Design school and the positioning school of strategies business essay

Strategy Analysis

Sadler & Craig (2003) describe strategy as a long duration action plan, drafted for achieving defined objectives. In Greek language, strategy pertains to the act of leading an army (Hax, 2009). Different types of strategies, developed for resolving day-to-day challenges, form part of the strategic management process.

Business organizations have always been at the crossroads of options over the fundamental strategic decisions. Corporate think tanks spend major amounts of their quality time in debating about the decisions on the forward outlook of the organization. The decisions to adopt an appropriate short and long term strategy for an organization had always been debatable. The point of debate had been focused on whether the adopted strategy would result in enhancing the shareholder value, as it is fundamental to the existence of an organization. It has been observed that the shareholder value is a function of revenues being generated by the organization. Thus, the strategists need to worry about whether the organization makes efforts to reducing the bottom-line vis-à-vis increasing the top line? These questions have never been easy to answer and the dynamic business environment has further complicated the decision making. No amount of tactical decision making can resolve these fundamental dilemmas. Instead, appropriate strategic thinking can enable the top leadership in determining the steer they want to provide to the organization (Davenport, Leibold, & Voelpel, 2006).

Mintzberg, Henry, Lampel, Joseph, & Ahlstrand, Bruce (1998) explained ten business strategies, including design and positioning schools in Strategy

Safari. The following text focuses on these two schools of thoughts in the business strategies.

Basic details of each school of strategy is followed by a discussion on the roots of each of the strategies, risks, uncertainty & its management, influence of market structure and the environments. The analysis concludes with the comparison between these two schools of strategic thoughts.

Design School of Strategy

According to the design school, the strategy is described as a series of varied operations, executed to achieve the fit between the internal capabilities and external possibilities of an organization. The design school believes that the managerial values of the people leaders and the social responsibilities are two important factors in determining the strategy for any organization (Sloan, 2006). Thus, as per the design school, the preferences and the beliefs of the people leading the organization and the perceived ethics of the environment in which the organization operates are important contributors to determine the strategic intent of any organization. In the design school of strategy, after the various alternative strategies have been determined, the next step is to evaluate and make a choice on the best one. The implementation of the strategic action plan is subject to the agreement of all stakeholders on the final strategy.

Roots of Design School

Mintzberg et al. (1998) attribute the origins of the design school to two influential books written at the University of California and at M. I. T.; Philip

Selznick's Leadership in Administration of 1957, and Alfred D. Chandler's Strategy and Structure of 1962. Selznick's

conception of " distinctive competence," brought the need of the organization's to align (implement) its internal capabilities with the external expectation.

Sloan (2006) mentions that the term design school in its noun form are used with an objective to convey a form or a structure. However, in its verb form, it means that the organization must tailor its capabilities to get a fit with the external requirements. The model of design school emphasizes the analysis of the internal and external situations, the former detailing the strength & weaknesses of the organization while the later revealing the opportunities & threats. This seems similar to the SWOT analysis.

Risk

The risk of the design school strategy is the detachment of the thinking from the acting. This separation of the two important aspects of any process execution makes it risky for any business to implement design schools of strategy. The risks can be certain as well as un-certain. Certain risks are those risks, which an organization will face in any case; hence, every necessary step needs to be taken in order to avoid this risk. However, uncertain risks are those risks, upon which an organization has no control and hence, no precautionary measures can be taken (Froot, Scharfstein, and Stein, 1993).

Indeed, risk plays a very critical role in any line of business. Despite the fact, that risk is innate to every single business, its amount of impact can differ

according to several factors, which include globalization, input costs, competition, weather, compliance, regulations, competition, exchange rate, and many more. These factors affect the different organization in different ways. For example, some lines of business have many competitors, while some have few, hence, risks plays a different role in different businesses.

Design school of strategy identifies risks and provides solutions to it, but it detaches itself from the implementation of the solutions, which can resolve such risks. Hence, identification of the certain risks would be possible by the design school of strategy but implementing the strategy to resolve it would not form part of its process (Mintzberg & Lampel, 1999).

Uncertainty

Uncertainty, unexpected or unforeseeable changes, cannot be proactively planned or predicted and must be dealt with a more reactive manner; uncertainty, therefore, creates the risk. The challenge to the design school strategy is the resolution of uncertainty through Strength, Weakness, Opportunity, Threat and Trends (SWOTT) analysis. It can be argued that design strategy cannot identify every possible scenario for an organization to become successful, even with its distinctive competencies to insure a best-fit strategy let alone its organizations social responsibility and managerial values during the creation, evaluation and selection of the best-fit strategies (Mahoney, & Pandian, 1992). In fact, the design school assumes that decisions made to ensure best-fit strategies are known. Practically, this presumption is negated. For example, the impact of recent recession would not have been as worse as it was. If the presumptions of this strategy were true then the financial firms would have been able to forecast the recession.

Moreover, the impact should have been less, as they would have prepared themselves accordingly.

Managing Uncertainty

Managing and coping with uncertainty is not easy. It is difficult to plan for unexpected and uncertain scenario. Thus, an uncertain situation has to be dealt with a reactive approach. However, according to Garret (1999) uncertainty can be managed. He argued that companies having proactive involvement with uncertainty are better positioned to address the repeated occurrences of uncertainty. Therefore, a better management of uncertainty happens by timely identification of changes in the business environmental, then embarking upon, and reducing uncertainty either concurrently or sequentially.

Influences of Market structure on Strategic Options

The design school strategy market structure examination establishes the organization key success factors (external) and its distinctive competences (internal) fit through, what is known as SWOT analysis. The market structure is one of the key determinants for any organization considering the strategic options. Design school strategy can be followed by small firms operating into a monopolistic competition market. The example of such a sector is retail trade, including clothing stores, restaurants and convenience stores. The services industries in large cities come under this category. As the organization size is smaller, one person can drive the strategies of the organization. In this market, the value of the brand makes the customers buy the product of a certain firm. The competition is generally of non-price

category, though in the long run, the firm can increase the cost of its products without losing its customers.

Environment

Once again, the design school uses SWOTT analysis to look at the external or internal threat, through scanning its environment. The examination establishes the organization's key success factors (external) and its distinctive competences (internal) fit. Threats to firms can be identified as either major or minor threats. The major threats need immediate attention. The design school proposes the matching of organizations' strength with the major threat facing it. The organization may need to adapt its strategy to overcome the major threat facing its existence (Finlay, 2000).

As the action is considered a cardinal virtue for the businesses, there is a natural bias towards taking actions. Any large business would deplete its resources quickly if it starts responding to every opportunity in a turbulent market. On the other hand, a small business can afford frantic activity in a turbulent market, as it is easier for them to shift the focus. Thus, a small firm facing a turbulent market conditions can choose to follow the design school of strategy to succeed in the competitive environment (Mahoney & Pandian, 1992). Microsoft ' s success in building the Personal Computers (PC) operating systems, when every large player of the time was clamoring for leading the operating systems market, is an example of this scenario. The situation is just opposite in a stable market where a small firm can not compete with a large firm due to the financial muscle of larger firms. For example, it was easy for every small player to provide a email service when

the market was turbulent but as the market stabilized, only the large players remained. The small players are hardly noticeable in a stable market.

Positioning School of Strategy

The positioning school of strategy follows a narrow approach in terms of identifying the best strategy for an organization. It is calculative, quantifiable, and relies on the analysts to determine the strategic action plan. The positioning school approach is generic in nature involving few strategies, which can be potentially applied across the industry segments and any verticals. Once, the strategic goal is identified, the next step in this strategic process is to apply few generic strategies to achieve the identified goal. For example, if the strategic goal is to attain a certain position in a particular market segment in any given industry, the strategy would be to defend the interest of the organization in that particular segment against any current or future competitors. The positioning school of thought consider the strategies being generic in nature, and having positions, which are identifiable in the market place. The positioning school strategies are based on the result of calculations done by the analysts, who are monitoring the market with respect to the goal of the organization. The strategies, pursuant to this process, are deliberate positional strategies, which effectively drive the organizational structure triggered by market structure (Finlay, 2000).

Roots of positioning school

As per Mintzberg et al. (1998), The Positioning School is largely derived from the two books from Porter, Competitive Strategy (1980) and Competitive Advantage (1985). It believes that Strategy is the process of selecting from

the generic strategy and implementing it as a follow through mechanism of the business logic of the generic strategy.

Any novice would think that there could be a plethora of positional strategies, given that there are so many market forces. However, positional strategy thinkers like Michael Porter have different thoughts. According to Porter's 5 forces model, there are only two types of basic competitive strategies in which an organization operates which are differentiation and low cost. Porter combined the scope of a particular business to crystallize the three generic strategies (1)Leadership in cost – producing and selling low cost goods (2) Differentiation – Innovation in producing unique goods, and (3) Focus – To operate in the limited market segment (Sloan, 2006)

Risk

Power (2004) considers direct and indirect risks are two major categories of the risk. Direct risks are usually those type of risks over which an organization have control or they can affect. These risks frequently affect the business's supply chain, labor force, operations as well as competitive position. On the other hand, indirect or external risks are those risks, which include such factors, which are beyond the control of the company. Interest rates, currency exchange rates, energy costs and weather are some of the examples of indirect risks.

One more factor, which affects risk, is efficiency and competency. Organizations, regardless of size or industry, regularly deal with various types of risks, whether by a formal or an informal way. Business leaders, usually attempt to manage risk or permit risk to handle them. Although, the

amount of risk as well as other related activities contrasts widely with the different line of business, the basis for creating effectual strategies for risk management includes analysis as well as planning.

Positioning school of strategy is highly adept at handling the risks in the marketplace. However, the depth of analysis is dependent upon the variables considered by the analysts. This process of risk management, attenuate the focus of the company and needlessly amplify the cost by defining the operational plans each time (Mintzberg et. al, 1999).

Given adequate capacity as well as flexibility, few businesses can achieve agreeable results without the help of immediate risk management. Positioning school strategy matches the most useful strategy with the conditions prevalent at the time of decision-making. Using fairly standard and stable analytical decision models, these generic method synergies the decision making to handle all types of risks.

Another approach for managing risk factor in positioning school is to lessen the risk itself, in addition to its potential effect on the business or school. Although reducing risk will reduce uncertainty, it, in general, need better and larger resources comparing to the reactive method. Positioning school also suggests the reduction of the impact of risk. Generic strategies of cost leadership, differentiation and focus can be followed to achieve the reduction in the impact of risk.

Uncertainty

The uncertainty or the unexpected risks in the business environment need to be handled pro-actively to ' keep the show in the road'. The success of any

business depends on how the frequently the uncertain situations are faced. The challenging situations, decision making with a short-term horizon can result in the uncertain business results. Moreover, the business environment is never certain. The new competitors are always there to enter the business sector, in which the firm is operating. The bargaining power of the customers and suppliers is ever changing, and the business firm needs to respond appropriately to the uncertainty around it.

Managing Uncertainty

The management of the uncertainty in positioning school of strategy is dependent upon the porter's generic strategy. These generic strategies are cost leadership, focus and differentiation. The firm can choose any of these three generic strategies to manage uncertainty in the future. The analysis of the firm's economic landscape combined with the identification of the appropriate generic strategy results in the firm achieving the competitive advantage (Porter & Miller, 1985).

Influences of Market Structure

Positioning school is believed to be highly dependent on the market structure to determine the strategy. The analysis conducted by the consultants for the current market structure determines the organization structure. The positional school strategies are deliberate, which are dependent on the analyst's view. Oligopoly market structure is most suitable for the application of positioning school strategy. Any player, having the intent to differentiate itself in the oligopoly market has to differentiate itself. This is achieved by positioning the firm/products in the market, differentiating it from the other players.

The role of the Chief Executive Officer (CEO) is marginalized in determining the appropriate strategies to be undertaken in the positioning school of strategy. The role of the analysts or consultants is very important in determining the appropriate strategy for any organization. The process followed by the analysts is that he evaluates the market place, domain, and sector. After the evaluation, he formulates the business strategy by drawing heavily from the Porter's generic strategies. These strategies are matched against the organization's objectives. The final strategy is presented to management for implementing in the organization to re-align its structure (Mintzberg et al, 1999). Thus, the market structure has heavy influence in the formulation of strategy in case of positioning school.

Environment

The business environment is ever changing with the players entering and exiting out of the domain. As discussed, Porter's 5 forces model provides the analysis of the business environment with the formulation of the appropriate strategies for resolving the challenge.

The positioning school strategy relies on the past performance of the organization; hence it is not an appropriate strategy for the small start up firms in a stable market. Moreover, for turbulent market this strategy is not useful for any firm of any size as the past performances of the firms are not available. Instead, this strategy is appropriate for an innovative organization, which wants to create a specific niche for itself.

Porter (1996) further suggests the use of 3 generic strategies to define the business operations of any firm. These 3 generic strategies are –

Differentiation, cost leadership and focus. The differentiation strategy focuses on the innovation in the products being manufactured by the firm. Apple Corporation's iPod was considered as an innovative product, which differentiated Apple from its competitors. Apple's iPhone further enhanced the Apple Corporation's innovative brand in the mind of customers. No one ever imagined that any product in the modern time could affect the customer so much. The queue of the customers outside Apple stores is a living testimony of the success of the differentiation strategy in responding to the challenges posed by business environment. Cost leadership strategy is derived from the economies of scale. The firm chooses to reduce the cost of its product to the lowest level among all its competitions, though maintaining the same quality level. The success of IP (Internet Protocol) telephony can be an example here. Focus is another strategy, which is used in positioning school. Bose Speakers can be the example of such a strategy. The Focus of this organization in developing the best sound system of the world has finally been recognized and the products of this organization are considered as a benchmark in the quality of sound.

Comparison between the design and positioning school

After discussing the various aspects of the two schools of thought on the strategy, following table contrasts the difference between each of these schools.

Characteristic

Design School

Positioning School

Number of strategies

No Limitation

Few key strategies, also known as generic strategies

Application in the lifecycle of a project

Concerned about the formulation of the strategy only

Concerned about both formulation and implementation of the strategy

Application across industry

Design school strategies are specific to a particular situation &industry segment

Positioning school strategies are generic in nature and can be applied across the industry

Portability

Design school strategies defined for a particular situation may not work in all situations.

Positioning school strategies can be applied in most of the situations, owing to its generic nature. Thus, the positioning strategy is portable in nature (Mintzberg et al., 1999).

Management Centric

The management and the ethical approach of the organization are the primary factors for a design school strategy

Positioning school strategy relies heavily on the analysts. The people leaders in the positioning school strategy hardly have a choice except to implement the suggestions from the analysts (Mintzberg et al., 1999).

Firm Centric

Design school of strategy considers the entire organization as one while defining the future strategy of any organization.

The positioning school, on the other hand, disaggregates the operation of a firm into two parts as primary and support activities. Porter (1996) called this framework as value chain.

Approach to defining strategy

The focus of the design school of strategy is broad in nature. Design school of thought believes that the best strategy results from the individualized design process.

Positioning school of thought has focussed approach in determining the strategy.

Size of business

The design school provides specific solutions to a challenging business issue, irrespective of the size of the business.

The positioning schools tend to be biased towards the big business.

Environment Variables

Almost entire set of environmental situations are considered in devising strategies through the design school thought.

Positioning school only considers the limited number of conditions in devising the strategy.

Distortion between the strategy formulation and implementation

Design school is based upon the right interpretation of the subjective analysis of the current situation by the top leadership. If the interpretation is wrong or the distortion of the data happens while being transferred, the resulting strategy would not be appropriate.

In the positioning school of strategy, the strategy is the result of objective market analysis, which is difficult to be distorted.

How a hybrid strategy incorporating design and positioning school elements helps

The design and positioning schools of thought are helpful for different types of organizations operating in different market structures and environments. A hybrid of both strategies can be beneficial to a firm, which is aiming to operate and grow over a long time. For example, any small start-up would follow the design school of strategy. It would study the market, its demands,

opportunities, strength & weaknesses of the firm, associated threats in the sector before beginning the operations. Moreover, the size of the firm is small in the beginning; hence, it is easier for the CEO (or any one person in-charge of operations) to manage the strategies within the organization. As the firm establishes itself, the past performance of the firm is available. Now, the firm can start employing the positioning school of thought to develop its strategies. As the size of the firm increases, it needs to position and differentiate itself. The positioning school of strategy makes it possible for a growing firm to create and position its brand appropriately.

The hybrid strategy can also be formed by combining the elements of design and positioning school. For example, SWOT analysis can be conducted for the firm to match the internal capabilities with the external challenges. The Porter's 5 forces analysis can be conducted to position the firm in the operating sector.

Conclusion

This paper discussed the design school and the positioning school of strategies. It can be argued that design strategy cannot identify every possible scenario for an organization to become successful through its distinctive competencies to ensure a best-fit strategy let alone its organizations social responsibility and managerial values during the creation, evaluation and selection of the best-fit strategies for their environment. Most organizations adapt to their environment through scanning and SWOT analysis. However, in the positioning school strategy, the porter's generic strategies are used by analysts to the management for aligning the organization into a certain direction. Porter's 5 forces analysis is used to

determine the market forces, determine the bargaining power of the stakeholders like customer and suppliers and the threat from the competitors and the substitutes.

Each school of strategy has its own advantages and disadvantages determined by the size of the organization, market forces, and the objectives of the organization.