

**PERCEIVED STRATEGIC UNCERTAINTY AND STRATEGY FORMATION IN  
EMERGING MARKETS**

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**ABSTRACT**

*We investigate the relationships between perceived strategic uncertainty and strategy formation mode using a sample of 286 small and medium sized enterprises in the emerging markets of the Philippines, Vietnam, and China. Our results highlight the importance of the relationships between strategy development and entrepreneurial perceptions of the dynamism and complexity of environments in emerging markets and underscore the difficulties SMEs in emerging markets face when considering planned versus emergent strategy decisions.*

**Keywords:** strategy, uncertainty, emerging markets

**INTRODUCTION**

While it is well known that firms' strategy formation mode is a combination of planned and emergent strategy (Mintzberg and Waters 1985), the conditions under which firms lean toward planned or emergent strategy are less well understood. This research explores whether perceived strategic uncertainty inclines firms more toward a planned or an emergent strategy. Clearly, planned and emergent strategies represent a continuum rather than a dichotomy. Within this continuum,

however, inclinations toward planned strategy may be an attempt to cope with an uncertain environment while inclinations toward emergent strategy may be an attempt to capitalize on opportunities arising from this uncertainty. Given that emerging markets are by definition uncertain (Peng 2003; Peng, Wang and Jiang 2008), nations undergoing economic emergence provide a naturally occurring experimental setting from which to study such phenomena (Tsui 2007). Because small and medium sized

enterprises (SMEs) tend to lack the diversification of larger corporations, they are particularly prone to emerging market uncertainties. Larger corporations tend to have sufficient resources to hedge their bets by operating in multiple markets, making riskier bets in the most uncertain markets while smoothing overall revenue with sales in more stable markets (Barton 1988; Montgomery and Singh 1984). Studying SMEs in emerging markets, while making data collection more difficult, allows us to more clearly see the relationships under consideration in this study without confounding the issue with larger, more diversified firms. Thus, one goal of our research is to determine the extent, if any, that SMEs in emerging markets are predisposed toward planned or emergent strategy based on their perceptions of strategic uncertainty.

Strategy formation mode is a related area addressed in this research. Our review of the literature suggests that strategy formation mode is certainly not a straightforward endeavor. Particularly in relation to perceived strategic uncertainty, exactly what is uncertain can become clouded by the intricacy involved in disentangling general environmental factors from industry environmental factors. In addition, general and industry environmental factors themselves have subsets. To further complicate the issue, perceptions of strategic uncertainty do not necessarily represent reality but rather perceptions of reality. Still, perceptions

shape strategies; market results ultimately sort out whether a firm's perceptions and resultant strategies were the correct choices.

Despite the construct difficulties surrounding strategy formation mode, we can add clarification by testing specifically for the extent to which perceived environmental subsets of general and industry environments shape the continuum between planned and emergent strategy. Thus, a second goal of this research is to determine the relationship between perceived strategic uncertainty and strategy formation mode.

While certain findings are what we expected, others conflict with our expectations illustrating the multifaceted nature of strategy formation mode when firms perceive a high degree of strategic uncertainty. Our findings are intriguing and help to at least partially explain how perceptions of strategic uncertainty shape the planned and emergent strategy continuum, and we find several interesting relationships. Our data show that a positive relationship exists between perceived strategic uncertainty and emergent strategy when SME founders perceive high socio-cultural uncertainty. On the other hand, there is a negative relationship between high socio-cultural uncertainty and planned strategy. Further, SMEs are more likely to use planned versus emergent strategies when founders perceive high uncertainty in the competitor environment.

Emergent strategy, however, is favored in the presence of perceived technological environment uncertainty.

We elaborate on these findings in the discussion section. Prior to this, however, we provide the theoretical background from which we derived our hypotheses and explain our methods and results in the following sections.

### **THEORETICAL BACKGROUND AND HYPOTHESES**

McMullen and Shepherd (2006) provide evidence that perceived strategic uncertainty influences the actions of entrepreneurs who have founded SMEs. In particular, dynamism (defined as the rate of environmental change) and complexity (defined as the number of simultaneous environmental changes) amplify perceptions of strategic uncertainty by increasing the number of decision variables facing firms. This occurs at both the general environmental level (Elenkov 1997; Lee and Peterson 2000) and the industry level (Sawyer 1993; Stewart, May and Kalia 2008). Amplified perceptions of strategic uncertainty are especially pronounced in emerging markets due to the transitional nature of these highly volatile environments (Lyles, Saxton and Watson 2004) and their movement toward free market characteristics (Manalova, Eunni and Gyoshev 2008).

However, perceptions of dynamism and complexity are bound by time and context; that is, SMEs accustomed to

emerging market environmental transition may be so conditioned by economic transition, especially when transition is prolonged, that they perceive little variance despite the actual presence of high variance. Stewart and others (2008) provide evidence of this by comparing environmental dynamism and complexity between groups of SME entrepreneurs in the United States and India and found no significant difference in perceived strategic uncertainty between these groups despite substantial changes in India's environment versus the relatively more stable U.S. environment during the study period. In addition, another study (Baugh, Cao, Li, Lim, and Neuport 2006) found that in the three countries we studied—the Philippines, China, and Vietnam—close business affiliations are determining factors in firm success suggesting that such tactics are means toward reducing uncertainty.

As SMEs become conditioned to heightened environmental dynamism and complexity, their perception may be that the environment is simply maintaining the status quo. That is, despite the presence of substantial change, such change may be so common that SME founders *perceive* that little has changed; they become so conditioned to change that change becomes less noticeable, thus reducing their perceptions of uncertainty. We highlight this in our study by including in our sample only SME founders, whereas a previous similar study by Baugh and

others (2006) utilized third and fourth year business students who for the most part did not have any substantial equity stake.

Following May, Stewart, and Sweo (2000), we classify perceptions of environmental change according to their complexity (defined as the number and diversity of events), their dynamism (defined as the frequency and speed of change), and the importance firm owners place on each environmental segment as they relate to accomplishing organizational goals. Environmental segments are broken down into six sectors: regulatory, socio-cultural, economic, competition, customer, and technological.

The wider institutional environment is typically associated with the general environment versus the industry environment; these institutions tend to bring about stable rules and thereby reduce uncertainty (Scott 2002). However, certain conditions result in institutional flux (Seo and Creed 2002) and even deinstitutionalization where formerly stable institutions deconstruct (Oliver 1992). Such institutional deconstruction makes room for institutional reform beginning with intermediate, meso-institutions that are not yet the stable structures of fully developed institutions but instead are bridges between deconstructed institutions and new, developing institutions. These developing, intermediate-phase institutions allow room for experimentation with new

modes of institutionalizing that may ultimately provide more effective institutional arrangements (Droege and Brown-Johnson 2007). That is, over time, deconstructed institutions, such as those we often find in transitioning emerging markets, reconstruct in a way that may be vastly different from the former rules of the game but provide increased correspondence between the institutions needed and the conditions in which those institutions would appropriately guide organizational actions.

Such institutional change necessarily brings with it changes in the regulatory environment although regulatory institutions sometimes maintain a certain amount of imprecision. Indeed, less than concrete legal structures have been shown to provide regulatory bodies the latitude necessary to intervene in exceptional situations that run counter to the norm (Edelman 1992). However, while regulatory latitude has its advantages, it also causes uncertainty for firms. We hypothesize that under conditions of regulatory uncertainty, firms tend to adopt an emergent strategy formation mode to avoid strategic choices that would lock up resources if pending regulations may render those choices obsolete or otherwise affect firm performance. Specifically:

*H1: Greater regulatory perceived strategic uncertainty is positively associated with emergent strategy and negatively associated with planned strategy.*

The socio-cultural environment, as with the regulatory environment, can be a particular source of uncertainty in emerging markets (Ahistrom and Bruton 2002). Scott (2002) refers to socio-cultural phenomena as normative. In contrast, cultural-cognitive institutional pillars consist of taken-for-granted expectations of conduct; for example, professional organizations have codes of conduct their members are expected to abide by (Greenwood, Suddaby and Hinings 2002). Cultural-cognitive institutions take for granted certain facts about social life; for example, organizations involved in international trade assume that English is the default language when crossing language boundaries. Both normative and cultural-cognitive institutions give structure and order to what would otherwise be inefficient, negotiated actions for which it would be necessary to repeat with each social interaction, or as Broom and Selznick (1955: 238) explain, these institutions are "...the emergence of orderly, stable, socially integrating patterns out of loosely organized, or narrowly technical activities." For example, English as the *lingua franca* of international business stabilizes negotiations among such firms thus reducing transaction costs by reducing the need for translation of business documents. Of course, emerging markets are less likely to subscribe to this, a condition that only further exacerbates the complications of conducting business in emerging

markets, particularly when international trade is a substantial element.

The point is that settled regulatory, normative, and cultural-cognitive institutions tend to reduce market inefficiencies and perceived uncertainty; in contrast, the lack of a stable set of institutions tends to increase market inefficiencies and perceived uncertainty. This is consistent with recent work by Manalova and others (2008) suggesting the key role of institutional forces on entrepreneurial strategy in emerging markets. This institutional view of strategy suggests that institutional context is in the foreground rather than the background in emerging market strategic considerations (Peng 2003; Peng, Wang and Jiang 2008). A business climate with a changing socio-cultural environment would be characterized more by unstable, loosely organized actions rather than by orderly, stable actions. Such instability in social structure would be disruptive to planned strategy. We thus hypothesize:

*H2: Greater socio-cultural perceived strategic uncertainty is positively associated with an emergent strategy and negatively associated with planned strategy.*

The recent global economic downturn has clearly affected firm strategy. Emerging markets have been affected to an even greater extent than developed markets primarily due to reduced demand for the exports of emerging

market products and services. Domestic demand in emerging markets is simply insufficient to profitably maintain the production levels of recent years when demand from more developed markets subsides. When SME founders and CEO equity stakeholders anticipate protracted global weakness for exports, we suspect that firms in emerging markets would focus on long-term viability strategies such as selling excess capacity, reducing workforces, and delaying capital expenditures into the future—generally, basic retrenchment for long-term survival in the face of prolonged economic instability. This suggests that:

*H3: Greater economic perceived strategic uncertainty is positively associated with planned strategy and negatively associated with emergent strategy.*

Perceived strategic uncertainty of the competitor environment refers to the uncertainty of competitors' strategic choices and their implementation of those choices. The competitive dynamics literature suggests that firms engage in cycles of competitive actions and reactions (Ketchen, Snow and Hoover 2004). However, two assumptions underlying this line of thinking are that firms (1) have the scanning and search capabilities to rapidly discover competitors' actions/reactions and (2) have the resources to respond to competitors' actions/reactions. SMEs in emerging markets, however, tend to lack the capabilities and resources needed to participate in such activities. Indeed, the

propensity to engage in competitor scanning behavior is itself dependent on institutional constraints (Elenkov 1997). This is not to say that SMEs in emerging markets are naïve or unaware of competitor strategic choices and implementation, but rather that they are less focused on these factors due to resource scarcity compared to larger firms in developed markets (Lyles and others 2004).

Emerging economy SMEs may thus choose to focus on long-term planning and dismiss, at least to some extent, the rapid-fire competitive battles requiring constant resource reallocation of competitors in more developed markets. It is not necessarily that they strategically prefer this, but rather that their relative resource scarcity tends to force them into longer-term strategic planning allowing less flexibility for emergent types of strategic reactions. Paying less attention to emerging battles that will likely change quickly and paying more attention to long-term resource commitment for these firms is a means of dealing with uncertainty. As perceptions of uncertainty increase, these firms default to a future rather than present oriented view. For SMEs in emerging markets, we thus hypothesize that:

*H4: Greater competitor perceived strategic uncertainty is positively associated with planned strategy and negatively associated with emergent strategy.*

As with perceived strategic uncertainty and the competitor environment, a similar logic follows with the technological environment. An emergent strategy formation mode requires short-term slack resources to rapidly keep research and development on the frontier of technology (Nohria and Gulati 1996). Certainly, planned strategy does not necessarily require fewer resources; however, resource commitment can be smoothed over time when firms are inclined more toward a planned rather than an emergent strategy. The key issue here is slack resources; excess cash is a particularly flexible resource that can be employed when firms enact emergent strategies (George 2005). However, emerging market SMEs do not typically possess such slack; indeed, mere survival is paramount to development of slack resources for many of these firms (Chang and Velasco 2001). Therefore:

*H5: Greater technology perceived strategic uncertainty is positively associated with planned strategy and negatively associated with emergent strategy.*

Changes in buyer preferences require careful production planning to match changes in anticipated demand. Despite

its importance, this is not the most critical factor for emerging market SMEs. The more critical issue is often investment in the production equipment needed to revamp product lines—typically a much more costly capital outlay than simply changing production quantity. This also applies to service firms in that services commonly must deploy new back office technology to implement new service offerings. When strategic uncertainty is present in the customer environment, SMEs may be more likely to plan needed capital outlays and associated new product and service introductions well in advance rather than base strategy decisions on shorter-term contingencies to manage uncertainty (Alessandri, Ford, Lander, Leggio and Taylor 2004). This is consistent with tendencies toward planned strategy rather than emergent strategies. We thus hypothesize:

*H6: Greater customer perceived strategic uncertainty is positively associated with planned strategy and negatively associated with emergent strategy.*

Table 1 provides an overview of these hypotheses with regard to the expected associations among our variables expected regarding our variables.

**Table 1 - Hypothesized Relationships and Results - PSU and Strategy Formation Mode**

<b>Perceived Strategic Uncertainty</b>	<b>Planned</b>	<b>Emergent</b>	<b>Findings</b>
H1: Regulatory PSU	+	-	Not Supported
H2: Socio-cultural PSU	-	+	Supported
H3: Economic PSU	+	-	Not Supported
H4: Competitor PSU	+	-	Supported
H5: Technology PSU	+	-	Supported
H6: Customer PSU	+	-	Not supported

## **METHOD**

### **Sample**

The sample consisted of 286 SMEs in the three emerging markets of the Philippines, China, and Vietnam. All firms employed between five and 500 employees. We administered our survey only to founders of each SME; managers and other non-owner executives were excluded from the sample. Although this increased the difficulty of data collection, founders are in a better position to assess the SMEs long-term strategic formation mode given that managers and other non-owner executives may not have been with the firm since its inception and would have been less qualified to accurately complete the survey.

We follow Lyles and others (2004) and Stewart and others (2008) by personally administering each survey to increase

the response rate rather than relying on mail surveys; these researchers note that this is particularly important in emerging market research contexts. May and others (2000) explain that high response rates attributable to face-to-face survey administration in emerging markets has the additional advantage of reducing non-response bias. In addition, this method is also consistent with data collected by Daft, Sormunen, and Parks (1988) from which we derived the perceived strategic uncertainty portion of the survey instrument. Our response rate using face-to-face survey was 74%.

Owing to the difficulty of entrée for foreigners conducting research in a variety of emerging markets, making contacts quickly and collecting data from local SME founders presents a difficult challenge (Aidis and van Praag 2007). The need for a new translator as



each national border was crossed (except in the Philippines where English is commonly spoken) required trade-offs between sampling methods and the realities in the field. Thus, this research follows May and others (2000) in using a convenience sample in each country but drawing from a wide variety of industries to inhibit results biased toward any single industry. The variation across industries helps offset imbalances resulting from lack of a representative sampling frame (Mitchell 1985). Nevertheless, because these methodological limitations are common conditions faced by emerging market field researchers, we consider the trade-offs between methodological perfection and the practicalities of collecting primary field data in emerging markets justifiable.

Prior to entering the field, surveys were translated into the native language of each country using double-back translation to ensure cross-language accuracy (Riordin and Vandenberg 1994; Brislin 1980). Double-back translation helps address problems of measurement equivalency prior to survey administration.

### **Scales and Variables**

The independent variable, perceived strategic uncertainty, was assessed using a scale previously developed by Daft and others (1988). This scale addresses environmental complexity and dynamism and their importance including perceptions of the immediate

task environment (customer, competitor, and technological environments) and the general environment (economic, regulatory, and socio-cultural environments).

Complexity refers to the number of factors in an environment undergoing change; dynamism refers to the rate of change of these factors; importance refers to the importance respondents place on each sector in the operation and strategy of their firm.

Although this scale was originally administered to CEOs in large U.S. manufacturing firms, it has subsequently been successfully tested in Nigeria (Sawyer 1993), Bulgaria (Elenkov 1997), and Russia (May, Stewart and Sweo 2000) providing evidence of measurement equivalency in emerging markets. May and others (2000), concerned with measurement equivalence of using the Daft and others' (1988) scale validated the scale with slight modifications in their sample from Russia. Because the May and others' modifications were designed specifically for use of the Daft and others' (1988) scale in emerging markets, we adopt the May and others' (2000) changes in our survey instrument. Specifically, rather than the relatively lengthy explanations of the various environmental sectors and definitions of importance, dynamism, and complexity given to U.S. CEOs by Daft and others (1988), May and others provide a more abbreviated explanation that they find maintains the same measurement equivalence of the original

Daft and others' (1988) instrument without the misunderstandings that can result from lengthy preambles. This is especially important when conducting research in emerging markets.

The dependent variable, strategy formation mode, was taken from Slevin and Covin's (1997) strategy formation mode scale. The strategy formation mode scale assesses the extent to which firms are more inclined toward planned or emergent strategy formation. This scale has been assessed as to its validity and reliability by Covin, Green and Slevin (2006). It is a five-item measure using a seven-point Likert-type scale. Scale items relate to trial and error actions, the extent of formal planning prior to competitive actions, and emergent modes of strategy. In addition,

we controlled for whether firms in the sample were primarily service firms or manufacturing firms.

### RESULTS

The study incorporated eight variables: a strategy formation mode variable, six perceived strategic uncertainty variables, and one variable to control for manufacturing versus services. The perceived uncertainty variables included perceived (1) regulatory uncertainty, (2) socio-cultural uncertainty, (3) economic uncertainty, (4) competitor uncertainty, (5) technology uncertainty, and (6) customer uncertainty. Table 2 provides descriptive statistics and correlations across the variables.

**Table 2 - Descriptive Statistics and Inter-Correlation Matrix**

Variables	Mean	SD	1	2	3	4	5	6	7
1. Strategic formation mode	15.39	9.60							
2. Regulatory PSU	23.06	16.67	.82**						
3. Socio-Cultural PSU	21.21	17.20	.85**	.97**					
4. Economic PSU	26.40	14.78	.74**	.92**	.92**				
5. Competitor PSU	35.82	9.78	.27**	.55**	.55**	.56**			
6. Technology PSU	35.00	9.96	.32**	.57**	.58**	.59**	.69**		
7. Customer PSU	33.57	10.70	.45**	.67**	.70**	.65**	.77**	.76**	
8. Manufacturing / Service	1.55	.50	.04	.02	.02	.01	.04	.03	.06

\*  $p < .05$

\*\* $p < .01$

Hierarchical multiple regression was used to explore the perceived strategic uncertainty variables most strongly associated with the strategy formation mode variable (Table 3). Variance inflation factor (VIF) scores were examined for the predictive variables

and all were considerably below the 10.0 standard (Ryan, 1997). As a further check, we mean centered the data with no resultant changes occurring. Thus, multicollinearity did not pose a problem with the analyses. The analysis used two models comprising the manufacturing-

services control variable and the set of perceived strategic uncertainty variables. The base model (Model 1) included only the effect of the control variable and explained minimal variance ( $R^2 = .01$ ). The perceived strategic uncertainty

variables were then introduced as a step change in Model 2. The set of perceived strategic uncertainty variables explained a significant portion of variance in the strategy formation mode variable ( $R^2 = .39$ ;  $p < .01$ ).

**Table 3 - Regression Results for Perceived Strategic Uncertainty and Strategic Formation Mode**

<i>Control</i>	Model 1		Model 2	
	<i>Beta</i>	<i>t</i>	<i>Beta</i>	<i>t</i>
Manufacturing / Service	.05	.75	.05	1.62
<i>Perceived Strategic Uncertainty</i>				
Regulatory			.04	.31
Socio-Cultural			1.13	8.54**
Economic			-.11	-1.40
Competitor			-.18	-3.83**
Technology			-.11	-2.34*
Customer			-.09	-1.52
Model's $R^2$	.01		.39**	
Change in $R^2$	.01		.39**	

\*  $p < .05$

\*\*  $p < .01$

The full model reveals that among the perceived strategic uncertainty variables, socio-cultural uncertainty was statistically significant ( $p < .01$ ) and positively associated with an emergent strategy formation mode and negatively associated with a planned strategy formation mode. Neither perceived regulatory uncertainty nor perceived economic uncertainty explained significant variance. Perceived competitor uncertainty was statistically significant ( $p < .01$ ) and positively

associated with a planned strategy formation mode. Likewise, perceived technology uncertainty was also significant ( $p < .05$ ) and positively associated with planned strategy and negatively associated with emergent strategy. On the other hand, perceived customer uncertainty was not significant. Therefore, hypotheses two, four, and five were supported.

Several variables may have affected our results. Thus, we controlled for the

number of employees, whether the firm was primarily in manufacturing or services, a self-report measure of revenue, the number of firms the owner had previously started (serial entrepreneurship), and the number of years since the SME's founding. Our findings were unchanged when controlling for these variables.

### DISCUSSION

Hypotheses two, four, and five were supported. Hypothesis two suggests a positive relationship between perceived strategic uncertainty and emergent strategy when SME founders perceive high socio-cultural uncertainty. Conversely, there is a negative relationship between high socio-cultural uncertainty and planned strategy. Changing socio-cultural norms assail the foundation of societies (Ahistrom and Bruton 2002; Busenitz, Gómez and Spencer 2000; Scott 2002)). It is not surprising, then, that SMEs lean toward emergent strategy formation modes as the fundamental bedrock on which societies are built transition from one form to another. This meso-institutional context somewhat bars planning given that the institutions in one period cannot be expected to maintain the status quo in future periods (Droege and Brown-Johnson 2007).

Hypothesis four predicts SMEs are more likely to use planned versus emergent strategies when founders perceive high uncertainty in the competitor environment. Recall that perceived strategic uncertainty of the competitor

environment refers to the uncertainty of competitors' strategic choices and their implementation of those choices.

Previous work has detailed investments under conditions of uncertainty (Dixit and Pindyck 1994) including contingencies such as real options (McGrath, Ferrier and Mendelow 2004); however, our research explicitly links emerging market competitor uncertainty to strategy formation mode in SMEs. A plausible explanation for this finding is that perceived competitor uncertainty combined with a lack of organizational slack creates a context departing from the norm relative to firms in more developed markets. That is, rather than reacting in an emergent fashion to changes in competitor actions, lack of organizational slack among SMEs in emerging markets may force these firms to rely on longer term planning rather than more rapid but responsive emergent strategy. Actively responding to sudden competitor moves requires slack resources (Nohria and Gulati 1996; George 2005), a notoriously difficult position to achieve in emerging markets (Peng 2003; Peng, Wang and Jiang 2008; Tsui 2007) especially when exacerbated by a global economic downturn.

Hypothesis five predicts perceived uncertainty in the technological environment creates a tendency for SMEs to rely on planned rather than emergent strategy. The rationale is similar to hypothesis four; staying on the cutting edge of technological innovation requires slack resources that can be committed as current capital

expenditures. As discussed previously, emerging market SMEs generally lack the financial resources to participate in strategic hedging. Technology capital expenditures thus appear to be based on longer term planning perhaps based on overall technological trends rather than competitor's actions.

Hypotheses one, three, and six did not receive statistical support. Hypothesis one predicts SMEs are more likely to participate in emerging strategy rather than planned strategy as the regulatory institutional environment becomes increasingly uncertain. The data, however, suggest that uncertainty in the regulatory environment is not associated with emergent strategy formation. Perhaps in emerging markets, highly uncertain regulatory environments are so common relative to developed markets that sensitivity to change becomes blunted.

Hypothesis three predicts economic uncertainty will be positively associated with planned strategy formation modes. This is a puzzling finding given that perceptions of change in the competitor and technological environments stress planned strategy. Perhaps the rationale follows the argument that perceptions are blunted given that by their very nature, emerging markets are characterized by economic uncertainty. Thus, economic uncertainty may *appear* to be the norm despite objective data to the contrary.

Hypothesis six anticipates that perceived customer uncertainty would be positively associated with a planned strategy formation mode. However, this was not supported. Again, the very nature of emerging markets with their velocity and complexity of change may, over time, appear to SME founders as simply normal business conditions. This finding may also be related to the scanning and search costs required to foresee changes in consumer sentiment that may portend changes in customer preferences.

Recent research has called for elucidation and clarification of relationships that may affect emerging economy firms (Bruton, Ahlstrom and Krzysztof 2008). Our research is an effort in this direction. By considering the extent to which SME founders perceive strategic uncertainty and how this relates to the continuum of planned versus emergent strategy formation, we contribute additional knowledge on emerging market strategy.

Although emerging markets tend to be characterized by higher uncertainty than developed markets, relatively little has been discovered about whether this uncertainty affects development of SME planned or emergent strategy modes. Although not all of our hypotheses were supported, our research does provide evidence that there are, in fact, at least some relationships among emerging market SME founders' perceptions of strategic uncertainty and their strategy

formation mode that bear further research. Clearly, future research will be needed to further understand the mechanisms and relationships related to perceived strategic uncertainty and strategy formation mode. Particularly, the specific differences between developed and emerging economy SMEs requires additional research.

### **Managerial Implications**

Consider, for example, how an SME owner may use the knowledge gleaned from this research. Recall from our findings that SMEs perceiving high levels of strategic socio-cultural and technological environmental uncertainty have a tendency to rely on emergent strategy rather than planned strategy. Competitors armed with this knowledge are in a much better situation to “divine” the next moves of their competitors. In these specific high uncertainty conditions, an SME owner may expect at least some competitors to begin testing the waters with increased R&D spending designed for quick market penetration. These types of innovations, due to their speed and relatively quick times from concept to actual product are typically aiming for brand extensions rather than deep industry overhaul. Often, the smart money will run counter to the herd. While many competitors utilize R&D allocations and marketing budgets for quick hits, the wiser SME owner will use the time plan strategy in efforts to bring deep revolution to product or service design rather than simply brand extensions. Clearly, it is this type of counterintuitive thinking that can result

in disruptive innovations (Christensen, Roth & Anthony, 2004) that bring about game-changing products.

Conversely, imagine conditions in which SMEs are more likely to use planned versus emergent strategies when founders perceive high uncertainty in the competitor environment. The typical SME owner may reduce inventory levels resulting in a self-fulfilling prophecy—just as many competitors are shrinking inventories resulting in opportunity costs due to inventories that are insufficient to meet future demand, a few SME owners may build up inventories, choosing instead to ignoring the typical temporalness of uncertainties. Thus, by virtue of their growing relative to competitors’ shrinking inventories, this SME stands to benefit through increased sales revenue. If competitor response is very severe due to uncertainty, these competitors can literally hand over the market to those who planned and built up inventory, giving the planners an edge in pricing power (Sharp, 2009).

These can be powerful prescriptions. For those in tight competitive rivalries, outthinking competitors also entails employing resources (Sirmon, Gove, & Hitt, 2008) during times of industry retrenchment. Those confident enough to buck the perceived trends can decimate competitors who are overly cautious during times of uncertainty through bold competitive responses (Aboulnasr, Narasimhan, Blair & Chandy, 2008).

### Conclusions

Our research was limited to perceived strategic uncertainty and strategy formation mode. Certainly, whether a firm tends toward planned versus emergent strategy along a strategy formation mode continuum is contingent on a much wider variety of variables. Still, by explicating certain relationship between these variables, we have a better understanding of emerging market SME founders' responses to perceived strategic uncertainty. Perhaps additional variables would further clarify these relationships. As others have noted (Bruton and others 2008), there is a tremendous amount of work to be done to fully understand the strategic differences between firms operating in developed markets compared to those operating in emerging markets (Tsui 2007). Delineating at least a modest set of these differences was the goal we hope this study has achieved.

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