Prescriptive Corporate Strategy in Practice

M. Gonan Božac, M. Paulišić, A. Čuić Tanković, and M. Ivančić

***Abstract*—The main objective of this paper is to examine the relationship between the application of prescriptive approach and decision-making as a rational process on a sample of large hotel companies. The purpose of the study is to determine whether there is consistency in applying the prescriptive approach to strategy. The study was conducted based on a questionnaire created by the authors of the paper, on a sample of large hotel companies operating in Croatia. The measurement instrument was validated by factor analysis and the results of the study point to a significant correlation between the variable about the characteristics and main results of prescriptive strategy and the variable claiming that decision-making is a rational process.**

***Index Terms*—Decision-making, emergent approach, prescriptive approach, strategy.**

I. Introduction

The main problem with the strategy is that it confronts the future. Therefore, several questions arise: Is a rational decision-making process a good choice in strategy formulation? Or how to be rational in eliminating risks and taking all opportunities?

This paper attempts to explain the relationship between the application of prescriptive approach and decision-making as a rational process on a sample of large hotel companies. The prescriptive process begins with a simultaneous analysis of the environment and the resources: their results provide a starting point for creating (or re-creating) vision, mission and long-term goals, since "the deliberate mode of strategy-making implies a long period of thinking and the formulation stages" [1].

To answer the research questions, a field research was conducted by an online questionnaire, methodo-logically designed in accordance with the theoretical characteristics of prescriptive and emergent approach in order to determine their characteristics in practice. The sector of hotel industry was selected, since this market frequently undergoes turbulences and major changes.

In addition, the paper brings an overview of the literature of constructs of prescriptive strategy and rational decision-making, methodology, research results and, finally, conclusion and discussion.

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II. Literature Review

A. Prescriptive Strategy

Every strategic problem is three-dimensional in its nature. It is made up of the characteristics of the process, content and context, and understanding all three dimensions will provide the strategist with comprehensive understanding, thus enabling him/her to choose a satisfactory solution. The results of the stages of strategic process are consistent responses, long-term plans, based on which the organization will decide how to reconcile the desirable future, environment, resources, organizational values and norms, trying to give the optimum response to the central question - how to ensure the survival and continuity of the organization?

In this context, strategy is the direction and scope of an organization over the long run, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations [2]. Corporate strategy can be described as the identification of the purpose of the organization and the plans and actions to achieve that purpose [3], [4]. Corporate strategy consists of two main elements: corporate-level strategy and business-level strategy [5]. Corporate strategy describes a company's overall direction in terms of its general attitude toward growth and the management of its various business and product lines to achieve a balanced portfolio of products and services [6]. Strategies must be responsive to the external environment [7]. Strategy is the creation of a unique and valuable position, involving a different set of activities [8].

The theory of strategic management suggests two approaches to the development of corporate strategy, prescriptive and emergent: "One school believes that strategy is a formal process, and the other that strategy is a perception of a way of doing business"[9].The strategists who implement corporate strategy in accordance with the characteristics of prescriptive approach describe strategic management as a rational, intellectual process, and corporate strategy is a result of strategic planning, has defined goals and developed main elements before the implementation, whereas the implementation itself involves a number of administrative activities - operational plans, programs and budget. According to the prescriptive approach, after analyzing the environment and resources and formulating vision, mission and objectives, the development of strategy ensues, followed by the rational choice of options and the implementation of the selected option. A prescriptive corporate strategy is one where the objective has been defined in advance and the main elements have been

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developed before the strategy commences [10]. Mintzberg distinguishes intended, realized, and emergent strategies [11]. Rationality is limited and the intended strategy is the result of a process of negotiation, bargaining, and compromise, involving many individuals and groups within the organization [12]. The strategies that an organization actually pursues are typically a mixture of the intended and the emergent [13]. So, the real world strategies fall between the two poles of deliberate and emergent strategies [14].

There are four basic areas of prescriptive theory about strategy: theories based on industry and environment, theories based on resources, theories based on game theory and theories based on cooperation and networks. The emergent approach, as opposed to prescriptive, is the one whose ultimate goals are unclear, planning is short-term, it is more reactive to events, strategy is adapted to people's needs and its elements are developed during its development and implementation. The analytical phase of both prescriptive and emergent approaches can be divided in two parts, namely:

1. Analysis of environment – examination and insight into what is happening or is likely to happen outside the organization,
2. Analysis of resources - studying skills and resources available within the organization.

The above is followed by the third element:

3. Identification of vision, mission and objectives – development and re-examination of the strategy's direction and goals.

The strategy, which has been carefully planned in detail, is intended to be realized in a turbulent environment, which means that the top management team must possess highly developed managerial skills. Every employee has to be supported in understanding every important detail of the prescriptive strategy, so that the development and implementation of the strategy can be handled with significant alterations.

B. Rational Strategic Decision-Making

Decision making [15] is a process of making a choice from a number of alternatives to achieve a desired result. This definition presupposes an explanation that decision making involves making a choice from a number of options, decision making is a process that involves more than simply a final choice from among alternatives and that the "desired result" involves a purpose or target resulting from the mental activity that the decision maker engages in to reach a final decision. Furthermore, Tarter and Hoys [16] consider decision making a "rational, deliberative, purposeful action, beginning with the development of a decision strategy and moving through implementation and appraisal of results."

Strategic leaders attempt to predict the outcomes of their decisions before taking efforts to implement them, which is difficult to do. Rational planning [17] primarily focuses on firm performance, formulation separate from implementation, mostly quantitative approach; normative compulsion, abstract models and top management perspective. Many decisions that are a part of the strategic management process are concerned with an uncertain future and the firm's place in that future [18], [19]. By using the rational model [20], decision making process can be broken down into six steps: identifying the problem - generating alternatives - evaluating alternatives - choosing an alternative - implementing the decision - evaluating decision effectiveness. But the problem is that the rational planning approach often "forgets" individual and environmental determinants which influence final result. From individual perspective the belief in rationality guides an individual's action in such a way that, a posteriori, this action reveals to him a rationality in "what happened" [21], environmentally we must understand the "conditions" in which the decision was created: industry, complexity, (un)certainty, linkages, politics, values, etc. According to Ezzamel and Willmott (2004) rational planning is "governed by a normative compulsion to prescribe" in a relentless attempt to dictate how strategy should be. Strategy takes place in striking isolation, since scholars in this stream pay little attention to the influence of the institutional context in all strategic decision-making. Rationality itself is defined as the compatibility between choice and value [22]. Rational decision-making is often bounded rationality, which starts from the assumption that human behavior is only approximately rational as a consequence of limited cognitive capabilities and regularities in the environment. For example, in rational decision-making when we consider alternative generation and evaluation [23] we are assuming that all options are considered and all consequences are understandable and taken into consideration, but in reality very often we identify limited options, favored option is given priority, and consideration halts when a "good enough" solution is found which is bounded reality.

Analysis and intuition provide a basis for making strategy-formulation decisions [24]. According to Johnson, Scholes, Whittington [25], the design lens views strategy development as a logical process in which the forces and constraints on the organization are analyzed and evaluated to establish clear strategic direction and a basis for the planned implementation of strategy. But in reality it is clear that most decisions and managerial actions, although rational processes, do not follow an expected sequence or incorporate all stages, short-cuts are taken, often because of a lack of time or a lack of information, and sometimes due to laziness [26]. Authors like Simon (1976), Quinn (1980), Etzioni (1967) wanted to explain why managers avoid, consciously or unconsciously, the elements of the rational approach. Prescriptive models of strategic management in their bias research how strategies are practically organized and realized with all their obstacles [27].

III. Methodology

The questionnaire contains fourteen questions, of which 12 closed and 2 open. The respondents stated a degree of agreement or disagreement (from 1 - strongly disagree to 5 - strongly agree) with the way the company's corporate strategy is being developed and implemented. The questionnaire was sent out in March 2014 to the e-mail addresses of 75 hotel companies, according to the data provided by the Croatian Chamber of Economy, large companies whose main business activity is hotels (H551) according to NKD2007 (National Classification of Activities). The Croatian hotel sector is undergoing constant changes, the most significant of which is the consolidation of three groups - Valamar Riviera, Lukšić Group and Maistra that manage almost 50% of the total capacity, while new consolidations have been announced. The subject of this research were hotel companies registered in Croatia, without taking into account the origin of ownership or capital. One member of the top management team of each company answered the questionnaire. After making initial contact with all the corporations and processing the questionnaires, it was found that 9 questionnaires do not meet the criteria because of missing data. Therefore, 48 questionnaires were included in the final processing. The obtained data were analyzed through the STATISTICA 12 program and one proposed relation was tested through correlation analysis:

H1: Prescriptive strategy is positively related to rational strategic decision-making.

IV. Research Results

The validity of the constructs is established by conducting factor analysis in order to gain a better understanding of the underlying structure of the data for the prescriptive strategy. The results of the factor analysis suggest a two-factor solution, including twelve indicators which explain the 52.564% of the cumulative variance of the data and the eigenvalues are less than 1.0.

The factor analysis in this study proved to have acceptable validity because the overall significance of the correlation matrix was 0.000, with a Bartlett's Test of Sphericity value of 267.551, suggesting that the data matrix had sufficient correlation to factor analysis. Also, the Kaiser-Meyer-Olkin (KMO) overall measure of sampling adequacy was 0.740, which is considered middling. Since the KMO value was above 0.70, the variables were interrelated and shared common factors.

Typically, a scale is said to be reliable if its Cronbach's alpha is 0.70 or higher. The construct of prescriptive strategy approach has Cronbach's alpha value of 0,836. Table 1 shows the results of the factor analysis in terms of item's name, mean, standard deviation, factor name, factor loading, percent of variance and communalities.

By observing the above characteristics of their companies' corporate strategies (Table I), the managers have expressed the strongest agreement with the statement *that the strategic competitive advantage can be achieved if valuable resources which the company has are selected* (PCA1), and they agree with the statement that *the fully formulated strategy is a result of strategic planning* (PCA6). The managers have evaluated, based on their past experiences, the statement related to the areas of strategy. They expressed the strongest agreement with the statement *that the strategic process begins at the point where-we-are-now and then develops new options for* the *future* (PAR2). Then follow the theories of strategies based on industry and the environment, each with a mean of 3.56, with the latter stating that *profit and competitive advantage can be realized if the most attractive*

TABLE I: FACTOR ANALYSIS FOR PRESCRIPTIVE STRATEGY APPROACH

Factor	Item	Item's name	Mean	Sd	Factor loading 1	Factor loading 2	% of variance
Characteristics	Strategic competitive advantage can be achieved if valuable resources, which the company has, are selected.	PCA1	4,02	0,76	0,605		33,660
	Strategic option includes predefined main elements and objectives before the implementation of the strategy.	PCA2	3,85	0,79	0,651		
	Development of strategy is a strictly planned process.	PCA3	3,52	1,01	0,850		
	General manager of the company is a key figure of the entire process of strategy formulation.	PCA4	3,71	1,05	0,475		
	Best alternative is selected by rational process.	PCA5	3,79	0,89	0,820		
	Fully formulated strategy is a result of strategic planning.	PCA6	3,89	0,78	0,861		
	Formulated strategy is clearly understood by everyone in the company.	PCA7	3,52	0,79	0,685		
	When the process of strategy formulation is completed, monitoring and evaluation ensues, and careful monitoring of its implementation ensues.	PCA8	3,87	0,70	0,713		
	Best strategic option will be selected only after constructing a model that will incorporate possible consequences of each option and the choice of option will be adjusted to outcomes.	PCA9	3,56	0,85	0,569		
Areas	Profit and competitive advantage can be achieved by selecting the most attractive industry and then realizing a better way to compete over other companies in the selected industry.	PAR1	3,56	0,92		0,583	52,562
	Strategic process begins at the point where-we-are-now and then develops new options for the future.	PAR2	4,06	0,73		0,527	
	Competitive advantage will be realized if the company cooperates with independent companies in order to achieve agreed objectives.	PAR3	3,10	0,88		0,454	

industry is selected and then a competitive advantage is realized over other companies in the selected industry (PAR1). The least applied are the theories of strategies based on cooperation and networks, the mean of all responses is 3.10 (PAR3)

When choosing the competitive strategy, respondents largely agree (32 respondents) and completely agree (12 respondents) that the organization skills, management and leadership are the critical company resources, followed by tangible (physical and financial) company resources, while intangible resources (name, brand, reputation) come last. When asked to assess the state of resources in their companies, participants largely agreed that resources exploit opportunities and/or neutralize threats (a 3.77 mean on a scale of 1 to 5), or that they dispose of valuable resources (3.13). Irreplaceability of resources is a feature which the managers of hotel companies agree with the least.

The respondents indicate that the proposed strategies can be implemented, because, though options are consistent with the mission, vision and goals, there can still be difficulties that would limit the probability of success of the implementation. For these reasons, the majority of respondents (68.8%) answered the questions describing the above options only if a strategy is chosen and then discarded. The largest share of managers, 45.5%, answered that the chosen strategy is discarded due to the limitations of feasibility within the company; 24.2% said that the chosen strategy is discarded because of the reaction of competitors; while 6.1% said that the strategy was discarded due to managers' lack of commitment. Interestingly, none of the respondents said that the strategy was discarded for the lack of commitment of employees. With this question there was an open answer option as well (24.2%), if no statement offered was the reason for discarding; and fifteen respondents gave no answers, one respondent stated that the strategy was discarded due to a change in top management, one respondent stated that the strategy was only delayed, three respondents said that the reason for discarding are changes in market conditions, one respondent said that the strategy must be constantly changed to adapt to circumstances, and one respondent stated that the reasons for discarding is complete inefficiency of the state and responsible agencies, and non-compliance with applicable laws and regulations by all stakeholders in the Croatian market. All answers are shown in Fig. 1.

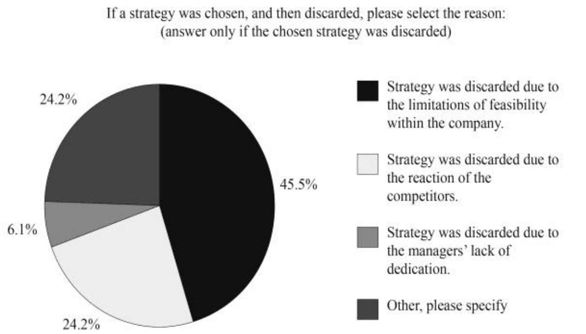

Fig. 1. Feasibility of prescriptive corporate strategy in hotel companies' practice.

Every decision is a combination of three factors: intuition, assessment and rationality. Precisely in accordance with the theoretical concept, the respondents answered (Fig. 2) the question about what decision-making is: a rational process, judgment, intuitive process or something else. Most of them, 55%, find that decision-making is a rational process, and it is precisely the rational process that is an important element in the implementation of the prescriptive strategic approach.

Multidimensional construct *"prescriptive strategy approach"* is correlated with the statement that decision-making is a rational process. The prescriptive strategy approach positively correlates with the statement that the decision-making process is a rational process (N = 48, r = 0,437, p = 0,002), which is a statistically significant relationship and proves that H1 is accepted.

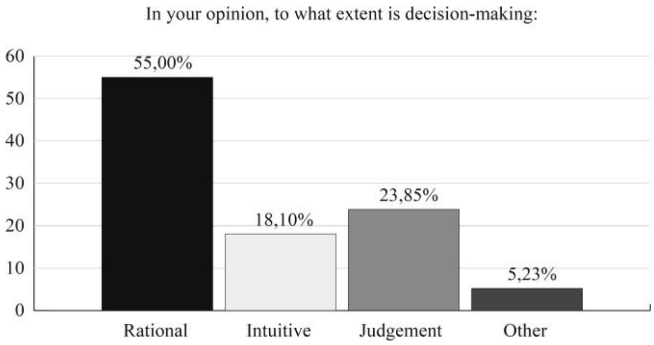

Fig. 2. Approach to decision-making in hotel companies' practice.

V. Conclusion and Discussion

Although we begin from the standpoint that the approaches to strategy formulation are different and that most combine the prescriptive and emergent approach, for the purpose of this study we analyzed the relationship between applying the prescriptive approach and decision-making as a rational process. It was found that the respondents (4.06) believe that the strategic process is close to rational thinking in the sense that it *begins at the point where we-are-now and then develops new options for the future*. The evaluation criterion of the prescriptive approach alone indicates that such a strategy is based on the criteria of consistency (4.10) and included business risk (4.10). Among the problems identified in the theory of applying the rational approach to decision-making are the long-term process of decision-making and the problem of "skipping" phases of rational decision-making as well as the fact that the strategy confronts the future.

The respondents are aware of the problem in observing the prescriptive approach to formulating strategies in terms of *a strictly planned process* and the problem of *intelligibility of formulated strategy* to employees who implement the strategy. Undoubtedly, new requests are put before the top management team due to the fact that although the examined companies rationally approach the formulation of strategy based on company resources (4.02), the problem of strategy implementation is the following: *the chosen strategy is not feasible due to* limitations *within the company* (45.5%), which provides an opportunity to examine in more detail the limiting factors of the choice.

Furthermore, a dilemma arises with regard to the rationality of choosing the rational approach to decision-making in the process of strategic management in the circumstances of rapid changes, or the requirements to recognize the opportunities that the future offers, on the one hand, and tasks set before the strategist by the process itself, on the other. It is rational to expect that the company critically weighs its resource base, but the question is, considering the results, if this is so, that is, whether greater attention is to be given to the team formulating the strategy. The prescriptive approach to strategic planning brings a number of areas for improvement, and a comprehensive view of the problem of the top management team's work is possible only if prescriptive and emergent corporate strategies are researched and compared, which is also the basic proposal for further research.

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