Chapter 2
Strategy, Process, Organization, and Systems

ABSTRACT

Building on the understanding of the theories and models of firms, this chapter reviews the basic principles of strategic management of business enterprises. Firstly, the basic principles of business strategy are explained. Secondly, the role of corporate strategy and its relationships with business unit strategies are discussed. Thirdly, this chapter describes the principles of strategy maps—a customer-centered strategic alignment model which is widely used in industry as a methodology for managing the diligent execution of strategy to deliver on the differentiating customer value propositions. Finally, because of the increasing importance of corporate governance compliance, such as Sabiane Oxley, firms must also pay due consideration to ethics in information technology deployment.

INTRODUCTION

Building on the understanding of the theories and models of firms, this chapter reviews the basic principles of strategic management of business enterprises. Firstly, the basic principles of business strategy are explained. Following on from the resource-based, knowledge-based, and activity-based theories of firms discussed in chapter 1, this chapter describes the corresponding resource-based, capabilities- (or knowledge-) based and activity-based strategies. They form an essential foundation for articulating business and service strategies upon which service innovation strategies and service concept design principles will be formulated.

Secondly, the role of corporate strategy and its relationships with business unit strategies are discussed. The discipline of strategic management and the principles of strategic planning are introduced. To help managers develop sound business strategies for their firms, the chapter also describes eight basic methods for business strategy analysis. From this analysis, firms will be able to analyze the needs for change from comparing the current state to the future target state of the business envisioned by the resultant business strategy. The chapter then briefly describes the measurement of competitive strategy to address strategic planning effectiveness issues.

Thirdly, this chapter describes the principles of strategy maps—a customer-centered strategic alignment model which is widely used in industry as a methodology for managing the diligent execution of strategy to deliver on the differentiating customer value propositions. A key output of the

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strategy map methodology is the map of how the firm's strategy, core processes, human capital, information capital, and organization capital will be aligned and integrated coherently for the sole purpose of customer value creation. Strategy map is a particularly practical strategy implementation methodology that fuses the resource-based and activity-based views of the firm. It is premised on strategic and operational fitness of the firm's resources/capabilities (human, information, and organizational capitals) with its systems of activities (core processes) towards delivery of the espoused distinctive customer value proposition.

The first three parts of the chapter ensure a corporate/business strategy is rigorously planned, resourced, and diligently executed to deliver the requisite strategic goals. The fourth part describes the value creation core processes and the corresponding organization of activity system which needs to be thoroughly designed, analyzed, and understood before the strategic requirements for the requisite information systems could be derived. A strategic analysis method is then introduced which allows a systematic identification of the requisite strategic systems to execute the strategy and create the desired value.

Only through in-depth understanding and diligent application of these principles will business executives be able to make strategic choices and craft an appropriate business strategy and the corresponding value configuration, business model, or e-service model for the firm. Increasingly, more and more firms are leveraging Internet to compete by introducing e-services to complement their business models. Thus, this chapter extends from chapter 1's discussion of e-business models to explain the basic properties of e-strategies for e-services.

Finally, because of the increasing importance of corporate governance compliance, such as Sabiane Oxley, firms must also pay due consideration to ethics in information technology deployment. While theories for ethics in IT and their incorporation in IT strategy are still emerging, the chapter ends with a brief review of the basic IT-ethic issues for IT strategy developmental consideration.

BASIC PRINCIPLES OF STRATEGY

Strategy is not about finding the universally best way of competing, nor it is an effort to be all things to every customer. Strategy is about defining a way of competing that delivers unique value in a particular set of uses or for a particular set of customers (Porter, 1985). Indeed, as Thompson and Strickland (2003, p. 3) postulate, "a company's strategy is the game plan management is using to stake out a market position, conduct its operation, attract and please customers, compete successfully, and achieve organizational objectives." To establish and maintain a distinctive strategic positioning, Porter (2001) stipulates that a company needs to follow six fundamental principles:

- It must start with the right goal (superior long-term return on investment). Only by grounding strategy in sustained profitability will real economic value be generated. Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it.
- A company's strategy must enable it to deliver a value proposition, or set of benefits, different from those that competitors offer.
- Strategy needs to be reflected in a distinctive value configuration. To establish a sustainable competitive advantage, a company must perform different activities than rivals or perform similar activities in different ways.
- Robust strategies involve trade-offs. A company must abandon or forgo some product features, services, or activities in order to be unique at others.