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Sustainable strategic management and market effectiveness of enterprises

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Abstract

The aim of the research was to examine the relationship between two phenomena: sustainability of strategic management practices and market effectiveness of enterprises. Major research questions to which answers were sought were: Is there a correlation between the level of sustainability of strategic management practices and market effectiveness of enterprises? What is the relationship between market effectiveness and various manifestations of sustainability of strategic management: participation in strategy formulation, flexibility of strategic management process, stakeholder oriented mission statements, values and goals? The research conducted on a sample of 150 Polish enterprises showed a significant positive correlation between the level of sustainability of strategic management practices and market effectiveness of enterprise.

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Keywords: sustainable strategic management; participation; strategy model; effectiveness

1. Introduction

The purpose of this paper is to investigate the relationship between sustainability of strategic management practices and market effectiveness of the enterprises. To establish the level of sustainability in strategic management, both the process and the strategy content have been examined. Strategic management process has been defined by the participants involved in the strategy making and by the character of methods used in the course. Strategy content was perceived through the mission statement and values, and the company goals. On the other hand, the relative market effectiveness was defined through company's: perceived competitiveness, ability to influence the markets and perceived attractiveness for cooperants.

The article proceeds in the following manner. First, the literature regarding sustainable strategic management is reviewed and related to market effectiveness theory. Next the hypotheses are tested using representative data from 150 Polish public companies (50 small, 50 medium sized and 50 large). The data collection method and the research tools are explained and finally the findings and conclusions are discussed.

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2. Literature review and hypotheses

In complex conditions in which the interests and needs of different stakeholders are in conflict, there is a need for a systemic framework for enterprise development (Sargut, Gunter McGrath, 2011). A framework that will guide businesses in managing complexity and interconnections of multiple and diversified elements in their internal and external environments. The discipline of strategic management is naturally evolving in the direction of systemic and comprehensive solutions (Doz, Thanheiser, 1993) to better address the challenges facing contemporary business. Sustainable development (United Nations, 1987) is a concept that could successfully be adapted into strategic management theory and practice. Sustainability understood as the capacity to endure in complex conditions could be used as a guidepost for measuring business's long term success and market effectiveness, which can lead to formulating the hypothesis H1:

H1: Enterprises using sustainable strategic management model are more effective in their markets.

General rules of sustainable development of businesses are (Witek-Crabb, 2011): (1) openness to complexity and diversity, and (2) ability to find balance between economic, social and environmental aspects of business and to manage the conflicting interests of stakeholders. To implement the sustainability rules in strategic management – there is a need to review the strategic management process (participants and methods), and the strategy content (mission statement/ core values, and goals).

The most important principle of sustainable strategic management concerning the *participants* of the process is workers participation in creation, communication and implementation of the strategy. Through participation a company opens up to diversity of ideas, experiences and attitudes (Abele, 2011). A sustainable company includes all the workers in the making of the strategy, also the ones who are disfavored, young or new (Stack, 1992). Participative strategic management process is believed to lead to better strategic choices, more realistic strategies (Mintzberg, 1994), better adaptation to the changing environment (Burgelman, 1983, Bourgeois, Brodwin, 1984, Noda, Bower, 1996, Lovas, Ghosal, 2000) and more success in change implementation (Guth, MacMillan, 1986, Korsgaard et al., 1995, Klein, Sora, 1996, Kim, Mauborgne, 1998, Lines, 2004) and goal achievement (Lines, 2004). The above arguments lead to stating of the hypothesis H2:

H2: Participation in strategic management process leads to higher market effectiveness.

Methods of strategic management process refer to procedures, horizon and form of the strategy. The main principles of sustainability are continuity, flexibility and discipline (Szulanski, Kruti, 2001). In a sustainable company organized strategic work is carried out frequently and regularly, and the horizon of the strategy is long-term and regularly extrapolated in order to verify and update the strategic decisions (Zagotta, Robinson, 2002). A company has the ability to combine flexibility and discipline in the whole strategic management process which leads to better adaptation to the changing environment, which is assumed in the hypothesis H3:

H3: Flexibility of strategic management methods leads to higher market effectiveness.

In sustainable strategic management model integrity is the main principle with regards to the *mission statement and core values*. A company managed in a sustainable way will put a lot of attention to defining and promoting of corporate values and codes of ethics. There will be a lot of effort put into integrating the mission statement with the strategy, goals, management systems and organizational culture to make sure they are all coherent. The values declared and implemented by the company will refer to ethics, dialogue, partnership, respect, honesty and trust (Marrewijk, 2004) and the company will perceive its accountability towards a diverse groups of stakeholders. Such attitude will contribute to building trust and better business relations. In such circumstances there is a ground to state the hypothesis H4:

H4: Sustainable mission statements lead to higher market effectiveness.

Sustainability obliges a company to optimize and harmonize *goals* referring to multiple stakeholders (Elkington et al, 2006) and to disaggregate them in the way they can be followed and understood by all the workers (Epstein, Burchard, 2000). In a sustainable company there is a triple character of goals – they represent economic, social and ecological plans and aspirations and could be described as stakeholder oriented. This leads to statement of the hypothesis H5:

H5: Sustainable goals lead to higher market effectiveness.

3. Methods

3.1. Object of the research

The above hypothesis were tested in the research carried out in the period of October 2011-February 2012. The research was a part of the research project no. N N115 402240 financed with the funds of the Polish National Science Centre. The study was conducted on a sample of 150 Polish enterprises. The respondent group consisted of joint-stock companies established after 1989. The sample included 50 small enterprises (up to 49 persons), 50 medium enterprises (50-249 persons) and 50 large enterprises (over 249 persons). Due to the subject of the research the respondents were top rank managers, i.e. chief executive officers, strategy directors, or management board members. There were 51 women and 99 men among the respondents. As a result of the initial analysis of the responses, 7 companies were excluded from the sample due to a too high answer refusal rate, which exceeded 20% of the questions. The results analysis finally covered 143 enterprises.

3.2. Procedure and research tools

The selection of the research sample was based on the stratified random method. It was prepared on the basis of the data obtained from the Central Statistical Office included in the report of the first half-year of 2011. The size of the major research sample was determined by dividing it into three separate samples diversified in terms of the size of the enterprises. The applied research technique was PAPI (Paper and Pencil Interview), a method based on collecting data in an open and standardised manner was applied. The interview questionnaire relevant for this paper included 21 questions in the major part, 4 questions in the recruiting part and 11 questions in the demographics part. It constituted the basis for interviewing the respondents. Before commencing the proper research, the research tool had been piloted on the sample N=6 enterprises.

The questionnaire constructs were formulated as statements to which the respondents referred by marking the answers on the 5-point Likert scale. Since correlations between the level of sustainability of strategic management practices and market effectiveness of the enterprises were sought, the questionnaire constructs were divided into two parts, each of which referred to one of the above categories. The interviews were carried out with a questionnaire comprising the afore mentioned 21 questions organized in 5 sections: 4 sections with 18 questions concerning sustainable strategic management practices (questions regarding: participants of strategic management process, methods, mission statement and core values, and goals) and one section with 3 questions concerning the market effectiveness of the companies. The relationships between the sections have been established using correlation coefficients.

In order to determine the level of **sustainability of strategic management** practices, the issues related to strategic management process and strategy content were examined, with particular attention given to areas such as:

- Level of *worker participation* in the making of the strategy – readiness to include workers both in the formulating of the strategy and in decision making process. Also - ability to communicate the strategy and share strategic responsibility,
- Strategic management *methods* – regularity of strategic work, flexibility and adaptiveness of the process,
- *Mission statement and values* – existence of management systems and thinking models that are coherent with the mission statement; universal values orientation,
- Strategic *goals* – presence of the goals representing interests of different stakeholders; goals as the result of stakeholder impact evaluation

In the questionnaire **market effectiveness** (a dependant variable) was defined with the constructs on:

- *Competitiveness* – perceived strength of current competitive advantage,
- *Ability to influence the markets* – ability to set new standards in the sector, both organizational, technological and/or product related
- *Attractiveness for cooperants* – represented by tendency of other businesses to chose the company as a preferred cooperation partner due to its market position.

3.3. Results

The first step in the results analysis was to calculate average answers describing the level of sustainability of strategic management and the level of perceived market effectiveness for each company. The averages were based on the obtained answers to the constructs constituting the components of both the areas. The averages for four categories describing the level of sustainability (participation, methods, mission/ values and goals) were determined, as well as the averages for three categories describing market effectiveness (competitiveness, strength to influence the markets, attractiveness to cooperants). On the basis of thus obtained results, the Pearson's correlation coefficients were calculated for the entire examined sample in order to establish the relationships between sustainability of strategic management practices and market effectiveness, as well as between market effectiveness and the individual components defining sustainability (participation, methods, mission/ values and goals).

Table 1. Correlation coefficient between sustainability of strategic management practices and market effectiveness

		SUSTAINABILITY OF STRATEGIC MANAGEMENT
MARKET EFFECTIVENESS	Pearson correlation	0,453
	Dual significance	1.32E-08
	N = 143	

Table 2. Correlation coefficients between the components defining the sustainability of strategic management practices and the market effectiveness

		MARKET EFFECTIVENESS
PARTICIPATION	Pearson correlation	0,331
	Dual significance	5.31E-05
METHODS	Pearson correlation	0,423
	Dual significance	1.45E-07
MISSION/ VALUES	Pearson correlation	0,397
	Dual significance	9.17E-07
GOALS	Pearson correlation	0,329
	Dual significance	5.99E-05
N=143		

Table 3. Correlation coefficients between the components defining market effectiveness and the sustainability of strategic management practices

		SUSTAINABILITY OF STRATEGIC MANAGEMENT
COMPETITIVENESS	Pearson correlation	0,241
	Dual significance	0.0038
ABILITY TO INFLUENCE THE MARKETS	Pearson correlation	0,323
	Dual significance	8.44E-05
ATTRACTIVENESS FOR COOPERANTS	Pearson correlation	0,435
	Dual significance	1.32E-08
N=143		

The obtained results prove the existence of significant positive correlations within the following variables:

- Sustainability of strategic management practices and market effectiveness (H1) – $r=0.453$
- Worker participation in strategic management process and market effectiveness (H2) – $r=0.331$
- Flexibility of strategic management methods and market effectiveness (H3) – $r=0.423$
- Sustainability of missions statement/ values and market effectiveness (H4) – $r=0.397$
- Sustainability of strategic goals and market effectiveness (H5) – $r=0.329$

4. Discussion and conclusions

The analysis of the results supported the idea that there is a significant positive correlation ($r=0.453$) between sustainability of strategic management practices and market effectiveness. This means that companies with more sustainable strategic management model are also more effective in the markets. The first hypothesis (H1) was reviewed positively. The correlation result is significantly different from zero, which allows the rejection of the null hypothesis of the independence of the variables. The further results analysis demonstrated however, that sustainability dimensions differ when it comes to correlation with market effectiveness.

The research supported a positive correlation between the scope of participation in strategic management process (a component of sustainability practices) and market effectiveness ($r=0.331$). Hence the second hypothesis (H2) was reviewed positively. It is worth noticing that the identified correlation, albeit significant is not strong. Although drawing definite conclusions on the causality between these variables is unjustified, it may be speculated that there are numerous factors which determine market effectiveness, of which expanding the group of strategy creators may not have the dominant significance. However, it seems justified to say that wide worker participation in strategic management process, reflected in the way they are involved in the market analysis, and then empowered in ideas creation, decision making and conscious implementation, may result in increase of enterprise market value through higher innovativeness and better market fit. Results presented in Table 3 indicate that participative strategic management correlates more strongly with enterprise's attractiveness for cooperants ($r=0.349$) than with its competitiveness ($r=0.168$) and ability to influence markets ($r=0.208$). A more profound deduction on this issue would require the extension of the research into the subject of market effectiveness and its components.

A relatively strong and statistically relevant relationship is demonstrated between the sustainability of methods used in strategic management process and market effectiveness. A correlation coefficient amounts to $r=0.423$, hence reviewing the hypothesis (H3) positively. Flexible process, emphasis on continuity and a long term horizon seem to lead to higher market effectiveness demonstrated by significant competitive advantage, ability to influence the markets and attractiveness to cooperants.

The relationship between sustainability of enterprise's mission statement and market attractiveness was in accordance with the expectations. The correlation coefficient $r=0.397$ shows positive relationship between the two and hence verifies positively the hypothesis (H4). Integrity and coherence of company's mission statement and management systems, reinforced by the stakeholder oriented character of the company values correlate more strongly with the ability to influence the markets ($r=0.358$) and attractiveness to cooperants ($r=0.317$) than with the enterprise's competitiveness ($r=0.181$), where the correlation is weak and negligible. It may be speculated that companies with a strong sense of mission and integrity are the ones who set new business standards in the markets and are more attractive to cooperants due to credibility reflecting their values.

Determination of the relationship between sustainability of enterprise's goals and market effectiveness proved interesting. The correlation coefficient $r=0.329$ shows positive relation between the two variables, in accordance with the hypothesis (H5). However, a detailed analysis of the partial correlation coefficients between sustainability of goals and 3 components of market effectiveness show a surprising pattern. Two out of three of these components show negligibly weak correlation with sustainability of goals ($r=0.131$ and $r=0.138$ for competitiveness and ability to influence the market, consecutively). Only the attractiveness to cooperants correlates more significantly with sustainability of goals ($r=0.336$). Clearly, stakeholder approach in goal defining may increase attractiveness of the enterprise in the eyes of its business partners, and this seems to be the dominant factor leading to market effectiveness.

The most important result of the carried out research is finding a significant positive correlation between sustainability of strategic management practices and market effectiveness. This means that despite the individual

fragmentary correlations, the increase of sustainability in strategic management process and strategy content noticeably accompanies creation of more effective market results, measured by the enterprise's perceived competitiveness, ability to influence the markets and attractiveness to cooperants. Moreover, the analysis of the fragmentary correlations shows that the combination of sustainable practices in all four areas of strategic management (worker participation in strategic management process, flexibility of methods, integrity of values and stakeholder orientation of goals) impacts market effectiveness much stronger, than the sustainable practice applied to one area only. It means that companies which in their strategic management model apply a combination of both high participation, high flexibility, integrity of mission and values and stakeholder orientation of goals, will be likely to achieve higher market effectiveness than companies introducing only one of the above, i.e. participative model without flexible methods and integrity of values and goals. Sustainable approach in strategic management seems to be most beneficial when applied in a systemic manner rather than as a fragmentary variation.

The main limitation of the current study was a subjective character of the answers. The future research studies ought to concentrate on the attempt to determine market effectiveness in a more objective way and establishing a wider spectrum of its components that can be correlated with sustainable practices of strategic management. Also it would be interesting to determine a direction of the causality between sustainability of strategic management and market effectiveness. These issues however, go beyond the scope of the current study and will constitute the basis for further research.

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