BUSINESS STRATEGY, LEADERSHIP STYLE, THEIR FITS AND PERFORMANCE OF MANUFACTURING FIRMS IN THAILAND

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BUSINESS STRATEGY, LEADERSHIP STYLE, THEIR FITS AND PERFORMANCE OF MANUFACTURING FIRMS IN THAILAND

by

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STRATEGI PERNIAGAAN, GAYA KEPIMPINAN, PEMADANAN STRATEGI PERNIAGAAN –GAYA KEPIMPINAN DAN PRESTASI FIRMA PEMBUATAN DI THAILAND

oleh

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ABSTRAK

Kajian ini menyelidiki perhubungan di antara strategi perniagaan, gaya kepimpinan, pemadanan strategi perniagaan-gaya kepimpinan dan prestasi organisasi. Kesan pembolehubah penyederhana tanggapan ketidakpastian persekitaran (PEU) dan saiz firma ke atas hubungan iaitu pembolehubah bebas dan pembolehubah bersandar juga dikaji. Khususnya, kajian ini mencadangkan firma yang mempunyai pemadanan terhadap strategi perniagaan dan gaya kepimpinan akan memperoleh prestasi organisasi yang lebih tinggi berbanding dengan yang tidak mempunyai pemadanan. Strategi perniagaan yang efektif memerlukan pemadanan gaya kepimpinan Ketua Eksekutif (CEO) berdasarkan kepada teori kontingensi dan teori “upper echelon”. Oleh itu, keutuhan pemadanan di antara strategi perniagaan dan gaya kepimpinan boleh meningkatkan prestasi organisasi. Sejumlah 104 firma pembuatan yang didaftarkan di Bursa Saham Thailand dikaji. Analisa statistik seperti analisis kelompok, analisis diskriminan, analisis faktor, analisis realibiliti dan analisis deskriptif digunakan untuk pengujian awalan kajian ini. Untuk menguji hipotesis, analisis variasi, regresi peringkat berkala and korelasi digunakan. Dapatan kajian menunjukkan, walaupun firma menggunakan strategi perniagaan yang berbeza ataupun CEO firma mempunyai gaya kepimpinan yang berbeza, hasil ujian statistik tidak menunjukkan perbezaan secara signifikan terhadap prestasi. Walaupun demikian, firma berorientasikan pemadanan strategi perniagaan - gaya kepimpinan mempunyai perhubungan positif dengan prestasi. Terdapat enam jenis pemadanan strategi perniagaan dan gaya kepimpinan, iaitu, pemadanan Pr-Pa (prospector-participative), Pr-Dm (prospector-democratic), An-Dm (analyzer-democratic), De-F (defender-paternalistic), De-Au (defender-autocratic) dan R-F (reactor-paternalistic). PEU

mempunyai impak negatif yang kuat ke atas perhubungan di antara empat strategi perniagaan dan prestasi. Apabila PEU meningkat, perhubungan di antara gaya ‘participative’, gaya demokratik dan prestasi akan menjadi lemah. Secara keseluruhan, firma berorientasikan pemadanan strategi perniagaan - gaya kepimpinan akan meningkatkan prestasi bila ketidakpastian persekitaran (PEU) rendah. Apabila ketidakpastian persekitaran yang tinggi, pemadanan firma berorientasikan Pr-Dm (prospector-democratic) akan meningkatkan prestasi. Tambahan pula, saiz firma mempunyai kesan positif yang kuat ke atas perhubungan di antara strategi perniagaan (analyzer, defender dan reactor) dan prestasi bagi firma bersaiz kecil. Manakala strategi ‘analyzer’ mempengaruhi prestasi terhadap firma yang besar tetapi mempunyai pengaruh yang negatif ke atas firma yang bersaiz sederhana. Selain itu, gaya kepimpinan ‘participative’ adalah efektif kepada firma bersaiz kecil dan besar tetapi tidak kepada firma yang bersaiz sederhana. Manakala, gaya kepimpinan demokratik adalah efektif kepada firma bersaiz kecil tetapi tidak kepada firma bersaiz sederhana dan besar. Secara khusus, pemadanan Pr-Pa (prospector-participative), Pr-Dm (prospector-democratic), An-Dm (analyzer-democratic), De-F (defender-paternalistic) adalah efektif kepada firma bersaiz kecil. Manakala, pemadanan Pr-Dm (prospector-democratic), De-Au (defender-autocratic), R-F (reactor-paternalistic) dan R-Au (reactor-autocratic) adalah efektif kepada firma bersaiz sederhana. Untuk firma bersaiz besar, pemadanan Pr-Dm (prospector-democratic) dan R-Au (reactor-democratic) mempunyai kesan positif yang mempengaruhi prestasi. Pemadanan Pr-Dm (prospector-democratic) mempunyai kesan positif ke atas prestasi kesemua saiz firma. Dapatan kajian menyokong teori kontingensi dan teori “upper echelon” dalam bidang pengurusan strategik. Dapatan kajian ini juga dapat dijadikan garis panduan kepada pengurus untuk mengurus organisasi mereka.

BUSINESS STRATEGY, LEADERSHIP STYLE, THEIR FITS AND PERFORMANCE OF MANUFACTURING FIRMS IN THAILAND

ABSTRACT

This study investigates the relationships among business strategies, leadership styles, their fits and organizational performance. The moderating effects of perceived environmental uncertainty (PEU) and firm size were also examined. This study proposes that firms having the fits of business strategies and leadership styles would have higher performance. In order to be effective business strategies are required to have a fitting leadership style of CEO based on contingency and upper echelon theories. Thus, the goodness of fits between business strategy and leadership style could enhance organizational performance. A total of 104 manufacturing firms that are listed in the Stock Exchange of Thailand were studied. Statistical methods for preliminary testing used cluster analysis, discriminant analysis, factor analysis, reliability analysis and descriptive statistics. The analysis of variance, hierarchical regression analysis and correlation coefficient analysis were used for hypotheses testing. The findings found that though firms are oriented to different business strategies or CEO's had different leadership styles, the results showed no statistically significant differences on organizational performance. Nevertheless, when the business strategy – leadership style fits were tested, they had positive associations with organizational performance. They included six fits: Pr-Pa (prospector-participative), Pr-Dm (prospector-democratic), An-Dm (analyzer-democratic), De-F (defender-paternalistic), De-Au (defender-autocratic) and R-F (reactor-paternalistic). Furthermore, the higher PEU had strong negative impact on the relationship between all four business strategies and performance. When

PEU increased, the relationships between participative and democratic leadership styles and performances were weakened. Firms using business strategy - leadership style fit improved organizational performance under low PEU. Specifically, firms' performances were increased under high PEU when using Pr-Dm (prospector-democratic) fit. Moreover, the positive relationship between analyzer, defender and reactor strategies and performance were increasing strongly in small firm. Though firms oriented with analyzer strategy had strong positive influence performance in large firm, they were weakened in medium firm. For small and large firms, the participative leadership style had strong positive relationship with performance, however, the effect was weakened in medium firm. Firms with CEOs who practiced democratic leadership style had strong positive relationship with performance in small firms, but, were weakened in medium and large firms. Additionally, small firms using the Pr-Pa (prospector-participative), Pr-Dm (prospector-democratic), An-Dm (analyzer-democratic), De-F (defender-paternalistic) and De-Au (defender-autocratic) fits had strong positive influences performance. For the medium firm, the Pr-Dm (prospector-democratic), De-Au (defender-autocratic), R-F (reactor-paternalistic) and R-Au (reactor-autocratic) fits had positive influences on performance. Large firms using Pr-Dm (prospector-democratic) and R-Au (reactor-autocratic) fits had strong positive influences on performance. Specifically, the Pr-Dm (prospector-democratic) fit had a positive effect on performance for all firms. These findings supported contingency and upper echelon theories in strategic leadership field. These findings can be used as guidelines for managers in managing their organizations.

CHAPTER 1

INTRODUCTION

This chapter provides an overview of the background of the study, the problem statement, the research questions, the research objectives, the significance and scope of the study. Definitions of key terms are also given at the end of this chapter.

1.1 Background of The Study

In today's rapidly changing environment, organizations must learn to adapt in order to survive and prosper (Lawrence, 1981; Yasai-Ardekani & Nystrom, 1996). However, organizations may encounter many problems as they endeavour to adapt to the various challenges of the world. There are many factors that lead to these challenges, and these factors have caused tremendous adverse impact on the development of the organizations themselves. Therefore, a proper environmental scrutinizing is important, especially on the operation of the open system organization. Such organizations are vulnerable to various external factors, although the vulnerability is of course subject to the resources and legitimacy of each organization (Pfeffer & Salancik, 1978; Scott, 1987; Yasai-Ardekani & Nystrom, 1996).

Moreover, business strategy is an important organizational element. An appropriate strategy can propel an organization towards achieving its goals. A business strategy contains the basic objectives of an organization, which are based on various perspectives involving goals, policies and action sequences underlying rational planning as a cohesive whole (Chandler, 1962; Mintzberg &

Quinn, 1992). Therefore, managers must be able to formulate strategy as a guide to organizational behavior (Ansoff, 1984).

Essentially, leadership has influence over organizations via strategic decision-making, determining organizational structure and managing the organizational process. Effective leadership in an organization is evident in direct action, decisions and behaviors (Day & Lord, 1988; Nahavandi, 1993; Thomas, 1988; Weiner & Mahoney, 1981).

A leader can be likened to a rudder, which gives direction to the ship. A leader oversees and regulates the overall functioning of an organization. In order for their organizations to perform well, leaders should have an innovative vision that will move the organization in the right perspective and direction (Dessler, 1994). Therefore, an ideal leader should have strong perceptional resources such as intelligence and knowledge (Fiedler & Garcia, 1987). Moreover, a leader with good perceptional resources would contribute to higher performance (Dessler, 1994).

There have been many researches on the relationships among environment, strategy and performance (Beekun & Binn, 1993; Lee & Miller, 1996; Miles & Snow, 1978; Miller, 1983; 1991; Naman & Slevin, 1993; Namiki, 1989; Parnell, Wright & Tu, 1996; Sim, Teoh & Thoung, 1996; Smith, Guthrie & Chen, 1989; Venkatraman, 1989). There have also been researches on the relationship between leadership styles and performance (Day & Lord, 1988; McKenna, Shelton & Darling, 2001; Shea, 1999; Smith, Carson & Alexander, 1984; Waldman, Ramirez & Puranam, 2001). There were few previous researches that endeavored to integrate strategy and manager characteristics (Nahavandi & Malekzadeh, 1993; Szilagyi & Schweiger, 1984; Thomas &

Ramaswamy, 1996). However, there is hardly any previous research that examines the relationship between organizational performance and the business strategy-leadership style fit. Thus, this study attempts to explore these fits, which are anchored on the business strategy and the leadership style, propelling organizations towards achieving their goals. In addition, this study will also explore the perceived environmental uncertainty and firm size as moderator variables that impact on the relationship between business strategies, leadership styles and their style fits and organizational performance.

1.2 Problem Statement

Following the 1997 Thailand's economic crisis, the manufacturers appeared to be struggling with over capacity in many sectors (Hewison, 1999). There have been contractions of 80 percent in auto parts, 50 percent in construction materials and 40 percent in electrical appliances (Bangkok Post, 1998). The 11 major companies in telecommunications plummeted with only two companies that are profitable in 1997 (Vivat, 1997). The controlling stakeholders in the giant Metro Group's companies were being offered to foreign investors to offset a 16 billion bath debt (Bangkok Post, 1998). Bankrupt companies were doubled in early 1998, with some 5,000 companies closing by June 1998, and hundreds more were expected to follow (Bangkok Post, 1998). The World Bank reported that more than 1,000 businesses a month were de-registering during the last quarter of 1997 and through 1998. All production indices saw massive declines over the same period (World Bank, 1999).

The main problem was the lack of good governance in many sectors and debtors were no exception (Dasri, 2001). These are the inherent problems of the economic structure such as the problem of weak competitiveness and inefficiency (Kittiprapas, 2000; Krungman, 1994). A number of factors retarding long-term sustainable economic growth such as low level of education, deficiencies in infrastructure development and environmental management were apparent before the crisis occurred (Kittiprapas, 2000). It seemed that the financial problem might be only symptomatic of the real. In fact, some established firms with good managerial practices were able to survive and to sustain growth. On the other hand, firms having inappropriate strategic decision-making and faulty practices such as selecting unsuitable strategy, poor leadership style and misinterpreting environments were destined to collapse.

Moreover, there is a lack of empirical research concerning the fit between business strategy and leadership style, which is a gap in knowledge on the subject. It necessitates research for better understanding the relationships of business strategies, CEO's leadership styles and organizational performance. The research results are proposed as guideline to organizations for improvement and sustaining growth. However, the functioning of organizations is dictated by their external and internal environments influences performance based on contingency theory. While, there were few researches in the area of strategic leadership that supported the upper echelon theory (Hambrick & Mason, 1984). Thus, this study attempts to investigate how business strategy and leadership style influence organizational performance. If these factors are related, is there a business strategy-leadership style fit that enhances organizational performance? Additionally, this study will examine whether the perceived environmental uncertainty and firm size moderate those relationships.

1.3 The Research Question

This study aims to explore the answers to the research questions below. These questions inquire into the association between the business strategy-leadership style fit and the organizational performance of manufacturing firms in Thailand.

1. How do business strategies influence organizational performance?
2. How do CEO's leadership styles influence organizational performance?
3. Is there any fit between business strategies and leadership styles that have a positive association with organizational performance?
4. Do contextual factors (perceived environmental uncertainty (PEU) and firm size) moderate the relationship between business strategies, leadership styles, business strategy-leadership fits, and organizational performance?

1.4 Research Objectives

The general purpose of this study is to establish the relationship between business strategy and leadership style, and how their fit influences organizational performance. The specific objectives of this study are:

1. To examine whether firms using different business strategies will exhibit different organizational performance.
2. To examine whether the different leadership styles of CEO will exhibit different organizational performance.
3. To investigate whether there is a particular fit between business strategy and leadership style that has a positive association with organizational performance.

4. To investigate the moderating effect of perceived environmental uncertainty (PEU) and firm size on the relationship between business strategies, leadership styles and the business strategy-leadership style fit and organizational performance.

1.5 Significance of The Study

The study of business strategy-leadership style fits seems to be important both from the theoretical and practical perspectives. Previous researches have been done on particular matters such as the relationship between business strategy and performance (Bahaee, 1992; Gimenez, 2000; Hambrick, 1983; Parnell & Wright, 1993; Segev, 1987, 1989; Smith, Guthrie & Chen, 1989; Snow & Hrebiniak, 1980), business strategy, leader characteristics and performance (Gerstein & Reisman, 1983; Guthrie & Datta, 1998; Hambrick, 1984; Miller, Kets De Vries & Toulouse, 1982; Nahavandi, 1993; Nahavandi & Malekzadeh, 1993; Szilagyi & Schweiger, 1984; Thomas & Ramaswamy, 1996; Thomas, Litschert, & Ramaswamy, 1991) and leadership style and strategy (Ansari, 1990).

However, there has been little effort devoted to research concerned with business strategy - leadership style fit. The relationship between business strategy - leadership style fit and organizational performance has not been demonstrated conclusively because few research has been done. For instance, previous researches on business strategies found that defender, prospector, and analyzer strategies performed equally well, and all performed higher than reactors (Miles & Snow, 1978; Snow & Hrebiniak, 1980). Later, Hambrick (1983) found that defender strategy performed better than prospector in innovative industries, while Smith et al. (1989) subsequently found analyzer and prospector strategies perform better than reactor. They offered no evidence for defender strategy.

Early researchers attempted to link business strategies and leadership, but their focus was on leader characteristics (Finkelstein & Hambrick, 1996; Hambrick, 1987; Szilagyi & Schweiger, 1984; Thomas & Ramoswamy, 1994). This researcher has not been able to find literature on business strategy – leadership style fit. Thus, this study intends to investigate the relationship between business strategy-leadership style fits and organizational performance incorporating the concepts of perceived environmental uncertainty and firm size as moderators.

The literature review established that some researches had considered the impact of firm size and environment as contextual variables. However, the evidence is still vague. Indeed, these factors indirectly affect the managerial process of organization (Gimenez, 2000; Segev, 1989; Sim, Teoh & Thong, 1996; Smith et al., 1989; Thomas & Ramaswamy, 1996). Hence, this study will examine the effect of these factors in order to bridge a gap and strengthen contingency studies.

Most previous researches were done in developed countries (such as the U.S. and the U.K.). There has been limited research on strategic leadership areas in developing countries, particularly Thailand. Still, there are a few studies that have been conducted in this region. For instance, Sulaiman (1993) researched strategy and structures of Malaysian manufacturing firms. Sim and Yap (2000) made a comparison of business strategies in Malaysia and Singapore. Ansari (1990) studied the relationship between leadership styles and strategies in India. Hashim (2000) studied the relationship between business strategy and performance of small and medium enterprises in Malaysia.

It is well known that consequent to the economic crisis in 1997 many companies in Thailand collapsed. The causes of organizational collapse might have been wrong strategies, poor implementation of strategies, wrong leadership styles and other elements. This study will assist to enhance the understanding of business strategies, leadership styles and business strategy-leadership style fit and environment as influencing factors in firm's performance. The results could be used as a guide for existing companies to adopt in order to survive and to sustain growth. This study will contribute by testing the relationships between business strategies, leadership styles, business strategy-leadership style fit and organizational performance.

Certainly, strategic leadership is of prime importance in organizational management. Yet there is still lack of understanding about the perception of practitioners on what is the right decision under environmental uncertainty. Strategic leadership is meant to connote two main things about people at the top of an organization: the full scope of their activities and their strategic choices (Cannella, 2001; Finkelstein & Hambrick, 1996). Some leadership styles could be more effective than others. Therefore, this study can help managers to correctly adopt leadership styles and strategic decision making which can be used to activate, control and coordinate their activities more effectively.

It is hoped that this study will contribute to the theoretical and empirical literature on business strategy, leadership style and the contingency fit approach in developing countries. It may be noteworthy that this study may be the first attempt to apply a contingency fit framework to examining the impact of environmental uncertainty in Thailand. Furthermore, firm size is considered as a moderating effect on business strategies, leadership styles, business strategy - leadership style fits and organizational performance.

1.6 Scope of The Study

The unit of analysis of this study is the organization. The chosen organizations are manufacturing companies that are listed on the Stock Exchange of Thailand (SET). In addition, this study focuses on areas that involve the relationships between business strategies and leadership styles, and how these relationships can explain the firms' performance.

The unit of analysis chosen is the manufacturing company because companies' close interaction with the environment. They obtain inputs from the environment and produce outputs that are diffused to the environment. There are direct relationships between the environment and the organization, and this is believed to adequately reflect the business strategy and leadership style of the firms under study. Hence, it is more reasonable and appropriate to use manufacturing companies than service companies.

1.7 Definition of Key Terms

1.7.1 Business Strategy

A business strategy is a plan to guide an organization to achieve its goals. This guideline plan focuses on improving the competitive position of a firm's products or services, which serve a specific industry or market segment (Croteau & Bergeron, 2001; Hunger & Wheelen, 2001; Mintzberg, 1978; Segev, 1987). Previous researches have conceptualized strategies in many typologies;

this study utilizes the Miles and Snow (1978) typology. The four business strategy variables are defined as follows:

1. **Prospector Strategy** refers to the firms that have very broad product-market domains, a focus on innovation and change, and a flexible administrative structure (Smith et al., 1989). They tend to have complex coordination and communication mechanisms, rely on participative and decentralized decision- making (Hambrick, 1983). They monitor a wide range of environmental condition. Technological flexibility is a crucial aspect of this strategy (Thomas & Ramaswamy, 1996). These firms are frequently first-to-market with new products or service concepts.

2. **Analyzer strategy** is hybrid strategy that firms exhibit some features of the prospector and defender strategies (Thomas & Ramaswamy, 1994). They have multiple products; in some product markets they resemble prospectors, while in others they more closely resemble defenders (Smith et al., 1989). They adopt dual core technologies that have both stable and flexible components. They are usually administered through matrix structures, which include the benefits of centralized control and functional specialization which providing the flexibility normally associate with product-oriented structures (Thomas & Ramaswamy, 1994). They are assertively penetrating more deeply into markets which they currently serve, while adopting new products only after proven potential (Conant, Mokwa & Varadarajan, 1990).

3. **Defender strategy** refers to the firms, which have narrow product-market domains, a focus on production efficiency, and a stable administrative structure (Smith et al., 1989). They devote a lot of attention to controlling operating cost since efficiency is an important prerequisite for their success.

Their technology choices favour inflexible but cost-efficient methods, often involving substantial levels of vertical integration to control costs (Thomas & Ramaswamy, 1996). They make substantial efforts toward rationalizing production and delivery of their goods and services, tend to have relatively simple coordination mechanisms rely on centralized decision-making (Hambrick, 1983).

4. Reactor strategy refers to the firms have no consistent strategy or pattern in responding to pressures of the marketplace or environment (Conant et al., 1990; Smith et al., 1989). These firms focus the activities or business functions, which most need attention given the opportunities or problems that they currently confront. They identify the best possible solutions to those problems or challenges even through they may possess only moderate potential, which require immediate attention.

1.7.2 Leadership Style

Leadership style is the behavior of leader that has expressed ability to influence the subordinates toward the achievement of goals (Armandi, Oppedisano & Sherman, 2003; DuBrin, 1995; Robbins, 1993; Yousef, 1998). Leadership style has been classified in different ways in prior researches. This study attends to four leadership style variables that are defined as follows.

1. Participative leadership style is defined as a leader who shares decision making with group members or subordinates (DuBrin, 1995). The leader will identify the problem, generate solutions and evaluate the alternatives together with subordinates. The decision-making of participative leadership style is decentralized authority throughout the organization (Steers, 1977).

2. Democratic leadership style is defined as a friendly, helpful leader who encourages participation. A leader with a democratic leadership style shares his or her power with subordinates, and decisions are made by consensus or majority vote (Seidenberg & Snadowsky, 1976). Democratic leaders encourage subordinates to discuss and make decisions as a group on the policy and steps toward achieving goals.

3. Paternalistic leadership style is defined as leader who acts like a father and takes care of the subordinates like a parent (Kabasakal & Bodur, 1998). The leader prepares everything for the subordinates to do. The subordinates obey the leader. The leader will punish a subordinate who makes mistakes and reward those who conform to the organizational rules.

4. Autocratic leadership style is defined as a directive leader, controlling, discouraging or suppressing participation. An autocratic leader centralizes power with little or no room for subordinates to participate in decision-making processes (Seidenberg & Snadowsky, 1976). Autocratic leaders determine all policies, dictate techniques and activities, assign tasks and work partners to group members, and are personal in their criticism and praise.

1.7.3 Business Strategy-Leadership Style fit

Business strategy – leadership style fit means that a firm uses a specific business strategy type and that the CEO of the firm behaves in a particular leadership style that enhances organizational performance. This study conceptualizes business strategy – leadership style fits that reflect eight types of fits defined as follows.

1. Pr-Pa (Prospector-Participative) fit means that the organization uses prospector strategy and the CEO has a participative leadership style.

2. Pr-Dm (Prospector-Democratic) fit means that the organization uses prospector strategy and the CEO has a democratic leadership style.

3. An-Dm (Analyzer-Democratic) fit means that the organization uses analyzer strategy and the CEO has a democratic leadership style.

4. An-F (Analyzer-Paternalistic) fit means that the organization uses analyzer strategy and the CEO has a paternalistic leadership style.

5. De-F (Defender-Paternalistic) fit means that the organization uses defender strategy and the CEO has a paternalistic leadership style.

6. De-Au (Defender-Autocratic) fit means that the organization uses defender strategy and the CEO has an autocratic leadership style.

7. R-F (Reactor-Paternalistic) fit means that the organization uses reactor strategy and the CEO has a paternalistic leadership style.

8. R-Au (Reactor-Autocratic) fit means that the organization uses reactor strategy and the CEO has an autocratic leadership style.

1.7.4 Contextual Variables

1. Perceived environmental uncertainty (PEU) refers to the perceptual views of the CEO regarding the organization's environmental uncertainty. These perceptions are obtained from CEO's consistent predictable level to the environmental uncertainty (Miller, 1993).

2. Firm size is measured by number of full-time employees of firm. Number of employee is one of the more common methods and reliable indicator of firm size (Smith et al., 1989).

1.7.5 Organizational Performance

This study focuses on organizational performance, which is measured by profitability and sales growth. Profitability is viewed as the operational measure of the efficiency of a firm (Dess & Robinson, 1984). This study measures growth by using sales growth. Sales growth reflects how well an organization relates to their environment in order to successfully expand its product-market domain (Ansoff, 1965; Dess & Robinson, 1984; Hofer & Schendel, 1978).

1.8 Summary and Organization of Chapters

This study aims to distinctly understand the congruence of business strategy and leadership style as a fit that influences organizational performance. Additionally, this study also scrutinizes the effect of perceived environmental uncertainty and firm size on the relationship between business strategies, leadership styles, business strategy – leadership style fits and organizational performance. This study comprises six chapters in which Chapter 1 presents the overview of the study via the background of the study, problem statement, research questions, research objectives, scope of the study and significance of the study.

Chapter 2 reviews the literature, which is related to the study variables. The variables of this study include business strategy, leadership style, business strategy-leadership style fits, perceived environmental uncertainty, firm size, and organizational performance. The relevant theories are also examined. In addition, historical perspectives on business in Thailand and Thai leadership styles are included in this chapter.

Chapter 3 presents the theoretical framework and research hypotheses. This section illustrates the link among the study variables, which are drawn into a research framework. In addition, the relevant theories and literatures are utilized for ascertaining the theoretical framework. The research hypotheses are stated as main and sub hypotheses that refer to each link of the relationships.

Chapter 4 presents the methodology. The research design includes population and sample, questionnaire design, variables and measurements. The pre-testing of questionnaire and pilot study are posted in this chapter. Moreover, the statistical approaches used for the data analyses are demonstrated at the end of this chapter.

Chapter 5 reveals the data analysis and findings. The results presented are respondent profiles, response bias test, preliminary analyses of study variables and hypothesis testing. The preliminary analyses show the results of factor analysis, reliability analysis, descriptive statistics and intercorrelation, cluster analysis and discriminant analysis. The summary of the results of hypothesis testing is presented at the end of this chapter.

Chapter 6 presents the discussion of results. This includes recapitulation of the study's findings, the complete model, implications of the study, limitations and future research. This chapter ends with the conclusions.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

From 1990 until now, firms have encountered rapid changes of environments and new regional and global competitive challenges. Industries in Thailand have had to become more competitive because they have to face free trade under the WTO (World Trade Organization) and AFTA (Asean Free Trade Area). In 1997, a serious economic crisis engulfed Thailand, which produced swerving circumstances and strengthened the challenges of competitiveness and productivity especially for the survival of Thai businesses.

Many Thai firms collapsed after the financial crisis, including financial, manufacturing, service and real estate companies. From the events, economists have analyzed the causes of bankruptcy, and have established that lack of funds, mistaken reading of environments, use of unsuitable business strategies, inappropriate leadership style, and improper decision-making all contributed to firms' failures (Charoenseang & Manakit, 2002; Dasri, 2001; Kawai, 2000).

This study proposes to investigate whether there is any significant association among business strategy, leadership style and organizational performance. If these factors do indeed affect performance, are there any fits between business strategy and leadership style that influence organizational performance in the context of Thailand? Moreover, this study examines the moderating effect of environmental uncertainty and firm size as to whether they impact those associations.

This chapter reviews the literature on organizational components that constitute the key variables of interest for this study. As a result, the literature review will reveal a gap in the research literature in terms of business strategy and leadership style fit. Certain pertinent theories are presented insofar as they provide the linkage in the study framework. In addition, Thailand's business history and the leadership styles of primary Thai leaders are surveyed. This chapter concludes with a discussion of the gaps in the literature: gaps that form the focus of the present research.

2.2 A Brief of Review Thailand's Business

Since the end of the 19^{th} century, there have been three main groups of Thai capitalist structure: the Royal Privy Purse Bureau, European capitalists and overseas or locally born Chinese businessmen. The capital of the Royal Privy Purse Bureau was primarily begun through collecting royal taxes, and was subsequently expanded to trade activities, the rice industry, and service to compradors. European capitalists began with trading houses and commercial banking, and then expanded to rice milling, saw milling and shipping. Other overseas merchants traded at the seaports, and then expanded to the rice industry.

In the 1930s - 1950s, the first stage of industrialization emerged under military and bureaucracy control. It involved energy, transportation, tobacco, glass and sugar. The second stage was transnational corporations (TNCs) that involved resource-based industry (oil refining, gas, tin), import-substitution industry (auto-assembly, synthetic textile fiber, chemical), export-oriented industry (electronics and other.), consumer goods (cosmetics, medicines, soft drinks, and other) and trading. The third stage focused three major sectors:

finance (financial, banking, assurance), manufacturing (cement, sugar, agro-food, etc.) and export activities.

At the initial industry development stage there were no native capitalists since most Thai people worked in paddy farming. The Chinese immigrants became significant businessmen but they too lacked capital for modern manufacturing since they sent their business profits to their mother country, China.

After World War II, the Chinese had more influence in Thai business, as the political system was based on patronage. The Chinese capitalists had taken on a significant role in Thailand industrial development. Initially, Chinese business emerged in the form of family businesses, which were small and medium scale industries. They encountered the limitation of economic power, narrow domestic market domain, and thus could not enter the international market.

During that period, there was little Thai ownership because few Thais had ability to establish factories or big businesses with expert technical background. Big Thai business was concentrated in a few main families such as Shinawatra, Sophonpanich, Jiaravanon, Jirathiwat, Lumsam, Techapiboon, etc. They established giant conglomerates with activities in manufacturing, trading, commercial banking and financial institutions. Thai industries began with imported materials for processing to become finished products, consumer goods serving the domestic market. Consistency of innovative technological production was not required for these industries. For exports, foreign partners were sought to form joint ventures. The foreign partners provided the necessary technology.

From the 1990s until now, capitalists in Thailand have encountered rapid environmental change, and new regional and global competitive challenges. The industries must adapt to highly rapid changes for survival because of Thailand's free trade policy. In 1995, the Thailand economy was at a peak, essentially due to the effect of real estate development. Unfortunately, the economy slowed down by end of 1996. Many firms faced insufficient liquidity, resulting in cessation of production. In 1997, the economic crisis enveloped Thailand, bringing many firms to collapse or near bankruptcy (Bangkok Post, 1998). Only those firms, which had strong financial and management capabilities could survive. Hence, this study proposes to investigate the elements of management that could lead to organizational performance and sustainability.

2.3 The Organization

An organization is a social entity that is designed to achieve goals and is deliberately structured, which means that tasks are divided and the responsibility for organizational performance is assigned to organization members (Daft, 1997). Preliminary researches on organization have focused on the organizational structure and context (Burns & Stalker, 1961; Chandler, 1962; Lawrence & Lorsch, 1967). Organizational structure has been defined as mechanistic and organic (Burns & Stalker, 1961; Dessler, 1998; Segev, 1989; Woodward, 1965). Mechanistic structure is typically highly formalized, non participative, hierarchical, tightly controlled, and inflexible, whereas organic structure is characterized by informality, decentralization of authority, open channels of communication, and flexibility (Khandwalla, 1977; Miles, Convin & Heeley, 2000; Randolph, Sapienza & Watson, 1991).

Additionally, organizational structure has been classified by its hierarchal forms, which are named decentralization, centralization, formalization, specialization and professionalism (Daft, 1996; Hall, 1991; Lawrence & Lorsch, 1967). Organizational structure has been influenced by contextual factors such as firm size, technology and environment (Daft, 1997; Gunebez, 2000; McDoniel & Kolari, 1987; Smith et al., 1989; Thomas & Ramaswamy, 1996).

Then again, an organization can be classified as a system, of which there are two types: closed and opened systems. A closed system refers to the organization that seals off external environmental effects. Therefore, a closed system organization has stable controlled environments that can be predicted and not influenced by external problems (Daft, 1997). An open system refers to the organization that is open to the vast complexity of environments (Daft, 1997). These organizations must necessarily adapt themselves to environmental changes for survival. Thus, resources such as employees, raw materials, other physical resources, information and financial are required in order to transform products or services. The attainment of organizational goals that achieve high performance must be supported by appropriate managerial organization.

2.4 Organizational Performance

Performance is the competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals (Daft, 1997). Organizational goals vary depending on the purpose for which they are established. Business organizations have profit, growth and survival as the main goals. The popular ratios that measure organizational performance can be summarized as profitability and growth:

return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market shares, stock price, sales growth, liquidity and operational efficiency (Chakravarthy, 1986; Dess & Robinson, 1984; Gimenez, 2000; Hambrick, 1983; Parnell & Wright, 1993; Smith et al., 1989; Thomas & Ramaswamy, 1996). Dess and Robinson (1984) proposed two measures of return on assets and sales growth for measuring firm performance: objective (actual amount) and subjective (perception). If objective performance measures are available, they should be utilized (Dess & Robinson, 1984). Otherwise, subjective performance measures will be the alternative due to the absence of accurate objective performance measures (Dess & Robinson, 1984).

This study emphasizes organizational performance as a dependent variable measured by profitability and sales growth. Profitability is measured by return on assets, return on equity, return on sales, and earnings per share. Growth is measured by sales growth. The objective and subjective measurements are added as a part of questionnaire.

2.5 Business Strategy

A strategy is a plan for interacting with the competitive environment to achieve organizational goals (Wheelen & Hunger, 2000). A business strategy focuses on improving the competitive position of a firm's products or services within the specific industry or market segment in which the firm exists (Wheelen & Hunger, 2000). Business strategy types have emerged as important to the strategic management research field (Buzzell, Gale & Sultan, 1975; Miles & Snow, 1978; Mintzberg, 1973; Porter, 1980; Schendel & Hofer, 1979; Wissema, Van der Pol & Messer, 1980; Smith et al., 1989; and others).

According to Mintzberg (1978) strategy is the intended or unintended actions taken to match the organization with its environment (Segev, 1987). While Hofer and Schendel (1978) surveyed the evolution of the concept of strategy, the concept itself began with Chandler (1962). The strategies of a firm are determined on the basis of long-term goals, objectives of organization, the adoptive operation, and allocated resources. These are differentiated from the process of strategy making (Segev, 1987).

In 1973, Mintzberg developed three modes of strategy making, namely planning, entrepreneurial, and adaptive. He emphasized this concept based on the process rather than on the content. The planning mode is done by those who have power. They synthesize factors affecting the organization and then make decisions on the appropriate strategy. The entrepreneurial mode emphasizes new opportunities and organizational growth as propelled by chief executives who have wide vision against the background of an uncertain environment. Finally, the adaptive mode reflects an inconsistent cooperation of the members in an organization unclear about its goals. This mode uses reactive rather than proactive decision-making, which may be disjointed.

Miles and Snow (1978) described their typology based on strategic types, emphasizing an organization's orientation toward product-market development. They suggested four strategic types: defenders, prospectors, analyzers and reactors. The first three types of typology had similar degrees of success, while the last was a strategic failure. Snow and Hambrick (1980) noted that this typology has focused on the correlates of strategy, but not on the formulation and implementation of strategy. Later studies clearly operationalized this typology and used it to categorize strategic content (Hambrick, 1981, 1983; Snow & Hambrick 1980).

Likewise, Burgelman (1983) suggested a parallel between Mintzberg's and Miles and Snow's typologies in terms of the process and content, which indicated the need for research in business-level strategy (Burgelman, 1984; Segev, 1987). He enquired into the fit between strategic type and strategy making mode that were defender compatible with planning mode, prospector compatible with entrepreneurial mode, analyzer compatible with the entrepreneurial as well as the planning mode, and reactor compatible with the adaptive mode. Despite this, Segev (1987) has not found a relationship between defender and the planning mode but has supported the relationship in other pairs.

Later research by Segev (1989) attempted to combine the two typologies of Miles and Snow (1978) and Porter (1980). Both typologies are at the same level as they focus on business-level strategies. Porter (1980) has conceptualized three dimensions. They are cost leadership, differentiation, and focus strategies. Mintzberg (1988) had a different idea of differentiation strategy that emphasized marketing image, product design, quality, support, and undifferentiation. In addition to the focus strategy, he argued that the scope of a market domain is founded on resource-based theory, whereas for Porter strategy reflected how a firm competes in that market domain. In contrast, in the cost leadership strategy, Mintzberg (1988) argued that cost leadership was based on below average market price against Porter's cost minimization.

From the comparison of both typologies it was found that Mintzberg's (1988) typology outperformed Porter's (1980) typology in its conceptual clarity and descriptive power. However, Dess and Davis (1984) and Robinson and Pearce (1988) as supporters of the Porter typology state that these may have not captured adequately the intended strategies of the manager. Somehow, previous typologies of business strategy are perhaps inadequate in capturing the complexities of the current environment (Kotha & Vadlamani, 1995).

However, from the strategy typologies emerged some lack of the extensive detailed theoretical orientation, more focused and less generalizable (Smith, et al. 1989). For example, Porter's (1980) typology is described in relatively general terms, and seems to be limited to explaining the competitive market behavior of larger firms, while Mintzberg's (1988) typology is quite similar to Porter's (1980) typology but is differently described with more details (Smith, et al. 1989). For their part, Miller and Freisen's (1978) typology is broadly defined, lacks of specific detail, theory, and generalizability. In contrast, Mintzberg's (1973) typology is more focused on strategic implementation.

Miles and Snow's (1978) typology is one of the more important and popular in research strategic management research that had been undertaken by many researchers, and has been cited by over 200 papers since publication (Smith et al., 1989). The Miles and Snow (1978) typology has been used in many researches to develop and broaden the relevant ideas. Moreover, the Miles and Snow (1978) typology had been tested for validity and reliability over time by later researchers (Conant, et al., 1990; Hambrick, 1983; Namiki, 1989; Segev, 1987; Smith et al., 1989; Snow & Hrebiniak, 1980). The Smith et al. (1989) study is one example of using the Miles and Snow typology to test the extent of the effect of firm size on strategy and performance. Conant et al. (1990) constructed a reliable instrument to measure Miles and Snow's (1978)