

EFFECT OF FIRM LEVEL FACTORS, FIRM STRATEGY, BUSINESS ENVIRONMENT ON FIRM PERFORMANCE

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Organization operates in an open system. The environment is turbulent and ever changing. Organization is environmental dependent and environment serving. They depend on the environment for resources input and produce goods or service for the consumption by the environment. An organization has to develop competitive strategy to out compete the competitors. Strategy link organization to the environment. To achieve its objective the organization chooses strategies that align them properly with environment. This is aimed at avoiding any mismatch between the organization and the environment. This in turn leads to effect on the performance of the organization. The choice of strategies to employ at a given time is informed by different factors within and without the organization. Different firm's strategies differ from organization to another which is influenced by the external and internal factors. Major factors include firm and industry factors. There have been conflicting views on which factors are more important than the other in influencing strategy .The firm characteristics view which is supported by resource based view of strategy has dominated in theoretical and empirical literature. The choice of strategy is an important step in the strategy development process. The difference in factors involved in various firms explains the difference in strategy chosen which eventually is reflected by the organization performance which can be measured using different methods.

Key words: Firm level factors, Strategy, Environment, Performance, Contingency factors, Strategic choice

INTRODUCTION

Strategy is key in the overall performance of the organization. The strategy chosen is dependent on various contingent factors. The environment influences the link between strategy and performance. The combination of the various factors contributes to the strategies selected which influence the performance of the organization. Different measures of performance give the variation in performance. Strategy may be deliberate or emergent. Deliberate strategy is more applicable in large organization. This is because such organizations have the strategic planning

process involving strategy formulation, implementation, evaluation and control. They have formal strategic planning as opposed to small scale business organization which to a great extent employs informal strategic planning process. These small businesses strategy are therefore more of emergent than deliberate. The basis of this paper focuses more on large organization since they have well documented strategic planning clearly stipulating vision, mission, objectives, strategy choice, strategy implementation, evaluation and control.

Strategy in a Multiple Perspective

Bracker (1980) stated that the word strategy comes from the Greek word stratego, meaning to plan the destruction of one's enemies through the effective use of resources. The concept of strategy was developed purely in relation to the successful pursuit of victory in war. The concept remained a military one until the nineteenth century, when it began to be applied to the business world, though most writers believe the actual process by which this took place is untraceable (Bracker, 1980; Chandler, 1962). Drucker (1954) first addressed strategy and strategic formulation as an approach to managing organizations. His concern was to do with defining the business domain of a company. Little attention was given to this concept of strategy until 1962 when Chandler in his groundbreaking work "Structure follows Strategy", recognized the importance of coordinating the various aspects under one all-encompassing strategy. He defined strategy and outlined the process by which it could be formulated. Basing on Drucker and Chandler's work, Ansoff (1965) and Andrews (1971), made strong contributions to this growing body of thought. They addressed real business needs and examined the rapid changes of environmental conditions.

Contingent Factors

Organizations operate in a turbulent environment and therefore have to be aligned appropriately for long term survival. Strategy is the link of the organization to the environment. The choice of the most suitable strategy for a given organization is very fundamental. Various factors influence the choice of strategies which include structure, top management team characteristics, board characteristics, organization culture and resources. The strategy selected in turn influence the firm performance. A central objective of strategic management research has been to understand the contingent effects of strategy on firm performance. A prominent concern among contingency

theorists has been to explore variables related to the strategy and structure of firms Doty, Glick, and Huber (1993); Galbraith(1977); Miles and Snow(1978); Mintzberg(1979) and to examine their contingent effects on firm performance. Contingency theory suggests that there is no optimal strategy for all organizations and posits that the most desirable choice of strategy variables alters according to certain factors, termed contingency factors (Donaldson, 1996).Strategic management scholars have examined a wide range of contingency factors, such as aspects of the environment, organization structure (Miller, 1988), technology (Dowling & McGee, 1994), and marketing choices (Claycomb, Germain, & Droege, 2000), and explored how these and other factors interact with strategy variables to determine firm performance. Research has been done to understand the contingent effects of strategy on firm performance. Contingency theory seeks to understand the behavior of a firm by analyzing separately its constituent parts, making disaggregated one-to-one comparisons of variables and their links with performance (Meyer, Tsui, & Hinings, 1993). Strategic choice is concerned with the evaluation of the strategic options and selection of the most appropriate options for achieving the objectives.

Environment and Organizational Linkages

Success, which is the survival and prosperity of any organization, depends on how the organization relates to the environment. Strategy is a link between an organization and its environment and must be consistent with the goals, values, the external environment, resources, organizational structure and system (Ansoff & Mcdonell 1990). Strategy is the heart of strategic management because it helps the organization to formulate and implement various tasks to remain competitive (Hussey, 1991). An organization strategy defines its unique image and provides its purpose and direction to its activities and to the people within and outside the organization (Grant, Jammine & Thomas 1988) .Prescott (1986) concluded that the environment establishes the context in which to evaluate the importance of relationship between strategy and performance. Strategist need to identify sub environment in which the firm are to compete. The influence of environments on firm performance has been one of the central themes in strategy (Porter, 1980). Firms must continuously survey the environment for signs of future discontinuity and potential surprises. They must respond to frequent changes in competitive structure and dynamics.

Strategic success hypothesis is that strategic diagnosis in a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure

the firm's success in its future environment (Ansoff & Mcdonell, 1990). The PESTEL framework categorizes environmental influence into six main types; political, economic, social, technological, environmental and legal (Johnson, Scholes & Whittington, 2002). These factors are not independent of each other and many are linked. Porter (1980) five forces analysis provides an understanding of the competitive nature of an industry. The Five forces framework helps identify the sources of competition in an industry or sector. There has been debate on the role of the environment in the strategy making, with particular regards to industries. The debate is whether strategy making should be externally oriented, starting with environment or internally oriented starting with the organizations own skills and resources. Porter is chief advocate of the external approach. Rumelt (1991) study found that firms factor account for 47% of variance in profitability. Porter and Mcghan (1997) study on service and manufacturing industries found a larger industry effect of 19%. The implication of their work is that firm specific factors influence profitability more than industry factors. External influences can matter more in some industries than others (Johnson et al, 2002).

Organizational Performance

Performance in an organization reflects the result of effects of implementation of various strategies adopted by firms. Different organization uses varying measures of performance. These measures may be quantitative or qualitative. Majority of the organization employs quantitative measures to assess the effect of strategy chosen and success of their implementation. Performance variables are both financial and non financial. One of the goals of strategic planning is to make profits and other financial benefits. Ramanujam V, Ramanujam N, Camillus J C. (1986); Krager and Parnell (1996) conceptualized financial measurements as an objective of planning. According to these authors, the variables of financial measures include prediction of future trends, improving short-term performance, improving long-term performance, direct impact on firm performance, enhancing development management. Kaplan and Norton (2008) concur with these authors and contend that Balanced Scorecards Strategy considers financial indicators as one of the critical measures of firm performance.

FIRM LEVEL FACTORS

Firm Resource

Firm level factors are characteristics or features specific to a particular business. There are mainly the resources unique to a particular firm. These resources may be finance, unique

technology, knowledge, human and other assets (Barney, 1986). The differences in the firm resources explain the variation in strategies and performance for firm in the same industry. The resource-based view inherently offers an explanation for the firm effects on strategies and performance outcomes within the same industry. The key dimension of differences in strategies and performance levels among competitors within an industry is the existence of unique firm characteristics capable of producing core resources that are difficult to imitate (Wernerfelt, 1984; Barney, 1986; Peteraf, 1993). These core resources are developed internally, Dierickx and Cool, (1989) through sustained investments in difficult-to-copy attributes by managers committing to irreversible strategic actions (Ghemawat, 1991). When acquired from the market, core resource endowments fully capitalize their rents in the market price (Barney, 1986). Core strategies are characterized by lock-in, lockout, lags, and inertia (Ghemawat, 1991); and imply unique decision-making conditions due to complexity, uncertainty, and conflict (Amit & Schoemaker, 1993). These unique strategies and resources, in conjunction with causal ambiguity, create isolating mechanisms that protect the competitive positions of firms against imitation (Lippman and Rumelt, 1982). These resource allocation patterns (Mintzberg, 1978) underscore the concept of strategic choice (Child, 1972). This heterogeneity in turn leads to systematic differences in firm performance within the same industry.

Organization Structure

Chandler (1962) considered the contingency relationship between a firm's corporate strategy and its internal administrative structure. The ensuing debate on the contingent relationship between strategy, structure, and firm performance flourished in the 1970s and 1980s. It has subsequently been revived through a closer empirical examination of dynamics and causality and calls for an extension of the analysis to various forms of strategy and structure that had not previously been considered). The strategy/structure variables had been thoroughly addressed in the literature but little attention to extending the question of strategy/structure fit issues for other structural forms of organization (Yin & Zajac, 2004). They addressed the gap by introducing the firm's business model as a new contingency factor that captures the structure of a firm's boundary spanning exchanges. The firm existing structure would be expected to influence its strategic choice. When the organization lacks a suitable organization structure that is in tandem with strategy the entire process fails. This would therefore make managers to carefully consider the existing structure making it a contingent factor to strategic choice.

Organization Culture

Organizational culture is an idea in the field of organizational studies management which describes the psychology, attitudes, experiences, beliefs and values (personal and cultural values) of an organization (Schein, 2009). It has been defined as the specific collection of values and norms that are shared by people and groups in an organization and that control the way they interact with each other and with stakeholders outside the organization (Deal & Kennedy, 2000). From organizational values develop organizational norms, guidelines, or expectations that prescribe appropriate kinds of behavior by employees in particular situations and control the behavior of organizational members towards one another. Corporations are organizations and are also legal entities. Schein (2009); Deal and Kennedy (2000); Kotler, Armstrong, Saunders and Wong (2002) state that organizations often have very differing cultures as well as subcultures. Organization culture influences the choice of strategy. Organization has particular values and beliefs that all employees are supposed to observe. The culture may vary from one organization to the other. The cultures influence the day to day operations of the organization. The organization culture would influence what is acceptable or unacceptable in the organization.

Chief Executive Officer Attributes

Research examining the association between top executives and strategy has been primarily devoted to linking specific attributes of leaders with the strategic behavior of their firms. In a discussion of top managers, Hambrick and Mason (1984) theorized that younger managers favored more change (growth strategies). Wiersema and Bantel (1992) found that the age of top management team members was negatively associated with strategic change. Psychological research seems to suggest a similar pattern, in general. Hitt and Tyler (1979) found a negative relationship between age and risk taking by top executives. Finkelstein and Hambrick (1990), found a positive relationship between top management team tenure and strategic persistence. Boeker (1997) reports a negative relationship between top management team tenure and strategic change, and that this relationship becomes increasingly negative under conditions of poor organizational performance. Fiske and Taylor (1991) argue that greater experience provides individuals with a much more comprehensive access to a richer stock of remembered information, relative to what novices can access. Miller, Vries and Toulouse (1982) investigated the question of whether there was a relationship between the personality of a Chief Executive

Officer (CEO) and his or her strategy making behavior. They found that firms led by confident and aggressive CEOs adopted risky and innovative strategies, while firms headed by CEOs given to feelings of helplessness tended to pursue more conservative strategies. Song (1982) reported that firms pursuing internal diversification tended to have CEOs with backgrounds in marketing and production. On the other hand, firms that pursued acquisitive diversification were more likely to have CEOs with backgrounds in accounting, finance or law. Different chief executives may exhibit variations in terms of their characteristics. These variations are as result of different experience, culture and other personal characteristics.

Board Characteristics

Boards are usually comprised of people from different background. They also have variation in characteristics for example the demographical aspects such as age, education, experience, tenure of service among others. In the strategy selection the board member decisions are likely to be influenced by the particular characteristics. Therefore it would be expected that the strategic choice will be subject to the organization characteristics. Demographic and processual features of boards of directors may suggest a differential inclination of the board toward strategic change. Demographic features of boards imply differences in a board's inclination for strategic change. Given that boards can be conceptualized as a group of individuals, one important issue that can affect the working of that group is its size. Dalton (1999); Pearce and Zahra (1992) has argued that board size is positively associated with breadth of perspectives in the planning process. Lorsch and MacIver (1989) claimed that larger boards are able to draw on a larger pool of expertise. With respect to question of a board's inclination for strategic change, the insufficient breadth of expertise in smaller boards has several implications: an inadequate recognition of the need to initiate or support strategic change, a lack of a clear understanding of alternatives, and/or a lack of confidence in recommending strategic change. All of these consequences imply a lower inclination for strategic change for relatively small boards.

Social psychological research on groups suggests that larger groups often suffer from a diffusion of responsibility or "social loafing," whereby individuals discount the likelihood that their poor contributions (in effort or quality) will be detected by others (Janis,1989). Economists have devoted considerable attention to the fundamental problem of "free riders" in groups involved in

common efforts .Free rider arguments, while rarely invoked in the context of boards of directors, have been used in discussions of why dispersed ownership of corporations is worse than concentrated ownership (Demsetz and Lehn, 1985). Research on the diffusion of responsibility and the free-rider problem in small groups also suggests that at high levels of group size, there may actually be a ‘collective action’ problem that reduces the group-level inclination for strategic change. Zahra and Pearce (1992) suggest that larger boards are prone to fractionalization and in-fighting. Logics compelling board size may be either positively or negatively associated with strategic change, and both positions have been well argued in the literature. Further, there is much empirical evidence in the group decision-making literature to support both positions. It is possible to reconcile these conflicting views, both empirically and theoretically. Previous findings may have been influenced by restricted ranges of their variable of interest. Researchers who have observed a positive relationship between group size and some decision making variable may have examined groups which are not so large as to diminish their decision making capabilities, smaller than eight members.

Researchers who have observed the opposite finding may have examined groups that, in general, are sufficiently large so as to have a negative impact on their decision-making capabilities. Rather than arbitrarily choosing between two theoretically compelling contrary arguments Golden and Zajac (2001) proposed that one should consider theoretically (and empirically) the possibility of curvilinearity in the relationship between board size and strategic change. When board size is very small, the benefits of the breadth of perspectives are significant, but these benefits are subject to diminishing returns as board size increases. Similarly, when board size is very large, the disadvantages of diffusion of responsibility, free-riding, and fractionalization are most severe, and there are comparable diminishing negative returns to such disadvantages as board size decreases. Finkelstein and Hambrick (1990) found a positive relationship between top management team tenure and strategic persistence.

THEORIES AND MODELS OF STRATEGIC CHOICES

According to Mintzberg, Quinn, and Ghoshal (1998), there are five main and interrelated definitions of strategy: Plan, Ploy, Pattern, Position and Perspective. Andrew (1998) defined strategy as a pattern of decisions in a company that determines and reveals its objectives, goals,

plans for achieving those goals and defines the range of business the company is to pursue. Whittington (1993) attempted to make sense of the many definitions and categories of strategy by identifying four generic approaches to strategy; Classical, Evolutionary, Processional and Systematic. Porter (1987) pointed out that although strategic planning had gone out of fashion in the late 1970s, it needed to be re-discovered, “rethought”, “recast”, and not discarded. In his five forces analysis he identified the forces that shape a firm’s strategic environment. Porter modified Chandler (1962) `s dictum about structure following strategy. He contended that ‘organizational structure follows strategy’, which in turn ‘follows industry structure’. Hamel (1990) contributed to this debate and contends that the value of all strategies no matter how brilliant, they decay over time and hence they need to be “rethought” and “recasting”. Strategic choices should be based on core competencies (Hamel & Prahalad, 1990).

Strategy choice is facilitated by strategy analysis. Corporate strategic analysis is facilitated by portfolio analysis which enables the organization to identify the strategic options which can help in strengthening its business portfolio in order to enhance performance. Choosing a strategy can be done by rational portfolio management tools like the Boston Consulting Group (BCG) growth-share matrix, the General Electric (GE) grid and the Ansoff product market matrix. . The growth share (B.C.G.) Matrix is whereby various businesses are plotted accordingly depending on their market growth and the organization’s relative market share into stars, cash cows, question marks and dogs. Porter (1985) pioneered thinking in competitive advantage when he proposed that there are three different ‘generic’ strategies by which an organization can achieve competitive advantage. These are overall cost leadership, differentiation and focus strategies. Olsen, West and Tse (1998) described strategic choice as the choice of competitive methods used by the firm to take advantage of opportunities and minimize effects of threats. According to Johnson et al (2002) strategic options generated during strategic analysis must be evaluated in order to select the best options. Courtney and Viguerie (1997) assert that to cope with different levels of environmental turbulence, organization needs different analytical approaches to determine the best possible strategies. The strategic choice paradigm (Child, 1972) postulates that key decision makers have considerable control over an organization's future direction. The strategic choice perspective spurred significant, systematic investigations of the influence of top management on organizational outcomes.

The Upper Echelon perspective articulated by Hambrick and Mason (1984) provides a framework within which the role of top managers in influencing organizational outcomes can be interpreted. They developed a model based on the research of the behavioral theorists Cyert and March (1963); March and Simon (1958) to explain the link between executive characteristics and strategy. They described the process of strategic choice as a perceptual one that occurs in a series of sequential steps. First, a manager or even an entire team of managers cannot scan every aspect of the organization and its environment. The manager's field of vision, in those areas to which attention is directed is restricted, posing a sharp limitation on eventual perceptions. Secondly, the manager's perceptions are further limited because one selectively perceives only some of the phenomena included in the field of vision. Finally, the bits of information selected for perception are interpreted through a filter woven by one's cognitive base and values. The manager's eventual perception of the situation combines with his or her values to form the basis of strategic choice (Hambrick & Mason, 1984). This model suggests that the choices made by managers on behalf of the organization, reflect to some extent, the characteristics of these managers. Thus it can be argued that, when confronted with the same objective environment, different managers, will make different decisions based on their individual experience and values. Therefore, the critical role of top managers in determining a firm's strategic direction becomes apparent.

Strategic choice drew attention to the active role of leading groups who had the power to influence the structures of their organizations through an essentially political process. It led to a substantial re-orientation of organizational analysis and stimulated debate on three key issues: the role of agency and choice in organizational analysis, the nature of organizational environment, the relationship between organizational agents and the environment. Donaldson (1996) placed their theoretical orientation squarely within the 'functionalist' paradigm and there are continuities with it in several other approaches, namely the strategic contingencies perspective the ecological approach, and the institutional perspective. The first stresses the functional importance for organizational performance of matching internal organizational capabilities to external conditions. The second considers that units which do not have organizational forms characteristic of their sector or 'niche' have a poorer chance of survival.

The institutional perspective is a rather 'broader church', but most of its adherents find common ground in the assumption that the structural forms (as well as the identities and values sustaining these) of relevant external institutions map themselves onto organizations which depend on them for legitimacy, resourcing or staffing. All these approaches regard environmental conditions as ultimately determinant of organizational characteristics. Consideration of strategic choice led to the conclusion that this deterministic view was inadequate because of its failure 'to give due attention to the agency of choice by whoever have the power to direct the organization' (Child 1972: 2). Strategic choice was defined as the process whereby power-holders within organizations decide upon courses of strategic action. Strategic choice extends to the environment within which the organization is operating, to the standards of performance against which the pressure of economic constraints has to be evaluated, and to the design of the organization's structure itself'. Strategic choices were seen to be made through initiatives within the network of internal and external organizational relationships--through pro-action as well as re-action. Incorporation of the process whereby strategic decisions are made directs attention onto the degree of choice which can be exercised, whereas many available models direct attention exclusively onto the constraints involved. They imply in this way that organizational behavior can only be understood by reference to functional imperatives rather than to political action' (Child, 1972).

Strategic choice analysis incorporates both subjectivist and objectivist perspectives on organizational environment. This dualism does not result only from identifying organizational decision-makers' subjective evaluations of the environment as a critical link between its objective features and organizational action, though that is an important element in it. It also reflects a recognition that organizational actors do not necessarily, or even typically, deal with an 'environment' at arm's length through the impersonal transactions of classical market analysis, but, on the contrary, often engage in relationships with external parties that are sufficiently close and long-standing as to lend a mutually pervasive character to organization and environment.. The 'environment' contains cultural and relational dimensions in addition to the 'task' and market variables identified respectively by strategic contingencies and economic theories. This is particularly true of organizations in personal service sectors such as health care, but it has been noted in other forms as a characteristic of East-Asian business systems (Whitley, 1992).

Strategic choice analysis therefore allows for the objective presence of environments while, at the same time, it recognizes that organizations and environments are mutually pervasive. This pervasiveness occurs in two main ways. The first is through the interpretation of environments as being consequential for organizational action. The second is through the relationships that extend across an organization's 'boundaries'. It takes the very definition of those boundaries to be largely the consequence of 'the kinds of relationships which its decision-makers choose to enter upon with their equivalents in other organizations, or the constraints which more dominant counterparts impose upon them' (Child 1972: 10).

Organization and environment therefore permeate one another both cognitively and relationally-- that is, both in the minds of actors and in the process of conducting relationships between the two. 'The strategic-choice approach essentially argues that the effectiveness of organizational adaptation hinges on the dominant coalition's perceptions of environmental conditions and the decisions it makes concerning how the organization will cope with these conditions' (Miles & Snow 1978: 21). Miles and Snow concluded that the policies which organizational agents adopted towards the environment could be placed into the four generic categories of "defender", 'prospector', 'analyzer' and 'reactor'. This categorization was an important refinement of the strategic choice concept. Bourgeois (1984) argued for a view of strategic management as a creative activity which is intrinsic to a dialectic between choice and constraint: 'so, though environmental and internal forces act as constraints, strategy making often selects and later modifies the sets of constraints' (p. 593).

Strategic choice is recognized and realized through a process whereby those with the power to make decisions for the organization interact among themselves with other organizational members and with external parties. Analytical centrality is given to organizational agents' interpretations (their goals and views of the possibilities for realizing them) as they engage in these relationships. Organization, as a social order, is the subject of adjustment through negotiation on a continuing, though not necessarily continual, basis (Song, 1982). At any one point in time the possibilities for this negotiation are framed by existing structures, both within and without the organization. The use of 'framing' here is intended to convey a sense that the issues and options open to negotiation by actors have some structured limits, though it may be

possible to change the limits themselves over time through the negotiation process. Structures within the organization include the channels through which relevant information is obtained and processed, and formalized policies which define action priorities for the organization. The strategic choice perspective in organizational analysis conceives of action being informed by the prior cognitive 'framing' of actors and of organizations in the form of embedded routines and cultures (Boeker, 1997). Elements of action and organizational determination arise in this way. Re-framing takes place at a level of intensity which is likely to vary depending on environmental circumstances, the characteristics of key actors, and the interplay between both. Strategic choice as a process thus furnishes an example of 'structuration' (Deal & Kennedy, 2000). Action is bounded by the cognitive, material and relational structures existing within organizations and their networks, but at the same time it impacts upon those structures. Through their actions, agents endeavor to modify and redefine structures in ways that will admit of different possibilities for future action. When these actions become a constituent element in the relations between an organization and external bodies, they move onto an even higher level of social process. The consequences of this process for the organization, which strategic choice analysis depicts as being transmitted to it through a feedback of information on its performance and external standing, are social in origin but may be interpreted in some circumstances by individual actors primarily in terms of their own personal values or priorities.

The normative model of strategic decision-making suggests that executives examine the firm's external environment and internal conditions and, using the set of objective criteria derived from these analyses, decide on the strategy. A model of strategic change that builds on this rational normative model by emphasizing the effects that executives can have on strategic decisions, has been labelled strategic choice (Child, 1972). An alternative view, the external control perspective argues that strategic decisions are largely constrained by the external environment. The chief proponents of this highly deterministic perspective (Bourgeois, 1984) are from diverse disciplines and include industrial organization economists (Porter, 1980) and organization theorists (Adrich, 1979). While the two perspectives seem to be in strong conflict, proponents of each seem to be moving closer together (Hambrick and Finkelstein, 1990). They emphasize the potential effects that managers can have on strategic decisions. They argue that people, not organizations, make decisions and that the decisions depend on prior processes of human

perception and evaluation. These processes are believed to be constrained by the managerial orientation created by needs, values, experiences, expectations, and cognitions of the manager (Child, 1972). Hambrick and Mason (1984) advocated an upper echelons theory of organizations, which builds on the premises of earlier strategic choice literature (Child, 1972). This perspective suggests that strategic choices are the result of both the objective situation and the characteristics of the upper echelons (top executives) of the organization. It argues that upper echelon characteristics (psychological cognitive bases, values, and observable background characteristics) affect managerial perception and, therefore, strategic choices. They make decisions regarding the goals, domains, technologies and structure of a firm. Hambrick and Mason (1984) and Bourgeois (1984) emphasize that executives' strategic choices should be viewed broadly to include not only variables normally associated with strategy but also those associated with its implementation (reward systems). Regardless of the extent of strategic choice, these theorists reject the purely deterministic view of the behavior of organizations taken by some organization theorists and industrial organization economists. They also qualify the assumption of objectivity associated with the classical normative model of strategic choice.

The theoretical arguments proposed are based on an extensive literature that has accumulated in the area of behavioral decision theory (Donaldson, 1996). Research prior to the advent of behavioral decision theory assumed that rational economic actors maximize their utility based on full, complete, and perfect information. Behavioral decision research suggests that people violate the rational normative utility-maximizing model (Whitley, 1992). Much of the work integrating behavioral decision theory into the strategic decision making literature has been based on early notions of Tversky and Kahneman (1974). Tversky and Kahneman (1974) stated that when faced with uncertain, complex and/or ill structured problems, individuals develop and use heuristics to simplify the decision process. Research has demonstrated that human cognitive processes attempt to reduce cognitive effort through the use of heuristics which may create systematic biases (Kahneman and Tversky, 1979). By using heuristics, decision-makers can make fairly accurate interpretations and evaluations without having to examine all available information (Barnes, 1986). The literature in management and cognitive psychology suggests that individuals use these heuristics or cognitive models to integrate pieces of information into a single judgement in making decisions (Hitt & Middlemist, 1979; March & Simon, 1958). Schwenk

(1984) suggested that individual characteristics affect the heuristics and cognitive maps used to make strategic decisions, and proposed three variable categories of individual differences: cognitive style, demographic factors and personality traits (Schwenk, 1988). Upper echelons theory, proposed by Hambrick and Mason (1984), essentially argues that strategic choices have a large behavioral component and reflect the idiosyncrasies of top executives' cognitive bases and values. Hambrick and Mason (1984) argued that, while decision-makers are exposed to an ongoing stream of potential stimuli, these cognitive bases and values filter and distort the decision-makers perceptions, and thereby affect strategic choice. They argued, further, that observable demographic characteristics of top executives could be used to infer psychological cognitive bases and values, and that straightforward demographic data on managers may be potent predictors of strategies. Thus, introduction of human choice into strategic decisions alters the strategic decision process.

BUSINESS ENVIRONMENT

Selznick (1948) defined the business environment as flows of information relevant to goal setting and decision-making through managerial perceptions. Duncan (1972) defined business environment as the totality of physical and social factors taken into consideration by a firm for making decisions. The business environment is divided into external and internal categories. The internal environment comprises physical and social factors within the boundaries of a firm or industry; the external environment comprises correlating factors existing outside the boundaries of the firm (Duncan, 1972). As such, the external environment refers to phenomena not in control of the firm and is classified into remote and task environments (Dill, 1958; Bourgeois, 1980; Olsen, et al 1998). The remote environment is comprised of political, socio-cultural, economic, ecological, and technological categories (Dill, 1958; Thompson, 1967; Olsen, et al 1998), while the task environment comprises customers, suppliers, competitors, and regulators. The task environment is affected by the remote environment, while most of the external environment is beyond a firm's or industry's control. The remote factors affect the activities of the company in long-term environment.

This environment creates opportunities risks or control for the company. The business environment can be considered to be in terms of the following layers; macro environment

(remote), industry environment and operating environment (micro). The most general layer of the environment is referred to as microenvironment. The macro environment consists of broad environmental factors that impact to a greater extent on almost all organizations. The macro environmental influences that might affect organizations can be categorized using PESTEL framework (political, economic, social, technological, environmental and legal). These factors are not independent of each other and when they change they affect the competitive environment (Johnson et al, 2002). The macro environment might influence the success or failure of an organization's strategies but the impact of these general factors tends to surface in the more immediate environment through changes in the competitive forces on organization. A key aspect is competition within the industry which is the industry environment. An industry is a group of firms producing the same principal product (Johnson et al, 2002).

The five forces framework helps identify the sources of competition in an industry or sector. The five forces framework is composed of threat of entry by potential entrants, bargaining power of buyers, threat of substitutes, bargaining power of suppliers and competitive rivalry within (Porter, 1980). The operating environment is composed of competitors, customers, suppliers and markets. According to Johnson et al (2002) these are the strategic groups, market segments and the understanding of what customer's value. Strategic groups are organizations within an industry with similar strategic characteristics following similar strategies or competing on similar bases (McGee & Thomas, 1986). A market segment is a group of customers who have similar needs that are different from customer needs in other parts of the market (Porter, 1985; Kotler et al, 2002). The strategic customer is the person(s) at whom the strategy is primarily addressed because they have the most influence over which goods or services are purchased (Johnson et al, 2002).

Ansoff and McDonnell (1990) Strategic success hypothesis is that strategic diagnosis is a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure the firm's success in its future environment. The diagnostic procedure is derived from the strategic success hypothesis. The strategic success hypothesis states that a firm's performance potential is optimum when the following three conditions are met; aggressiveness of the firm's strategic behavior matches the turbulence of its environment,

responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm's capability must be supportive of one another. Environmental turbulence is a combined measure of the changeability and predictability of the firm's environment. The environment turbulence can be repetitive, expanding, changing, discontinuous or surprising. The corresponding strategic aggressiveness can be stable, reactive, anticipatory, entrepreneurial and creative. The aggressiveness level of the firm's strategic behavior must match the turbulence level of the environment. The responsiveness of the firm's organizational capability must also be matched to the environmental turbulence (Ansoff & McDonnell, 1990).

Figure 1: Matching Turbulence -Aggressiveness - Responsiveness

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|--------------------------------------|---|--|---|---|--|
| ENVIRONMENTAL TURBULENCE | REPETITIVE Repetitive | EXPANDING Slow Incremental | CHANGING Fast Incremental | DISCONTINUOUS Discontinuous Predictable | SURPRISEFUL Discontinuous Unpredictable |
| STRATEGIC AGGRESSIVENESS | STABLE Stable Based on Precedents | REACTIVE Incremental Based on Experience | ANTICIPATORY Incremental Based on Extrapolation | ENTREPRENEURIAL Discontinuous New Based on Observable Opportunities | CREATIVE Discontinuous Novel Based On Creativity |
| ORGANISATIONAL RESPONSIVENESS | STABILITY SEEKING Rejects Change | EFFICIENCY DRIVEN Adapts to Change | MARKET DRIVEN Seeks Familiar Change | ENVIRONMENT DRIVEN Seeks Related Change | ENVIRONMENT CREATING Seeks Novel Change |
| LEVEL | 1 | 2 | 3 | 4 | 5 |

Source: Ansoff and McDonnell (1990), *Implanting Strategic Management*, 2nd Ed. NY: Prentice Hall, Pp. 38.

A firm has to match its strategy and supporting capability with the environment to optimize its competitiveness and profitability. The different environment in which firm operate is classified into five distinct turbulence levels; repetitive environment (level 1), expanding environment (level 2), changing environment (level 3), discontinuous environment (level 4) and (level 5) surpriseful environment. The strategic diagnosis identifies a combination of turbulence levels, strategic aggressiveness and organizational capability responsiveness that will produce optimum profitability (Ansoff and McDonnell, 1990).

According to Mason (2007) business environment is a complex adaptive system and therefore has an influence on the choice of strategic activities. The environment is changing faster than

ever before with such change occurring in two major dimensions, the complexity and turbulence (Hamel & Prahalad, 1994). This has led to the unresolved issue among researchers on how environment can be analyzed. Some researchers have treated the environment as an objective fact independent of firms Aldrich (1979) while others have treated the construct as perceptually determined and enacted (Weick, 1969). Objective environments are relevant to primary strategy making, while perceived environments are a prime input to secondary strategy making (Bourgeois, 1980).

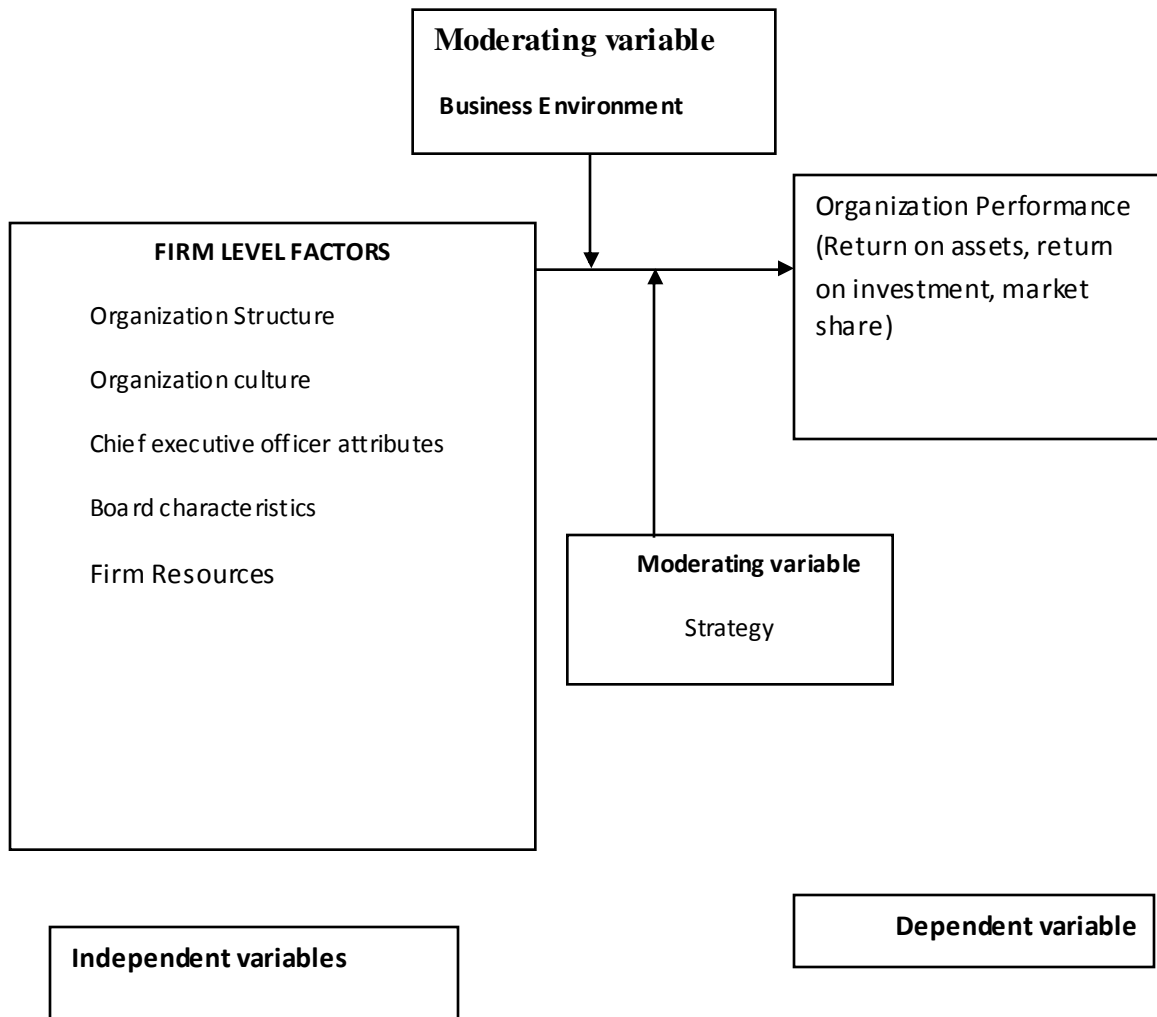
ORGANIZATIONAL PERFORMANCE

Since no single measure that effectively captures the performance outcomes of different strategic types, several researchers have suggested that financial measures must be used in conjunction with market based measures (Dess & Davis, 1984; Hambrick, 1983; Schendel & Patton, 1978). Armstrong (1982); Pearce et al (1987) suggested that the effect of strategic planning on performance is contingent upon the level of turbulence firm face. Mintzberg (1973) argues that executives in firms facing turbulent environment should not arrange for high levels planning because future states of turbulent environment are impossible to predict. Kim, Hwang and Burgers (1989) studied the impact of global diversification strategy on corporate profit performance. Their study of 62 multinationals suggests that the profit performance impact of related and unrelated diversification (Primarily based on product diversity) varies contingent upon the extent of a firm international market diversification. Grant et al (1988) looked at the relationship between diversity, diversification (increases in diversity over time), and profitability for 304 larger British manufacturing companies. Their results indicated that in general, diversity was positively related to profitability. The measure used was return on assets.

Accounting measures of performance have been widely used in the diversification research (Grant et al, 1988; Hoskinson, 1990, Kim et al, 1989). Return on assets reflects firm's relative efficiency in the utilization of its assets. The impact of corporate strategy in firms performance may be more directly reflected in accounting profit than in stock price, which measures investors expectation about future profits (Grant et al, 1988). Ramanujam et al (1986) are advocates of multidimensional view in planning practices and argue that performance should be measured in a multidimensional manner .Krager and Parnell (1996) also contributed to the multidimensional

view of strategic planning debate and provided the same argument that indicators of performance are multidimensional, that is, they are not only financial superiority elements, but also organizational ability to adapt to changes that are occurring and will occur in its environment (qualitative). A realistic model of organizational performance must reflect a highly complex paradigm and require more than a single criterion. These studies identified financial performance and organizational effectiveness-qualitative attributes dimensions associated with the planning process (Kraeger and Parnell, 1996).

CONCEPTUAL FRAMEWORK



The firm level factors influence the firm performance. There is a linkage of firm level factors, strategy and business environment which in turn is expected to have an effect on organizational performance. The firm level characteristics are the contingent factors that determine the firm choice of strategy.

CONCLUSION

Strategic management involves formulation and implementation of strategies. The management has to choose strategies (strategy) that are most appropriate to remain competitive in the turbulent environment. The strategic choice is influenced by various factors. These are the contingent factors that determine the kind of strategy that is selected for implementation to achieve particular objectives. These factors include firm level factors and industry factors. The firm level factors include resources, structure, organization culture, chief executive officer attributes and board characteristics. The strategy choice is influenced by the business environment. The strategy links the organization to the environment. Strategy chosen in turn has an effect on the performance of an organization. The performance may vary from one strategy to another and also depending on the measure of performance used.

Review of empirical studies indicates that many scholars have only investigated one or two factors influencing strategic choice. Other researchers have investigated the link of a firm level factor and performance. There is need to research the linkage of various firm level factors, strategy, business environment and organizational performance. Performance measures used have mainly been quantitative for example return on assets. There would be need to use qualitative performance measures and determine performance variations under different strategies. The different strategy in turn being influenced by various contingent variables. This indicates a gap in knowledge in studying various factors influencing choice of strategy in organization in a particular business environment and the resulting performance.

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