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ORGANISATIONAL ROUTINES MAY NOT BE EFFECTIVE FOR THE EMERGING MARKET FIRMS

Abstract:

Understanding the internal dynamics of an organisation's routines makes it possible to learn more about the organisation, observe the operation of power dynamics, and foresee the potential conflicts that are likely to emerge (Pentland & Feldman, 2005). Eisenhardt and Martin (2000, p. 1106) identify routines as "complex and analytic processes that extensively rely on existing knowledge, linear execution, and repetition to produce predictable outcomes at different organisational levels".

Routines facilitate the learning in the organisations about "what the firm does and how it does" through being transmitted to firm's culture and employees (Zollo & Winter, 2002). Although organisational routine literature based on the research that was mostly conducted in developed countries suggests a strong association between routinisation and firm performance and sustained competitive advantage, this may not always be true especially for the emerging market firms.

Emerging market firms operate in a business environment where rapid economic growth, political instability, investor heterogeneity (as a result of offering different information sets to different investors), high level of uncertainty, financial volatility and risk, less transparency and legal frameworks allowing opportunism, corruption and rent shifting dominate the whole market (Hoskisson et al., 2000; Nowak-Lehmann et al., 2007).

Hence, strategic flexibility which "allows firms to respond quickly to dynamic and unstable environmental changes by committing resources to new courses of action, and recognise and act promptly when it is time to halt or reverse existing resource commitments" (Liu et al., 2013, p. 82) is particularly important for the firms operating in emerging markets. Therefore, repetitive and stable routines may not address the context and environment-specific problems of the firms and high strategic flexibility requirement of emerging market firms may discharge routinisation for their strategic operations.

As a support to this argument, a recent research (Kamasak, 2013) that was conducted on a multi-industry sample of 176 Turkish firms revealed some noteworthy results. In the study, whilst no relationship between organisational routines and organisational performance was found business processes were significantly associated with performance. In fact, this finding is consistent with the high strategic flexibility requirements of the Turkish firms. Therefore, the suggestion about the ineffectiveness of organisational routines for emerging market firms may be explained within the context of high strategic flexibility requirements of them as a consequence of the country-specific hyperchanging social, economic, and political environments that were highly observed in most emerging markets.

Keywords:

Organisational routines, strategic flexibility, firm performance, emerging market firms

JEL Classification: M10

1 Introduction

In the strategy literature, routines have long been regarded as the primary rules which guide firms about the execution of work and transformation of inputs into outputs (e.g., March, 1991; Day, 1994; Pentland & Feldman, 2005; Salvato & Rerup, 2011; Dionysiou & Tsoukas, 2013). This role puts routines in a situation where they deal with the power and conflict related organisational issues. Hence, understanding the internal dynamics of an organisation's routines makes it possible to learn more about the organisation, observe the operation of power dynamics, and foresee the potential conflicts that are likely to emerge (Pentland & Feldman, 2005). Pentland and Feldman (2005) highlight the function of an organisational routine as "a resolution to conflict". Indeed, stability and consistency in organisations are critical in achieving efficient manufacturing processes that conform existing quality standards, decreasing the need for real-time cognition, and coordinating day-to-day operations effectively (Salvato & Rerup, 2011; Anand *et al.*, 2012). From this perspective, organisational routines can be recognised as an operational capability. Organisational routines can limit the strategic manoeuvring abilities of the firm. However, strategic flexibility which "allows firms to respond quickly to dynamic and unstable environmental changes by committing resources to new courses of action, and recognise and act promptly when it is time to halt or reverse existing resource commitments" (Liu *et al.*, 2013, p. 82) is particularly important for the firms operating in emerging markets. This study aims to investigate the relationship between strategic flexibility and organisational performance, and organisational routines that are static in nature along with the business processes that are dynamic in nature.

2 Organisational routines

Organisational routines are the series of repeatable or replicated actions, methods, tasks and functions [rules, procedures, conventions, technologies and strategies that were mostly codified in manuals] performed in the organisation by specific people at specific times. According to Cohen *et al.* (1996, p. 663), organisational routines are the "executable capabilities for repeated performance in some context that has been learned by an organisation". In line with this definition, Eisenhardt and Martin (2000, p. 1106) identify routines as "complex and analytic processes that extensively rely on existing knowledge, linear execution, and repetition to produce predictable outcomes at different organisational levels". Although routines may be codified in explicit forms (*i.e.*, manuals), Galbreath (2004, p. 127) states that "routines largely become knowledge-based flows embedded within the firm which are carried out tacitly by individuals and across teams". Several researchers (e.g., Nonaka, 1994; Grant, 1996, 1997) suggest that in order for a firm to transform inputs into outputs, integration of individual and specialised knowledge to the organisational units is essential and knowledge integration can only be achieved by mechanisms such as transfer, direction, sequencing and routines. Hence, routines facilitate the *learning* in the organisations about "what the firm does and how it does" through being transmitted to firm's culture and employees (Zollo & Winter, 2002). Routines that are developed internally through learning by doing over time can be firm-specific and are likely to be imperfectly understood by rivals.

The contributions of routines are not limited to manufacturing related business functions. Some theorists (e.g., Zollo & Winter, 2002; Ray *et al.*, 2004; Salvato & Rerup, 2011) emphasise the other important contribution of routines which is the execution of codified procedures (such as the standard

procedures for the fulfilment of customer orders, creation and execution of marketing campaigns, and launch or development of new products) that serves as a driving force of the firm's whole organisational productivity. For example, while developing a product colour from designers' drawings, a recurrent pattern of activities that include attending a meeting, making a prototype, and sending a fax can be performed by the product development team as the standard process (Salvato, 2009).

2.1 Routines and performance

A number of strategy researchers (*e.g.*, Day, 1994; Zollo & Winter, 2002; Ray *et al.*, 2004; Salvato, 2009) regard routines among the critically important sources of firm success and suggest that organisational routines can play critical roles to increase organisational performance. Barney *et al.* (2001) regard organisational routines among the strategic resources that address the so-called VRIN criteria because "they are highly tacit in nature, inextricably embedded in organisational experience, learning and practice" (Galbreath, 2004, p. 127). Furthermore, they reflect substantial time compression diseconomies, and are the socially complex and causally ambiguous skills that are necessary for the development and use of the firm's other tangible and intangible resources (Dierickx & Cool, 1989; Helfat & Winter, 2011). The possession of these complex features and mechanisms make them difficult resources to duplicate (Helfat & Winter, 2011; Maritan & Peteraf, 2011). A number of studies (*e.g.*, Becker, 2004; Salvato, 2009; Salvato & Rerup, 2011) found strong association between routinisation and organisational outputs that had performance reflections such as task achievement periods, quality standards and new product development processes. However, the vast majority of the empirical routine-performance research concentrates on developed countries such as the US, Western Europe and Australia because of the availability of huge databases such as those of the Foreign Trade Commission (FTC), CRSP, Euromonitor and COMPUSTAT, and very little is known about results outside of this domain. Although organisational routine literature based on the research that was mostly conducted in developed countries suggests a strong association between routinisation and firm performance and sustained competitive advantage, this may not always be true especially for the emerging market firms.

2.2 Routines in the emerging market context

As mentioned before, routines are the repetitive joint actions and highly automatic behaviours of groups of individuals embedded in firms which regulate and standardise procedures, decisions, solutions, and to some extent the way of doing business of the firms (Salvato & Rerup, 2011; Dionysiou & Tsoukas, 2013). Namely, routines aim to offer standard procedures and solutions to the firms when they are faced with problems in order to minimise resource wastages (time, money *etc.*) and increase organisational efficiency. Hence, many of the organisational routines may be very stable such as production procedures, new product development processes, quality and inventory management, pricing or recruitment (Becker, 2004). Because organisational routines are standard and stable in nature, they may restrict the strategic flexibility, modification and maneuvering capabilities of the firms.

Emerging market firms operate in a business environment where rapid economic growth, political instability, investor heterogeneity (as a result of offering different information sets to different

investors), high level of uncertainty, financial volatility and risk, less transparency and legal frameworks allowing opportunism, corruption and rent shifting dominate the whole market (Hoskisson *et al.*, 2000; Nowak-Lehmann *et al.*, 2007). Hence, after a while, emerging market firms (*e.g.*, Tata of India, Lenovo and Huawei of China, Embraer of Brazil, and Lukoil of Russia) acquired special skills to be able to operate effectively under this harsh and unreliable business environment by finding idiosyncratic solutions to the problems, adopting new alternative strategies, or modifying the existing ones that increase the speed and scope of their strategic maneuvering actions. For instance, whilst they used power generators in case of shortage of electric supply, they found new ways to compensate when logistics was difficult or they backward integrated into components or developed suppliers from scratch when suppliers were missing (Ramamurti, 2012). They learned being nimble and proactive in the market since they always had to produce new solutions for mutating problems within the context of socially dynamic and unsystematic business environment. Therefore, repetitive and stable routines may not address the context and environment-specific problems of the firms and high strategic flexibility requirement of emerging market firms may discharge routinisation for their strategic operations.

2.3 Business processes versus organisational routines

Consistent with resource-based theory, business processes can create significant effects on firm performance. Ray *et al.* (2004) describe business processes as “the actions that firms engage in to accomplish some business purpose or objective” (p. 24). An examination of the RBV literature (*e.g.*, Porter, 1985; Ray *et al.*, 2004; Sirmon *et al.*, 2008; Weigelt, 2013) shows that business processes that are associated with the systems (*e.g.*, intranet, EDI, and ERP) which support inter-functional coordination of activities for acquiring supplies and other raw materials along with optimising logistics and warehousing activities (*e.g.*, supply chain systems), and other IT-based activities that help information processing about customers and markets (*e.g.*, CRM). Ray *et al.* (2004, p. 26) state that “resources are exploited through business processes”.

Porter (1991) regards business processes as the building blocks of corporate strategy that leads firms to competitive advantage. Although human capital was considered as the most influential capability on firm performance in the RBV literature (*e.g.*, Ambrosini *et al.*, 2007; Kor & Mesko, 2013), human capital skill sets have constraints in bundling and deploying resources. Sirmon *et al.* (2008) elaborate this point as “an organisation’s best salespeople cannot call on two clients simultaneously, its most efficient machinery cannot be tooled for two simultaneous production runs, and financial assets cannot be continuously divided without the loss of effectiveness” (p. 922).

However, the complex interaction of sophisticated IT systems with human capital skills may lead to noteworthy improvements in the organisational performance (Ray *et al.*, 2013). In this sense, *coordination/integration* effects of the IT systems in leveraging the valuable assets and skills can be observed. Ray *et al.* (2013) suggest that IT systems provide valuable electronic brokerage and integration services to firms. Supply chain refers to a number of “value adding relations of partially discrete, yet inter-reliant, units that cooperatively transform raw materials into finished products through sequential, parallel, and/or network structures” (Hult *et al.*, 2007, p. 1035). As a business process, an effective supply chain system enables a firm to transmit its raw materials, finished goods, and services in a seamless way (Hult *et al.*, 2007; Barney, 2012). Supply chain management is implemented through specific IT skills and ERP softwares that are produced by the firms like SAP and

Oracle and integrates the whole business functions in the most effective and optimised manner. As a consequence, the firms that embark on supply chain management find substantial improvements in production costs and order fulfilment cycling times (the length of time between taking an order and delivery of the needed product to the customer) that are directly linked to firm performance (Ray *et al.*, 2004; Hult *et al.*, 2007). According to Ray *et al.* (2013), ERP systems do not only help firms to integrate their production related functions but they also “enable firms to replicate and propagate administrative innovations (*e.g.*, organisational resources) and deploy their brand and customer base – relational capital – across a wide variety of markets” (p. 1128) by providing enterprise-wide platforms (*e.g.*, B2B). Hence, ERP systems *reconfigure* the resource base of firms by deploying and extending valuable organisational and relational resources broadly through a number of tools and infrastructures.

Barney states (2012, p. 4) that “purchasing, and supply chain management, can, at least in some settings, be sources of sustained competitive advantage for a firm”. An ERP system can be acquired in factor markets by other competitors as well and this prevents a supply chain management system be considered as a dynamic capability that addresses the strategic resources criteria of Barney (1991) and asset stock accumulation ideas of Dierickx and Cool (1989). However, Barney (2012, p. 4) suggests that “home grown purchasing and supply chain management capabilities — that is, capabilities built organically, within the boundaries of a firm — are more likely to be sources of advantage”. Given the explanations above it is likely to argue that business processes can significantly be associated with firm performance. Hence, it is hypothesised that:

H₁: Business processes will make a larger contribution to firm performance than that of organisational routines.

3 An empirical support from Turkey

In order to test the hypothesis posited a recent research that was conducted on a multi-industry sample of Turkish firms revealed some noteworthy results. The details of the research have shown below.

3.1 Sample and administration of the questionnaire

The sample was selected from the database of Istanbul Chamber of Industry (ISO) that announced the largest 1,000 firms of Turkey (ISO-1000) from different sectors annually. This sample which was designed for multiple research purposes was the best available and relevant sample that could be obtained in Turkey. Moreover, availability of detailed updated databases with respect to Turkey as an emerging market was lacking and this database also included the valid names and e-mails of senior-level executives along with the contact addresses of these firms. The online survey was conducted over the months of April and June, 2013. A total of 176 useable questionnaires were obtained from 1000 firms, with the quantitative data collection stage taking nearly three months and yielding a response rate of 17.6% which is comparable to other similar type of resource-based studies (*e.g.*, Spanos & Lioukas, 2001; Galbreath & Galvin, 2008) that were previously conducted. However, given the low response rates in emerging economies (Hoskisson *et al.*, 2000), this rate is not surprising.

3.2 Items of the questionnaire

Three construct categories that are organisational routines, business processes, and firm performance constructs along with an additional control variables category was used as the measurement instrument. The questionnaire was consisted of a total number of 25 questions: 15 questions to measure the effects of organisational routines and business processes (from Schroeder *et al.*, 2002 and Ray *et al.*, 2004), 5 questions to control the effects of industry structure factors (from Porter, 1985), 3 questions to measure market and financial performance (from Spanos & Lioukas, 2001), and 2 questions for the demographics (age and size).

3.3 Data analysis and results

Regression analysis (specifically, multiple hierarchical regression analysis) was used as the quantitative analysis technique to test the established hypotheses. In hierarchical regression method, each set of independent variables is entered into separate blocks for analysis and the incremental changes of the R^2 statistic which are assessed “as an indicator of the fraction of the variance explained by each independent variable” (Galbreath, 2004, p. 170) are calculated. Hence, the explanatory power or in other words, the unique contribution of each independent variable in explaining dependent variable is explored. According to the results, the established hypothesis was accepted (Table 1).

Tab 1: Statistics for the Hypothesis

Variables	Sales turnover		Market share		Profitability	
	Beta	t	Beta	t	Beta	t
Constant	–	6.209***	–	6.168***	–	7.298**
AGE	.018	.334	-.042	-.326	-.045	-.239
SIZE	.005	.559	.052	.593	.013	.655
IND	.057	1.082**	.116	1.767*	-.014	-1.933
ROUT	.169	.571	.063	1.162	.106	2.446**
PROC	.321	3.827**	.156	2.308**	.498	3.507**
<i>Model 1 (w/out PROC)</i>						
R ²	.126		.091		.143	
F	2.965*		1.429**		3.012***	
<i>Model 2 (with PROC)</i>						
R ²	.147		.119		.201	
ΔR^2 (Change in R ²)	.021		.028		.058	
F	2.575*		1.756**		4.084**	

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Mathematical model for the hypothesis:

$$\text{(Model 1) FP} = \beta_0 + \beta_1 \text{AGE} + \beta_2 \text{SIZE} + \beta_3 \text{IND} + \beta_4 \text{ROUT}$$

$$\text{(Model 2)} = \text{(Model 1)} + \beta_5 \text{PROC}$$

FP = Firm performance, including sales turnover, market share, and profitability

β_0 = Constant

AGE = Firm age

SIZE = Firm size

IND = Industry structure factors

ROUT = Organisational routines

PROC = Business processes

The analysis started with entering each variable to the regression model in separate blocks. Model 1 shows the separate effects of control variables (age, size and industry factors) along with the organisational routines (ROUT) and their explanatory power in firm performance (see table 1). Namely, without other variables, age, size, industry factors and ROUT explained 12.6% [$R^2 = .126$]; ($F = 2.965, p < 0.05$) of sales turnover, 9.1% [$R^2 = .091$]; ($F = 1.429, p < 0.01$) of market share, and 14.3% [$R^2 = .143$]; ($F = 3.012, p < 0.001$) of profitability.

Having entered the business processes variable (PROC) to model 2, the variations in sales turnover, market share, and profitability increased to 14.7% [$R^2 = .147$]; ($F = 2.575, p < 0.05$), 11.9% [$R^2 = .119$]; ($F = 1.756, p < 0.05$), and 20.1% [$R^2 = .201$]; ($F = 4.084, p < 0.01$), respectively. Therefore, entrance of the PROC variable provided an additional and significant explanation power 2.1% ($\Delta R^2 = .021$) for sales turnover, 2.8% ($\Delta R^2 = .028$) for market share, and 5.8% ($\Delta R^2 = .058$) for profitability in model 2. Given the analysis results, PROC are positively associated with all performance measures and make a larger contribution to firm performance than ROUT. Thus, Hypothesis 1 (H_1) is supported.

4 Conclusion

The research aimed to investigate the relationship between strategic flexibility and organisational performance, and organisational routines that are static in nature along with the business processes that are dynamic in nature. In the study, whilst no relationship between organisational routines and organisational performance was found business processes were significantly associated with performance. In fact, this finding is consistent with the high strategic flexibility requirements of the Turkish firms. Business processes such as IT skills, ERP, electronic data interchange (EDI), and supply chain management (SCM) systems provide firms agility and enable them to respond market demands quickly (Ray *et al.*, 2004, 2013). Apart from the turbulent and fluctuating business environments, the Turkish firms must deal with a high variety of market segments along with rapid and discursive consumer shifts that may emerge as a consequence of divergent income distribution and low education levels of consumers (Cavusgil *et al.*, 2013). In this situation, effective IT and SCM systems help firms to address market needs (*i.e.*, changing product ranges and/or accelerating product logistics) rapidly.

Therefore, the suggestion about the ineffectiveness of organisational routines for emerging market firms may be explained within the context of high strategic flexibility requirements of them as a consequence of the country-specific hyperchanging social, economic, and political environments that were highly observed in most emerging markets.

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