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PREDICTION VS. CONTROL: A LONGITUDINAL STUDY OF PERFORMANCE IMPLICATIONS IN STRATEGIC DECISION MAKING UNDER UNCERTAINTY (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**PREDICTION VS. CONTROL: A LONGITUDINAL STUDY
OF PERFORMANCE IMPLICATIONS IN STRATEGIC
DECISION MAKING UNDER UNCERTAINTY**

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Principal Topic

Entrepreneurial and corporate success is driven by creating unique competitive advantages. The process of strategy design is the crucial step in “matching” internal and external characteristics of the firm (Anderson & Paine, 1975). In an uncertain and dynamic environment, the choice of strategy design should be adapted according to the environment to achieve optimal performance (Selsky et al. 2007). Based on work by Sarasvathy (2001) on effectual entrepreneurs operating in highly uncertain environments Wiltbank, Dew and Read (2006) enhanced the strategy toolbox by clustering firm-level strategies along the dimensions of prediction and control.

Method

We generate a longitudinal semantic analysis of prediction and control based strategy styles and resulting performance implications. Following the procedure laid out by Short et al. (2009) we conduct a computer aided text analysis (CATA) of Letters to the Shareholders in annual reports of S&P 500 companies over a ten-year period from 2000 – 2010.

Results and Implications

Firstly, we explore to what degree established corporations utilize prediction and control approaches in their strategy design and how this changes over time in different degrees of environmental uncertainty. Secondly, our analysis deepens our understanding of “under what circumstances which types of strategy processes provide particular advantages and disadvantages” (Sarasvathy, 2001) and if control based approaches positively impact performance under high degrees of uncertainty as found by Read et al. (2009) for new ventures and Wiltbank et al. for venture investors (2009). Thirdly, we test the ability of corporations to adjust their strategy design to the environment and test the superiority of stoic or dynamic approaches.

“Understanding the differential use of these strategic approaches may be relevant [...] to managers making decisions in very uncertain situation” (Wiltbank et al. 2009). Therefore we expand the strategic toolbox by clearly differentiating the two dimensions of prediction and control and analyzing corresponding performance implications. Corporations may be able to increase performance or decrease volatility adapting their strategy design to the given environment.

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