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RELATIONSHIP BETWEEN STRATEGIC ORIENTATION AND ORGANIZATIONAL PERFORMANCE: AN EXPLORATORY STUDY OF PHILIPPINE COMPANIES

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Questions have always been posed about organizational performance and its many determinants. The study and explanation of business competitiveness is a recurring theme examined by academics, consultants, and practitioners (Aragón-Sánchez and Sánchez-Marín, 2005). While firm performance is a multi-aspect phenomenon that is found to be influenced by a multiplicity of factors, such as culture, leadership, human resource management practices, the environment, market orientation, and overall company strategy, the growing literature on 'strategic thinking' or 'strategic management' points to competitive strategic management as one of the more influential determinants of firm success. This study is an attempt to corroborate claims that strategic orientation is related to higher organizational performance. Using the Ozen and Ulengin (2001) framework for the identification of strategic "thoughts", a content analysis of annual reports of Philippine firms is performed to gather data relating to both those strategic variables and organizational performance variables.

The financial performance variables that turned out having any significant relationship with the strategy variables are Profit Margin and Debt Ratio. Likewise, the only strategy variables that turned out having any significant relationship with the organizational performance variables are: 1) consistent brand and image strategies, 2) producing products that have competitive advantages, and 3) developing core business areas through investment. While the sample size needs to be enlarged, the implication of these findings for practitioners is that strategic orientations shown to have a significant relationship with financial performance should lead managers to consider adopting those specific strategic orientations in their regular planning routine.

I. INTRODUCTION

Companies have long known that, to be competitive, they must develop a good strategy and then appropriately realign structure, systems, leadership behavior, human resource policies, culture, values and management processes. Strategic management is important because: 1) it results in higher organizational performance, 2) it requires that managers examine and adapt to business environment changes, 3) it coordinates diverse organizational units, helping them focus on organizational goals, and 4) it is very much involved in the managerial decision-making process (Robbins and Coulter, 2005).

While there is no single, universally accepted definition for 'strategy', definitions are likely to converge on the following: "strategy is a plan—some sort of consciously intended course of action, a guideline (or set of guidelines) to deal with a situation" (Mintzberg et al., 2003). A company's strategy is management's action plan for running the business and conducting operations. The crafting of a strategy represents a managerial commitment to pursue a particular set of actions (Thompson et al., 2005).

In this study, an attempt is made to show some evidence of the first reason given above for the importance of strategic management, that is, that strategic management results in higher organizational performance.

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II. REVIEW OF LITERATURE

To deal effectively with everything that affects the growth and profitability of a firm, executives employ management processes that they feel will position it optimally in its competitive environment by maximizing the anticipation of environmental changes and of unexpected internal and competitive demands. Thus, managers employ 'strategies', that is to say, those large-scale, future-oriented plans for interacting with the competitive environment to achieve company objectives. A strategy is a company's game plan. Although that plan does not precisely detail all future deployments (of people, finances, and material), it does provide a framework for managerial decisions (Pearce and Robinson, 2005).

Part of managers' decision-making involves control and performance evaluation. For this purpose, firms use various metrics in order to assess whether they are indeed meeting goals and expectations. Firm performance is a multi-aspect phenomenon that is both difficult to measure and is influenced by several factors other than strategy. Studies have shown that organizational performance can be influenced by culture (Deal and Kennedy, 1982; Peters and Waterman, 1982), by human resource management practices (Chew and Sharma, 2005), by leadership (Jones et al., 2000), by the environment (Pearce and Robinson, 2005), by market orientation (Narver and Slater, 1990; Noble et al., 2002), and by strategy (Aragón-Sánchez and Sánchez-Marín, 2005; Andrews et al., 2006), among many other factors.

Strategic thinking, as an emerging critical characteristic of the management process, includes the competitive moves and business approaches that produce successful performance. While it is clear that strategic thinking is an important step to achieving business success, there are many varied approaches to "mapping" the strategic orientations and "thoughts" of a firm. Ozen and Ulengin (2001) built a framework for strategic thinking through a process called "Cognitive Mapping". Their study resulted in fourteen strategic "thoughts" or elements. Interviews were conducted with three content experts in the area of strategic management, who are professors at the University of the Philippines College of Business Administration. Based on these interviews, ten out of the fourteen strategic elements studied by Ozen and Ulengin turned out to be applicable strategic orientations in the Philippine setting. These are as follows: 1) developing core business areas through investment; 2) having a well-educated, dynamic, creative, proactive and constructive staff; 3) establishing managerial training systems; 4) having a shared vision; 5) having consistent brands and image strategies; 6) investment in employees; 7) making TQM a standard group policy; 8) producing products that have competitive advantages; 9) to be more adaptive, flexible, and dynamic group; and 10) to be the leader in core business areas.

The relevance of these ten strategic elements is corroborated by literature on strategic management. For instance, a shared vision, which is the 'strategic intent' of the firm, provides clarity on the main intentions and aspirations of an organization. Viewed as a 'beacon in the distance' or an 'animating dream' (Hamel and Prahalad, 1990), such shared vision encapsulates the desired future state or aspiration of the organization, without which it cannot effectively compete in the marketplace. The vision statement of a wide variety of companies talks about being "the leader" or "the best" (Johnson and Scholes, 2002). The intensely competitive, rapidly changing global marketplace has refined many companies' visions to simply be an articulation of a basic criterion or characterization of what the company must become to establish and sustain global leadership (Pearce and Robinson, 2005). Thus, having a shared vision as well as being the leader in core business areas appear to be critical strategic elements in business success. Likewise, the importance of human resource (HR) management strategies cannot be overestimated. People lie at the heart of strategy; the knowledge and experience of people can be the key factors enabling the success of strategies (Johnson and Scholes, 2002). The heightened competition in the marketplace has brought about the need to manage HR strategically so that it becomes a source of competitive advantage (Chew and Sharma, 2005). Thus, staff selection and recruitment, managerial training systems, and overall investment in employees must be critical strategic elements as well.

Shareholder value is determined by the strategic cash-generating capability of the organization which, in turn, is determined by the ways in which a wide number of factors are managed. A common business-level strategy selected by many companies in order to properly manage such multiplicity of factors is the investment strategy, which sets the amount and type of resources—human, functional, and financial— that must be invested to gain a competitive advantage (Johnson and Scholes, 2002; Hill and Jones, 1998). Thus, it is reasonable to include the development of core business areas through investment as a strategic element. Also, market orientation is at the heart of modern marketing management and strategy; it is the business culture that most effectively and efficiently creates superior value for customers (Narver and Slater, 1990). Thus, a strong and consistent brand image and reputation is a valuable competitive asset in most businesses (Thompson et al., 2005).

Hypercompetitive industry environments have changed strategic decision making to a large extent. As a result of the intense competition in these industries, some product life cycles have decreased from a period of one to two years to a period of six to nine months, leaving less time for a company's products to generate revenue. Speed and flexibility have become key sources of competitive advantage for companies competing in these industries (Hitt et al., 2003). Vast changes in the internal and external environments mean that strategies must be flexible. Changes in strategy are inevitable, and incorporating an attitude of adaptiveness and flexibility into strategy design helps forestall difficulties later in its implementation. (Higgins and Vincze, 1993). A system whereby to ensure firms' success and even survival in this rapidly-changing industrial landscape is Total Quality Management (TQM), which focuses on encouraging a continuous flow of incremental improvements from the bottom of the organization's hierarchy (Miller, 1998). Emphasizing on customer definitions of quality instead of those derived by the firm, TQM systems have been used in firms across multiple nations and economic regions to increase their competitiveness. Accepted widely as a viable means of improving the firm's competitiveness, TQM systems have been incorporated in many firms' strategic planning since the early 1980s (Hitt et al., 2003).

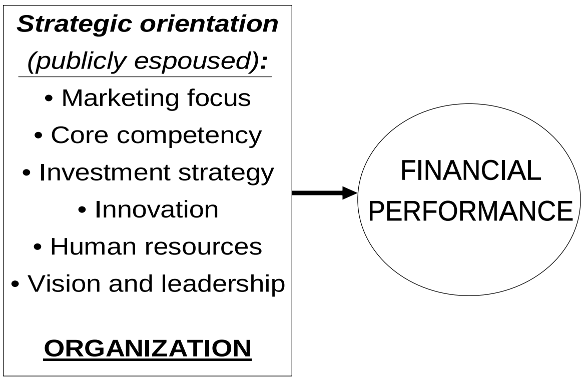
As regards the relationship between organizational performance and strategic orientation, studies have shown that there is a positive and meaningful relation between entrepreneurial and technological orientation and financial performance (Kaya and Seyrek, 2005); that companies adhering to the combined strategy of cost and differentiation outperformed those following pure differentiation or pure cost strategies (Yeung et al., 2006); that market orientation has a substantial positive effect on profitability (Narver and Slater, 1990); that firms possessing higher levels of competitor orientation, national brand focus, and selling orientation exhibit superior performance (Noble et al., 2002); and that organizations which continuously search for new market opportunities through processes of innovation and development in products outperform those which do not (Aragón-Sánchez and Sánchez-Marín, 2005).

III. THEORETICAL FRAMEWORK

Competitiveness, in the long run, derives from an ability to build, at lower cost and more speedily than competitors, the *core competencies* that spawn unanticipated products. The real sources of advantage are to be found in management's ability to consolidate corporate-wide technologies and production skills into competencies that empower individual businesses to adapt quickly to changing opportunities (Hamel and Prahalad, 1990).

These *core competencies*, around which strategies are designed, typically occur at any of three (3) levels: Corporate, Business unit, and Functional. Strategic decisions at the corporate level tend to be more value oriented, more conceptual, and less concrete than decisions at the business or functional level (Pearce and Robinson, 2005). As such, it is important that management adopt an appropriate "strategic architecture", and then communicate its intent to the whole organization and the outside world. Otherwise, lack of clarity of strategic intent and strategic architecture would appear to have an adverse impact on financial performance (Hamel and Prahalad, 1990). Indeed, there appears to be some evidence that strategy — especially that which is characteristic of organizations that are innovative, pioneers, and proactive— is an influential determinant of organizational performance (Andrews et al., 2006). This is the theoretical framework followed in this study, which is diagrammed as follows:

Figure 1
Theoretical Framework



IV. METHODOLOGY

This paper utilizes the methodology of content analysis of Annual Reports for the search for strategic orientation, and uses company financial statements for data on organizational performance. Occurrences of the ten strategic "thoughts" enumerated in Section II were counted and correlations between them and financial performance measures were calculated.

Convenience sampling was used in the study. The Philippine companies were chosen in terms of the easy accessibility of their annual reports (available through the company websites, or in the Philippine Stock Exchange website [www.pse.com.ph] for listed firms). The firms in the sample belong to the Top 1000 Corporations of the Philippines in 2005 (in terms of Gross Revenues). For the purpose of convenience, all but three among the sample firms are listed companies; the three non-listed firms are government owned and controlled institutions. Finally, a total of fifty three (53) firms were selected. This information has been summarized in Appendix A.

Content Analysis in Organizational Research

Content analysis has been defined as "a research technique for making replicable and valid inferences from data according to their context" (Krippendorff, 1980). Content or text analysis depends on the key assumption that language mirrors mental processes and reflects people's differing cognitions and realities. Content analysis has been defined as 'any technique for making inferences by objectively and systematically identifying specified characteristics of messages'. In practice, content analysis usually involves quantifying the presence of some 'target' words or themes in written text. Based upon the frequency with which particular words or themes are present in the text, the researcher tries to draw some inferences about either the message's sender, its audience, or its intended consequences (Kabanoff and Daly, 2002).

Content analysis has a number of advantages. This includes its non-obtrusive character, use of naturally evoked verbal behavior as the source of value-data; suitability for carrying out longitudinal research given the availability of different kinds of text over long periods of time; and its systematic and quantitative approach to dealing with qualitative, text data (Kabanoff and Daly, 2000). Content analysis is considered a 'trace' methodology that tracks values through the verbal behaviors they produce. It allows the taking of qualitative material (written text) and its conversion into a form that can be analyzed statistically, helping to evaluate ideas more rigorously. By counting the frequency with which organizations refer to particular ends and means in their documents, we gain insight into the values they are most and least concerned with (Kabanoff and Daly, 2002). In effect, content analysis relies on the *publicly-espoused values* of the firm.

A drawback commonly mentioned of surveys is that the accuracy of the results will depend on the respondents' (CEO and HR directors) willingness and ability to give information. Content analysis is also a cost-effective method as the materials necessary for conducting the analysis are easily available and inexpensively accessible. A further advantage of content analysis is that we can study concerns and values in organizations over time, as long as comparable documents for the period of interest are available for analysis. That means we can study the changes in organizations' concerns with various issues over long periods, a capability that is beyond survey methodology (Chew and Sharma, 2005).

Organizational Performance

The literature has shown that both quantitative and qualitative indicators of firm performance have certain limitations, and it has been recommended that they be used in combination (Aragón-Sánchez and Sánchez-Marín, 2005). Studies using quantitative measures have variably used financial and non-financial measures. Several of those that have studied financial measures of performance have focused on profit margin (Noble et al., 2002), return on investment (Aragón-Sánchez and Sánchez-Marín, 2005), return on assets (Noble et al., 2002; Kaya and Seyrek, 2005), return on equity (Kaya and Seyrek, 2005), among others.

This study limits itself to measures of financial performance. Financial ratios, which are relationships among company financial data culled from Annual Reports and Securities and Exchange Commission (SEC) filings, were utilized. For this current study, the following 2005 financial ratios were derived and used as organizational performance variables:

1. Profit Margin (PM) = Net Income/ Revenues;
2. Return on Assets (ROA) = Net Income / Total Assets;

3. Return on Equity (ROE) = Net Income / Total Stockholders' Equity; and
4. Debt Ratio (DR) = Total Debt / Total Stockholders' Equity.

V. EMPIRICAL RESULTS

The word counts or occurrences of the "strategic elements" above were taken as the "strategy variables". Each of the ten (10) "strategy variables" was correlated with each of the four financial performance measures, viz., profit margin (PM), return on assets (ROA), return on equity (ROE), and debt ratio (DR). The resulting correlation coefficients of those correlations that turned out significant are as follows:

Strategic Variables correlated with Financial Performance Variables	Correlation coefficient	Significance levels
PM7*	0.2784	0.0435
PM11**	0.2723	0.0486
DR2***	0.2644	0.0558
DR7****	0.2771	0.0445

* *Relation between profit margin and strategic element "consistent brand and image strategies"*
****Relation between profit margin and strategic element "producing products that have competitive advantages"*
****Relation between debt ratio and strategic element "developing core business areas through investment"*
*****Relation between debt ratio and strategic element "consistent brand and image strategies"*

The only financial performance variables that turned out having any significant relationship with the strategy variables are profit margin and debt ratio. Likewise, the only strategy variables that turned out having any significant relationship with the organizational performance variables are: 1) consistent brand and image strategies, 2) producing products that have competitive advantages, and 3) developing core business areas through investment.

While the small sample size limited the potential results and implications of this study, some explanations that could be given for these relationships are:

- Corporations' core businesses and strategies that bring out companies' competitive edge have always proven to be strategies that bring success—especially financial success— to firms;
- The marketing function, especially its emphasis on branding and advertising and image-building, has shown itself to be one of the competition 'platforms' for many companies that wish to not only survive but also excel in the fast-paced, highly competitive world of today. Indeed, marketing orientation and brand focus have been observed by marketing academicians and practitioners to affect business performance (Narver and Slater, 1990; Noble et al., 2002).

VI. DISCUSSION

It is interesting to find that "consistent brand and image strategies", "producing products that have competitive advantages", and "developing core business areas through investment" are company strategies that appear to be empirically related to organizational performance, specifically such financial ratios as profit margin and debt ratio.

For an organization to achieve consistently superior performance, it must create a sustainable competitive advantage, that is, it must create sustainable superior value for its customers (Mintzberg et al., 2003). Market orientation effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business (Narver and Slater, 1990; Peters and Waterman, 1982). Thus, "consistent brand and image strategies" turning out to be significantly related to financial performance corroborates this claim.

The significant relationship with financial performance of "producing products that have competitive advantages" and "developing core business areas through investment" corroborates the repeated claims in the strategy literature that, to be competitive, firms must develop clear strategies built around core competencies and appropriately realign structure, systems, leadership behavior, human resource policies, culture, values and management processes. In other words, executives must employ management processes that they feel will position the organization optimally in its competitive environment by maximizing the anticipation of environmental changes and of unexpected internal and competitive demands (Hamel and Prahalad, 1990; Pearce and Robinson, 2005).

VII. LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH

The small sample size and the use of convenience sampling may have limited the generalizability of results and implications of this study. It is suggested that future research in this area utilize a concrete sampling frame as well as the validation of results through survey techniques and interviews with managers.

Likewise, the use of content analysis of company documents may have limited the contribution of this study. Most annual reports of companies are prepared by public relations organizations or by human resource/corporate affairs departments of firms, which may result in bias during the wording of the documents. While an advantage of content analysis is its suitability for carrying out longitudinal research, this study is merely a cross-sectional analysis of Philippine companies for the year 2005. There is a need to strengthen this study via a longitudinal content analysis of the annual reports.

Nevertheless, the preliminary findings above have some implications for both research and practice. Results that show a special relationship between given strategic orientations and firm performance should lead practitioners to consider and adopt those specific strategic orientations in their regular planning routine. It is necessary that this strategic intent be clearly articulated through the adoption of an appropriate "strategic architecture" (Hamel and Prahalad, 1990). For researchers, special attention has to be paid to the use of better measures of both strategic orientation and organizational performance.

The other important implication worth noting is that Annual Reports are becoming an increasingly popular medium for communicating both company image and current strategies, which emphasizes the need for careful executive attention to these documents. This means that annual report data are too important not to be given close attention to by top management as well as public relations personnel wishing to communicate more strongly to the public such critical strategic elements as the company vision and rationale, business strategies, image and brand, contribution to society, and the like.

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APPENDIX A
List of Companies

1	San Miguel Corporation
2	Petron Corporation
3	Meralco (Manila Electric Company)
4	Philippine Long Distance Telephone Co.
5	JG Summit Holdings, Inc.
6	Globe Telecom
7	SM Investments Corporation
8	First Philippine Holdings Corp.
9	Ayala Corporation
10	San Miguel Purefoods Co., Inc
11	Universal Robina Corp. (Sept. 30)
12	Bank of the Philippine Islands (Consolidated)
13	Jollibee Foods Corp.
14	Aboitiz Equity Ventures
15	Transco (National Transmission Corp.)
16	Ayala Land
17	ABS-CBN Broadcasting Corp.
18	Benpres Holdings Corp.
19	Holcim Philippines, Inc.
20	ChinaBank
21	DMCI Holdings, Inc.
22	Pilipino Telephone Corporation
23	SM Prime Holdings, Inc.
24	Republic Cement Corp.
25	Land Bank of the Philippines
26	Aboitiz Transport System Corporation
27	International Container Terminal Services, Inc.
28	Home Development Mutual Fund
29	Digital Telecommunications
30	Ginebra San Miguel, Inc.
31	House of Investments, Inc.

Appendix A (cont'd)

32	Equitable-PCI Bank
33	Allied Bank Corp. – Consolidated
34	MetroBank (Parent)
35	Alliance Global Group, Inc.
36	Filinvest Development Corporation
37	Rizal Commercial Banking Corporation
38	Panasonic Manufacturing Phils. Corp.
39	Tanduay Holdings, Inc.
40	PNOC Exploration Corp.
41	RFM Corporation
42	Philippine National Bank
43	Manila Water Company, Inc.
44	Semirara Mining Corporation
45	Robinsons Land Corp. (Sept. 30)
46	Philex Mining Corp.
47	CADP Group Corp. (as of June 30)
48	Fortune Cement Corp.
49	EEI Corporation
50	Asian Terminals, Inc.
51	Security Bank (group)
52	Banco de Oro (Consolidated)
53	A. Soriano Corporation