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Towards Conceptualizing Business Strategies

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ABSTRACT:

In today's hyper competitive business environment characterized as dynamic and constantly changing, business strategy seems to have lost its importance and significance. Some argue that in such environment, 'strategic planning' at best has lost much of its relevance and at worst, has been rendered meaningless. The constantly changing technological, social, political, economical macro environments have fundamentally changed the nature of markets, competitions, and relationships characterizing traditional businesses. Others hold that strategy has become all the more important and relevant in today's business environment. They view 'strategic learning' as essential for businesses to succeed. The difference in opinions lies with the very concept and understanding of what constitutes strategy and what is its role in the organization.
This paper aims at clarifying the concept of strategy. The paper consists of three parts. Part I examines the definition of strategy. Part II examines the various types of strategy and their functions in the organization. Finally, Part III examines the role of strategy in the organization based on the earlier findings.

Key Words: Business Strategy, Strategic Schools, Strategy Definition, Role of Strategy

1. INTRODUCTION

There exists a vagueness when it comes down to defining what exactly constitutes a strategy. A small grocery store (sole proprietor) issues discount coupons to increase sales. A large hotel chain decides to diversify into real estate business, a auto manufacturer decides to open up a factory in one of the emerging markets. Are they all strategies? What are the defining criteria for identifying and classifying strategies? This paper attempts at clarifying the concept of strategy by examining strategy from many different viewpoints.

2. DEFINING BUSINESS STRATEGY

The concept of business strategy is not very well defined. Much confusion exists as to what exactly constitutes strategy. (Mintzberg, Ahlstrand, & Lampel, 2009). Understandably these confusions occur because strategies vary widely in their scope, orientation (long term, mid term, short term), objectives, and purpose. Hence, strategies can be defined at a very high level i.e. the strategic level encompassing the business vision and mission and long term goals or it can be defined at a more granular level where it more or less specifies performance targets, plans, and schedules for operation.

Some define strategy as concerned primarily with the competitive position of a firm. Strategy is a way to differentiate oneself from the competitors and hence, gain an advantage over the competitors in focused (niche) areas. (Magretta, 2002). Others view strategy as a design and plan in the implementation of resources of an organization. Strategies are plans to achieve organization's objectives and goals. It involves detailed examination and assessment of the organization's internal capabilities and limitations and evaluation of the external environment. (Mintzberg, 1994). Still others define strategy as relationship management. Given the rise of the networked business environment, strategy is concerned with relationship management – relationship with various stakeholders such as customers, suppliers, partners etc. (Peck & Jüttner, 2000).
According to Thompson and Strickland strategy addresses fundamental business questions such as whether to diversify, which customer groups to cater to, whether to carry a narrow or broad product line etc. For them strategy formulation is an exercise in making choices and selecting from possible alternatives. A strategy is an organization's commitment to particular products, markets, customers, competitive approaches, and method of business operation. Furthermore, they define strategic management as 'the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.' The key components of business strategy is illustrated in Fig 1. (Thompson & Strickland, 2001).

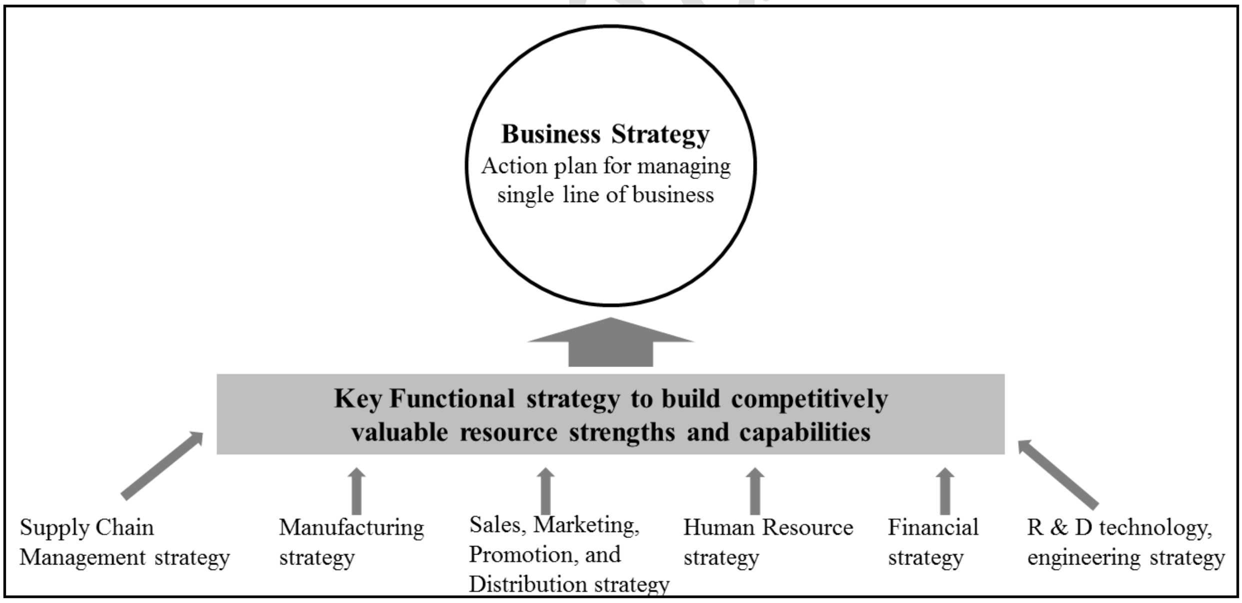

Figure 1: Business Strategy for a single business. Adapted from Strategic Management, 12th ed. (p.54) by Thompson, Arthur A. Jr., Strickland, A.J., 2001, New York, USA: McGraw Hill/Irwin.

According to Brandenburger & Stuart, strategy is a means of creating value by firms in conjunction with their suppliers and customers. They call it the 'added value' and such value is realized through 'asymmetries' between the firm and its stakeholders. They identify four value based strategies aimed at creating such asymmetries. (Brandenburger & Stuart, 1996).

Kotler and Keller define strategic planning as a management activity aimed at setting and establishing clear set of priorities, focusing energy and resources, strengthening operations, and ensuring that employees and other stakeholders are working toward common goals. It involves monitoring the external environment and accordingly setting future direction of the company. For them, strategy helps address fundamental questions about 'what an organization is, who it serves, what it does, and why it does it.'(Kotler & Keller, 2006)
Perhaps one of the most comprehensive definitions of strategy has been provided by Henry Mintzberg. His view of strategy takes on a multiple perspective. It is defined as conceptual process, formal process, analytical process, visionary process, mental process, emergent process, negotiation, collective process, reactive process, and transformational process. (Mintzberg et al, 2009). They have identified ten different schools of thought on strategy formulation. They are:

1) The planning school
2) The design school
3) The positioning school
4) The entrepreneurial school
5) The cultural school
6) The power school
7) The configuration school
8) The learning school
9) The environmental school and
10) The cognition school

The schools define four basic approaches to strategy formation.

- Strategic Planning: planning, design and positioning schools
- Strategic Visioning: entrepreneurial, design and cognitive schools
- Strategic Venturing: learning, power, and cognitive schools
- Strategic Learning: learning and entrepreneurial schools

Furthermore, they have identified the 5P's of strategy:

- **Plan**: refers to future course of action. Strategy by nature is future oriented. Planning for the future is a core component of strategy. He defines this form of strategy as intended strategy.
- **Pattern:** refers to consistent behavior over a period of time. In identifying patterns of strategy, organizations look backwards. He defines this form of strategy as realized strategy. He distinguishes between intended and realized strategy. Organizations often intend one thing but in practice they do things differently i.e. realize differently. He terms intentions that are fully realized as 'deliberate strategy', and those not realized as 'unrealized strategy.' He also identifies a third type of strategy – the 'emergent strategy.' These are strategies that were unintended actions but gradually evolved to become a strategy.
- **Position:** refers to positioning of the organization within the industry. The central idea behind positioning is that organization's must make tradeoffs. They cannot achieve competitive advantage in all areas.

- **Perspective**: refers to an organizations fundamental way of doing things. It looks inside of the organization and is primarily concerned with the vision of the enterprise.
- **Ploy**: refers to a specific ‘maneuvers.’ The aim is to outmaneuver one’s competitors and keep them guessing.

Finally, Michael Porter defines strategy as 'delivering a unique mix of values' by pursuing sets of activities that are different from the competitors. Strategic position plays a key role in an organization's strategy. Indeed, he defines strategic competition as ‘positioning and repositioning in the industry to attract customers from established positions and attract new customers.’ Companies can position themselves based on variety of factors such as customer needs, customer accessibility, or based on the company's unique offering of its products or services. Strategy involves tradeoffs. They create the need for choice and purposefully limit what a company can offer. (Porter, 1996). Such a strategy will leverage the strength and core competency of the organization while minimizing the risks resulting from their weaknesses. Michael Porter, who is largely credited with defining the positioning school of thought in terms of strategy formation has provided five generic strategies that a firm can pursue (Porter, 1980).

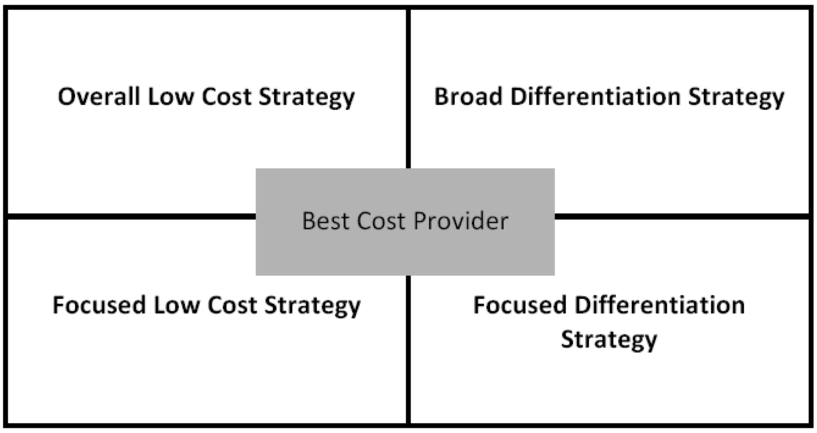

Figure 4 : Competitive Strategy. Adapted from Strategic Management, 12th ed. (p.151)by Thompson, Arthur A. Jr., Strickland, A.J., 2001, New York, USA: McGraw Hill/Irwin..

Low Cost Leadership

Aimed at becoming the lowest cost producer of goods or provider of service in the market. Competition is based on being the low cost provider. Here the aim of the firm should be to become the single lowest cost producer in the industry. Such strategy entails large investment in new technology. For the business to be successful, they must acquire a large market share (to realize economies of scale) in the long run. In the short run, businesses must be prepared to suffer losses. Firms can achieve low cost leadership by making significant investments in production assets, developing expertise in manufacturing processes (streamlining the processes), and developing an efficient distribution channel. Some of the major risks associated with low cost leadership is that competitors can also lower their cost. Technological advances can offset the advantages realized by low cost leader. Competitors serving niche markets can also realize low cost eroding the market share. (Porter ,1998).

Focused Low Cost Strategy

Aimed at satisfying the needs of a select group of customers at the lowest price. To become a low cost producer, firms must lower the various costs associated with the internal value chain i.e. they must become more efficient and effective than their competitors in carrying out these activities. Some of the key factors affecting the firms cost are:

- Cost of resources and components
- Economies of scale.
- Learning curve effect
- Integrating and coordinating activities across the value chain
- Etc.

(Thompson & Strickland, 2001)

Alternately firms can adopt technological solutions. Generally technological solution results in changes in how a firm carries out its activities. Such changes results in lower costs while significantly improving the process performance. For example, online billing and payments, advertising and marketing promotions and much more. One major risk faced by companies following focused low cost strategy is that the company following a broad low cost strategy can easily adapt their product and service offerings to serve the niche markets, hence providing direct competition to the focused low cost provider. (Porter, 1998).

Broad Differentiation

Providing differentiated products and services that appeal to a broad segment of customers. Differentiation works when businesses are successfully able to make their value offering unique from those of their competitors. Generally, the focus is on product innovation, R&D, etc. Once a business is able to successfully differentiate, it offers the following advantages.
First, it ties in the customers. Since the offerings are unique the bargaining power of customers are reduced.
Secondly, since there are less readily available substitutes, businesses can realize highe r margins (Porter, 1996). Differentiation must be sustainable. It should not be easily duplicable by the competitors. Usually differentiation based on technology are duplicable over time, however, differentiation based on process and knowledge are difficult to imitate.

Focused Differentiation

Aimed at providing products and services to best satisfy a select (narrow) group of customers that other competitors can only serve generically. For focused differentiation to work, the customer base must have a unique set of requirements that are not being met.
To implement a differentiation strategy (both focused as well as broad differentiation strategy), organizations must have a good understanding of the needs and wants of the customers. Customers must be willing to pay extra for the difference. Risks faced by companies following differentiation strategy are changes in the taste and preference of the target customers, imitation by competitors. (Porter, 1991).

Best Cost Provider

Offering best value at the lowest possible price. Here the organization aims at providing the best possible value in terms of features and services, at the lowest possible cost.

Firms must select from one of these strategic choices. A firm cannot be everything to everyone. (Miller, 1992). They cannot aim to achieve competitive advantage in all areas. They must avoid the 'stuck in the middle syndrome.'(Porter, 1998). Empirical studies show that firms pursuing one of the generic strategies outperform those following no clear strategy (Dess, Gregory, Davis & Peter, 1984).

3. TYPES OF STRATEGY:

Strategy can be differentiated in various ways:

- **Purpose** – what is the strategy primarily designed to accomplish? This is one of the key differentiators. For example, a marketing strategy is designed to achieve marketing objectives, likewise, a quality strategy is designed to achieve quality objectives.
- **Scope** – refers to the breadth or boundaries of the strategy. Some strategies such as business strategies are enterprise wide. It provides direction for the entire firm. The functional areas of an enterprise i.e. marketing, finance, human resource, information systems etc. accordingly frame operational strategies on their part to support the business strategy. Other strategies are much more focused and narrow in scope. For example promotional strategy to advertise and promote events, programs, new product etc.

Thompson and Strickland provides one of the best definition of the various types of strategy used by organizations. They talk of the strategy pyramid. Essentially, they state that strategy exists at many different levels. At the top of the strategy pyramid is the corporate strategy, below it is the business strategy, below that the functional strategy, and finally at the base of the pyramid is the operational strategy. This is depicted in Fig. 2.

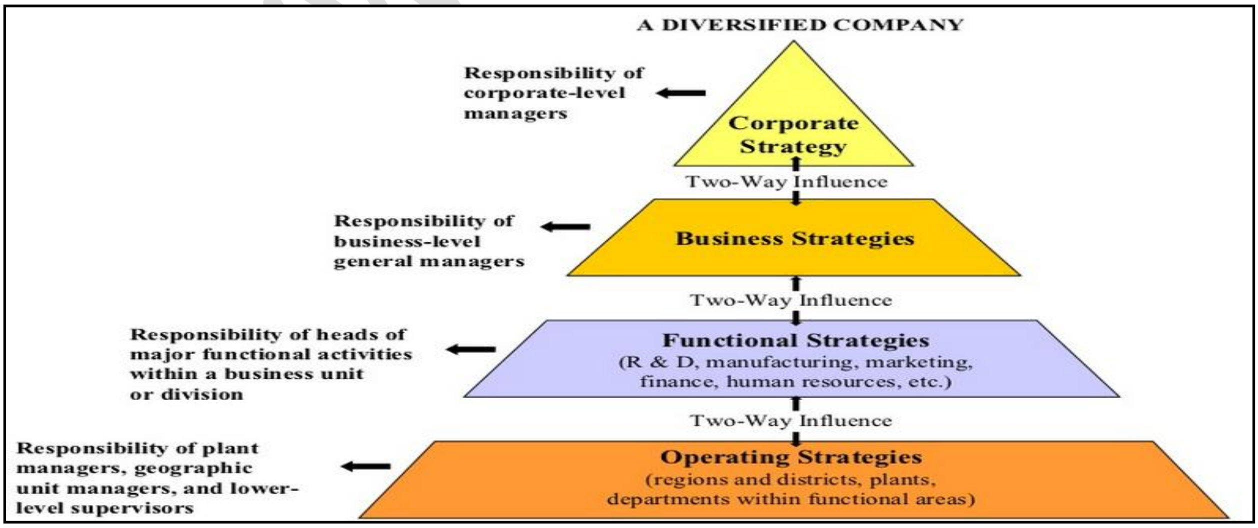

Figure 2: Strategic pyramid. Adapted from Strategic Management, 12th ed. (p.52) by Thompson, Arthur A. Jr., Strickland, A.J., 2001, New York, USA: McGraw Hill/Irwin..

Each level has unique objectives, stakeholders, and scope. The corporate strategy is applicable to diversified firms with multiple divisions i.e. business units. Since all the divisions fall under a single firm, the corporate strategy is the overall strategy that encapsulates all the firm's business units. A corporate strategy is high level game plan for the firm. It involves management at the highest level (executive level). It deals with issues such as, which industries should the firm compete in, how to improve the competitive position and profitability of all its various business units, which business units should be provided the highest priorities in terms of resource allocation and investments etc.

The business level strategy is strategy leveled at the individual business units. Business strategy is primarily aimed at businesses long term competitive position in the marketplace. A business plan is management's plan of action and responses to 'competitive forces, economic trends, technological developments, buyer needs and demographics, new legislation and regulatory requirements' and other important external factors that have a impact on the performance and profitability of the business (Thompson & Strickland, 2001). For single business company, corporate strategy and business strategy are the same.

Functional strategies are strategies designed at the departmental level for example, production, marketing, finance, human resource etc. It can also refer to major functional processes such as new product development. Functional strategies are designed to achieve the departmental objectives and goals. However, much like the business level strategy, a functional level strategy must also support the overall corporate and business strategy of the company.

Finally at the base of the strategic pyramid is the operating strategy. Operational strategy oversees two key areas:

- **Operational Units of the Organization**: These refer to units such as plants, warehouse, distribution centers etc. Each unit requires a unique strategy to oversee its operations. Such strategy should be complimentary to the functional strategy under which the unit belongs and the overall business strategy of the organization.
- **Operational Tasks**: refers to key activities such as materials purchasing, inventory maintenance, logistics management, customer returns processing etc. Each such tasks requires a unique strategy. (Thompson & Strickland, 2001).

4. IMPORTANCE AND ROLE OF BUSINESS STRATEGY:

What role or purpose does strategy play? There is no clear answer to the question. Since strategy exists at different levels, holds different purposes, aims, and objectives and has differing scope - the role of strategy can be examined from many different perspectives. At the corporate and business level, the key purpose of strategy is to provide businesses with competitive advantage over their competitors. Strategy at this level revolves around the business vision and mission. Such advantage can be obtained after careful analysis of the internal strengths and weaknesses of the company and identification of opportunities and threats in the external environment. Various tools such as the Market Opportunity Analysis and Threat Identification Matrix have been proposed for evaluating the external macro environment. (Kotler et al, 2006).

At the functional and operational level, strategies are aimed at achieving specific objectives and goals set by the departments and operational units. Strategy at this level greatly resembles a plan. Such a plan has well defined performance objectives and targets. Indeed the difference between strategy and plans blurs rapidly as we move down the pyramid. In fact many authors consider all forms of strategy as a plan of action. This is the basis of the planning school of strategic thought. They hold that strategies are means of obtaining business objectives. They divide the strategic process into various stages starting from setting objectives to operationalization of strategy - each stage focused on a specific aspect of strategy formulation. The operationalization of strategy is concerned with decomposition of a strategy. The end result is a myriad of strategies at different levels with different time frames. (Mintzberg et al, 2002). For example, at the top are the long term strategies usually five years or more. It is the broadest type of planning conducted by an organization. Its primary purpose is to establish long term objectives and targets. Planning at this level is carried out by the top management of the organization. Such plans generally tend to be judgmental and subjective since it concerns the long term future. While it takes into consideration internal factors, the major focus is on external factors. Following the long term strategies are medium term (two to five years) and finally short term plans (one year or less). Such strategies are aimed at achieving operational objectives and goals (essentially breakdown of the broader long term objectives into specific performance objectives). The aim here is to implement strategic plan. Generally, such plans are developed by middle or lower level managers. The focus here is primarily on internal factors. Planning at this stage is very methodical and objective rather than judgmental and subjective. Most of these plans are repetitive in nature. Each of these plans will have its own hierarchy of objectives, hierarchy of budgets, and hierarchy of sub-strategies (corporate, business, functional), all of which is brought together as a ‘master plan.’ (Mintzberg et al, 2002).

According to Mintzberg strategy plays the following fundamental roles:

- It provides direction –The strategy of an organization provides future direction to the firm.
- It focuses effort –Strategy promotes coordination of activities. It ensures that people in the organization are working towards uniform objectives and goals as a cohesive team.
- It defines the organization –Through strategy employees and other stakeholders can come to understand the organization. Strategy encompasses an organization’s, vision, mission, and values – defining traits of any organization.
- It provides consistency – Strategy provides a plan of action. It reduces ambiguity and provides order. It ensures consistent action over uncertain environment. (Mintzberg et al, 2009)

An empirical study conducted by McGee, Dowling, and Megginson shows a clear correlation between strategy, management experience, and success of business ventures. In other words, businesses choice of competitive strategy is a determining factor as to the success of a business. (McGee,Dowling, & Megginson, 1995)

We can then state that strategy serves the following purpose:

First, it acts as a beacon guiding the operations of a organization towards specific objectives and goals. This can be viewed as the planning role of strategy. In this regard, strategy involves setting up plans. Along with these plans are 'hierarchy of objectives', 'hierarchy of budgets', and 'hierarchy of sub-strategies' (corporate, business, functional). (Mintzberg et al, 2009)
For example, a common financial objective of many organizations is to realize a net increase in sales of 20% on an annual basis. Strategy specifies how this objective can be realized. Strategies are designed to ensure success. Success here refers to the achievement of the goals. Another interpretation of Strategy as a beacon guiding the operations of a business can do with setting the vision for the organization. It sets clear priorities and defines a plan of action for the organization. It is argued that this is one of the limitations of strategic thinking. According to Mintzberg, articulating strategy creates a one track mind. "Explicit strategies are blinders to focus direction and so to block out peripheral vision." (Mintzberg et al, 2009, p.39). Their basic criticism is that strategic and planning assumptions are subject to change and do not remain constant over time. Furthermore, once the management commits to a given strategy, they will be less likely to change to differing circumstances in the future, resulting in inflexibility and stiff resistance to change.

Second, strategy results in organizational evaluation. Strategy formulation is a process that results in detailed identification and evaluation of the organizational strengths, weaknesses, and key success factors. Unlike simple planning, strategies are created with a full understanding of the capabilities and limitations of the organization. Indeed, strategies are designed to exploit the company's core strengths and capabilities. As discussed earlier, the concept of competitive advantage is fundamental to strategy. The ultimate aim of strategy is to provide firms with a strong competitive advantage over their rivals. This requires evaluation and understanding of not only the strengths, capabilities, and weaknesses of the firm, but also understanding of the external environment i.e. industry forces, market forces, competitive forces. This is the foundational grounds of the design school of thought. It aims at finding the 'right fit' between an organization's internal capabilities and external environment. It is considered to be one of the most influential schools of thought, influencing all other schools of thought. (Mintzberg et al, 2009).

Third, strategy aids in decision making. Strategy is essentially decision making about the future. Such decision making can be either proactive or reactive. In the former case strategist gather, analyze, and assimilate information to define best course of action for the organization i.e. making the best strategic choice from many available alternatives. This is the essence of the planning and design schools of thought. In the latter case, strategists more or less react to situations, occurrences, and changes in the internal and external environment. This is the case with the learning, entrepreneurial, and environmental school of thought. They hold that strategy cannot be 'conceptualized separately' and 'implemented separately' because it concerns the future environment and no one can predict the future environment. The learning school specially regards the strategic process as a continuous, incremental process. Strategy for them is not something that can be conceived and planned separately and then implemented. For them strategy making is a 'evolving' process. It is a learning and adapting process for the organization. It is based on the premise that the organization environment is unpredictable, constantly evolving and changing. Also, they hold that decision making is diffused within an organization. Hence, there are many strategists in an organization, each having their own set of objectives and motivations. For them value of strategy making lies in learning done by the organization and the ability of the organization to leverage these learnings as a whole. (Mintzberg et al, 2009).

Fourth, strategy can serve as a control and monitoring tool. This probably constitutes one of the most important purpose of strategy. Organizations can use it to assess the performance of the organization. Strategies allow businesses to compare the actual performance and achievements with the stated goals and objectives. It indicates to the management areas where it is lagging. This purpose of strategy correlates closely with the planning school of thought. However, it is exactly this approach to strategic thinking that has been criticized. Mintzberg & Lampell argue that strategy making requires creativity, insights, synthesis, and understanding. These are aspects that are missing when strategy is viewed as monitoring and control tool. (Mintzberg et al, 2009).

Finally, strategies or rather strategic goals and objectives act as performance measures for businesses. We can think of objectives as milestones. Each objective the business attains is a milestone in the path to its final goals. Management techniques such as Management By Objectives (MBO) are focused on achieving strategic objectives and targets. The concept of MBO was first developed by Peter Drucker as a means of Building teamwork in the 1950s. Since then, it has been widely adopted and adapted by various organizations. (Dinesh & Palmer, 1998).

5. CONCLUSION:

Strategy no doubt occupies a prominent place in all business organizations. All businesses engage in strategic efforts. Strategy making may be a conscious 'deliberate effort' on the part of the firm, the outcomes of which are well documented and explicated organizational strategy or it can be in a tacit form i.e. in the mind's of the leaders and senior management. There is no one universal definition of strategy that fits all. As the paper highlights, strategy can be viewed and understood in a myriad of ways depending upon which philosophy one prescribes to. While experts differ in their views on strategy, there is a universal agreement that strategy is essential to all businesses. Today's fast changing, dynamic, and hyper competitive business environment requires that firm's adopt a sound strategic approach to combat the risks and uncertainties posed by the external environment. Technological developments and breakthroughs like the internet and the world wide web poses immense challenges and opportunities for businesses. It has fundamentally changed the markets, competitors, suppliers, and customers. It has redefined customer/supplier relationships and has shifted the balance of power to the customers. (Porter, 2001). In the face of such uncertainties, strategies have become much more germane than ever before. The question is not whether strategies are relevant but whether a firm has the relevant strategy.

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