before agreeing on a deal. That way, decisions about how to put different functions together can be weighed against the desired end state. There are several organizational and cultural end states that can help managers to think through their integration options. These integration options include preservation, absorption, reverse takeover, the best of both, and transformation. Preservation relates to the case where acquired company faces only modest degree of integration and retains its ways of doing business. This end state is desirable in diversified companies that promote cultural pluralism among business units and in acquisitions where the intent is to secure and build on human and social capital. To succeed, the acquirer's management has to protect the boundary of the acquired company, limit intrusions, and minimize conformance to its rules and systems (Marks & Mirvis, 2010). Absorption refers to the situation where the acquired company is completely absorbed by an acquirer and assimilated into its culture. In reverse takeover, the acquirer wants to adopt the ways of doing business of the acquired company. Besides, in that situation, the acquired company dictates the terms of the combination and effects cultural change in the acquirer. Achieving synergy between companies through their partial or full integration is characteristic of the best of both integration approaches. Geographical expansions or roll-ups in fragmented industries often seek this end state. In this integration approach, financial and operational synergies are achieved by consolidation implying reductions in workforce. The optimal result is full cultural integration which means the blending of both companies' policies and practices. Transformation implies that both the acquirer and acquired company undergo fundamental change following their combination. This end state is desired when an industry is radically evolving or emerging. Synergies are not simply realized from reorganizing the businesses but from reinventing the company. This is the trickiest of all integration options and requires a significant investment and inventive management. Existing practices and routines must be abandoned and new ones discovered and developed (Marks & Mirvis, 2010).

Acknowledging the importance of integration process, emerging multinationals take special care when integrating acquired targets. Instead of rushing to integrate acquired companies and thus try to generate instant growth, EMM allow their acquisitions to continue operating independently, focusing on strategic reasons of the acquisition, almost like there was no change in ownership, e.g., they usually decide on preservation approach. Preservation approach or partnering approach as Kale, Singh, and Raman (2009) call it entails keeping acquisition structurally separate and maintaining its own identity and organization. The acquirers retain senior executives, particularly the CEOs of the acquired companies, and give them same power and autonomy they used to have adding just few executives of their own. They aim for synergies in few areas having in mind that realizing synergies is not disruptive for acquired company's business. In essence, EMM treat the acquired company as it would treat partner in strategic alliance (Kale et al., 2009). The main reason for giving the acquired company such autonomy lies in the basic goals behind the acquisition. EMM's aim is to obtain new technologies, brands, and customers in foreign markets while focusing on long-term goals. On the contrary, the main goal of many acquisitions is to reduce costs and make quick benefits from disposing overlapping assets, focusing on short-term objectives. Clear long-term vision, identifying its weaknesses and targeting only companies whose purchase would offset those weaknesses, is the main reason for M&A success of India's Hindalco which became one of the largest manufacturers of aluminum in the world (Kumar, 2009). After acquiring companies, EMM try to score quick wins in combined raw material purchases by setting up combined teams to coordinate buying with overseas acquisitions. High degree of operational autonomy minimizes the poor performance after the acquisition since acquirers often make bad decisions because they do not understand the acquisition's business. It can also help to prevent decision-making paralysis which can occur when managers do not understand the acquirers' expectations. If emerging multinationals decide to place one of their senior executives in the acquired company, their job is not to oversee CEOs, but they act as bridges between the acquirer and acquired company. That was the case when Ülker acquired Godiva. In order for partnering approach to work and create value, it is extremely important that emerging multinationals communicate values, ethics, and business philosophies immediately after the takeover. Structural separation and operational autonomy deliver results only when the acquired company understands the acquirer's values (Kale et al., 2009). The partnering approach when integrating acquired targets was successfully used by Lenovo and Tata Motors.

4 Becoming Technology Giant Through Cross-Border Acquisitions: Case Study of Lenovo

Lenovo is the leading Chinese company in technology intensive industries. This company ranks on Fortune 500 list, with operating income of USD 39 billion and market capitalization of USD 16 billion in 2013 (Fortune Global 500 Database, 2014). In the same year, the company was the leading PC seller. By 2005, Lenovo focused its business efforts on PC production and sale in growing domestic market and neighboring emerging markets. Consequently, its brand was not recognizable in developed countries. During this period, the company employed the late follower strategy and cooperation with multinationals from developed countries. Through strategic partnerships with HP, IBM, and AST, Lenovo acquired new competencies, especially in the area of distribution (Biediger et al., 2005).

However, the company soon came under pressure from foreign competitors in domestic market. To withstand these pressures, Lenovo needed strategic resources, but it was expensive and time-consuming to develop them internally. Therefore, the company decided to acquire IBM's PC division, including the line for laptops and tablets. They purchased this division for USD 1.25 billion and paid off USD 500 million of IBM's debt (IBM, 2005). The Chinese government provided a part of the funds for this acquisition and gave Lenovo privileged access to local education market and domestic public procurement, which significantly facilitates the process of acquisition (Deng, 2009). Via this acquisition Lenovo acquired technology solutions, recognizable brand, marketing and management knowledge, and a network of strategic relationships with other multinationals developed by IBM.

The PC industry was recognized as Lenovo's core business, so it intensified its business efforts to significantly improve its position in the industry. Valuable experience in acquisition management led to new acquisitions in the industry (Collins, Holcomb, Trevis, Hitt, & Lester, 2009). Thus, in 2011, Lenovo acquired German electronics manufacturer Medion, thanks to which the company now controls more than 14 % of the German market (New York Times, 2011). Lenovo had its own subsidiary in Brazil, but the internal resources were not sufficient to achieve strong business performance. Therefore, Lenovo acquired Brazilian electronic producer CCE in 2012. Through this acquisition, Lenovo obtained local marketing knowledge needed to operate in the specific business environment and soon became the third best PC company in Brazil (Reuters, 2012). For the purpose of geographic diversification, Lenovo had long been considering how to enhance its position in Japanese PC market. Finally, in 2011, the company united its business operations in Japan with Japanese company NEC, the leader in this market. Lenovo has 51 % stake in this joint venture controlling 25 % of the market. Synergy effects are expected in the field of R&D, supply chain, service, product, sales and marketing, and information system (Lenovo, 2011).

Lenovo's "protect and attack" strategy implies protection of core business and expansion into complementary industries, often through international acquisitions (Yuanqing, 2014). Lenovo seeks to acquire complementary technologies and capabilities abroad and improve performance of target using strong cash flow from domestic market (Ramamurti, 2012). In 2014, Lenovo bought IBM's server business. Through this acquisition, Lenovo entered into a complementary branch and gained access to technology solutions and market with higher profit margins than in the core business. Furthermore, it allowed the company to establish strategic relationship with Intel, the largest manufacturer of processors (Lenovo, 2014). In

2008, Lenovo sold its smartphone division with the aim of focusing on PC business. However, by the end of 2009, the company repurchased it, with the intention to strengthen it through a big acquisition. In 2013, Lenovo tried to acquire Blackberry, which was on the brink of bankruptcy, but the Canadian government blocked the deal on the grounds that it could pose a threat to national security. As early as 2014, Lenovo acquired Google's Motorola Mobility division for USD 2.9 billion (Forbes, 2014). Lenovo thus got access to the necessary patents and acquired the brand with strong reputation in the markets of the USA and Latin America.

After the acquisition of IBM's PC division, Lenovo set up its headquarters in the USA, in addition to its headquarters in China (Deng, 2009), with the aim of making use of the US country-specific advantage and giving the target a high degree of autonomy. After the acquisition was made, Lenovo decided to introduce English as the official language and retained the CEO of IBM division Steve Ward in his position for the next 2 years to gain the trust of American employees (Financial Times, 2010), although this slowed down the integration. Similar approach is applied in the integration of Motorola Mobility which will keep a high degree of autonomy and its own brand. To preserve the trust of employees, customers, and suppliers, Lenovo adheres to the principle that no expatriates are hired after the acquisition (only 50 out of 54,000 employees are expatriates) (Yuanqing, 2014).

5 Grand Entrance into the Global Market via Cross-Border Acquisitions: Case Study of Tata Motors

Tata Motors is the largest producer of motor vehicles in India. In 2013, Tata Motors was ranked on Fortune Global 500 list, with total revenues of USD 38.5 billion and USD 2.3 billion of profits (Fortune Global 500 Database, 2014). Earlier, Tata was known as a manufacturer of cheap and poor-quality vehicles for the domestic market. However, in the past 10 years, the company carried out two acquisitions that have completely reshaped its position in the global market.

In 2004, Tata Motors outbid eight other companies and purchased bankrupt Daewoo Commercial Vehicles for USD 160 million. This was the first cross-border acquisition carried out by an Indian auto company. Although being relatively small, this acquisition brought about significant synergy effects. These two companies have complementary product lines, and Tata's reputation has been significantly enhanced through this acquisition. Furthermore, Tata mastered the technologies for production of large trucks. Few years after the acquisition, Daewoo Commercial Vehicles "was in the black" again. The success of this acquisition is largely attributed to the specific approach to integration of the target company, best described in Tata Motors CEO's statement given after the acquisition: "Tata Motors will operate Daewoo as Korean company, managed by Koreans, but it will work as a part of a global alliance with its Indian counterpart" (Kale & Singh, 2012).

In June 2008, Tata Motors acquired Jaguar Land Rover, troubled British subsidiary of American Ford, for USD 2.3 billion (BBC, 2008). To finance this acquisition and provide additional working capital, Tata borrowed about USD 3 billion. However, under the global financial crisis that began at the end of 2008, the sale of Tata Motors and Jaguar Land Rover plunged, so the investor was placed under financial pressure. At the last moment, state-owned State Bank of India helped the company by granting it a loan worth USD 885 million with favorable financing conditions (Financial Times, 2009). This acquisition enabled Tata Motors to enter into the premium segment and diversify its sales. Additionally, the company shed the negative image of the country of origin, gained access to Jaguar Land Rover's distribution channels, and finally acquired technical know-how, especially in the areas of engineering (Chattopadhyay et al., 2012).

Although many were skeptical about this acquisition, it proved successful. Jaguar Land Rover's revenues in 2013 totaled GBP 19.4 billion, an increase of almost 23 % relative to the preceding year. In the same year, profit before tax amounted to GBP 2.5 billion and was 49 % higher than in the preceding year (Tata Motors, 2014). The success largely came from the experience in management of cross-border acquisitions gained through acquisition of Daewoo Trucks. As in the previous acquisition, Tata left day-to-day management of Jaguar Land Rover to British managers, strengthening thus the motivation of the employees and managers in Great Britain (New York Times, 2012).

These two case studies have shown that EMM undertake cross-border acquisitions to obtain strategic resources needed to reinvent their business model; that they carry out cross-border acquisition with certain degree of support from the home country government; and that gradual integration of target accompanied by greater autonomy given to its management has a positive impact on absorption of strategic resources and post-acquisition business performance.

6 Conclusion

In turbulent business environment of twenty-first century, organizations are forced to use different growth strategies in order to successfully position themselves with respect to competition and to preserve and increase their profit margins. Globalization pressures created large number of EMM which constantly seek for growth and try to obtain strategic resources needed to challenge world's leading corporations. Therefore, the main goal of this chapter was the analysis of the strategic importance of cross-border acquisitions for EMM. Systematic research indicates that the greatest danger for value creation that should come out M&A comes after two companies try to integrate operations, and M&A literature indicates that there has been intense interest in examining integration aspects of M&A in order to explain the high rate of M&A failures. Out of the available integration approaches, EMM usually decide for preservation approach (e.g., partnering approach) when it comes to integrating acquired company. By adopting this approach, EMM agree that their acquisitions stay autonomous in operations and concentrate on the strategic perspectives of the acquisition. High degree of autonomy is consequently related with the strategic intent by the acquirers. The successful acquisition by adopting preservation approach means that they also retain top management of the acquired companies and give them equivalent power and independence they used to have and adding only limited number of new executives. Focusing on complimentary targets, EMM purchase the lacking market-based resources (technology solutions, components, hiring individuals with specific skills, etc.) while focusing on long-term goals. The obtained resources are used to improve own capabilities and expand abroad. By analyzing case studies of Lenovo and Tata Motors, it can be concluded that cross-border acquisitions can be successfully used by EMM to gain strategic resources needed in order to strengthen their position in the world market. Both Lenovo and Tata Motors provided their acquired companies with high degree of autonomy enabling them to avoid all possible pitfalls of integration process and resulting in better performance in the post-acquisition period.

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Late to the Party: HR's Contribution to Contemporary Theories of Strategy

Paul Micheal Swiercz

Abstract Drawing insights derived from systems theory, the resource theory of the firm and historical developments within the functional areas of management, this paper calls attention to the emergent importance of HR system design to firm competitiveness. The reader is introduced to the FourSquare Model and its premise that successful strategy formulation and implementation requires integrated decision-making across four primary functional domains. The Model makes three significant contributions to our understanding of organizational performance: (1) it brings together important insights from a range of theoretical perspectives; (2) it presents a parsimonious yet theoretically sophisticated model for empirical investigators and management theorists; and (3) it provides practicing organizational leaders with a cogent and accessible tool to guide executive development.

1 Introduction

A survey of the strategy literature reveals a curious observation. Each year, hundreds, if not thousands, of papers are published exploring every conceivable management challenge. And while certainly making a contribution to the advancement of business success worldwide, the "Management Theory Jungle," as described by Koontz (1980) more than 40 years ago still persists.

This jungle-like reality is particularly apparent in the field of strategy with its odd mix of theories, road maps, protocols, case studies, storytelling, and motivational exhortations. There isn't a Grand Theory of Strategy—with due acknowledgement to the contributions of Michael Porter (1980)—and there probably shouldn't be.

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The grand theory skeptics are most likely correct[1]—grand theories appear to be out of sync with the norms of contemporary scholarship and real-world practice. That said grand theories and their aspiration for what distinguished sociologist C. Wright Mills (1940) referred to as "higher abstract theorizing" play an important role in scholarship for a variety of reasons. They provide a framework for communication with other theories, allowing further theoretical progress. They furnish a connection between theory, method, and application in the tradition of grand theories like Scientific Management and Contingency Theory. They help guard against seductive management fads with their chimera-like ability to mimic theory (Spell, 2001). And perhaps most importantly, the debates and controversy they stimulate provide a focal point for the creative thinking.

In this paper, the FourSquare Competency Model is presented in the style of grand theory for the dual purpose of (a) highlighting the growing importance to HR constructs in strategy theory and (b) acknowledging the now dominant perspective that strategy is best understood as an emergent decision-making process. Emergent is the sense championed by Mintzberg and Waters (1985) that a firm must continually reinvent its strategy via learning within the context of actual business experience.

The goal of this paper is to position the FourSquare framework within the tradition of model building and typology construction (Doty, 1994). More specifically, it seeks to offer a model and supporting logic showcasing the integration of knowledge from various perspectives, most notably strategy, top management teams, functional design, and competency theory, with particular emphasis on the HR's growing contribution to our understanding of strategy.

The FourSquare Model of Competitiveness makes three significant contributions to our understanding of strategy and its association with organizational performance: (1) it brings together important insights from a range of theoretical perspectives; (2) it presents a parsimonious, yet theoretically sophisticated, tool for empirical investigators and management theorists; and (3) it provides practicing organizational leaders with a cogent and accessible tool to guide executive decision-making and executive development.

2 Strategy as Decision-Making in Context

Modern conceptions of business strategy have been greatly influenced by the work of historian Alfred Chandler (1962, 1977, 1990). In his view, strategy involves determining a firm's basic long-term goals, choosing courses of action, and allocating resources needed to achieve goals.

[1] Critiques of Thomas Piketty's "grand theory of inequality" as presented in his book *Capital in the Twenty-First Century* provides a good example of the current mood of skepticism toward grand theory.

In an effort to give greater theoretical substance to what is essentially an activity statement by Chandler, a number of scholars have offered their own definitions of strategy. Gilbert, Hartman, Mauriel, and Freeman (1988), for example, define strategy as a "set of important decisions derived from a systematic decision making process conducted at the highest levels of an organization" (p. 10). The Harvard Policy framework definition, traveling the same path, defines strategy as the pattern of purposes and polices that define a company and the business in which that company is engaged (Andrews, 1971). And Mintzburg, Rasisinghani, and Theoret went one step further, defining a strategic decision as one that is "important, in terms of the actions taken, the resources committed, or the precedents set" (1976, p. 246).

An essential element in these definitions, and a related group of similar constructions, is the characterization of *strategy formulation as a decision-making process* and strategy as the outcome of this process. This differentiation between strategy formulation and strategy implementation is important because the separation into two distinct phases was largely the byproduct of important innovations and then emerging discipline of decision-making theory.

Ansoff (1965), for example—in his pioneering book showcasing the interface between strategy and decision-making theory—argued that there are three main types of decision-making: strategic, administrative, and operational. Chaffee (1985), as a consequence of her literature review, proposed three types of strategic decision-making models: linear, adaptive, and interpretive.

According to Chaffee's scheme, the linear model has a planning focus and connotes the methodological, directed, and sequential aspects of planning. The adaptive model, in contrast, searches for the fit between the threats and opportunities in the external environment and organizations' internal capabilities and resources. And lastly, the interpretive model assumes that reality is socially constructed and that the social contract is the basis for organizing.

One particularly interesting outcome of the effort to link strategy and decision-making research has been recognition of the role of cognitive limitations on the decision-making process.

Early research focused on explaining the existence of cognitive limitations and how these limitations interfered with the leader' stability to make rationally optimal decisions (Carter, 1971; Cyert & March, 1992). Best represented by the concepts of "bounded rationality and satisficing," as articulated by Herbert Simon (1997), the cognitive approach led to some widely accepted conclusions about how strategic decisions are made and how cognitive limitations constrain the process.

In their extensive review of the strategic decision-making literature, Eisenhardt and Zbaracki (1992) reported that (1) decision-makers satisfice instead of optimize, rarely engage in comprehensive search, and discover their goals in the process of searching; (2) many decisions follow basic phases of problem identification, development, and selection, but that they cycle through the various stages, frequently repeating, often going deeper, and always following differing paths in fits and starts; and (3) the complexity of the problem and the conflict among the decision-makers often influence the shape of the decision path.

While useful and productive, the decision-making approach at this stage of development focused itself only with strategy formulation. Strategy implementation was neglected under the presumption that implementation success would naturally flow from sophisticated formulation.

In these early years, theorists also showed a significant bias toward the conceptualization of decision-making as an isolated and individual pursuit. According to this “great man” approach, each individual leader was presumed to have personal decision-making authority and a unique decision-making heuristic. As will be shown in the following discussion on Top Management Teams (TMTs), we now know that individual decision-making tells only part of the story. Strategic decision-making, particularly in large complex public organization, takes place in a rich social context with input from a range of powerful stakeholders.

The second limitation of the traditional decision-making approach is its de-emphasis of “content” in favor of process and context. In other words, what people think about influences is no less important than how they think about it. A model, like the FourSquare Competency Model, integrating the role of top management team members and the content of strategic decision-making holds promise for making important contributions to our understanding of how firms craft and maintain competitive advantage.

3 Top Management Teams and Strategic Choice

Strategic choice theory, developed primarily by scholars interested in organizational design and political theory, began to exert its influence on strategy in the early 1970s. A key contribution was its emphasis on the agency of individuals and groups within organizations to make choices that dynamically influenced the development of those organizations.

Strategic choice theorists (Wangrow, Schepker, & Barker, 2015) argue that organizational leaders have substantial discretion in determining the future strategic contour of firms. Variants known as upper-echelon or dominant coalition theory propose that the top managers are the strategists who set firm direction and determine the pace of competition within an industry. Further, they hold that top management team characteristics are an important determinant of the style and scope of strategic decision-making.

Conventional business wisdom compliments this perspective with its proposition that outstanding individual leaders who surround themselves with a top-notch management team head successful organizations. Indeed, Hambrick and Mason (1984) asserted that organizations are “reflections of the values and cognitive bases of powerful actors” leading them to propose that “organizational outcomes-strategic choices and performance levels are partially predicted by managerial background characteristics” (p. 193).

This assertion regarding the importance of top management team demography has led to a growing body of research exploring the relationship between team characteristics and a range of organizationally significant outcome variables (Bantel & Jackson, 1989; Wiersema & Bantel, 1992). Norburn and Birley (1988), for example, found that age, tenure, functional background, and education influenced firm performance. Murray (1989) reported that the heterogeneity of TMTs showed a positive relationship to long-term performance in the oil industry but not in the food industry. Krishnan, Miller, and Judge (1997) reported that complementary functional backgrounds of top management between acquiring and acquired firms had a positive effect on performance.

With regard to the important question of globalization, demographic heterogeneity has been shown to be positively related to global strategic posture (Athanassiou & Nigh, 1999; Kim & Mauborgne, 1991). And more recently, there are indicators that firms with diverse TMTs, in terms of the breadth of their international experience and the heterogeneity of their educational backgrounds and firm tenures, are more likely to be highly global (Carpenter & Fredrickson, 2001).

Of particular interest for purposes of the FourSquare Model is the relationship between executive functional background and firm strategy. To date, there is a substantive body of research indicating a relationship between functional background and strategic choice. Chaganti and Sambharya (1987) demonstrated a linkage between tenure and functional background to the Miles and Snow typology of strategy. Datta and Guthrie (1994) found that R&D intensity was associated with the selection of CEOs with technical functional backgrounds as well as those with higher levels of education. Bantel and Jackson (1989) reported that innovation in the banking industry was related to greater levels of education and functional diversity. And Goll, Sambharya, and Tucci (2001) discovered that TMT heterogeneity in terms of age and functional backgrounds bring a diversity of viewpoints to the decision-making process that is consistent with a systematic search for alternatives.

Given research indications that functional background does matter, it is appropriate to ask in which way it matters. It appears to matter in three important ways. First, there is a simple question of knowledge and skills. Functional background is a commonly used indicator of the skill mix that the executive brings to the team. Second, there is the question of mental models and their influence on decision-making. These mental models influence actions at the organizational level (Knight et al., 1999), and business education has shown a distinct bias toward a technical-rationale mental model (Swiercz & Ross, 2003). And a third reason that functional background matters is provided by advances in social network theory. According to this perspective, functional background brings with it a social network of professional and personal contacts providing unique access to job-related resources including information, expertise, professional advice, political access, and material resources (Ibarra, 1992).

4 Organizational and Individual Competencies

Over the past three decades, a stream of strategy research has emerged arguing that organizational resources and capabilities form the basis for a firm's sustained competitive advantage (e.g., Barney, 1986, 1991; Grant, 1993; Kaufman, 2012). Drawing heavily on the work of mid-twentieth-century economist Edith Penrose (1959), the resource-based view of the firm proposes that a firm's ability to develop and exploit specific resources/competencies explains how one firm is able to establish and maintain competitive advantage over another in the same industry or strategic group.

A firm's resources encompass all input factors—tangible and intangible, human and nonhuman—that are owned or controlled by the firm and that enter into the production of goods and services required to satisfy market demands (Amit & Schoemaker, 1993). More specifically, and for the purposes of this article, organizational competencies describe firm-specific resources and capabilities that enable the organization to develop, choose, and implement value-enhancing strategies. Organizational competencies include all assets, knowledge, skills, and capabilities embedded in the organization's structure, technology, processes, and interpersonal (and intergroup) relationships (Lado & Wilson, 1994).

Organizational competencies that have been specifically identified as potent sources of sustainable competitive advantage include organizational culture (Barney, 1986; Fiol, 1991), learning (Fiol & Lyles, 1985), routines (Nelson & Winter, 1982), and entrepreneurship (Nelson, 1991). Consistent with the relative newness of this theoretical perspective, a variety of terms have been used to describe the underlying construct. Resources and capabilities have been labeled distinctive competence (Fiol, 1991), core competence (Prahalad & Hamel, 1990), firm-specific competencies (Rumelt, 1991), organizational capabilities (Stalk, Evans, & Shulman, 1992; Ulrich & Lake, 1990), and organizational capital (Tomer, 1987). For purposes of clarity and consistency, the term competency is used in this article.

5 The FourSquare Model

Competency models of firm performance remain as a still developing addition to the strategy literature. And as one would expect, there are competing perspectives regarding the true nature of a competency. One camp, in the tradition of Industrial Psychology, posits that competency models seek to address two questions: "What individual skill, knowledge, and personal characteristics are required to do the job?" and "What behaviors have the most direct impact on performance and success in the job?" (Lucia & Lepsinger, 1999).

The second perspective, drawing from the traditions of Industrial Organization economics, focuses on organization as the reservoir of competency not the individual employee. This community of scholars is in general agreement that competency means "core competence" and that this term should be used only when the following requirements are fulfilled: "Core competence should provide or underpin a sustainable competitive advantage in the marketplace which may be recognized by customers and stakeholders and, while not necessarily unique, implies leadership in the business field" (Anonymous, 1997).

Competency at the individual level, while acknowledged as an important topic within Industrial Psychology, is virtually indistinguishable for earlier efforts to define job-specific knowledge, skills, and abilities (KSAs). The goals and methods of competency modeling are not substantively different from the specification of worker attributes and job tasks that McCormick (1976) uncovered years ago.

This is not intended to suggest that this approach is without merit. Efforts to generate competency models to ensure the alignment between employee behavior and the organization's strategic direction have significant potential value. The challenge of selecting prospective leaders for the organization (not the job) is particularly germane. In other words, the idea that leadership competencies are generalizable across industries and firms is in competition with the idea that unique industry and organizational experience is required for success. Not only is it relevant in a very practical sense; it is also relevant for theory, providing as it does a natural bridge to competency models of economists and business strategists.

Indeed, in recent years, the importance of core organizational competencies for competitive advantage has been emphasized time and again by economists and business strategists. They have argued persuasively that wealth creation is no longer simply a function of successful bureaucratic control of resources; rather it is now much more dependent on the management of organizational competencies (e.g., Bogner & Thomas, 1994; Leonard-Barton, 1992; Prahalad & Hamel, 1990).

According to the most well known of these models by Prahalad and Hamel (1990), core competencies are the result of the "collective learning" by the organization. Organizations differently prosper as a result of their ability to nurture and exploit these firm-specific resources. Core competences are particularly advantageous because they afford a basis for a common language between different parts of the organization, facilitating consideration of business restructuring, outsourcing, diversification, and new business development. At Honda, for example, it is their core competence in engines and power trains that gives it a distinctive advantage in car, motorcycle, lawn mower, and generator businesses. Likewise, Canon's core competencies in optics, imaging, and microprocessor controls have enabled it to enter and dominate in markets that are seemingly diverse and intensely competitive.

To date, considerable and compelling evidence points to the importance of competencies for firm performance. Nonetheless, successful articulation of an inventory of generic competencies remains elusive. As in the examples provided above, it is possible to catalog the unique strengths of already successful companies. But in the end, this approach fails because it is inherently firm specific and because it quickly becomes difficult to distinguish between a list of so-called competencies from a parallel listing of strengths that might be generated by the less glamorous, but field tested, SWOT analysis.

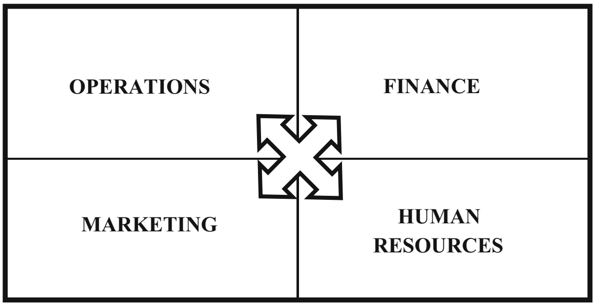

Fig. 1 The FourSquare competence model. *Source*: Author

The FourSquare Model presented here overcomes the deficiencies of earlier competency approaches in three ways: First, consistent with other efforts to develop generic models of strategy and competitive advantage (e.g., Miles & Snow, 1978; Porter, 1980), it provides a comprehensive yet parsimonious tool for explaining variations in firm performance. Second, it captures and integrates lessons learned from the century-long development of business education in America. The four squares in the FourSquare Model are familiar to all who have acquaintance with the foundations of prevailing management education. And third, the model is consistent with the standards imposed by the popular and highly regarded resource theory of the firm (Newbert, 2007).

Figure 1 provides a graphic representation of the FourSquare Model. Intentionally simple in form, the model nonetheless offers a powerful tool for generating rich and nuanced explanations for variations in firm performance. It is not intended to be road map in the sense of providing a sequential listing of interconnected steps. It is a decision-making model in that it does assert that key decisions can be clustered into four primary categories. At its most basic level, the model argues that firm performance is a function of firm-specific decision competencies in the traditional functional areas of operations, finance, marketing, and human resources. The subsections below provide background information in support of this core argument.

6 The FourSquare Competency Subsystems

6.1 Operations

The history of modern management can be imagined as the arch of pendulum anchored at the ends by two very different approaches to the study of management. At one end of its arc is the work of Frederick Winslow Taylor (1856–1915), the man generally credited with being the father of the engineering-based principles of scientific management. At the other end are the tenets of humanistic management grounded in the disciples of psychology, sociology, political science, anthropology, and most recently ecology.

Taylor—despite his abrasive, neurosis-ridden personality—used his stopwatch, time-motion studies, and an uncompromising belief that there was "one best way" of performing every activity to redefine the work of both the employee and the manager (Kanigel, 2005). Taylor, to all who would listen, proclaimed that the elements of work were not only identifiable but also reproducible. And as a consequence, the discovery and application of the key elements would pave the way to a new industrial society yielding levels of personal and social prosperity never before imagined.

By the 1930s, British scientists and engineers developed the principles of scientific management into something that came to be known as operations research, or operational research.[2] With the advent of WWII, advances in operations research progressed quickly. The US military became a major testing ground and institutional advocate for this new form of scientific management.

Taylor, his heirs, and other practitioners of the "science of management" left behind, as their greatest legacy, what we now refer to as "operations management" or, more broadly, as "management science" (Gass & Assad, 2004). The scientific approach to management empowered managers with the capacity to analyze, predict, and control the behavior of the evermore-complex organizations they were creating.

The operations management perspective became revolutionary again when it expressed itself in a variety of quality-driven managerial innovations. In the 1980s, J. Edwards Deming, Joseph M. Juran, and Philip Crosby developed their unique versions to create the total quality movement.

In the 1990s, seeking to exploit innovations in information technology, companies sought new ways to take advantage in operations research to radically alter the conduct of business in both domestic and global markets. In response, the Gartner Group coined the term "enterprise resource planning" (ERP) to describe the business software systems that evolved as an extension of earlier material requirement planning systems (MRP II) that had been developing out of the interaction between operations research and IT technology for decades.

In very recent years, the discipline of operations has again become visible as a core competency by what has come to be known as "big data." The introduction of ERP and the Internet led to a vast increase in the amount of data being collected, stored, and available for analysis. Companies like Google and Amazon are most prominent examples of companies who have successfully mined these data banks in search of operational advantage over competitors, but every major organization is rushing to exploit the promises of big data analytics (McAfee & Brynjolfsson, 2012).

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[2] Researches in this community formed themselves, in 1948 into the Operational Research Club of Britain. The Operations Research Society in America followed and was formed in 1952.

6.2 Finance

Finance is the study of the allocation of scarce resources within the firm. Its purpose is to help managers in companies of all sizes make the right decisions by first asking the right resource allocation questions: How should they make investment decisions, that is, decisions risking current sacrifice for future gain? How should they arrange for the financing of investment decisions? What effect do the decisions managers make have on value for shareholders and other constituencies—management, labor, suppliers, customers, government, society?

Finance has long been a key element in the development of advanced societies, but it has been generally neglected by historians, most notably by business historians, who, with few exceptions, have relegated it to the margins of their studies of strategy, structure, technology, and public policy.

We ought not to be surprised that sophisticated financial instruments and customs were employed to reduce risk, stimulate private commerce, and fund public projects going back more than three millennia. Premodern examples include the Medici banks and the East India Company; more contemporary examples include corporate conglomerates, leveraged buyout partnerships, and mutual funds (Baskin & Miranti, 1997). Without doubt, the modern large-scale enterprise would not be possible without a trustworthy, vibrate, and creative financial system.

Finance in its modern form really dates only from the 1950s. In the 60 plus years since then, the field has come to surpass its intellectual parent, economics, in terms of the numbers of students enrolled in finance courses, the numbers of faculty teaching finance courses, and above all the quantity and quality of their combined scholarly output (Miller, 1999).

Nonetheless, by the late 1980s, the finance department in a large enterprise had become so critical that it formed the nerve center of corporate control. Not only did it keep track of all fiscal data, it did so in a complex and highly fragmented information environment. From the organizational perspective, a typical business organization was structured as a collection of independent divisions or departments, each with its own unique knowledge base, practices and procedures, and information. These vertical structures, not unlike a series of grain silos standing in the same field, provided separate storage of a vast amount of information, but no convenient way share or distribute that information. Finance executives, both at the corporate and at the business level, controlled this information and used it, giving decision-making in the firm a discernible financial bias.

In time finance became the umbrella terminology for all things economic within the corporate enterprise. A report prepared by the Institute of Management-Accountants—Practice Analysis of Management Accounting (1996)—revealed that in many companies, the CFO became the individual responsible for everything monetary including accounting, financial control, investments, risk management, etc. Individuals working therein refer to themselves as members of the finance function even though they held degrees in accounting.

The role of finance within the decision-making structure of the firm remains vitally important, but a number of forces have combined to diminish its centrality. Within the disciple itself, a battle is taking place between modern portfolio theory and behavioral finance. A fundamental principle of finance holds that investors will seek to maximize return for a given level of risk and minimize risk for a given level of expected return. Behavioral finance is motivated by a desire to understand how the social or human dimension of an organization is interrelated with the financial workings of the business. Advocates of behavioral finance aren't challenging this assumption of the maximization principle directly, but they are chipping away at its exclusivity.

This theoretical challenge when joined with advances in the development ERP tools and the dramatic increase in overall financial literacy within the management community has changed the landscape of financial decision-making. However, it can be persuasively argued that the single biggest challenge to traditional models of finance has come from changes in the nature of competitive advantage itself.

The explosive growth of firms, whose major asset consists of human rather than physical capital, is reshaping the position of financial decisions relative to those of other key dimensions of the firm. The paradigm example underlying most theoretical models of firm performance is the manufacturing firm, which dominated the growth of the economy beyond midcentury. In the twenty-first century, the new knowledge/human capital-based firms that now dominate the economy have quite different characteristics because their major assets are autonomous agents rather than inert machines.

6.3 Marketing

Marketing, both as major functional activity and as subject of intense academic inquiry, has a fascinating history in the United States. Arguably, the most comprehensive and interesting chronicles showcasing the importance of marketing to the development of modern capitalism have been prepared by Harvard historian Alfred D. Chandler. Of his extensive writing, the insights and evidence collected in *The Visible Hand* (1977)[3] and *Scale and Scope* (1990) most directly pertain to marketing history. In these books, Chandler describes the nexus between advances in operations management and the emergence of "production-driven" marketing.

Of course, Chandler was hardly the first to recognize this connection between production and marketing innovation; observers in the 1890s and early 1900s discussed it endlessly (Laird, 1998). However, one of his unique contributions was to call attention to the importance of the parallel advances in the communication and transportation technologies that made possible "distribution"—which served for decades as the term for what we now call marketing.

[3] Winner of the Pulitzer and Bancroft prizes.

Developments in marketing have had a major impact not only on firms but also on industries. Richard S. Tedlow (1990), in his book *New and Improved: The Story of Mass Marketing in America*, explains how managerial decision-making in high-profile firms advanced brand-name consumer marketing and mass retail techniques and principles. With great attention to detail, Tedlow showcases the complex factors that influenced marketing in the coal industry, the automobile industry, grocery retailing, and consumer goods merchandising.

Japanese Professor Morishita (1959) developed a particularly interesting perspective on the evolution of marketing expertise analysis. According to his critical perspective, marketing progressed through three distinct phases. In the first phase, early in the twentieth century, marketing was born in the United States as a byproduct of the transformation of American capitalism from an atomistic competitive system to an oligopolistic one. After the break caused by World War I, the so-called high-pressure marketing emerged during the economic boom in the 1920s, based on the standardization and simplification movements.

Phase two was primarily the product of the Great Depression. The collapse of the low-cost/high-output manufacturing economy forced organizations to abolish high-pressure selling as a strategy and adopt a newer and a familiar consumer orientation. Product planning, which was called merchandising at the time, became essential as marketing philosophy shifted from pushing products to understanding the consumer.[4]

Phase three was catalyzed by World War II, another economic trauma of worldwide magnitude. Technological innovations in production required long-term market forecasting due to the huge investments involved. At the same time, short-term sales were increasingly important because keen competition made costly equipment rapidly obsolete. As a result of these requirements, marketing executives assumed a greater role in top management, and a marketing orientation began to encompass the whole business organization.

At this point, it is difficult to propose a single categorical label to describe the current state of marketing. In the absence of a well-researched alternative, the appellation “postmodern marketing” serves to distinguish contemporary marketing from historical antecedents (Brown, 1993). The postmodern period is one characterized by extensive variety and dynamic activity. It is the era of flexible manufacturing, micro-niche targeting, and multichannel direct marketing. In its marketing, executives struggle constantly with questions of market penetration, product development, market development, and diversification—all of which have significant practical implications for shaping executive efforts to find unique ways to distinguish their firm from competitors.

Marketing, like other functional disciplines, has had to confront the inherently pejorative “staff” terminology imposed upon it by the tenets of traditional Scientific Management. Reinforcing this problem is the difficulty that marketers—one shared by all functional leaders in the firm—have had in connecting their objectives with

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[4] *The Journal of Marketing* initiated publication in 1937.

those of the CEO. Yet, as stated earlier, the modern CEO is part of a top management team composed of experts, experts in the various functional areas where the emergent decisions will be melded into something that will eventually be labeled as the firm's competitive strategy.

6.4 Human Resources

Peter Drucker (1959) coined the term "knowledge worker" to describe changes occurring in the nature of work as capitalism matured. Firms in the emergent economy found themselves being forced to acknowledge the importance of "talent" to competitive success. By the late twentieth century, there developed a growing interest in the relationship between human resource systems management and firm performance (Bamberger & Meshoulam, 2000; Hitt, Bierman, Shimizu, & Kochhar, 2001; Schuler & Jackson, 1999).

It is difficult to officially date the emergence of this phenomenon, but a reasonable estimate locates the change as having occurred in the mid-1980s. Prior to that decade, there was a good deal of interest in the problems of "human relations" in the workplace, but this interest was motivated by a set of diffuse objectives including labor peace, union avoidance, productivity improvement, worker satisfaction, etc. Of course, it can be argued that all of these motives were ultimately driven by a desire to increase firm competitiveness, but such an argument would be a disservice to a fully developed understanding of advances in the study of organizational management.

Arguably, two forces came together in the early 1980s that fundamentally altered perceptions of the linkage between human resource systems and firm performance. The first of these was emergence of a national anxiety in the United States that had been displaced by Japan as the world's most dynamic economy. Concurrent with the flood of Japanese products on American markets, there appeared an equally daunting supply of books and articles describing Japanese strengths and American weakness (Liker, Fruin, & Adler, 1999; Macharzina, 2000).

Dominant among these analyses was the observation that the human resource systems of Japanese firms differed markedly from those of their American counterparts. William Ouchi (1982), in his surprise best seller Theory Z, explained the Japanese advantage in terms of "subtle" interfaces between their organizational and social human systems. The Japanese threat provided a vehicle for calling managerial attention to a body of work on the nature of human systems that had been growing slowly but steadily for more than four decades (Kleiner, 1995).

In response to the Japanese threat, business leaders redoubled their efforts to regain their competitive edge. This meant that they went looking for new strategies for competitive advantage. In the academic community, the discipline of "business strategy" provided them with an array of tools and theories. But it soon became apparent that their suggestions were almost exclusively derived from advances in the functional areas of operations research, financial analysis, and marketing.

This combination of need and deficiency provided fertile ground for the emergence of a large and growing literature organized under the topic heading of Strategic Human Resource Management (SHRM).[5] A review of this literature yields two conclusions: First, there is empirical support for the proposition that the human resources system design is linked to traditionally accepted indicators of firm performance (Crook, Todd, Combs, Woehr, & Ketchen, 2011; Swiercz, 1995). And second, there are widely divergent opinions regarding the operational meaning of the concept of SHRM.

Strategic Human Resources Management proved to be very popular, and it wasn't long before a group of leading researchers was caused to lament that nearly "every author, teacher, and consultant" seems to offer a personal conceptual model of SHRM (Milkovich, Dyer, & Mahoney, 1983, p. 3). In response to the confusion, Golden and Ramanujam (1985) identified four possible linkages between HR and the organization's overall business strategy: administrative, one way, two way, and integrative.

With a focus on the strategic role of HR, Yeung, Brockbank, and Ulrich (1994) called attention to numerous forces impacting the contemporary HR function. They observed that HR is being both centralized and decentralized simultaneously, that the reallocation of responsibilities between HR and line mangers was broadly occurring, that there was increasing attention to linking business needs to HR decisions, and that new technologies permitted the automation of repetitive and time-consuming transaction activities. As a consequence of these changes, they argued that HR leaders must become full business partners in the formulation and implementation of competitive strategy.

Nonetheless, despite continued expression of concern regarding the excessive diversity of perspectives, a consensus on the new role boundaries for contemporary HR leaders has yet to emerge. In an effort to bring some order to the literature, Swiercz (1995) reviewed more than 200 articles on the subject to develop a typology. His classification revealed four distinct SHRM perspectives—fit, functional, economic, and typological. The fit perspective was found to be the most common, and its relationship to parallel work in the general strategy literature was noted. At its core, the fit perspective echoes the often heard and inherently logical idea that firm performance will be enhanced to the degree that its various components are integrated into a well-designed and coordinated whole (Baird & Meshoulam, 1988; Dyer, 1983; Osterman, 1987).

The second perspective, functional, was found to be consistent with traditional differences in the responsibilities of line versus staff units within the organization. According to these authors in this category, Strategic HRM is concerned with the effort of HR departments to find new and innovative ways to provide better service to their internal customers. Accordingly, it allows for discussion of SHRM

[5] In 1989, the American Society for Personnel Administration (ASPA) changes its name to the Society for Human Resource Management (SHRM) to reflect its broadened scope and influence in business and political worlds internationally.

both in terms of the overall HR function and in terms of sub-functions like compensation, staffing, HRIS, and other specialty areas (Schuler & Jackson, 1987; Snell, 1992).

The economic perspective is distinguished from the others in significant part by its association with the efforts of industrial organization economists to develop new theories of the firm (Barney, 1991). At its core is the proposition that firm performance is the byproduct of a firm's ability to develop and exploit firm-specific resources. According to the model, decisions regarding the development of firm-specific HR policies and practices can provide a unique source of sustainable competitive advantage (Swiercz & Spencer, 1992; Wright & McMahan, 1992; Wright, Smart, & McMahon, 1995).

The final perspective, typological, was identified as the newest and least developed of the four. It was found to be consistent with all of the others, but focuses on the nature of the relationship established between the firm and its employees. Originally proposed by Dyer (1988), it attempts to not only capture the content of HR strategic decisions but also to highlight the underlying philosophical considerations that are major determinants of strategy (Sivasubramaniam & Kroeck, 1995; Swiercz, 1995). Its linkage with the resource-based view of the firm is derivative of the need to develop empirically grounded indicators of a firm-specific "HR resource."

From this review, it is clear that Strategic HRM has received significant attention from the research community. One of the most important outcomes of this interest has been growing evidence of the importance of HR system design to competitiveness (Guest, 2011). We now have empirical research supporting the proposition that HR decisions contribute to firm economic performance (Becker & Gerhart, 1996; Huselid, 1995). In addition, we also have evidence that the firm's strategic orientation influences the choice of HR policies and practices it chooses to employ (Arthur, 1992). And lastly, a number of case studies are now available for use both as instructional tools and as examples of current practice.

7 Conclusion

Drawing on the insights gained for the resource theory of the firm, systems theory, and historical developments within the functional areas of management, a generic model of firm competitiveness has been proposed. In offering the FourSquare Model, this paper presents a tool intended for use by a variety of audiences. Researchers will find that it provides fertile ground for the generation of a wide array of testable hypotheses. Consistent with the tenets of sound theory and model building, the FourSquare Model is comprehensive, parsimonious, and amenable to verification.

In addition to the research community, the proposed model offers high utility to practitioners and educators. Practicing managers will find it to be a user-friendly starting point for organizing essential firm activities. Not only will it help them categorize these activities in plausible groupings, it encourages users to begin differentiating competitively significant decisions from those that are task driven. In contrast with conventional benchmarking which asks the question "How can I be more like the best performers?" the FourSquare approach asks: "How can I perform better, in each key functional area and synergistically across functional areas, by being different from the best performers?" A major advantage of the FourSquare approach is its ability to recognize similarities on the path to competitive advantage while simultaneously placing emphasis on the need for creative differentiation between competitors.

The last major group that will find this model useful is educators. University professors will find that students readily grasp the key concepts. Even students lacking significant business experience quickly find ways to apply the model to the analysis of complex management problems. In particular, instructors with a fondness for case studies will find attractive it's compatibility with the integrative thinking required for successful case analysis.

For similar reasons, educators specializing in management development will find it appealing. Many participants in these programs are technical specialists assuming greater responsibility for enterprise management. The model's accessibility and non-jargon-laden characteristics provide these adult learners with a welcoming challenge to the complexity and excitement of management. Advanced participants will find that the model challenges them to rethink many of the assumptions that comprise their personal mental models of organizational functioning. A number will find that the FourSquare Model confirms what they already know, others will find it a catalyst to releasing the blinders of selective perception, and still others will challenge its legitimacy and seek creative alternatives.

These comments are not intended to suggest that the FourSquare Model is free of limitations. Like all generic models, it sacrifices specificity for comprehensiveness. It argues that competitive success is a function of unique competencies in each of the core functional areas, but it insufficiently specifies the character of these competencies. However, this weakness is mitigated by the adaptability of the model to further refinement. For example, a second generation of the model offers the proposition that the HR subsystem can be further divided to four specific HR competencies, namely, staffing, rewards, influence, and design. Similar opportunities for specification exist for the other subsystems, but they have yet to be articulated.

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Complexity Theory for a New Managerial Paradigm: A Research Framework

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Abstract In this work, we supply a theoretical framework of how organizations can embed complexity management and sustainable development into their policies and actions. The proposed framework may lead to a new management paradigm, attempting to link the main concepts of complexity theory, change management, knowledge management, sustainable development, and cybernetics. We highlight how the processes of organizational change have occurred as a result of the move to adapt to the changes in the various global and international business environments and how this transformation has led to the shift toward the present innovation economy. We also point how organizational change needs to deal with sustainability, so that the change may be consistent with present needs, without compromising the future.

1 Introduction

The world today face numerous long-term challenges, including climate change, population aging, desertification, water scarcity, pollution, outbreaks of incurable viruses, and critical scarcities of raw material (Montalto et al., 2012; Winn, Kirchgeorg, Griffiths, Linnenluecke, & Günther, 2010). The solutions to these problems constitute the main challenge of our times. It is necessary to find new ways to develop the economy and society, salvaging the consequences of the changes of the twentieth century (Luhmann, 1989), which are still ongoing in the present century. To this end, it is necessary to be aware of and observe moral and ethical principles.

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In this work, we supply a theoretical framework of how organizations can embed complexity management and sustainable development into their policies and actions. We see organizations as open systems (Hatch, 2012; Luhmann, 1986; von Bertalanffy, 1973) whose behavior is influenced by various strategically relevant perturbations from the external environment, with an emphasis on the global nature of social, cultural, and religious specificities of individual countries and regions. Such organizations are also part of the context (Luhmann, 1995; Meyer & Rowan, 1977; Rice, 2013), and so it is crucial for them to be able to recognize and evaluate how their contexts of action are influenced by environmental changes. If we consider organizations as viable systems aiming to survive in the context (Beer, 1972; Dominici & Palumbo, 2013; Espejo & Reyes, 2011; Golinelli, 2010), we can conclude that they need to maintain their integrity (autopoiesis) and see consonance (Golinelli, 2010) through partnerships with the relevant suprasystems (other organizations), in their context of existence and action. Smaller systems contribute to the development of the larger systems within which they compete for resources. If the system survives, it may be regarded as viable (Beer, 1972; Dominici & Palumbo, 2013, Golinelli, 2010), and if it survives in the long term, it may be regarded as sustainable (Teisman, 2005).

The external environment (or context) can be theoretically explained by the complexity theoretical approach described by Luhmann's social system theory. According to the theories of composite systems, players in the market are subject to separate legislation and social rules; on the basis of which, they establish contractual relations and develop cooperation (Auyang, 2003) that is in consonance and resonance with the context (Dominici & Palumbo, 2013; Golinelli, 2010). Market formation therefore derives from the abovementioned relations with ecological and social systems that have a significant impact on the organizations (Luhmann, 1995; Stacey, Griffin, & Shaw, 2000). We can consider Luhmann's social system theory as being based on a complexity–sustainability trade-off (Valentinov, 2014). This trade-off implies that the sustainable development of organizations, and ultimately of the whole society, is associated with its increasing complexity (Csikszentmihalyi, 2004; Laszlo, 1972).

Though sustainability implies a long-term mode of thinking, it can be seen that short-term profitability mindsets are still prevailing (as shown by the financial crisis of 2007–2008) (Christopher Houghton, 2011; Jackson, 2010), resulting in business models that are not sustainable (Boons, Montalvo, Quist, & Wagner, 2013).

In the years since the beginning of the crisis, increasing numbers of companies have begun to incorporate sustainability principles into their business operations, in order to achieve their business objectives (Carroll & Buchholtz, 2014). Sustainability is now considered as a relevant part of reputation management, which includes energy saving, green product development, green certifications, and all other activities that can enable companies to achieve added value through growth and reputation capital (Panayotou, 2013). The best managers seek to ensure long-term corporate value by shifting their strategies and management to exploit the market potential for sustainable products and services, while at the same time successfully reducing and restricting the sustainable cost and risk (Bonini, 2012).

Complexity theories help us to understand the organizational changes and strategies for providing sustainable business management. Significantly greater inclusion of the sustainability challenge by businesses would result from the holistic approach to connected knowledge activities (Mulej & Potocan, 2007; Ny, Hallstedt, & Ericson, 2013). Such holistic models include the promotion of sustainable development and applying the term *sustainable* beyond its environmental dimensions. The structural reforms include the promotion of long-term planning to ensure continuity in policy through social, political, and managerial changes.

2 The Economic Paradigm Shift as a Premise for New Business Models

In the first half of the 1980s, we saw a transition from "traditional heavy industry" to the technological development-oriented economy (Alexander, 1983). The world economy entered into a new "knowledge economy," which is an economy of organizations and networks. This implies a shift toward the actual liquid social and economic system (Bauman, 2000; Brinkley, 2006; Perry, Goodwin, Peck, & Freeman, 2006). The new social and economic paradigm has brought organizational changes in strategies, structures, and management styles. Managers are expected to have control over the release, supervision, and use of resources, as opposed to the policies of the old economy, which emphasized the need for formal links and ownership of own resources (Bertoncelj, Kovac, & Bertoncel, 2009).This shift is not, however, without risk. Pagano and Rossi (2009) argue that the specific cause of the last economic crisis was the knowledge economy. These authors claim that the cause of the crisis lays in the monopoly of developed countries over intellectual rights. International agreements regarding trade-related aspects of intellectual property have caused an increase in the cost of investment in countries that have neither abundant, inexpensive labor nor high amounts of intellectual property. In this framework, a relevant element in the solution to the actual crisis—besides changes in monetary policy, financial regulation, and standards of Keynesian economic policy—would require policies aimed at reducing the intellectual monopolization of the economic global system.

Changes in macro trends affect the uncertainty in the business environment. Organizations are being forced to adopt a comprehensive infrastructure based on a more flexible organizational structure, in order to implement on-demand marketing and technological innovation (Autry, Goldsby, & Bell, 2013; Dominici, 2008). At the same time, it is necessary to realize that the ability to develop or obtain the basics of modern information and communication technology plays an important role in economic and social development (Bertot, Jaeger, & Hansen, 2012).

Traditionally structured organizations are now facing compelling reasons to adopt policy change management and to reorganize their structures. At the same time, it is necessary to realize that the ability to develop knowledge and to deal with information and communication technologies plays an important role in economic and social development. Organizational changes, given their significant impact in terms of increasing productivity and efficiency, constitute added value and, consequently, promote the development of economy and society (Bisson, Stephenson, & Vigurie, 2010; Kaplan & Mikes, 2012).

The emergence of the Internet in the early 1990s has influenced the rise of the third wave of capitalism. The emergence of Internet technologies affects the speed and quality of changes in global markets; these are reflected in different ways in consumer behavior and, consequently, in the development of new business models (Roblek, Pejić Bach, Meško, & Bertoncelj, 2013).

The great investment in information technology (IT) in the 1990s in the US did not lead to the expected effects, and the position of Alan Greenspan that the US would show high economic growth, low unemployment, and low inflation as a result of the development of IT has proven to be incorrect. Research carried out in 1998 in the US has shown that almost half of all projects initiated in the field of IT fail (Emerson, 2001).

The stock market crisis caused by the overvaluation of the shares of emerging technology organizations in the early twenty-first century brought new economy period to a close. Since then, we have witnessed the rise of a new kind of capitalism that combines some of the characteristics of the previous new economy paradigm with a stronger focus on innovation. We call this paradigm the "innovative economy;" it is a capitalist economic model in which innovation and intuition are the critical success factors (Kuula, Putkiranta, & Toivanen, 2012; Walters, 2004).

This new business logic derives from the premise that economic growth in an innovative economy results from the final product or service, which is in turn created on the basis of knowledge (Antonelli, 2003). Thus, innovative entrepreneurship has emerged based on R&D, the regulation of certain activities, venture capital, the enhancement of intellectual property (patents and licenses), and the encouragement of networking organizations that facilitate cooperation between businesses (e.g., clustering).

3 Complexity Science in Management

The concept of "system" is known from the period of ancient Greek civilization. However, the actual theoretical development of the systemic approaches occurred during and after the Second World War. Frank Fremont-Smith at the Josiah Macy, Jr. Foundation promoted the Macy Conferences for almost two decades from 1941 to 1960. These Conferences were a set of meetings of scholars from various disciplines held in New York, with the explicit aim of promoting meaningful communication across scientific disciplines and restoring unity to science. During these conferences, the foundations of system thinking and cybernetics were born.

In 1951, Ludwig von Bertalanffy conceived of and published the fundamentals of general system theory. This theory arose as a reaction to the dichotomy of science, whereby physics, chemistry, biology, economics, psychology, sociology, and other sciences individually explore and deepen their own scopes, creating theories, solutions, and models that are useful only in their narrow segment (von Bertalanffy, 1951). General system theory, in contrast, acts as an integrator of the various scientific fields.

Boulding (1956), in his highly publicized article "General Systems Theory: The Skeleton of Science," published a classification of the system in the form of nine hierarchical levels. Levels 1–3 include nonliving systems, such as closed physical systems. Levels 4–6 are the biological and open systems. At levels 7 and 8, the social and behavioral sciences are located. Here we find the human being with social systems to the forefront. These systems are open. The final, ninth, level contains religion, theology, and philosophy.

The entry of science into management theory came in the 1980s. Lynch and Kordis (1988) described complexity theory as a powerful new paradigm for business development, and Merry (1995) considered it an important organizational tool.

The development of information technologies in the 1970s led to the development of new channels of communication between the various systems attempting to steer each other. The second-order cybernetic approach bridged the micro–macro gap and has led to closer integration of the individual with society (Bailey, 2006). In the 1960s, Kieser and Kubicek (1992) developed a model for the contingency approach, where the analysis of events in the business environment requires an immediate response from managers and where business decisions must be prompt and timely. Structural contingency is a part of behavioral theory and of systems for settling a particular business information system. The theory proposes no single best solution. Effective and efficient management models cannot be easily adapted to unique environments. Each organization finds specific features and functions in its environment.

Second-order cybernetics focuses on research problems such as instability, flexibility, learning, change, evolution, and autonomy. In the 1980s, the question of whether the features of second-order cybernetics could be applied to social forms of organizations was raised (Staehle, 1991). Second-order cybernetics, together with system theory, forms the common systems–cybernetic approach to organizations and management (Elliott Dupuy, 1986; Staehle, 1991). The method is based on the fact that each organizational system is open. The organization as a closed system cannot exist, as it lacks viability (Beer, 1972; Golinelli, 2010). An organization is an open and connected system with the environment, and because of this, the organization needs to adapt to environmental changes (Beer, 1972; Golinelli, 2010; Stoner & Freeman, 1992). The task of managers is to determine all the factors that affect the business within its particular environment and situation, to choose the right solution, and to monitor and provide expert guidance on the implementation of these solutions (Certo, 2000). A significant systemic property for the functioning of the organization as an open system is equifinality (Golinelli, 2010; Gresov & Drazin, 1997). The organization can achieve the result and aim at different initial conditions in different ways. The organization is also in constant interaction with the environment. It adapts to the conditions imposed by the environment (both natural and social) in order to ensure its survival and progress.

It is important to underline the key role of the concept of entropy in complex system theories. Entropy is a concept derived from thermodynamics, which expresses a measure of the number of specific states in which a thermodynamic system may be arranged—normally considered a measure of disorder. According to the second law of thermodynamics, the entropy of an isolated system never decreases. But an organizational system can reduce its entropy through self-organization and the ability to achieve negative entropy (Prigogine & Stengers, 1984). Prigogine's "Dissipative Structure Theory" can be considered a bridge between the natural sciences and social sciences, as well as between general system theory and thermodynamics.

Stafford Beer in his book "Brain of the Firm" (1972), together with his earlier works on the application of cybernetics to management, paved the way for the use of cybernetics, variety, and complexity principles in the business management field and founded the research stream of management cybernetics. The Viable Systems Model (VSM) proposed by Beer is a set-theoretical model based on the system approach and on the cybernetic system's viability. The VSM integrates Ashby's law of requisite variety (LRV) and insights from neurophysiology (inspired by the work of McCulloch) for enterprises. The VSM conceives of the brain as an open system in constant interaction with the environment. When it receives an external stimulus, it can activate a decision-making process and convert perceptions into actions (Dominici & Palumbo, 2013). Its mission is to control (Wiener, 1948, 1965) and synchronize all the organism's functions and to be adaptive and proactive in the contextual environment. This adaptation to the increasingly complex environment is today the main organizational challenge that management faces.

4 The Characteristics of the New Complex Business Context

The characteristics of the organization as an integrated open system, affected by complex system factors from the market and business environment, can be summarized as follows:

– **Globalization**: The organization is going for an enormously interactive social process. Information and communication technology enables constant interactivity, connectivity, and transparency, enabling leaps in productivity (Kaplan & Haenlein, 2010). This is reflected in the various responses of consumer behavior and has a consequence in the development of new business models that include the sustainable development of the organization (Valacich & Schneider, 2012). Many researchers agree that globalization has also led organizations and managers to behave more ethically and socially responsibly (Deresky, 2003).
– **Impact of new technology on complexity in organizations**: Technology and economic development have caused changes that have transformed the Taylor hierarchical organization into the knowledge organization (Burke, 2012).

- **Networking**: Social networking allows not only access, transfer, and sharing of knowledge but also the creation of relationships between users, as new components communicate with each other. The potential added value of social communication channels anticipates the quality and safe access of knowledge for both individuals and the organization (O'Dell & Hubert, 2011). The relationships that arise in social networks between individuals allow them to weave closer ties, while at the same time permitting individuals to discover each other's behavioral characteristics. This increases the importance of interactions on a personal and business level. Business networks are based on the development of trust between entrepreneurs and thus reduce business risk and various transaction costs (e.g., the legal costs of patent protection and the cost of finding and identifying appropriate techniques and technologies).
- **Sustainable development and increased uncertainty in the business environment** is forcing organizations to set the continually updating of comprehensive infrastructure as a strategic objective. As noted by Cohen (1999), the changes in structure and business operations, government, and nongovernmental organizations mean that managers are focused on the ideas of complexity theory. This calls for more flexible organizational structures (internal environment), the introduction of modern technologies for implementing relational marketing, and technological innovation (Sekerka & Stimel, 2011). At the same time, it should be noted that the ability to develop and achieve at least basic environmental standards plays an important role in the success of both economic and social development. By achieving strategic goals, organizations will increase productivity, efficiency, and added value, consequently encouraging social and economic changes (Uhl-Bien, Marion, & McKelvey, 2007).

On the outside, organizational market systems are ever changing, being continually redefined by the interaction of organizations; inside the organizations, then, the boundaries among subsystems become more permeable, allowing a bottom-up flow of ideas. This implies that, as in Prigogine's dissipative systems, organizations never stay in a status of equilibrium. In such a business environment, it is difficult to define and determine the appropriate business models, and no "one best way" is possible (Dominici, 2012); new means are emerging with different approaches, technologies, and considerations, undermining the traditional set rate of market shares.

In this view, the organization represents a system that is organized into two or more interdependent components named subsystems (Golinelli, 2010). Mikulecky (2010) highlights how the organizational subsystems have their peculiar characteristics which may differ from those of the whole system. Hence the organizational functions themselves are complex systems. In this framework, the impact of organizational changes on business processes may affect business policies toward the markets and toward the business' contexts.

5 The Challenge of Sustainable Management

Sustainable management derives from the concepts of sustainability and installs them into those of management (Pearce, Barbier, & Markandya, 2013).

The concept of sustainable leadership is defined in a systemic way, as a system of principles, processes, practices, and values that the company has accepted as an object for the exercise of their future. The word "sustainable" in this concept not only refers to a company that is "green" and socially responsible; research by Avery and Bergsteiner (2011a) on more than 50 companies around the world found that sustainable management requires making decisions that are long term, systemically promote innovation, and are aimed at increasing the added value for the customer; developing a skilled, loyal, and productive workforce; and offering quality products, services, and solutions. Sustainable management therefore requires management to take a macro view of the business, beginning with the fundamental question, "What is the purpose of the company?" (Avery & Bergsteiner, 2011b).

van Kleef and Roome (2007) explain sustainable business management as the conduct of a business that has recognized the need for integration of the social, environmental, and economic systems and which focuses on the management and relationships needed to achieve the environmental, social, and economic requirements of the many different stakeholders in their network.

Sustainability encourages organizations to become aware of the importance of the effects of social, environmental, and economic systems in organizational culture, decision making, strategy formulation, and business operations.

The concept of sustainable management emerged in the 1970s (Barbier, 1987), but its ascent began after the publication of the Brundtland report in 1987 (World Commission on Environment and Development, 1987). The report defines sustainable development as development that meets the needs without compromising the ability of future generations to satisfy their own needs. van Tulder, Kolk, and Van Wijk (2009) consider that organizations need to take the economic experience into account, but should also adopt wider social and environmental perspectives (Yang & Sheu, 2007). Potocan and Mulej (2003) made clear that the understanding of the sustainable development requires holism, professional, and political aspects in synergy, with systems thinking as a background for the creative and innovative society.

The economic aspects of sustainability, along with the social and environmental aspects, provide organizations with competitive advantage that leads to viability and enables survival and further growth (Yang, Lin, Chan, & Sheu, 2010). For the purpose of measuring organizational success and enhancing the need for focusing on the social, environmental, and economic impact on the corporate activities, the concept of corporate social responsibility (CSR) has been developed (van Tulder & Van der Zwart, 2006):

- **Environmental sustainability** includes environmental reports, ecodesign and efficiency, environmental management systems, and executive management commitment to addressing environmental issues.

– **Economic sustainability** includes codes of conduct and compliance, antipolitics, corporate governance, risk and crisis management, strategic planning, knowledge management, quality management, and supply chain management.
– **Social sustainability** includes corporate citizenship, philanthropy, labor practices, human capital development, social reporting, attracting and retaining talent, and engaging in dialogue with stakeholders.

The concept and practice of CSR go hand in hand with sustainability. The World Business Council for Sustainable Development (WBCSD) (1999) defines the CSR of organizations as their constant commitment to ethical behavior, economic development, and improving the quality of life of employees, their families, local communities, and society in general. They mention five priority areas of human rights, employee rights, environmental protection, integration into the community, and relationships with suppliers.

Corporate sustainability was defined by Elkington (1999), who developed the concept of a "triple bottom line." This derives from the point of view that long-term business goals are inseparable from the society and the environment in which they operate, while on the other hand, short-term economic gains can be achieved at the expenses of social and environmental suprasystems, this resulting in the wide diffusion of unsustainable business practices.

In 2011, the European Commission published a new policy on CSR. On the basis of the socioeconomic developments of the period following 2008, when the member states of the European Communities had been hit hard by the economic crisis, the revised document adopted a new definition of CSR as "the responsibility of enterprises for their impacts on society" (European Commission, 2011). The Commission believes that companies should consistently fulfill the aim of social responsibility by integrating social, environmental, and ethical issues, as well as issues regarding human rights and consumer concerns, into their business operations and core strategy, in collaboration with stakeholders. Companies should thus ensure that they act to optimize shared values for the owners or shareholders, stakeholders, and the community at large.

The Commission has urged large companies and companies in which the risk of harmful effects are especially pronounced to carry out due diligence procedures on the basis of risk in their supply chains; however, due to the complexity of the CSR process, in the case of SMEs and particularly of microenterprises, it is likely that the process will remain informal and intuitive.

6 The Pillars of Sustainable Management

Organizations operate in a social context in which they need to deal with governments and communities (Schwartz & Carroll, 2003). The other actors in the context expect that organizations will act in socially responsible way that involves the ecosystem. It is, therefore, necessary to take into account the concept of sustainably based organizations founded on ethics, respect for the environment, and knowledge of legal norms.

6.1 Ethics

We can consider ethics as the philosophical domain that explores one's critical values, relationships, and behavior toward other people, as well as one's own character and attitude regarding oneself. Ethics may be considered a view of life that contains two elements: the awareness of what is good for humans and an awareness of the responsibilities that a human must meet. Frederick, Davis, and Post (1988) define ethics as a set of rules that tell us when behavior is appropriate and when it is unacceptable and wrong. In their interpretation, ethics primary deals with human relationships and represents a general human trait.

Business ethics is a subdomain of general ethics that appeared only in the twentieth century, although its trunk, general ethics, has been evolving for 2,500 years in the bosom of European philosophy. Interest in business ethics has increased in recent years, partly because of public pressure due to various corruption scandals, disregard for environmental standards, and so on (such as the cases of Enron, Union Carbide in Bhopal, or Exxon Valdez), but also due to organization strategy in response to these pressures (Boatright, 2007; Usrey, 2007; Zelizer, 2007).

Postmodern times represent a challenge to the concept of ethics (Keyes, 2004). It is from this period that the so-called myth of amoral business (De George, 1990) comes; in the West, and especially in the United States, it involves and advocates a widespread belief in the incompatibility of the transaction and fairness. To the present time, prejudices about the separation between economics and ethics are still pulled in different directions by competing interpretations and are much more sensitive to the moral dimension of successful economic performance and life in general. Business ethics is not only a set of rules, but also represents the application of the universal rules of ethics in business activities (Frederick et al., 1988). Ethical problems in the business world often come out of the conflicts of interest between primary and secondary stakeholders, as well as from conflicts within individual stakeholder groups.

In 2010, the ISO 26000 standard aimed to provide guidance on how companies can operate in a socially responsible way, while at the same time increasing their overall performance. This implies an ethical and transparent business that contributes to the health and well-being of its ecosystem and society. The development of this standard has involved representatives of governments, NGOs, industry, consumer groups, and labor organizations from around the world, and an international consensus was reached (ORG ISO, 2013).

It is important to point out how the globalization of markets is challenging the worldwide implementation of sustainable business practices, since there are no laws on a global scale which govern the actions of organizations (Chan, Pollard, & Chuo, 2007; Stiglitz, 2006), which causes the impact of national regulations on organizations to be lost; in their daily work, however, managers must rule according to the norms and values that work (Aßländer & Brink, 2008).

6.2 Law

The law imposes itself on relations between humans and regulates them. Each entity in the business context is expected to comply with laws and rules. Social responsibility requires organizations to adhere to these laws and rules. Ethics and morals, in contrast, govern the relationship between humans and the environment in which they live and regulate the relationship with oneself (Luhmann, 1989).

6.3 Knowledge

The development of information technologies in the 1970s led to the opening up of new channels of communication between the various systems that aimed to steer each other. The modern cybernetic science approach bridged the micro–macro gap and has led to higher integration of the individual with society (Bailey, 2006). Cybernetic theory is introduced into science on the epistemological assumption that the only relevant knowledge is obtained from the observation of external reality (Easterby-Smith, Thorp, & Lowe, 2002). Knowledge has become the force that provides the organization with a competitive advantage. In gaining this, the organization must put in place all the levels (including, e.g., the establishment of corporate culture) necessary to enable it to exploit and use its internal organizational knowledge in everyday activities (Argyris, 1998; Carrion-Cepeda, 2006; Devinney, Midgley, & Cristine, 2005). Knowledge has very different levels and types (Fig. 1). A fundamental characteristic of knowledge is the possibility of upgrading it, thus increasing the scalability of the system. The higher we climb the pyramid of knowledge (Fig. 1), the more cooperation and global knowledge is needed.

The integration of key strategic instruments allowing the augmentation of knowledge can benefit of the implementation of ad hoc network management policies. Network management is a management style that aims to take advantage of the appropriate synergies between information management, knowledge, and human resources integrated in a global vision, which includes an awareness of the international environment, global markets, and global cultures. Therefore, the creation of "intellectual capital" becomes pivotal for assessing an organization's operations in the present and the future. Intellectual capital can be defined as a combination of knowledge, experience, and *equifinality* for the organizational goals. Management theory also needs to consider the relevance of hidden resources

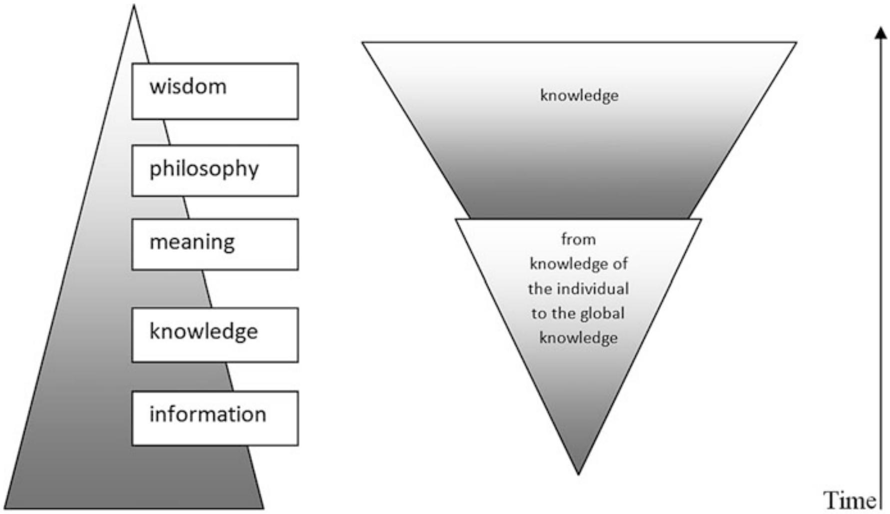

Fig. 1 The pyramid of knowledge. *Source*: Roblek (2011)

that play a key role in organizations for the development of strategies able to provide a competitive advantage, survive, and be viable in the market (Ross & Ross, 1997). In order to achieve its aims by establishing fruitful relations with customers and stakeholders, the organization must take into account a system of dynamic hidden relations that are not recorded in its balance sheet—such as the knowledge and skills of its employees and their relationships with the external context (Villalba, 2006).

6.4 *Philanthropy*

Philanthropy is the voluntary decision of an individual or company to help society, in spite of (and disregarding) its economic cost. Philanthropic responsibility can be considered the highest standard of social responsibility, which goes beyond social expectations and thus significantly contributes to the social well-being (Porter & Kramer, 2002).

7 Postmodern Organizational Challenges and Opportunities for Sustainable Management

Perhaps the core defining divergence between modernism and postmodernism can be traced in postmodernism's denial of the modernist thought that human social knowledge has essential "real" bases. Postmodernism conceives of social actions and knowledge as the mere interplay of myths that produce regimes of truth (Firat, Dholakia, & Venkatesh, 1995). The new core of analysis becomes the subject over the object. In a postmodern business context, the future is unpredictable and leaders do not have enough knowledge of creative vision, which causes trends such as technology, globalization, competition, change, speed, complexity, and paradox to have a powerful influence on using complexity theory as a management tool (Tetenbaum, 1998).

Sustainable development is one of the critical success factors of postmodern organizations, because customers are becoming increasingly willing to support organizations and purchase products that built their business model on sustainability (Pirsch, Gupta, & Grau, 2007), thus embedding the myth of being sustainable. The positive image of organizations provides a greater ability to attract capital, business partners, and customers that find self-realizing and convenient to embody the new sustainable myth. For the same reasons, sustainability is becoming an important factor in obtaining, retaining, and motivating employees and in managing human capital.

The primary advantage of sustainable managed organizations is that they are able to answer the challenges of the business environment with a vision that includes finding answers to global issues and ensuring the competitiveness of all employees' at all organizational levels (Goessl, 2010; Schermerhorn, Hunt, & Osborn, 2002). Organizations need to reconsider their environmental responsibility and to check whether it fits with their basic concept of development; in this way, they affect their organizational culture. At the same time, it must not be forgotten that each group consists of members who come from different social environments. All this affects the culture of the organization. The culture forms the mentality and the frames of references, which are only one of a number of such significant covert processes (Schein, 2010).

The personal values of entrepreneurs and managers have a significant impact on the design of the culture and on organizational vision. It is therefore critical to find ways to address how personal values affect the manager on each business decision about how to achieve better results and avoid the negative impact of technologies on the environment (Grant et al., 2007; Ramus, 2002). The key factors for the achievement of sustainable management goals for an organization can be summarized as follows (Armstrong, 2009; Goessl, 2010; Schermerhorn et al., 2002):

- *People are assets*: The organization should be able to promote diversity and recognize it as an intangible asset that fosters creativity and innovation, thereby contributing to the creation of added value.

- *Organizing group work*: Integration and collaboration are an essential quality of the organization. The organization must promote the creation of an internal environment, which is characterized by the participation and engagement of all employees.
- *Integration of new technologies*: New technologies make work tasks easier and enable higher productivity. This is because technology makes routine work easier and faster, thus saving employees' time and energies and making it possible for them to engage in more complex tasks.
- *Focus on growth and development*: Focusing on education and facilitating the personal growth of employees in their field of expertise lead to satisfaction and greater efficiency.
- *Communicating objectives*: The organizational objectives can be better achieved by implementing visions and taking into account the shared values of all stakeholders.

Managing this issue calls for deep organizational changes, which will lead to new organization structures. Traditional hierarchical systems show several inadequacies when it comes to working in the new business environment. Heterarchical systems can overcome the limits of hierarchical systems, as they are able to achieve flexibility and adaptability to external stimuli, while at the same time increasing the complexity of management within the organization, since their inability to operate following predefined plans means that their behavior is hardly predictable, this increasing the variability and variety in their systemic dynamics. If we consider the organization as an open system embedded in a global and ever-changing external environment, this implies that in a complex environment, the development process cannot be planned in advance, but instead needs to proceed by trial and error, adapting to the new challenges of the environment while, at the same time, considering sustainability issues for the long term.

8 Conclusions

In this chapter, we have outlined a research framework for a new management paradigm, attempting to link the main concepts of complexity theory, change management, knowledge management, sustainable development, and cybernetics.

We discussed the transition from the industrial era to the postindustrial age. In the development process, nothing is fixed in advance; we can say that it is opportunistic and adapts to the challenges of the environment, as well as to their effects for and within organizations and society. We saw how the processes of organizational change have occurred as a result of the move to adapt to the changes in the various global and international business environments and how this transformation has led to the shift toward the present innovation economy.

We also pointed out some of the ways in which organizational change needs to deal with sustainability, so that the exploitation of resources, the direction of investment, the orientation of technological development, and the institutional change may be consistent with present needs, without compromising the future.

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