A critical analysis of various schools of thought in strategy theory

Business, Strategy

Strategy theory is a multi-disciplinaryacademicfield with competing schools of thought based on often-incompatible assumptions, including even the basic definition of the field of study. This is highlighted by the many attempts in the last decade to identify main paradigms, and search for new approaches.

Mintzberg (1990; 1998) has put forward a taxonomy of assumptions and approaches, identifying ten main schools of thought, of which three are normative and together constitute the " classical approach" to business strategy. The other seven are descriptive in nature. Mintzberg named these schools the design, planning, position, entrepreneurial, cognition, learning, power, cultural, environmental, and configuration schools (Haugstad, 1999).

This paper will evaluate the design, planning, and position schools (the " classical" view) as a single approach, contrasting it with a hybrid of the learning and the cultural schools (the " resource-based" view, according to Mintzberg's classification).

The Classical Approach to Strategy

The 2nd Industrial Revolution saw the emergence of mass national markets as developments intechnologyprovided means to production hereto unavailable. Economies of scale and scope provided the rationale for large-scale investment, and thus the emergence of strategic investment, and competitive strategy, as a means to shape market forces and affect the competitiveenvironment.

Subsequently, World War II supplied a vital stimulus to strategic thinking in business as well as military domains, because it highlighted the problem of allocating scarce resources across entire economies (Ghemawat, 1999).

The work of Andrews, Christensen, Smith, Selznik, and Learned et al in the 1950's form the design school (in Mintzberg's taxonomy), while Ansoff through his work on corporate strategy is seen as the founder of the planning school (Haugstad, 1999).

The original design school outlook was that of essential " fit" between a company's internal resources and capabilities (strengths and weaknesses) against an external environment (possibly hostile, providing threats as well as opportunities).

This gave rise to a framework that came to be referred to as SWOT, representing a " major step forward in bringing explicitly competitive thinking to bear on questions of strategy" (Ghemawat, 1999: pg 6).

The SWOT gained quick acceptance as management practice, but did not provide satisfactory closure to the problems of actually defining a firm's distinctive competence, and resource allocation for long-term development versus short-term gain.

Igor Ansoff's book, " Corporate Strategy", was seminal in establishing the planning school's approach. Ansoff subscribed to the " fit" approach of the design school, but emphasized resource allocation in relation to a " common thread" that he defined as a firm's " mission" or its commitment to exploit an existing need in the marketplace (Ghemawat, 1999).

The planning school also emphasized a formal planning process resulting in detailed programming of the organization (Haugstad, 1999). Ansoff and others also worked to translate the logic built into the SWOT framework into complex sequences of questions that needed to be answered in the development of strategies.

Adam Marshall combined the concepts of supply and demand analysis in 1890 into the " Marshallian scissors", which featured a downward-sloping demand curve and upward-sloping supply curve. He also introduced the concept of price elasticity of demand.

Supply-demand analysis was quickly incorporated into economics and marketing courses at business schools, though it seems to have had less impact on the teaching and practice of business strategy. Other economists of what became known as the " HarvardSchool" argued that the structure of some industries might permit incumbent firms to earn positive economic profits over long periods of time.

Thus an industry's structure would determine the conduct of buyers and sellers and, by implication, the industry's performance in terms of profitability, efficiency, and innovation.

Michael Porter, in his framework for industry analysis, generalized the supply-demand analysis of individual markets in several important respects:

- relaxation of the assumptions of homogeneity (of product) and large numbers (of competing sellers);

- shifting attention from 2-stage vertical chains, each consisting of a supplier and a buyer, to 3-stage chains made p of suppliers, rivals, and buyers;
- catering for potential entrants and substitute products.

Porter’s work formed the basis of what became known as the position school of business strategy. This school recognizes only three generic strategies: costleadership, differentiation, and focusing. Thus, the school sees strategy as the selection of an attractive industry (Porter, 1980), and good positioning within this industry (Porter, 1985).