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What is strategy?

There're many definitions of strategy. According to Johnson and Scholes, strategy is 'the direction and scope of an organization over the long term: which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and to fulfill stakeholder expectations'.[1] Whatever the definition, strategy studying is a scheme which tries to find out why some firms perform better than the others, and the basis they sustain.

Positional perspective

From the position-setting viewpoint, the essence of strategy is deliberately choosing a unique and valuable position to deliver value via a different set of activities. Starting with analysis of industry attractiveness, the fundamental determinant of firm's profitability is attributed to rule of competition embodies by 5 competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry of among the existing competitors.[2] A firm's strategy rests heavily on picking the right industry and understanding the 5 forces better than competitors and its positioning determine whether its profitability above or below the industry average.

Two basic competitive advantages, low cost or differentiation, combined with scope of activities, narrow or broad, lead to 3 generic strategies: cost leadership, differentiation, and focus. The ultimate base for differentiation is the unique value to satisfy buyers' needs. Through disaggregating all of a firm's function into discrete activities, value chain analysis provides instrument to identify the cost drivers and their contributes to competitive advantage.

Strategic positioning means performing different activities from rivals, or performing similar activities in different ways[3]. A firm's differentiation may appeal to a broad group of buyers or only a subset of buyers with particular needs. According to Porter, there're 3 basic sources for differentiation: the choice of products or service varieties (variety-based positioning), the choice to serve most of all the needs of a particular group of customers (needs-based positioning), and the choice to access customers in different ways through special configuration of activities (access-based positioning). Whatever the basis, differentiation positioning requires a tailored set of activities which mean how to make trade-offs decisions among incompatible

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[1] G. Johnson and K. I. Scholes *Exploring Corporate Strategy* 1997 Prentice Hall
[2] M. E. Porter *Competitive Advantage*, 1985
[3] M. E. Porter *What is Strategy?* Harvard Business Review 1996

activities, and how to fit activities properly into the competitive advantage. The consistency among activities ensures that competitive advantages of activities cumulate and don't erode or cancel themselves out[4]. Positions built on systems of activities are far more sustainable than those built on individual activities, because they are difficult to untangle from outside the company and therefore had to imitate.

The essential role of leadership is making choice. The strategy responsibility for senior management is defining and communicating the company's unique strategic position, making trade-offs, and forging fit among activities.

Resourced-based perspective

According to Collis and Montgomery, corporate strategy is the way a company created value through configuration and coordination of its multimarket activities.[5] The framework of corporate strategy lies on a triangle extending three sides with resources; business; and structure, system, and processes and enclosing vision and goals in core. A firm is a collection of physical assets and intangible resources. Therefore, an outstanding corporate strategy is stemming from its valuable resource.

Firms with superior resources perform better than other firms by lower cost and ability to gain competitive advantages. The value of a firm's resources lies in the complex interplay between the firm and its competitive environment along the dimensions of demand, scarcity and appropriability. Value is created in the intersection of the three sets: when a resource is demanded by customers, when it can't be replicated by competitor, and when the profits it generates are captured by the firm.[6]

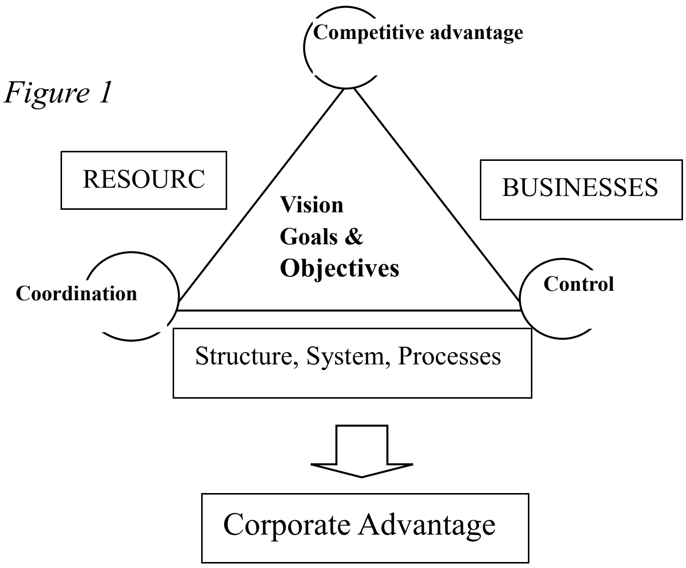
In line with identification of valuable resource, the extent of competitive advantages derived form superior resource rests on the simultaneous support of 4 conditions: the heterogeneity to create Ricardian rent; the imperfect mobility to maintain the rent within the firm; the ex ante limits to competition so that the rents aren't offset by cost; the ex post limits to competition resulting in long-lasting rents.[7] The resources should be tasted for inimitability, durability, appropriability, sustainability, and competitive superiority before being cataloged to valuable resources.

Collis and Montgomery suggest that in order to create competitive advantages in system as a whole, having valuable resources only not sufficient to justify, the key is the ability to link the elements with control and coordination respectively, as shown in figure 1. The strategic implication of valuable resource is centered on the capability to

[4] M. E. Porter *What is Strategy?* Harvard Business Review 1996
[5] Collins and Montgomery *Corporate strategy: A resource-Based Approach* McGrew-Hill 1998
[6] Collins and Montgomery *Corporate strategy: A resource-Based Approach* McGrew-Hill 1998
[7] M.A. Peteraf *The Cornerstones of Competitive Advantage: A Resource Based View* Strategic Management Journal 1993

exploit and leverage them to create competitive advantage. On one hand, a corporation's location on resource continuum constrains the set of businesses it should compete in and limits its choices about the design of organization[8]. For example, a firm should choose the business span which is correlated among on its resource and design the related coordination and control system. On the other, an effective corporate strategy requires continual investing on, upgrading and leveraging valuable resource. The continual investment is aimed to maintain and build valuable resource with a careful examination on competitive dynamics. Upgrading resource means adding new competencies sequentially to avoid possible threat from imitation and substitution. The purpose of resource leverage is managing resources to produce synergies. The effective leverage requires smooth transfer of resources, skills and knowledge under the coherent concept that the valuable resources belong to whole organization rather than individual business unit.

Figure 1



Dynamic capacities perspective

In order to understand how the firm perform in environment of rapid and unpredictable change, Teece et al advocate the theory of dynamic capabilities and define it as the firm's ability 'to integrate, build, and reconfigure internal and external competences to address rapidly changing environment'.[9] The term' dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing context factors, meaning the well-timed response to the changes on technology, markets and customers' taste. The term 'capabilities' emphasize the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to

[8] Collis and Montgomery *Creating Corporate Advantage* Harvard Business Review, 1998
[9] David J. teece, Gary Pisano and Amy Shuen *Dynamic Capabilities and Strategic Management* 1997

match the requirement of changing environment.[10]

The foundation of dynamic capabilities rests on the distinctive and difficult-to-replicate resource. Firms have to identify their unique resources and continually to maintain, enhance in order to coordinate them to match the pace of rapidly change. According to Teece at el, the competitive advantage of firms lies with its managerial and organizational processes, and shaped by its asset position, and the paths available to it.[11] The argument focus the more difficult to replicate and imitate, the more durable and distinctive of its advantage. The more complexity and interdependency a system, it's more difficult to copy. Beside, a firm's previous investment and its repertoire of routines constrain its future behavior.[12] That is, a firm's present and future depends on its history. Teece et al refers to Mitchell's study, asserting that firms already controlling the relevant complementary assets could in theory start last and finish first. In addition, this model stresses the importance of learning, taking it as a process for joint contribution from organization and individuals and knowledge generation.

Teece at el believes that the firm is much more than it's the sum of its parts or a team tied together by contracts. Therefore, organizational process and positions are normally difficult to replicate and imitate either because it's difficult to transfer or trade human resources, skills or other kinds of resources in marketplace or because it's hard to understand the relevant routines, especially for those tacit.

Paralleling to dynamic capabilities, Hamel and Prahalad stress the concept of 'core competences' to explain the changing basis for global leadership. A firm is taken as a portfolio of competences rather than portfolio of business. The core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technology[13]. Facing the thriving global competition, a firm's long term competitiveness derives from an ability to build core competences. The core competencies are the root system which provides nourishment to the core products, business units and end products. The main responsibility for senior management is setting up a strategic architecture to identify the future core competencies and develop them.[14]

However, in my personal view, if different firms really have different dynamic capabilities, they might reach the same stage through different organizational processes, assets and paths rather than replication and imitation of their competitors. For example, the blur boundaries among communication and electronic products lead

[10] David J. teece, Gary Pisano and Amy Shuen *Dynamic Capabilities and Strategic Management* 1997
[11] David J. teece, Gary Pisano and Amy Shuen *Dynamic Capabilities and Strategic Management* 1997
[12] David J. teece, Gary Pisano and Amy Shuen *Dynamic Capabilities and Strategic Management* 1997
[13] C.K. Prahalad and Gary Hamel *The Core Competence of the Corporation* Harvard Business Review, 1990
[14] C.K. Prahalad and Gary Hamel *The Core Competence of the Corporation* Harvard Business Review, 1990

to sheer competition between producers (Sony, Canon, Nokia etc.) All of them could introduce similar new products (or defining to satisfy some needs) through different leveraging of their competitive advantages. Thus, the replication and imitation are not necessary the only way to lose competitive advantage.

Comparison

All above frameworks of strategy discuss the competitive advantages which lead to superior performance. There're several different arguments in respect to how firms achieve and sustain competitive advantage. First, the sources of competitive advantage differ among theories: monopoly profit accruing to a protected market position (Porter 1980); Ricardian rents to idiosyncratic firm specific resource (Penrose 1959); and Schumpeterian rents from dynamic capability to renew advantage over time (Teece, Pisano and Shuen 1997). Second, from the organization view of firm, the position perspective takes an outside-in approach by starting with industry analysis and the resource-based view rests on an inside-out progress by rooting advantages on firm's idiosyncratic resources[15].

Third, there's some intereffect between theories. For example, driving form internal activities and resources, the dynamic capability theory tries to catch up with the rapidly external environment by configuring asset structure to external transformation. On the other hand, the resource-based analysis marks the upgrading of unique resource as the way to sustain the advantages. Both the resource-based approach and dynamic capabilities emphasize the distinctive quality of unique internal resources and activities, especially the intangible asset.

Conclusion

In practice, there's no one right strategy for all firms. Surrounding by diverse context factors, each firm has different skills to play the competition game. Methods of strategic analysis used in static industry may be unsuitable to apply to highly dynamic industry. The strategy theories more like the dishes in buffet table than a set dinner, we can deploy them more creatively after understanding the elements.

Moreover, Hamel and Prahalad propose that competition for the future is competition for the opportunity share rather than market share, arguing that new strategy is designed to shape future industry structure and compete for the core competence leadership[16]. Therefore, strategy analysis is no more limited to examine how a firm success, but to portray the future path of sustainable development.

[15] Anja Baastrup *Class summery*
[16] Competing for the Future, Gary Hamel and C.K. Prahalad, Harvard Business School Press, 1994

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