

Literature related to strategy theories and strategy management business essay



**ASSIGN
BUSTER**

This chapter will review the literature related to strategy theories and strategy management. The review consists of the different models of strategy and the arguments about strategy for China rapid growth model. To achieve this, through a thorough review of extant literature which explores a number of areas such as: what is strategy and competitive advantage? What the difference is between various of strategy models? Is there any particular advantage and disadvantage of the entire strategy model and how to imply into action of Nation to achieve and sustain the competitive advantages? The current literature about China's successful development will also be discussed to find out what's most popular definition of China's successful strategy.

General Background of Strategy

Concept of Strategy

The definition of strategy on Oxford Online Reference is

“ A plan detailing the action that a player will take at each decision node during the play of a game. A mixed strategy uses a randomizing device, such as tossing a coin, to choose between two or more actions: this has the advantage of making it impossible for other players to predict the randomizing player's choice of action, as the latter does not know what it will be until after the randomizing device has been used.”

The definition of Strategy on Oxford Reference is based on game theory, which describes the strategy from common perspective also defined the strategy in their book “ Exploring Corporate Strategy: Text and Cases”, which state the definition of Strategy as

<https://assignbuster.com/literature-related-to-strategy-theories-and-strategy-management-business-essay/>

“ Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences with the aim of fulfilling stakeholder expectations.”

This definition of strategy focuses not only to gain the advantage over the competitors, but also states the importance of the resources' configuration. Furthermore clarifies the strategy with six characteristic which are 1. Long-term decision. 2. The scope of the organization activity. 3. Advantage for the organization over competition. 4. Strategic fit with the business environment. 5. The organization's resources and competence. 6. The values and expectations of power actors in and around the organization.

However, defined “ strategy” as

“ a coordinated series of actions which involve the deployment of resources to which one has access for the achievement of a given purpose” ... Strategy therefore combines the articulation of human goals and the organization of human activity to achieve those goals”

According to above concept of the strategy, it is clearly can be seen that the theory of strategy is the academic fields with highly diversity. During the last decade, there are significant effort has been done to identify the strategic paradigms and seeking new approaches .

The field of strategy is so diverse that it is probably correct to say that it neither can be treated as a Lakatosian research programme with a ‘ hard core’ of commonly accepted basic assumptions, nor be regarded as

constituting a Kuhnian paradigm (Kuhn 1996/1970) . Mintzberg (1990; 1998) has identified ten schools of strategy theory, of which three schools are normative and together constitute the ' classical approach' to business strategy theory (next section). The other seven are descriptive and will to some degree be mentioned later.

Classic Theory of Business Strategy

There are three books has been published in the early 1960s which are “ Strategy and Structure: Chapter in history of the industrial enterprise” by , “ Business Policy: Text and Cases” by and “ Corporate Strategy” by . The publication of the three important books can be seen as the root of theory of business strategy which has presented in academic fields.

In addition to those books, concept of distinctive competencies was also recognised as an early contribution.

With the writings of Selznick, Chandler and Learned altogether form the design school, Ansoff is assigned as the founder of the planning school. Along with the position school of , these constitute the classical strategy theory. These three schools have made a dramatic impact on business world during the last four decades, and some important implicit presuppositions can be found in all of them. Among these are the CEO is solely responsible for strategy formation; centralized and planned processes produce detailed and explicit strategies. Although the two schools stem from the same root, they played different roles in academic attributions The differences can be summarized as following: while the design school accentuates a centralized,

but casual process; the planning school express a formal process leading to detailed programming of the organization.

Although either planning school or design school emphasis that the different strategy could be the unique to the viable organisation, in position school , Port exclusive claim there generic strategies which are differentiation , focusing and leadership. To this school, strategy is the choice of an attractive industry and good positioning within this industry .

Strategy and Competitive Advantage

Strategy is made to gain the advantage over the competitors for the organization,

Competitive advantage, as defined in the A Dictionary of Business and Management (Oxford Reference Online) is :

“ An advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and better servicing facilities that could justify higher prices. This advantage may be achieved in various ways, including increased product performance, superior distribution methods, or creative advertising. Most forms of competitive advantage cannot be sustained in the longer term because competitors will initiate or find substitutes for the innovations that created it. “

The traditional competitive advantage concept is derived from work:

“ Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm’s cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. “

It can be seen from above concept that the competitive advantage is identified as the situation for the organization to gain the profit which is above the average level within similar fields. According to , one of the most important organization’s goals is to seek advantages compare to the competitors to ensure it has the unique competitive performance over other competitors, therefor , the organization can achieve the competitive advantage to maximum the profit which is better than competitors in the similar industry in the long term .

By 1980, the competitive strategy has been defined by Porter as

“ all the offensive or defensive actions a company does in order to create a favorable and sustainable position within an industry with the objective of having a superior performance which at the end will be convert as a considerable ROI (return over investment).”

Additionally, Porter explained the those actions are the one that determine the level of competition and the environment of business according to competitive five forces. (Porter, 1985) also defined competitive advantage as

” the ability of adding value in the eyes of consumers, meaning the value perceived might be superior than the sum of the amount of costs related to the production processes”.

Porter described the cost advantage and the differentiation advantage as the two basic types of competitive advantage an organization can have, depending on the sources on which it is based on. The Porter’s concept of strategy focus on the competitive position which enables an organization be distinguished by their customers.

However, the criticism on Porter’s assertions from some academics argue that it is inconsistent logical assertion and lack of empirical evidence in the case studies which are selected carefully

. In addition, defines that if an organization implanting the strategy of creating a value in the event of that the competitors do not implement at same time, that means such organization have the competitive advantages.

Strategic Analysis Models

The organizations always face to either internal or external influence of the various factors such as the external economic situation, the booming of technology, the rapid growth of the competitors’ scales. Another example is the financial situation within the deterioration of the backward production facilities and capacity and other factors, will directly affect business performance. Thereby, the strategy analysis tools play the very important role during the strategy analysis, strategy choosing and implantation. The following context will focus on the discussion of four important strategy

analysis models and make evaluation. The certain models will be chosen to implement in the research.

SWOT Analysis

The SWOT Analysis is the powerful tools which is devised by Albert Humphrey of Stanford University led a research project from 1960s to 1970s which is based on the Fortune 500 of the United States' (Pahl and Richter, 2007). SWOT analysis is the overall evaluation of organization's strategic planning method which can be used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture.. The SWOT analysis give the information that is to help to match the organization's capabilities and resources to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

The purpose of SWOT analysis is to determine the Strength, weakness, opportunities and threats which can improve the status of the organisation. The threats might be analysed to avoid them or transform into the advantage (TnBSolutions 2010).

Long-term and Short-term SWOT table

suggest the " swot table" can be used to do analysis, therefore, the organization's strengths, Weakness, Opportunities and Threats will be easily presented. The outcome of swot analysis is expected to maximise the strengths and explore the opportunities in order to take advantage of external opportunities and overcome the threats. SWOT analysis is very much important for an organization to realize both strength and threats, the

idea can be proposed to overcome the threat by taking advantage of the opportunities and strength. Therefore, most potential threats could be counteract on time.

Advantages and Disadvantages

Advantages:

One of the advantage of SWOT analysis is ' make it possible to look at both the positive and the negative factors and situations. ' (Protecting and promoting good nutrition in crisis and recovery: resource guide By Food and Agriculture Organization of the United Nations)

also believes that SWOT has advantage as the link between the external environment and the organization's strategy.

Disadvantage

points out there are two disadvantages of SWOT. Firstly, The SWOT result used for the definition of the organization's goal and strategy highly lies on the ' personal cognition and subjective position' which could not led to the accurate evaluation of information. Another is that the organization could miss the chance to avoid threats or strengthen the opportunities if it focuses on the strengths of the organization in order to use their opportunities

also argues that, although SWOT has advantage as the link between the external environment and the organization's strategy, meanwhile, two disadvantages exist. One is that SWOT analysis ignored more details of

strategic implication which might affect the organization's choice of the direction.

However, although SWOT analysis has above stated limitations which can be grouped as practical difficulties. It is still a useful practical tool to ' help to summarize structure and evaluate the information gathered from a situation assessment and analyses' (Protecting and promoting good nutrition in crisis and recovery). A clear future of direction could be possible to identify to make the strategic decision.

VRIO Framework

proposed the VRIO framework for the first time which is an internal strategic analysis tools in the context of business management. An analysis framework of industry is known widely as five-Force model which is posted by

The Industrial Organization (IO) scholars postulate that the industry's structural features, market power and entry deterrence are the sustainable competitive advantage sources . However, the resource school (Resource Based View) emerged in strategic fields and become to the main challenge to the Industrial organization economic theory. It is well known that the resource-based view was developed by to a " full-fledged theory" . argues that the firm resources which are internal factors of the firms are key drivers of the competitive advantage. In the book " Firm Resources and Sustained Competitive Advantage", developed the main core resource-based view concepts and further developed to a framework of analytical in his book " Gaining and Sustaining Competitive Advantage" which was published in

1996. A more systematic analytical framework “VRIO” has been further developed by Barney from his core concept of firm resources and sustainable competitive advantage.

Put forward by (Barney, 1995) in his book “From the inside for competitive advantage”, he summarized the articles in the key idea of the model “sustainable competitive advantage cannot simply assess the environmental opportunities and threats, and then only in high-opportunity, low-threat environment through the operation business to create”. Sustainable competitive advantage also depends on the unique resources and capabilities, companies can apply these resources and capacity competition in the environment. To find these resources and capabilities, managers must seek from the enterprise value, scarcity, and imitate the high cost of resources, and development of their organizations through the use of these resources.

According to The VRIO framework consists of four questions mainly, which are the Value, the Rarity, the Imitability, and the Organization. The VRIO framework can be showed as following chart.

Source: Figure : 2. 1

Although, Barney’s VRIO framework developed the resource-based view (RBV) strategy analysis from the perspective of the internal resources, there are still some criticism exists. argues that VRIO framework and the RBV of Barney’s has the inherent limitation and weakness when deal with environments dynamically. They believe that it is too simple when find

resources of VRIO in an organization which is successfully behind instead of in front, therefore, VRIO might be powerless in practicing.

Porter's Diamond Theory of Competitive Advantage of Nations

The Porter's 'Diamond Theory' can be identified as

"A diamond of four interrelated areas within a nation that assist that country to be more competitive in international markets - the four areas being factor condition, competing firms within the country, support industries of the home demand."

Porter states the theory about the reason why the competitive status emerges in particular industries and particular locations in his book "The Competitive Advantage of Nations". After the wide range research on the 100 industry of 10 countries, Porter introduced the model which can perform the analysis on the reason of why some country and some industry are more competitive over the competitors. Porter explained the findings deeply in the book "The Competitive Advantage of Nations". This developed model focuses on the advantage of nations and becomes more known as National Diamond theory (Recklies, 2001).

According to the theory of economy and international trade from traditional perspective, a nation's competitive advantage could be based on the location, land, natural resources, labour, and population (12Manage, 2008)

However, argues that the passive approach of the traditional theory fail to explain and support some industries which has developed successfully in

certain location. Further, Porter claims “ the new advanced factor endowments” could be created by a nation such as the labour with better skills, support from government, technology, and business culture. ,

Porter believes that based on the theory, the four elements effect each other and formed the “ Diamond”.

Source: Porter’s “ The Competitive Advantage of Nations” Figure: 2. 2

Factor Conditions.

Factor conditions include the human resource, natural resources, knowledge resources, capital resources and infrastructure. divides those factors into basic factors of production and advanced production factors .

Although both factor groups are important, advanced factors could bring more competitive advantage than basic. Thus, a nation need take efforts to create such advanced factor which are not inherited. (Nissole, 2002).

Demand Conditions.

The mature market of domestic also could see as the one of major elements bring the competitive advantage. If the domestic market demands the production with high standard quality and firms meet such standard. It will be easy for the firm to understand the real need of the customers and provide better products (Ruckman, 1998).

Related and Supported Industries.

These industries and related industries are upstream international competitiveness. On the formation of national competitive advantage, the related and supporting industries and competitive industries is a relationship of solidarity. draws attention to “ cluster” of this phenomenon is a dominant industry is not alone, it must be associated with a strong domestic industry with the rise of. Porter pointed out that even if the downstream industry is not internationally competitive, but as long as upstream suppliers of international competitive advantage, the impact on the industry remains positive.

Firm Strategy, Structure, and Rivalry.

Nissole (2002) believe that the firms could be on the better competitive position in the world market if it can deal with strong competition from domestic. However Nissole’s point maybe conflict with many traditional concepts, such as is generally believed that domestic competition is fierce, excessive consumption of resources will impede the establishment of economies of scale. Porter pointed out that in international competition environment, the success of industry must struggle to go through the domestic market competition first with improvement and innovation. Therefore, the overseas market is an extension of competitiveness.

However, Rugman (1991) stands out the limitations from Porter’s diamond. While “ Diamond” is highly depend on the resources which is endowment to the nation, It is maybe feasible in analysing the past, but it is not suitable for the future. Rugman explains, “ Success requires that continuous attention be paid to reducing the cost base and improving the ability to develop new

products and services that are superior to those being offered by competitors from other parts of the world” (Rugman, A, p33)

Balanced ScoreCard

The Balanced Scorecard Performance Measurement and Management System

“ The Balanced Scorecard uses strategic and financial measures to assess the outcome of a chosen strategy. It acknowledges the different expectations of the various stakeholders and attempts to use a ‘ scorecard’ based on four prime areas of business activity to measure the results of the selected strategy.”

The Balanced Scorecard (BSC) is the measurement of performance and system of performance management which is developed by Robert Kaplan and David Norton in the early 1990s and has been used in both public and private which are all varies of leading organizations.

The BSC is framework concept to transform the organization’s vision the Key Performance Indicators (KPI) with four perspectives which include Customer, Internal, Financial, Business Processes, and Learning and Growth. The BSC sustain the organisation’s measuring progress along with indicator and achieve the long term and success.

By using the Balance Scorecard, both the current performance of organization and improvement efforts on processes, motivate and educate employees, and enhance information systems-its ability to learn and improve can be monitored.

2. The Four Perspectives of the Balanced Scorecard

Financial

In the government, the “ financial” perspective is different from private sector. The private sector financial aims generally focus on the long term targets and maximum profit. Financial factor for public organizations will be the primary objective for business systems. In order to develop customer satisfaction, customer’s behaviou should be Success for such organizations should be measured by how effectively and efficiently these organizations meet the needs of their constitute niches.

Customer

Additional to the financial, the customer satisfaction is also getting more and more important. Customer could change their loyalty to the new supplies unless current organization is able to maintain the level of customer’s satisfaction. This perspective captures the ability of the organization to provide quality goods and services, effective delivery, and overall customer satisfaction.

Internal Business Processes

This perspective could provide metrics which make it possible for the manger to understand the precise status of business running. Also, the customer demand can be evaluated whether it is conform by the current product or services. Such metrics are unique within the organization exclusively.

Learning and Growth

This perspective emphasizes on knowledge and training which organization can provide to the employee. Currently, along with the fast developing speed change of technology, it is vital important for the knowledge employees to keep continuous training. Metrics could be introduced to benefit organization with help manager to focus on the training expense and provide learning and growth which could make up the necessary factors to success of organization.

The following figure visually depicts the global BSC framework.

Source: source: Trump University Figure: 2. 3

Advantages:

Balanced Scorecard (BSC) provides strong support for strategic performance management and business strategic management. Balanced Scorecard analysis the critical success factors from four aspects and established various business unit and the position of key performance indicators linked with the enterprise strategic objectives. . BSC significantly improved the performance evaluation to make management more systematic and fairness; it can increase the incentives of an organization instead of that the traditional performance evaluation method or financial indicators assessment alone through its coverage is too narrow for departments and positions;

Balanced Scorecard can help to strength cohesion and staff's enthusiasm of corporate. Moreover, the balanced scorecard make staffs understand to <https://assignbuster.com/literature-related-to-strategy-theories-and-strategy-management-business-essay/>

enterprise strategy by decomposing indicators through the establishment of index employee participation in management, thus, will help employees realize their work on the strategic and the overall performance of the role and the teamwork will be developed as well.

Disadvantages:

Although there are many advantages by implementing BSC, there are also several disadvantages needed to be taken into account.

Firstly, BSC of the four areas can only provide an overall view for business growth and the metric of the four areas is relatively poorly identified.

Secondly, BSC needs long term foresight rather than a single tool to solve problem in short time. Finally, the metric is not tailor-made for each company and may not be applicable for some company and it is vital when using balanced scorecard to make sure information available to be tracked suitable for your needs, otherwise it is meaning less to use the metrics.

(Schneideman, 1999)

China's Development and Success

China's successful development from low developed country to the second largest economy in the world in recent there decade is real miracle to attract many researchers. The part will review the wide range of literature about china's successful performance and the unique development strategy China has taken during the period 1978 to 2009.

China's performance of rapid growth (1978-2009)

The common view is that China's successful performance can be traced to 1978, when the economy reform start. Since China's reform and opening-up policy in 1978, China's economic successfully transform from low developed country to the second largest position in the world in 2009 (Measured on a purchasing power parity basis in 2009), this is just behind United States.

China's great performance can be reflected from the four aspects includes: reduce poverty greatly, the Per Capita Income has been raised steadily, and form a Planned economy to the market economy

Per Capita Income keep improve

From 1978 to 2008, China keeps improving the Per Capita Income. The China's household Per Capita Income keeps increasing steadily from more than nearly eight times. Engle's coefficient, the concept of the proportion of expense on food to the consumption expense, has been decreased more than 30 percentages

Figure: 2. 4

Figure 2. 5

Sources: National Bureau of Statistics of China 2009

Transformation to Market Economy from Planed Economy

China successfully achieves the transformations which turn itself to one of the fast-growing nations from underdeveloped economy. The China's planning economy has been gradually shifted to the market-orient economy .

<https://assignbuster.com/literature-related-to-strategy-theories-and-strategy-management-business-essay/>

China's market of industry and agriculture has been controlled by government tightly which only open to state owned enterprise before 1978 . Therefore, the price of the commodities could not reflect the real demand and supply of the market due to fixed condition.

Since the reforms have been introduced in 1978, the prices of industrial products and agricultural products began to be determined by the market, prices are no longer controlled strictly by the t state. . By beginning of 1990, China has gradually completed great transformation from the planned economy to a market economy.

Rapid GDP Growth

Dramatic Gross Domestic Product (GDP)

As the World Bank report (2010) point out, despite the recession of global economy, Chinese economy grew up 8. 7 per cent which keep strong growth in Jan. 2010. The report also found that the most important driving force in supporting the economy in 2009 is the massive investment-led stimulus. Furthermore, it can be seen from China's Gross Domestic Product (GDP)'s growth. China's GDP growth rates keep rising continually. And become to the world fastest growth country. According to World Bank data (2010), while recent growth has slowed down slightly, but the Chinese economy is still growing strong.

Meanwhile, compare china to the rest world, notably, China gained far better GDP growth rate than other nations in the world. Compared to the United State European Union and other nations, it is can be seen clearly that China's

leading the GDP growth during past decade and will remain the growth speed in the future.

China's development strategy

The goal of China's development

At the beginning, the reform policy maker of China has determined that establishing a "new socialist market economy" is the goal of the reform. Although, the policy makers recognized that introducing market-oriented economic activity and "the need for authoritative government," are necessary, believing that the two "check and reinforce each other". The China's development objective has double meanings which are increasing the China's income and reducing the poverty, and strengthen Communist Party control. believe that China's global strategy emerging when China is being considered as a growing power in the global business. She also argues that China is a Beacon of hope in a capitalist world and China is holding the key to reform a more peaceful and real world.

Export-Oriented Strategy

China's deeply involve global business after reform 1978. The major source to support China's business globally growth is to spur the growth of export. To achieve this, two strategy need to choose. Firstly, suggest that building more labour intensive manufactures by further investment could help creating more jobs. During 1952 and 1978, only the Ministry of Foreign Trade and the limit number of state owned enterprise are authorised to do international trade. The situation changes from 1978. More private company are allowed to involve the foreign trade and thousands of new export-led

manufacturing are established (Richard, 1991). Therefore, huge numbers of labour force has been absorbed by the export manufacture and the labour-intensive product shift to China. As the result, China is now call “ The World Factory”

Successful Control of the Huge Population

Consider China’s huge population base, if there are no any control of the population in a given period, it will have a negative impact on China’s economic development. As suggests one-child policy successfully Slowing down the population growth has practical significance such as one child receive more resource and better health care, even more opportunity to get better education. Moreover, one-child policy could limit the numbers of the work which can help to improve the employment rate. However, despite the advantages of one child policy strategy can bring to China’s development, there are still many critiques of the moral issues about China’s one-child policy. Even so, China’s one child policy is considered as the appropriate strategy for reducing the competition of resource and national development (England, R. 2005)

Central political control

China political structure is a single party system which does not have the regime of democracy according to the moral standard from western . However, China’s Communist Part focuses on economic growth rather than Communism’s ideological commitment since 1980s, and transform to more liberal political structure. As the result, the Communist Party is still most supported by Chinese and the political environment is stable. China could get much benefit from the stable political system. On one hand, the stable <https://assignbuster.com/literature-related-to-strategy-theories-and-strategy-management-business-essay/>

political environment could attract more investment in various fields by giving the confidence. On the other hand, believe that the stable and strong political control could make strict policy to prevent the purchase of land and foreign currency which can protect China from sudden outflow of foreign capital. The consequence is that the adverse effect of financial crisis happened in 1997 has been avoided by China's government.

High level of savings and investment

The China's rapid economic growth since 1979 is led by a large accumulation of capital and vast improvements in productivity that has resulted from economic reforms.

Energy strategy in Africa

Chinese leaders divide the world into 3 primary units after cold war between 1960s to 1970s, the first unit country was led by US and the former soviet Union; the second world country was made by Australia, Canada, Europe, and Japan; and third world, as the "new" South, consisting of