Study on the Mechanism Formation of Corporate Strategy

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Abstract  The corporate strategy is a quite new branch in management science. Since the 1960’s, the term “strategy” was brought out in the field. Although the study on corporate strategy is not very long, as a result of the development of economy, the essence, the connotation and the significance of corporate strategy have been constantly enriched and developed, with its study object shifted from external environment to market competition, and then to core ability. This paper makes a mechanism analysis frame, in which three elements are involved as benefit relater, market competence and corporative growth. By analyzing the promotive effect of those three elements to corporate strategy, this paper describes the mechanism formation of the corporate strategy, aiming to seize the essence of corporate strategy and at the same time achieve a comprehensive understanding of corporate strategy.

Key words  Formation of corporate strategy Mechanism Benefit relater Market competence Corporation growth

1. Introduction

The formation and development of strategy is one of the most important topics in the management theory. In the 1960’s, the term strategy was proposed clearly in the domain of corporation management, together with its definition and process. The studies by Selznick, Chandler, Andrews and Ansoff all referred to the concept, to some extent that corporate mission and strategy were build on the basis of corporate distinctive competence (Selznick, 1957 Chandler, 1962 Andrews, 1965 Ansoff, 1965). The formation of strategy was regarded as the product of careful consideration, which helped to confirm the corporation growing pattern, match the inner and outer corporate environments and balance corporate strength and weakness analytic (Henry Mintzberg, 1994). Influenced by C.Barnard’s thoughts about the role of the executives in social cooperation system (C.Barnard, 1938), Ansoff and Andrews conceptualized the strategy process and proposed “Andoni-Ansoff-Andrews’ Paradigm” (shortened as “3As’ Paradigm”). The core of 3A’s Paradigm was “strength-weakness-opportunity-threat” (SWOT) analysis. The strategy at that time contains the characteristic of “long-time plan” and is apt to meet with the slowly-changing environment via stable and perfect plans and credible predictions.

Since 1970’s, the decline of world economy induced by the oil crisis, the collapse of the Bretton woods system, contributed to the turbulence of the world currency market thus innovation of new technologies deep influence on corporate operation. In addition to the internationalization of multi-corporations, the integrating of international markets, the increasing regionalization of world economy and some other factors, the environments which corporation were facing were becoming more and more complexed and unstable. Therefore corporations were compelled by giving up the fancy of long-term plan, and then to seek the way to employ and to get adapted to the uncertainty, which focus on the study of corporate strategy. Especially with the rapid development of multi-corporations and the prevalence and maturation of multiple corporations, high-rank managers have to search for knowledge or methods to deal with integrated issues such as development of different business and competence resources allocation. Competence Strategy proposed by Michele E.Porter, a famous professor of business school of Harvard University, builds connection between corporate strategy management and industry economy. In Porter’s study, the center of competence strategy study is that the source competence advantage or the differences among different corporate performances depends on industry structures and the position of corporation. The industry structures indicate differences among different industry performances, and the position of corporation demonstrates the differences among different corporate performances in the same industry. The study makes full and deep analysis in aspects of the
costs of corporation inner activities, industry structures, region industry colony and etc., which offer a larger perspective to comprehend the essence of competence strategy. The method of analysis indicated by Micheal E. Porter could only provide the possible styles of corporate strategy but not principles to select one from the possible styles of corporate strategy or not solutions to the practical problems in corporate strategy.

Porter’s Strategy theory clearly shows the Harvard business school’s characteristics of Strategy study as corporate strategy taking the whole corporation as study object should put the management in charge, which needs the whole process management ability. It seems that people still can not define strategy clearly. As a matter of fact, the essence of corporate strategy was just position, which means to creating distinctive and advantageous position related to variant operation actives. (Micheal E. Porte, 1996) This definition even includes the concept “The Core Competence of the Corporation” described the organizational capacity to learn and to harmonize all sorts of productivity and integrate variant techniques. It is not the organizational physical assets but it should create critical value to meet with the consumers’ needs, competitive uniqueness on and new attribution to successful entrance into new markets beyond certain specific products or departments. (C.K. Prahalad & Gary Hamel, 1990)

The object of study on strategy started with the corporation inner strategy thinking, then switched to the outer environments impacting corporation development, later turned to the inner resource and core competence of the corporation. Now the essence of corporate strategy had already been developed by the grate masters of the strategy management and had been accepted profoundly. But it seems that people could not comprehend the strategy entirely, which means not only to review the strategy development but also to understand the factors and reasons that attribute to the forming and development of strategy. It is mechanism formation of corporate strategy that this paper intends to study.

2. Text

The formation of corporate strategy is influenced seriously by benefit relaters, market competition and corporation growth. The paper intend to demonstrate the mechanism formation of corporation strategy by analyzing the impact of 3-element on corporate strategy, dealing with the inner factors of corporate strategy and the relations among them and exploring their influence or decisive roles on the effective operation of corporate strategy. All the study will help us comprehend corporate strategy fully and thoroughly.

2.1 Benefit Relater Mechanism

The concept “benefit relaters” was proposed by the economist Ansoff. He points out that it is necessary to balance the benefit of corporation’s variant benefit relaters referring to managers, employees, stockholders, supplier and customers and eliminate conflicts among them (Ansoff, 1965). With the boosting process of economic globalization, economists find it limited benefit relaters only to the ones that influence corporation subsistence. So the boundary of benefit relaters expands not only to the individuals and organization sodalities that influence corporation goals, but also the ones who would be influenced by corporation in the process when corporation realizes its goals (Freeman, 1984). Then benefit relaters refer to managers, employees, stockholders, supplier and customers of the corporation, and also include government, local residents, media and environmentalists, even the objects influenced directly or indirectly by activities of corporation such as nature environment, human offspring, non-human species and etc.

The core idea of Benefit relater mechanism is that corporate strategy should be developed and carried out under the balance of benefit relater’s benefits. The development of corporation needs the participation and contribution of benefit relaters, so the benefit relater’s whole benefits should be taken into account. Those Benefit relaters input certain specialization investment for the corporation’s survival and development. They might share the risks or costs corporate strategy would run into and the corporation must consider compensation to Benefit relaters for their investment or loss. In this case, Benefit relater mechanism makes it more possible why corporations exist. Thus corporations have to not only care about traditional indexes but also pay attention to Benefit relaters’ benefit indexes.
Corporation is not only economic man but also social man and moral man, so corporation should center on competitiveness and efficiency, especially humanity and sociality. Whether it conforms to the widely Social Charter is the final standard to measure the corporate performance (Peter F. Drucker, 1954). The consideration about benefits of Benefit relaters to the fullest extent would cause corporation’s leadership and managers to do strategic thinking, which can induce corporation to adjust its position in the market.

On the one hand, Benefit relater mechanism determine and influence corporate strategy and further the corporation’s survival and development. In 1992, the study of Cott and Hess Cott, Harvard University, indicated that the best financial performance had been realized by distinct corporate culture, which had built on the focus on the values of customers’, staff’s and society’s besides that of stockholder’s. They investigated corporations which cared about the Value of the benefit relaters and ones which only focused on stockholder’s return and found that over the past 11 years, the performance of the former increased by 682%, while the latter just 166%. On the other hand, corporate strategy would impact Benefit relater of corporation. The success of corporate strategy determine needs and the purpose of the Benefit relaters’. Corporate strategy is supported by the final aims, that is to acquire sustaining competitive advantage in order to gain the profit above the industry average rate. (Micheal E.Porter, 1985)

Benefit relater mechanism emphasizes that corporation’s survival and success depend on the mutual impact which corporation and its benefit relaters act on each other, and the positive alliance between benefit relaters can have the long-term competitive advantage to the corporation and the society. Good relationship among benefit relaters may induce competitive advantage, which have been proved in at least four dimensions as follows: (1) the failure to create relations with Benefit relater produced stockholder risk (2) the solid relations with employees, supply chain and allies were the precondition for innovation (3) intensive network would offer valuable information and resource for the development of a new market or exploitation of a new opportunity (4) relationship can improve brand value of the corporate, which bring huge benefit to the corporate.

Benefit relater mechanism indicate that it would raise the costs of corporate strategy performance executing instead of being against strategy in its pursuit of profit. It is essential for corporate strategy to be responsible for gaining profit. Benefit relater mechanism cause corporation to think about corporate ethic. The combination of benefit relater mechanism and corporate strategy expand the corporation operating traditional goals. Corporation not only stresses the strategy in pursuit of economic efficiency and benefit, but also acceptance of corporate strategy and the contribution which corporation makes to society. The key is not profit itself but the means to achieve it.

2.2 Market Competitive Mechanism

Competition rooted in the scarcity of resources. Under the hypothesis of “economic man” in Economics, each person or economic subject pursues maximization of its own effectiveness (Adam Smith, 1776), but economical resources which the humanity hold all have exclusiveness, so conflicts come inevitably when a person or an economic subject simultaneously pursue in this process, that’s a primitive competition. Economist G.J.Stigler, (1987) figured out that competition is contend between individual (or group or country); if two sides want to get something which is impossible to acquire at the same time, competition will occur. Although competition is by nature of conflict, as mechanism, competition can unify individual benefits and social benefits, and implement resources allocation effective, exert comparison advantage. Competition has spontaneity, competition can increase the passion which is a huge impelling force. Competition promotes market operation effectively. Market is an invisible hand which plays an important role in competitive mechanism.

Over the past two decades, strategy orienting competition conduct the domain of corporate strategy study, which proposed that market structure play the most important role in determining corporation profit-gaining and the appropriate position in the industry market were critical to achieve perfect performance. This thinking is to demonstrate how market competition causes corporation to do strategic thinking and indicate how mechanism of corporate strategy is formed.

In the 1980’s, people found that it was impossible to explain the perfect performance of corporate via
general strategy or competition singly. So they started searching for resource of competitive advantage. After a period of study, people realized that the source corporation could get and take in use was utmost important in corporate strategy. When corporate enters a market, resource corporation that could get and take to use was the precondition. Then corporation could have the ability quality to compete with other rivals in the same market or industry.

The outer environment was what market competition depends on, and the market competition defines that corporation should consider its position in the competitive market, which was the essence of strategy. (Micheal E. Porter, 2004) To evaluate competitive environment corporation faces and make full use of resource lead to corporate strategy, which demonstrates the market competitive mechanism of corporate strategy “resource-market environment-position”. Market environment have referred involves the macro- environment and micro- environment such as market structure etc. Some scholars found that industrial concentration degree, scope economy, vertical integration, and industry barrier had much more influence on corporate performance than the outer political or economic environment.

2.3 Corporation Growing Mechanism

“Growth” is a state of the corporation survival and development. Corporation is an aggregation which is formed by different business resources. Corporation growth is not only an accumulating and expending process of the business resources, but also a process of the adjustment of its structure and the updating its characteristics. Corporation growth includes that of economical performance and economical effect, which means its increasing contribution to economy and society and the improvement of corporation’s ability to make use of resource and gain profits (Peter F. Drucker, 1954). With the corporate scale expend in and corporate quality improving, how to make corporation develop more smoothly became the theme of corporate strategy. Obviously, corporation growth is another important factor that causes corporation to do strategic thinking. The mechanism, which makes the corporation do strategic thinking in pursuit of the constant development of corporation is called corporation growing mechanism.

Generally, the surplus service, unexploited resource and distinct abilities existing in corporation are inducing factors of corporation development. If corporation is short of professional skills, especially the managing ability and skills to plan or carry out a new program, the corporate expanding would confront many restrictions (Penrose, 1959). It would cause stimulation to make full use of any resource before they are fully exploited. How to take advantage of organizational abilities, including equipment, facility, marketing and management skills (Alfred D. Chandler, Jr., 1990), to allocate resources of the corporation, and to exert functions of all factors, are strategic concepts which high-rank managers continue to seek.

The core competence of corporation is the root of growth (C.K. Prahalad & Gary Hamel, 1990) Corporation growing mechanism is also built on the core competence of corporation. Corporation might grow with core technologies or other immaterial capitals, which is called hard core competence, or it might grow with special management skill or other immaterial capitals, which is called soft core competence. Corporation growing mechanism based on core competence exerts different effects on each stage of corporation growing, as Table 1 displays.

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<th>Stage of growth</th>
<th>Hard core competence</th>
<th>Soft core competence</th>
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<td>Establishing period</td>
<td>Single specialization</td>
<td>Single specialization</td>
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<td>Growing period</td>
<td>High degree specialization</td>
<td>Correlate specialization</td>
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<td>Mature period</td>
<td>Correlate specialization</td>
<td>Non-Correlate specialization</td>
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(1) Establishing period: product and market scopes are narrow, and even some kinds of resources are short comparatively, which can’t form strong core ability (Hard core ability and soft core ability). So corporation should follow the specialization growth model in this period, start to bring up core ability of corporation, and reducing the management risk effectively, in order to guarantee survival of the corporation.

(2) Growing period: After the cultivation and development of its ability in the growing period, corporation will be gradually equipped with hard core ability or soft core ability, so as to invent new
product and develop the new market. Hard core ability can keep specialized production, help final products to proliferate in the market, form scope economy effectively, further-more cultivate core ability in one or several fields to form higher specialization, and to prepare for the transition to correlative diversification. Corporation with soft core competence possesses excellent management skills, operation abilities on mass production, healthy corporate culture and core values etc., such as US's MacDonald. It can spread all over the world by brand image of the corporation and achieve success. So corporation can shift from specialization to correlative diversification, continuously consummate the management skill in each management field unceasingly, strengthen soft core ability, and prepare for the next step.

③. Mature period: By specialized cultivation in the first two phases, core ability enters the high-level specialized phase, while corporation which possesses hard core ability starts to go into diversification phase, scope economy is realized. After the correlative diversification, non-correlative diversification also can be taken into strategic consideration, but a prerequisite is that corporation should hold strong soft core ability. Soft core ability can reduce risk brought out by correlative diversification.

What should be emphasized is that the change of the current situation the evolution tendency, the technical economy of an industry, affect and change the environment of corporate survival and development, and at the same time bring out the corresponding requirement on corporate growth model. Industrial character, spatial position and organization relationship constitute important contingency factors of the corporate strategy choice (Micheal E.Porter1980) . Corporation grows in certain industry context which provides different conditions for corporate growth, so if corporations want to grow continually, during cultivating core ability, it should make corresponding adjustment of the growth model based on the industrial environment, and cultivate core ability.

To sum up, corporation growing mechanism causes its strategy managers to think about and analyze corporate position deeply. They can plan corporation development rationally, select appropriate position in market and corporation growing model and form effective corporate strategy.

3 .Conclusion

The study of the paper indicates that benefit relater, market competition and corporation growth are the decisive element in the forming of corporate strategy. Benefit relater mechanism, market competition mechanism and corporation growing mechanism deduced from the 3 elements as above constitutes the mechanism formation of corporation strategy. The mechanism formation of corporate strategy is an invisible hand that causes corporation to foster its core competence, and therefore helps the evolution of corporate strategy.

References