

A Review of the Strategy Formation Process: Empirical Evidence from the IT Sector in Serbia

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Summary:

In this paper, we survey, classify and synthesize different theoretical concepts and empirical studies that examine the nature of the strategy formation process. The paper starts by providing multiple points of view on the notion of strategy. It continues by explaining the possible sources of strategy formation. Furthermore, the elaborated insight on the nature of strategy formation process is given. In order to confirm the presented theoretical background, the case study of two IT companies is presented in the end of the paper. Some of the conclusions are that strategy can start its formation anywhere within an organization, but the main craftsmen are the members of senior management team. Strategies are forming along the emergent-to-planned continuum and the part on the continuum on which the strategy-making will take place depends on a variety of factors. Finally, two companies presented in the case study confirm the presented theoretical framework of strategy-making.

Key words:

environment, formation, IT industry, organization, strategy.

Rezime:

U ovom radu su prikupljeni, klasifikovani i sintetizovani različiti teoretski koncepti i empirijska istraživanja koja se bave prirodom procesa formiranja strategije. Rad započinje pružanjem uvida u različite perspektive pojma strategije. Nastavlja se objašnjenjem mogućih izvora nastajanja strategije, nakon čega je predstavljen detaljan uvid u prirodu procesa formiranja strategije. Kako bi se potvrdio predstavljen teoretski koncept, studija slučaja dve IT kompanije je predstavljena u završnom delu rada. Neki od zaključaka su da strategija može da započne proces formiranja u bilo kom delu organizacije, ali osobe koje u najvećoj meri oblikuju strategiju jesu članovi top menadžmenta. Strategije se formiraju uzduž kontinuumu između iznenadnog (nepredviđenog) ekstrema sa jedne strane i plana kao ekstremne vrednosti sa druge strane. U kom delu ovog kontinuumu će se formirati određena strategija, zavisi od velikog broja faktora. Studija slučaja dve kompanije u završnom delu rada potvrđuje predstavljen teoretski koncept formiranja strategije.

Ključne reči:

okruženje, formiranje, IT industrija, organizacija, strategija.

1. INTRODUCTION

The organization and the environment in which it operates may be perceived as two separate entities, even though they are inextricably intertwined. From a static point of view, the organization is an entity always existing within a certain environment, i.e. another larger entity. However, these two entities are never static. The former (organization) always performs some form of activity within the latter (environment), i.e. organization performs exchange (of any sort) with its environment, thus creating the interaction between them. Therefore it is necessary to observe the organization and its environment by introducing a dynamic perspective that will describe their interaction, i.e., explain the manner in which organizations operate within its environment. This is done by analyzing the strategy of the observed organization.

Interaction between an organization and its environment is becoming more sophisticated. Contemporary environment has been significantly altered due to the various forces that reshaped the nature of competitive space, such as: deregulation, structural changes, excess capacity of many firms, environmental concerns, changing customers' expectation, technological discontinuities, global competition, increased market transparency, changing economic and political structures, transformation of information and knowledge into the key economic resources, etc. Thus, organizations are facing unpredictable and even more complex environment in which they operate. This situation affects the strategy formation process, as well as the strategy context.

The main purpose of this paper is to highlight the strategy formation process within organizations by reviewing the most significant contributions made by numerous scholars over the past few decades. The rationale for preparing this kind of paper was the necessity for a conceptual framework regarding the manner in which strategies are formed, which will unite the efforts of many authors who have studied this subject. This unified theoretical framework will facilitate understanding of the nature of the strategy-making, as well as provide guidelines for further research on this topic. The paper starts by highlighting the notion of strategy. After that the authors are trying to answer the question of the source of the strategy formation process. It continues by depicting this process from the perspective of various authors, and finally ends with the case study of two IT companies and the conclusion.

2. THE NOTION OF STRATEGY

Inkpen and Choudhury [28] argue that strategy is a characteristic of every organization even when formally absent. Thus, all organizations have strategy. Their argument serves to protect the paradigm that awards a strategic property to all organizations by defeating those arguments that declare that organizations do exist without either an intentional or an emergent strategy [5]. This means that strategy can be tracked in every organization in order to define the process of strategy making. However, in order to determine the process of strategy making, we must first provide an answer to the next question: What is strategy? The notion of strategy must be well understood before the process of strategy making can be interpreted.

Cook [15] defines strategy as “a means by which the firm develops and fully utilizes its competencies and resources to take advantage of environmental opportunities or reduce the impact of externally imposed threats” (p. 52). On the other hand, to position itself within the environment, the company must make a vast array of detailed choices about how to develop, design, produce, sell, deliver, and service products [54]. The essence of strategy is choosing to perform different activities or similar activities differently than competitors do. Strategy renders choices about what not to do as well as choices about what to do [56]. “Strategy is the planned or actual coordination of the firm’s major goals and actions, in time and space, that continuously co-align the firm with its environment. The firm’s strategy co-aligns it with the environment by building on and modifying the firm’s internal attributes and forces to respond to, and influence, environmental conditions and developments. In short, strategy is co-aligning or adaptive coordination.” [20, pp. 570-571]

Quinn [58] saw strategy as an array of logical steps which make a general strategic course. Organizations refine this course of actions incrementally as new information emerges from the environment. This was the idea of logical incrementalism. Thus, strategy can refer to a set of guidelines that influence decisions and behaviour. However, as industry structures evolve and competitors change their strategies, a firm clearly needs to change its own guidelines and decision rules. While the complexity of industry systems dictates the need for broad strategies, their dynamic nature mandates that strategies adapt [31].

Mintzberg [42] wrote that the strategy can be defined as “a pattern in a stream of decisions”, where a decision is defined as a commitment to action, usually a commitment of resources (p. 935). After a while, he changed the definition, by arguing that the strategy is “a pattern in a stream

of decisions or actions”, which he sought to track and study as they form and disappear in organizations over long periods of time. He mentioned that original definition included only decisions, but considering that decisions represent intentions of future actions, they (his research team) actually ended up studying actions [47, p. 161]. Thus, the strategy is a collective action in the pursuit of common mission [47, p. 188]. Competitive actions in series constitute the strategy of the firm [30].

As Miller and Friesen [39, p. 1020] had already noted, “strategy can best be understood by tracking it over time; by looking at behaviour rather than condition; by studying ‘what happens in response to what’”. Most studies of strategy process to date have been retrospective case histories conducted after the outcomes were known. Thus, one might argue that these findings were biased. “While historical analysis is necessary for examining many questions and concerted efforts can be undertaken to minimize bias, it is generally better, if possible, to initiate historical study before the outcomes of a strategic change process become known. It is even better to undertake real-time study of strategic change processes as they unfold in their natural field settings.” [70, p. 181]

3. THE SOURCE OF THE STRATEGY FORMATION PROCESS

Now let us turn to the source of strategy-making within the organizations. In order to be able to study the process of strategy formation, the source of strategy making ought to be determined. Where in the organization does a strategy emerge? The answer is that autonomous initiatives that eventually shape strategic direction of an organization can originate at all levels of hierarchy. Nevertheless, they are most likely to emerge at a level where managers are directly in contact with new technological developments and changes in market conditions, and have some budgetary discretion [10]. On the other hand, some authors argued that strategy is a course of action consciously undertaken by top management [e.g., 13, 1] or an analytical exercise undertaken by staff strategists [e.g., 2, 53]. Others stated that strategy is emerging from lower levels of organizations [e.g., 42, 52, 48], whether through trial-and-error learning [47], logical incrementalism guided from the top of organization [58, p. 161], or such that incremental changes are sometimes punctuated by a sudden quantum leap (radical change) in a relatively short period [41, 69]. However, strategy should not be enforced by top management, because a lot of creativity and innovation can be lost along the way. The management contribution to the strategy process ought to be to “maintain a healthy vitality which balances continuity and change, stability and learning” [49, p. 52].

Expanding on Bower-Burgelman process model of strategy making in large and complex organizations [6, 9], Noda and Bower [51] revealed that “overall strategic direction for an enterprise, which reflects top managers’ crude strategic intentions, has noticeable impact on the business development at operating levels of a complex firm. This preliminary phrasing of strategic direction, together with the structural context, strongly influences the way managers at responsible operating or business units perceive new business opportunities, and shape the premises of the concrete and detailed strategic analysis for new businesses.” (p. 188) Thus, the standards of performance that must be met are provided. This in turn initiates the local search at lower levels of organization. Noda and Bower [51] added that “middle managers play a key mediating role in interpreting the results and communicating them with the top managers. The iterations of the resource allocation process that then escalate or deescalate a firm’s strategic commitments to the new business, therefore, reflect local learning derived from a sequence of tests in which investment outcomes are measured against continuously revised strategic premises.” (p. 189)

4. STRATEGY FORMATION PROCESS

How do strategy-making processes take shape over time? Having in mind the aforementioned, let us consider the very process of strategy-making. Understanding of the strategy-making process ought to be based on examination of organizational and environmental context in which it occurs. For example, Miller and Friesen [38] decided to look for simultaneous associations among a large number of variables. Their result was the description of ten archetypes of strategy formation, each affected by another set of variables.

Viewed from the plan or proactive perspective, strategies are intended and precede actions. They present a look into the future. This means strategies are formulated first and then the implementation process can begin. The strategy formulation concerns the use of simple rules that permit adaptation while establishing bounds that can prevent companies from falling off the edge of chaos [18]. Nevertheless, one can analyze this perspective arguing that strategy cannot be planned entirely because planning is about analysis and strategy is about synthesis [46].

Alternatively, strategies can be viewed from the reactive perspective, where they present “a pattern in a stream of decisions or actions” [47]. In this case, they represent the retrospective view (a view into the past). Thus, strategy is not formulated. It is formed in a manner that blurs the conceptual distinction between formulation and implementation processes. Rather than being distinct processes, formulation and action (i.e., implementation) are

better viewed as constantly co-evolving: following and affecting each other through a process of strategic learning and control [20].

In other words, deliberate strategies are the ones that are realized as intended and emergent strategies are those patterns or consistencies realized despite, or in the absence of, intention. There is empirical evidence that deliberate and emergent strategies arise in different circumstances. For example, Mintzberg and Waters [48] argued that “strategies will tend to be more deliberate in tightly coupled, centrally controlled organizations and more emergent in decentralized, loosely coupled ones.” (p. 269) On the other hand, Slevin and Covin [63] in their study of 112 manufacturing firms found that planned strategies are positively related to increase in performance among firms with mechanistic structures and operating in hostile environments, while emergent strategies are more positively related to increase in performance among firms with organic structures and operating in benign environments. Ansoff [3] argued that the “emerging strategy” model is a valid prescription for success in incremented environments.

On the other hand, deliberate and emergent strategies may be conceived as two ends of a continuum along which real-world strategies lie [48]. Mintzberg [45, p. 111] noted that “All viable strategies have emergent and deliberate (i.e. planned) qualities, since all must combine some degree of flexible learning with some degree of cerebral control.” Breene, Nunes and Shill [8] reported that nearly every CSO (Chief Strategy Officer) in their survey said strategy development and execution in their companies is half deliberate and half emergent. Mintzberg and Waters [48] share the view of strategy formation process in which a realized strategy is presented as a convergence of intended strategy and emergent strategy. Derived from this image, strategy formation is defined as the collusion over time of deliberate managerial intentions (often in the form of strategic choices), the subsequent implementation efforts and the unanticipated emerging developments. Mintzberg [43] argued that:

“In practice... all strategy making walks on two feet, one deliberate, the other emergent. For just as purely deliberate strategy making precludes learning, so purely emergent strategy making precludes control. Pushed to the limit, neither approach makes much sense. Learning must be coupled with control... Thus deliberate and emergent strategies form the end points of a continuum along which the strategies that are crafted in the real world may be found. Some strategies may approach either end, but many more fall at intermediate points.” (p. 69)

He also added that [46]:

“Sometimes organizations have to tilt toward the more deliberate end, where clear thought has to precede action, because the future seems roughly predictable and the requisite learning has already taken place. Formulation, in other words, may precede implementation. But even so,

there has to be ‘implementation as evolution’... because prior thought can never specify all subsequent action. But in times of difficult change, when new strategies have to be worked in processes of learning, the tilting has to be toward the emergent end. Then the dichotomy between formulation and implementation has to collapse, whether the formulators implement in a more centralized way or the implementers formulate in a more decentralized, grass-roots way. Either way, thinking gets reconnected directly to acting” (pp. 289-290).

Considering this, Farjoun [20] noted:

“Strategy includes both the firm’s location and direction within the environment. Spatial coordination, or strategy states, and temporal coordination, or strategy paths, are complementary facets. Strategy states (i.e., postures) represent a view of the firm’s coordinated resource deployments and its state of alignment with the environment frozen at a point in time. Strategy paths and trajectories represent the development over time of coordinated action sequences or moves. Both states (e.g., a firm’s international diversity posture) and paths (e.g., a firm’s internationalization path) are a confluence of the firm’s designed and emergent strategies.” (pp. 571-572)

Based on the aforementioned, we may conclude that the planned-to-emergent strategy continuum is fundamental to depicting how strategies develop in organizations. Now let us consider this process in more detail.

The usual manner in which strategies seem to be formed starts with the planning process. The realized plan serves to the organization as a set of guidelines that are directing organization’s actions. Somewhere along the way, the current situation starts to reshape the existing plan. The new pattern of actions is emerging, which is redirecting intended strategy [cf., 52, 44, 59]. Thus, many aspects of an organization’s strategy emerge from day-to-day adjustments in organizational routines, often deviating considerably from formal strategic plans [47]. In other words, strategies develop over time through organizational processes [6, 11]. Particularly in the process of logical incrementalism [58], complexity is decomposed into subsystems within which the strategies are incrementally integrated to form a final strategy. Once the new strategy emerged and was recognized, it was made deliberate, which means that new plans are produced. Thus, strategy can be viewed on a continuum scale, moving its position between pure deliberate and pure emerging in an ongoing iterative process. In this sense, Thiétart and Forgues [67] argued that

“With regard to strategy formation processes, we generally observe that systematic, coordinated, planned and thought-out approaches are combined with muddling through, hesitation, and impulsive responses... The rational, linear, planned process, where risk is measured, evaluated and implemented by a unique leader is mixed with intuition, chance, and other processes where several internal and external organizational actors

act and interact, hesitate, take advantage of opportunities and miss others, and all of these in a dynamic mode.” (p. 22)

Thus, realized strategy takes its final form – a particular mix of coordinating measures – through real-time mutual adjustment to organizational and environmental forces and performance signals [20]. Strategy emerges as a result of (unplanned) interactions between the consequences of choices made by various, sometimes unrelated, actors [16]. Lovas and Ghoshal [32] used the term “guided evolution” to depict the process of strategy-making and argued that:

“Guided evolution refers to intervening in evolutionary processes in an attempt to shape organizational outcomes, and an important part of this intervention is to define the preferred direction of the strategy process. Through a clearly articulated strategic intent, top management communicates what they see as the preferred future position of the firm, and this preference is assumed to guide the actions...” (p. 885).

Burgelman and Grove [12] stated that:

“Organizational longevity depends on the coincidence, at different key moments in a company’s evolution, of such alert strategic leadership and the complex, ongoing cycles of induced and autonomous processes that renew the organization and keep it viable... Lining up potentially diverging strategies and keeping them lined up through the induced strategy process is itself a demanding task... The company must also prepare itself for the next big opportunity by continuing to let middle management experiment with, and then select, new strategic initiatives through the autonomous process before converting them to the discipline of the induced process. The appropriate balance of induced and autonomous strategy processes at different times in a company’s evolution may be thought of in terms of linear combinations of the two processes, with varying weights on each of them over time, but with none of the weights ever becoming zero. Finding the right weights for each time period is the supreme challenge of top management.” (p. 978)

The model of strategy-making that is determined by the space between the intended and emergent end of continuum was confirmed by Grant [24] in his study of the oil majors. He has focused his research on strategic plans and reported that three trends of the content of strategic plans are common to all the companies in his research sample. These are: (1) shortening time horizons; (2) a shift from detailed planning to strategic direction; and (3) increased emphasis on performance planning.

“Strategic planning was primarily a bottom-up process in which corporate management provided direction, but primary inputs came from the business units and operating divisions. However, consistent with the process view of strategy formation, it was clear that the strategies of the oil majors were not created by their strategic planning systems... However, the critical strategic decisions that fundamentally affected the business portfolios and direction

of development of the companies were, for the most part, taken outside formal systems of strategic planning... In short, the strategic planning systems of the international majors could be described as processes of 'planned emergence'. The primary direction of planning was bottom-up – from the business units to the corporate headquarters – and with business managers exhibiting substantial autonomy and flexibility in strategy making. At the same time, the structure of the planning systems allowed corporate management established constraints and guidelines in the form of vision and mission statements, corporate initiatives, and performance expectations." [24, pp. 512-513]

Considering this, Hamel and Prahalad [26] argued for the notion of strategy as stretch:

"The notion of strategy as stretch helps to bridge the gap between those who see strategy as a grand plan thought up by great minds and those who see strategy as no more than a pattern in a stream of incremental decisions. On the one hand, the strategy as stretch is strategy by design, in that top management has a clear view of the goal line. On the other hand, strategy as stretch is strategy by incrementalism, in that top management must clear the path for leadership meter by meter. In short, strategy as stretch recognizes the essential paradox of competition: leadership cannot be planned for, but neither can be it happen without a grand and well-considered aspiration" (p. 84).

Slater, Olson and Hult [62] have developed and examined the model of strategy creation in the context of the firm's strategic orientation. Their model have originated from the typologies of Miles and Snow [35] and Porter [53]. The results showed that Prospectors' performance was harmed by a formal strategy formation process, while Low Cost and Differentiated Defenders' performance benefited from it.

Bower and Doz [7, p. 1519] view strategy as the outcome of three different processes contributing to strategy formation: (1) the cognitive processes of individuals on which understandings of the environment of strategy are based; (2) the social and organizational processes by which perceptions are channelled and commitments developed; and (3) the political processes by which the power to influence purpose and resources is shifted.

Gavetti, Levinthal and Rivkin [22] have described the model according to which strategies are influenced by the power of managerial cognition. Using analogical reasoning, managers transfer useful wisdom from similar settings they have experienced in the past. This perspective, which represents the middle ground between positioning and evolutionary arguments, suggests that the roots of superior competitive positions may lie in the cognition of managers. In other words, managers' cognition is between rational choice and local incremental search. Rational choice, which is represented by the positioning school of strategy [53], usually requires a quantity of data that may be challenging to manage. Therefore, this model is applicable within

the context of familiar, stable environment. Local incremental search or experimental strategy as represented by the emergent view of strategy [42], relegates strategy making to a random, myopic process that does not fully leverage individuals' cognitive powers.

Strategy formation is contingent on the organization's internal political process. For example, Child [14] argues that strategy formation is primarily the result of an "essentially political process in which constraints and opportunities are functions of the power exercised by decision makers (dominant coalition) in light of ideological values" (p. 16). Guth and Tagiuri [25] note that "it is quite clear, on the basis both of observation and systematic studies of top management in business organizations, that personal values are important determinants in the choice of corporate strategy" (p. 123). Strategy formation is also determined by collective decision processes in the organization, which are shaped by organizational members' beliefs. Understanding of the strategy process as rational decision-making is largely inadequate, because it does little justice to the complicated nature of actually doing strategic management [64]. Frankwick et al. [21] provided support for the view that an organizational members' beliefs regarding a strategy situation are shaped by the structural context in which positions are embedded in the organization. Their results demonstrate that function plays an important role in shaping beliefs at the formative stage of the strategy decision-making process.

The task of strategy is to maintain a dynamic, not a static balance [55]. Burgelman [10] stated that "organizational survival depends to a significant extent on the adjustment and renewal capacities of strategy-making processes. Such processes are an emergent property of organizations and may be differentially distributed within a population of organizations." (p. 255) These capacities of strategy-making processes are the direct product of the process known as "The Red Queen". Red Queen refers to strategic interaction among competing organizational systems. Barnett and Hansen [4] argued that organizations learn over time as a response to competition, which in turn intensifies competition in a self-reinforcing process.

"The Red Queen emphasizes competition as a force continually upsetting equilibrium-not necessarily through any one great shock to the system but rather by an incremental but constant and self-reinforcing process... but each small change within the Red Queen triggers the next, accumulating over time into a potentially large evolutionary difference." [4, p. 141]

This can be interpreted as a very narrow view of a real environment-organization interaction. In reality, there are incremental as well as dramatic pressures coming from the environment upon which organization has to react. These pressures can be diverting for organizational activities, causing complex organizational responses. An organization practicing simplicity develops an "overwhelming preoccupation with a single goal, strategic activity, department or worldview" [37, p. 117]. Miller [36, 37] argued that although simplicity may be beneficial early in an organization's

history, too much simplicity, sustained over long periods of time, may adversely affect performance. Lumpkin and Dess [33] showed that organizations that use a simplistic strategy-making process in their early stages would have higher performance than those that use a simplistic strategy-making process in later stages. They also noted that the use of simplistic strategy-making process will be negatively related to the performance of organizations in a dynamic or heterogeneous (complex) environment.

Intended-emergent continuum of strategy formation, which is depicted in-depth in the previous section of this paper, sheds some light on the notion of strategy management process itself. It is well known that the beginnings of strategic management can be traced back to the 1960s, with concepts of strategic adaptation, which were originally developed through case studies. This area of research was first known as "business policy". In 1977, this field was renamed into "strategic management" [27]. A large number of previous definitions of strategic management were biased toward the intended strategy perspective. For example, Schendel and Hofer [60] that "strategic management is a process that deals with the entrepreneurial work of the organization, with organizational renewal and growth, and more particularly, with developing and utilizing the strategy which is to guide the organization's operations" (p. 11). However, Nag, Hambrick and Chen [50] conducted a large-scale survey of strategic management scholars from which they derived an implicit consensual definition of the field of strategic management, which is supportive for the intended-emergent continuum perspective of strategy-making. This definition can be stated as: "The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments" (p. 944). Afterwards, they supplemented this implicit definition with an examination of the espoused definitions of the field obtained from a group of boundary-spanning scholars. The comparison of these two phases of study exhibited a high level of agreement.

5. STRATEGY FORMATION IN TWO IT COMPANIES: A CASE STUDY

Before we comprehensively describe the strategy formation process in two successful IT companies operating in Serbia and other countries, it is necessary to consider the environment in which they are developed.

ICT is among the most vibrant and fastest growing sectors in Serbia, with a two-digit annual growth in the years prior to the crisis. In the period 2005-2008, the IT sub-sector in Serbia grew from €280 million to €545 million [61]. However, the economic crisis hit Serbia heavily, creating significant

negative consequences to the ICT industry as well. Thus, there was an urgent need for screening in the ICT sector and identification of the major obstacles for growth and development. Namely, the domestic IT market declined by 24.77% to EUR 410 mln in 2011 [29]. The revenues of IT industry in 2010 were RSD 2,402 mln (EUR 22.8 mln), down by 3.14% from previous year pursuant to Serbian Chamber of Commerce-SCC (Fig. 1) [29]. Adverse changes in the environment, especially reflected on the small firms. In order to face with rapid changes in the environment, which has become very complex, small firms have tried to find a solution through the clusters. As a strategy adopted by the clusters, often referred efficiency and motivation to achieve economies of scale. With regard to the scope, partner companies most often co-operate in some of the following three areas (R&D, production, marketing).

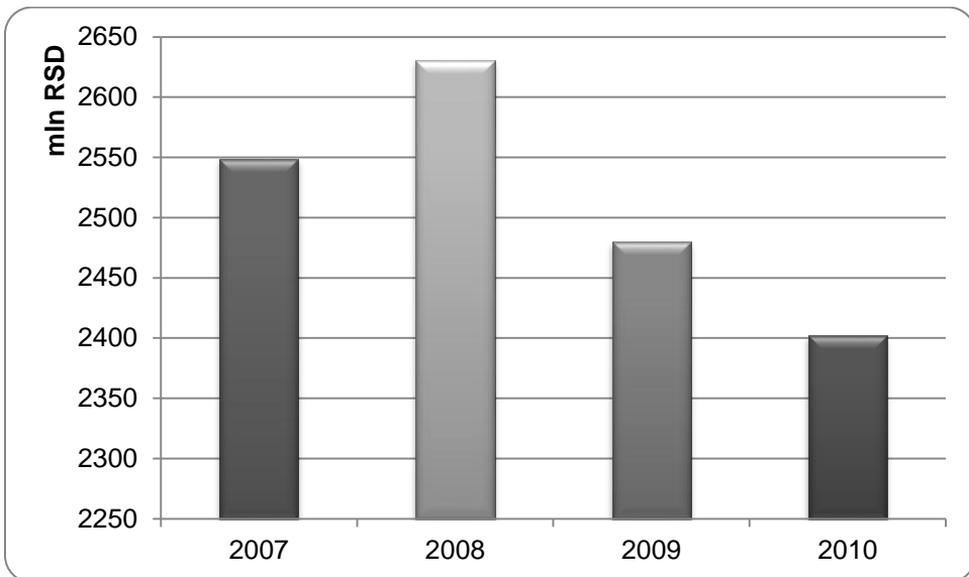


Figure 1: Revenues of the IT industry

Source: Serbian Chamber of Commerce [57]

On the other hand, there are positive trends in the ICT sector. The number of IT companies is between 1,520 and 1,600, excluding artisans and entrepreneurs (2,021) [23], and it is constantly increasing every year. It also recorded a steady increase in the employees in the IT sector (Fig. 2) [57], which is particularly important given that Serbian IT industry employs a large number of experts. Business Monitor International (BMI) expects IT market in Serbia to grow at a Compound Annual Growth Rate (CAGR) of 15% for 2012-2016. The expected growth of sales is: services - 19%, hardware - 14%, and software - 12%. The export of IT services and software also grows each year. According to Informatics association in

Serbian Chamber of Commerce (SCC), export of IT services and software reached about USD 200 mln in 2011 [29].

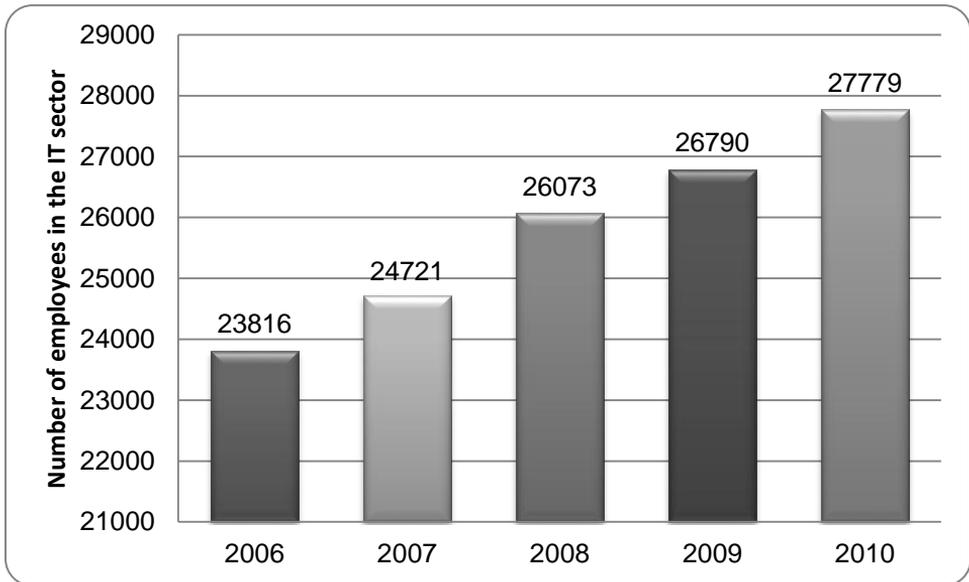


Figure 2: Number of employees in the IT sector

Source: Serbian Chamber of Commerce [57]

Even though numerous research on strategies of successful companies operating in Serbia have been conducted [34, 66, 65] there is a lack of empirical evidence on the nature of strategy formation process in these companies, which is why this case study is of high significance. The survey described here was conducted in two well-known Serbian IT companies: LINKgroup and ComTrade Group. The first one is a middle-sized company with more than 70 employees, operating in Serbia and surrounding countries. LINKgroup is a well-known regional company for business software development as well as IT and business professional education. The other one is a much larger company. ComTrade Group is a major provider of IT solutions operating in Europe, America and Middle East and employing around 1,600 people.

Both companies are operating within the IT sector and, despite the obvious difference in their size, they are comparable in terms of their managers' perceptions of the nature of environment in which they operate, as well as the manner in which strategies in their organizations are formed.

In-depth interviews were conducted in both companies. Our research team has interviewed senior management staff in both companies. These interviews lasted for around one hour and they would always begin by a

member of a research team explaining the respondent the concept of environment, its components and two dimensions that describe the overall nature of the environment: simple-complex and stable-dynamic dimensions [19, 68, 17]. After that, the conversation would focus on the strategy formation process and the planned-to-emergent continuum of strategy-making. The object for the research team was to obtain in-depth insight in the perceived nature of the environment from the senior management perspective and the resulting strategy formation process.

The founder of LINKgroup is Mr. Valentin Kuleto, who has been working in a trade company and giving the lessons to the students of machine engineering in his spare time. In 1998 he decided to focus on his teaching venture and to increase the scope of his work, so he established a school for professional courses of the English language and computers, which would be known as LINKgroup a couple of years later. In 2000, Mr. Kuleto came up with the idea to invest some money in the education software development in order to increase the quality of the courses he provides to his clients. In 2002, as a result of successful software development and a number of software engineers who were already working for him, he started providing professional IT courses. In 2003, education software on one side and professional IT courses on the other side ultimately blended into a project of development of distance learning system, which had a huge success in the market. In 2006 LINKgroup starts providing business courses and signs contracts with Cambridge University and Microsoft in order to provide its clients the possibility of obtaining professional certificates of these and others globally recognized institutions. The newest achievement of LINKgroup was its expansion outside Serbian market and the openings of its subsidiaries in Romania, Croatia and Bosnia and Herzegovina (Fig. 3).

During the interview with Mr. Kuleto and his senior staff, the research team has obtained some valuable insight in the manner in which they perceive their environment, as well as in the manner in which strategies are formed. In the opinion of Mr. Kuleto, even though Serbia is a developing country, the specificity of the IT industry are almost the same as they are in the developed countries. The number of environmental components affecting their operations is enormous, the complexity of each component is high and there is a great degree of interdependence between these components, i.e. the changes in either one component will almost certainly have an impact on all the other components. Thus, the environment is very complex. On the other side, changes in some of these components are not intense, but rather incremental and they are happening very quickly and often, especially in the field of technology and legislation, which makes it difficult to anticipate the future states of the environment and the strategies that will be implemented. Nevertheless, the broad strategic direction is known to the senior management and each major action must be carefully planned in advance, but it often happens that there is a need for fine tuning of these actions while they are implemented. As the result, the realized strategy is

often somewhat different than the planned one and sometimes it may not look at all like the planned strategy, because of the sudden need for strategy turnaround.

Now let us take a look at the other, much larger company. ComTrade Group was established in 1995 by Mr. Veselin Jevrosimović, after he left CHS Electronics. His idea was to start the IT distribution business on his own. In the beginning the company had only several employees and very scarce resources. After a while, due to the leadership skills and experience in the IT industry, Mr. Jevrosimović succeeded in developing the company into the leader in IT distribution in the Serbian market. In 1999, the company starts its expansion in the surrounding countries, such as: Bulgaria, Montenegro and Bosnia and Herzegovina. The strategy of international expansion was soon mixed with the strategy of expanding in the new business area, which can be seen in 2001 when another company, named Spinnaker, was founded in order to provide the existing customer base with IT solution instead of providing them with the hardware and software exclusively. In this way, ComTrade is obtaining leverage by focusing on the resolution of the customers' problems, which was an excellent competitive strategy at that time because a large majority of competition was focused on selling the product itself. Thus, there was the entire under-served market waiting to be filled. The next big move was the establishment of the IT retail business in Serbia and its expansion to other countries (the IT retail business was eventually sold out). Numerous great events followed including the change in the ownership structure, where Unicredit from London became the minor owner, as well as the foundation or acquisition of several companies in Western Europe and in U.S.A, including Hermes SoftLab (Fig. 4).

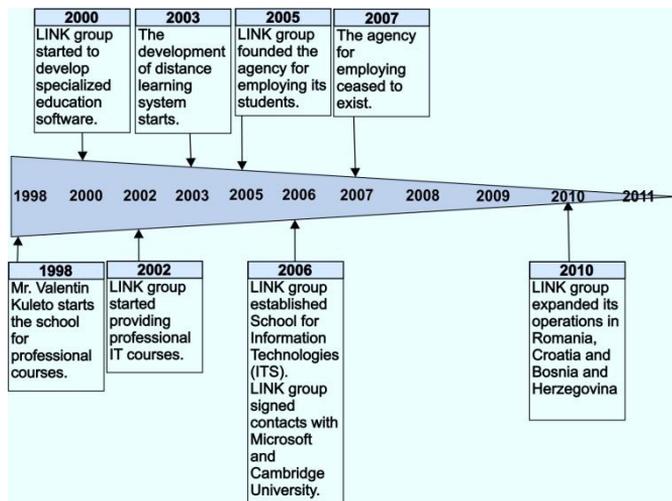


Figure 3: LINKgroup timeline

Source: Autors

In the present, ComTrade group employs around 1,600 people and consists of fourteen companies which are allocated in Europe and North America. ComTrade is a company which obviously had a tremendous growth. In only sixteen years of its existence this large network of people and companies across two continents was established. The success is even bigger when we consider that the country of origin of this company is Serbia, which is a developing country that had a very hostile recent history.

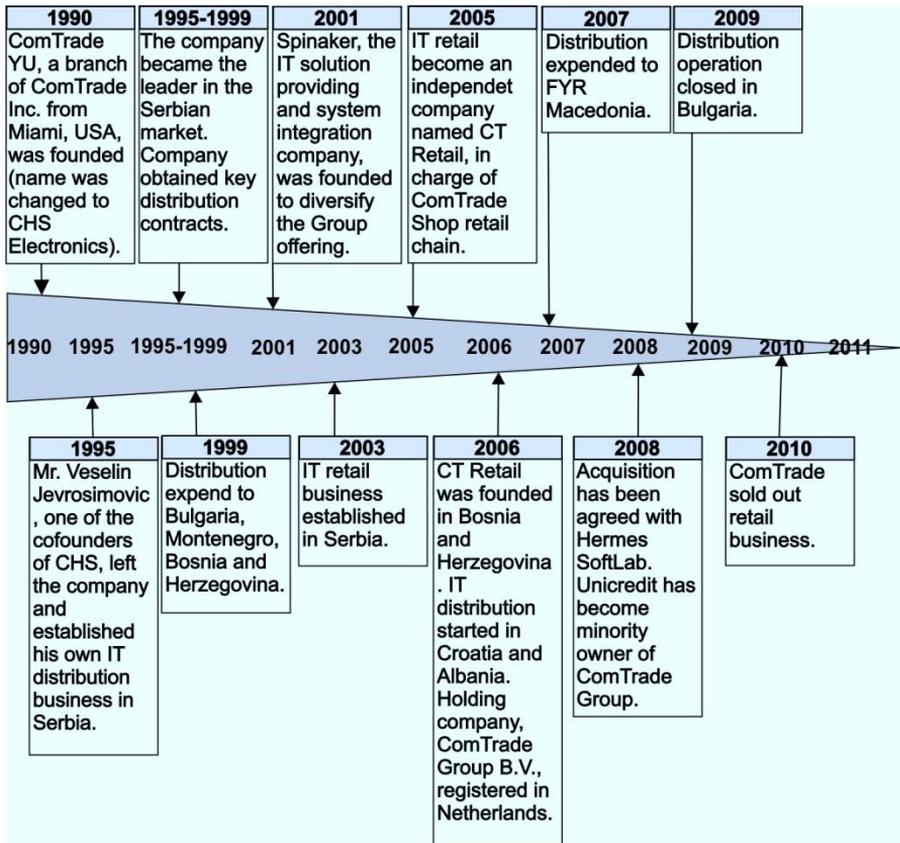


Figure 4: ComTrade Group timeline

Source: Autors

The interview was conducted with the Mr. Jevrosimović's adviser, Mr. Srećko Miodragović and some other senior managers. The research team has obtained a valuable insight during these interviews. Same as in the previous case, the number of environmental components affecting operations in ComTrade is enormous, the complexity of each component is high and there is a great degree of interdependence between these components. Thus, the environment is perceived as very complex. On the other hand, changes are also seen as not intense, but rather gradual and they are occurring in continuity, very quickly and often, especially in the field

of technology (the legislation was not perceived as a discontinuous component of the environment). The political and financial situation in the countries where the company operates is seen as a very important factor, because ComTrade often participates in large public tenders on which government has a great influence. As for the strategy formation concerns, this process was different in ComTrade and LINKgroup. Here, the strategy-making has shifted on the planned-to-emergent continuum toward the planned end. The senior managers agreed upon that the focus on planning is imperative for strategy formation in ComTrade. This statement was strongly confirmed by Mr. Miodragović who, considering that he is the adviser to the president of the company, has the pieces of information concerning the whole company and is well aware of all the strategic actions that were undertaken in the last several years. The idea for strategy comes from the lines of the senior management and then it is analyzed from the various aspects, such as: finance, legislation, marketing, etc. If it comes out as viable, the planning process starts that always includes the very detailed cost-benefit analysis. The members of the senior management staff declared that they need to anticipate the situation in the environment before they commit themselves to any specific action. Thus, the formal plan always precedes the action. If the action proves unsuccessful, they deem they did not have all required details regarding the future state of the environment.

6. DISCUSSION

LINKgroup and ComTrade are operating in the same industry and in the same domicile market. Even though there are some differences between them (especially in their size and the scope of their operations), a large proportion of their business processes ought to have a high degree of similarity. The interviews conducted with the senior management staff have revealed that the perception of the environment by both senior management teams is practically the same. They perceive the environment in which they operate as very complex. In order to produce effective strategies, they need to consider a large number of heterogeneous elements, which are very complex and intertwined. On the other side, even though the perception of the environment is very similar, the manner in which strategies are formed is quite different. While LINKgroup forms its strategies as the result of broad strategic directions that are subjected to all kinds of interferences and changes in the process of performing, ComTrade is dedicated to a very detailed process of analysis and planning before committing to any kind of action.

This difference in strategy formation is obviously not a consequence of the different nature of the environment or the different industry structure. The reason for this may be found in the difference in their size or prevailing

management practices. Small-scale organizations do not have elaborated and standardized processes, which are necessary within the large-scale organizations due to their need for coordination and decentralization. This rationale matches the findings provided by Miller and Friesen [40]. They have conducted a survey on the sample of 50 Canadian and 36 U.S. firms that had over 250 employees in order to exclude very simple operations. One of the research objectives was to establish the relationship between environmental dynamism and analysis, as well as environmental complexity and analysis. Their results showed that increased environmental dynamism requires more analysis, while the results were ambiguous for the relationship between complexity and analysis. Thus, the case of ComTrade confirms the findings presented by Miller and Friesen [40].

It is quite interesting to stress that neither one group of senior management did not mention the competition as a serious threat that may jeopardize the existence of their companies. Instead, both groups strongly emphasized only the changes in the technology component of the environment. The validity of this perception may be questionable, but further analysis of this topic is out of the scope of this paper.

7. CONCLUSIONS AND LIMITATIONS

This paper has provided a profound insight regarding the manner in which strategies are actually formed within contemporary organizations. It started by providing multiple points of view on the strategy itself. Various definitions of strategy are exhibited in this paper, but the one provided by Mintzberg and McHugh [47] by which the strategy is “a pattern in a stream of decisions or actions” was emphasized. In other words, authors have taken the standpoint that the strategy can be observed by looking back in time after the course of action has been taken. The paper continued by explaining the possible sources of strategy formation. The strategy can start its formation anywhere in the organization with the inception of an idea. Where will the inception of this idea take place, depends on many factors. Nevertheless, top managers are the ones that usually make the major contribution to the strategy-making by selecting viable ideas and providing necessary resources for their development. Furthermore, the elaborated insight on the nature of strategy formation process was given. Strategies are forming along the emergent-to-planned continuum. The part on the continuum on which the strategy-making will take place depends on a variety of factors but it is emphasized throughout this paper that the forming of strategies starts with the planning process. The plan serves to the organization as a set of guidelines, which are directing organization’s actions. However, somewhere along the way, the current situation starts to reshape the existing plan and the new form of strategic action starts to emerge. In order

to confirm the presented theoretical background, the case study of two IT companies was presented in the end of the paper. Even though LINKgroup and ComTrade Group operate in the same circumstances and their management teams share very similar perception of the nature of their environment, the manner in which strategies are formed within them differ greatly. LINK group is positioned somewhere in the middle of the planned-to-emergent continuum, while ComTrade group puts a stronger emphasis on the analysis and planning processes, which means that it holds a position closer to the planned end of the continuum, which can be explained by their extensive need for coordination and decentralization.

Strategy formation is one of the most significant processes within the practice of management. The manner in which strategy is formed affects to a large extent the context of strategy and ultimately the future competitive position of an organization. This is why there is a great need for providing a unified conceptual framework on this topic. The understanding of strategy-making process within different circumstances is crucially important for the senior management team in order to successfully cope with the dynamism and complexity of the contemporary environment. Knowledge of the strategy formation is also fundamental to a vast number of scholars interested in strategic management and organization.

Authors hope that this paper will present a significant contribution in the process of establishing the aforementioned conceptual framework. Nevertheless, the work does not stop here. On the contrary. One of the motives for this paper is to stimulate other contributions to this topic from various scholars and practitioners. Although this paper may present a solid ground for the understanding of strategy formation process, authors are well aware of its limitations.

First, the paper which is relied upon a case study automatically suffers from the limitations of this method. Case study is a descriptive method. Therefore, cause-and-effect relationships cannot be drawn. It can only depict a specific situation and obtain certain conclusions that may be not be applicable to other organizations and situations. Second, the focus is on two companies and one industry only, which means that the results cannot be representative of a wider population of organizations and industries. Finally, even though this paper includes results from numerous studies conducted in order to determine the nature of strategy formation process, it is necessary to put this process in a wider context of congruence between various components inside the organization and environment in which the organization operates, taking into account dynamism and changes immanent to these relationships.

Although the findings presented here are certainly of a tentative nature, they do suggest the importance of further research on the topic.

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