Strategy Development & IT

Does a company need a strategy?

1st Assignment

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Why should a company have a strategy?

One basic answer to the question why a company should have a strategy is that companies have them implicitly anyway (Formisano, 2004, p. 2) through the different activities in the company (Porter, Competitive Strategy, 2004, p. xxi). So if it is there anyway, why not plan it explicitly?

Having a business strategy also helps the company to know its strengths and weaknesses (Porter, Competitive Strategy, 2004, p. 29) in comparison with other companies and what the actions are the company is going to take to defend its position. Porter refers to this as offensive and defensive actions that the company takes in order to influence the five competing forces (Potential Entrants, Suppliers, Buyers, Substitutes and Industry competitors) which may push the company out of the market.

Therefore a strategy proactively seeks to modify the causes of these forces rather than just reacting to the causes (Porter, Competitive Strategy, 2004, p. 30), as it would be the case without a strategy. By creating different strategies, the company can seek to go other ways than its rivals, since the market situation is probably known to all of them (Porter, Competitive Strategy, 2004, p. 4).

Usually companies have a hierarchical organization to make the decisions on the appropriate level for efficiency. The executive board makes the decisions regarding the whole company, a factory manager the decisions for that particular factory, and a department manager for his department. However, if two factory managers have to resolve a similar issue, they probably should go for the same option. Hereby, a business strategy can give the people the necessary coordination and direction for common goals, that helps aligning their decisions (Porter, Competitive Strategy, 2004, p. xxi).

In 1996 the chip manufacturer AMD invested 1.9bn dollar in the construction of a wafer factory in Dresden, Germany (AMD, 1999). The construction of the factory took three years until it was opened in October 1999. Investments like these obviously need long-term planning. The company has to know what it is trying to achieve with the investment and try to *foresee* the future. It is clear, that a company that builds a 1.9bn dollar factory and decides to leave the market in the next year will very likely disappear in the following years.

The previous example shows, that it can sometimes be hard to react on a new market situation and maybe even too late for the company. Therefore, it needs some time and planning to adjust itself. Coveney et al. in (Coveney, Ganster, Hartlen, & King, 2003, p. 2) for instance compare a company with an oil-tanker that needs to plan one hour in advance when to stop, simply because it takes so long.

The presence of a strategy also gives the people a vision about where the company wants to go and motivates them to achieve that goal, as the saying by Antoine de Saint-Exupéry goes:

> *If you want to build a ship, don't drum up people to collect wood and don't assign them tasks and work, but rather teach them to long for the endless immensity of the sea.*

A strategy is also crucial for start-up companies that need to raise money for being able to grow or even survive in the market. Very often investors demand a business plan with a strategy. In those cases a strategy is not an option but an obligation.

Why shouldn’t a company have a strategy?

A very simple answer why not to have a company strategy is that implementing the strategy will cost money. It may change the entire cooperation structure or involve larger investments. This might be too risky for the company especially when the market situation is changing frequently. It also might not pay off at all, if the gain from the strategy is less or equal to the cost of implementing it.

Implementing a business strategy is very hard task since it involves the whole company. Whole books like e.g. (Coveney, Ganster, Hartlen, & King, 2003) are devoted to the question of how to implement a strategy and “close the gap between strategy and its implementation”.

In (Mintzberg, Ahlstrand, & Lampel, 1998, p. 3) Mintzberg compares the strategy discussion with an example of six blind men who touch an elephant to know what kind of animal it is. Everyone gets parts of the elephant, but no one sees the entire picture.

Nowadays the world is changing faster and faster, prediction of the future market situation becomes harder and the company might have to adapt its strategies. As Mintzberg points out in (Mintzberg, Ahlstrand, & Lampel, 1998, p. 18), if the strategy is not quickly changed to the meet the new requirements, then the strategy becomes a liability rather than stability.

So the question is, if on the one hand it is very hard to implement a business strategy and many companies fail to do so and on the other hand the environment changes so rapidly that the strategy constantly needs to be adapted, then why should a company have a strategy at all?

Another point that goes against having a business strategy is the fact that companies like Nucor and Semco run successfully without it (Mintzberg, Ahlstrand, & Lampel, 1998, p. 19) (Semler, 2000). Nucor for example had net earnings of 1.47bn dollar in 2007 (Nucor, 2007).

For the CEO of Semco, Ricardo Semler, having a strategy leads to the fact that “you put your employees into a mental straitjacket” (Semler, 2000, p. 51). He believes that having a strategy very often can lead to the fact that business opportunities are overseen and not taken, because the people think “We’re not in that business”. Semler underlines this with an example of his own company, where the employees came up with the idea of starting a maintenance business because auf customer responses, although Semco was not in that business. A strategy would most likely have hindered them from entering that business.

Besides the aforementioned companies, which are probably exceptions in the western world, the Japanese business culture is based on “imitating and emulating” (Porter, What is Strategy?, 1996, p. 63) and rarely “have distinct strategic positions”. Obviously the Japanese industry runs quite well without it.

My opinion

Not having a strategy can be seen as a blind flight of an airplane. Of course people flew airplanes successfully, before there was anything similar to radar or GPS. However, flying with such assistance is much safer and leads directly to the goal.

One successful company that is probably viewed upon as one of the masterminds in developing strategies is Google. As an example I'd like to state the acquisition of YouTube by Google. In October 2006, Google bought YouTube for the immense sum of 1.6bn dollar (Google, 2006). At that time, it was not clear what Google wanted to achieve with this purchase, as YouTube didn't make a lot of money with its business model. The only income YouTube had came from few adverts on the webpage, and at the same time, it was facing legal problems due to copyright violation (BBC, 2006).

If we go to Google's corporate overview, we can find Google's mission, which says:

> *Google's mission is to organize the world's information and make it universally accessible and useful* (Google, 2008).

Just three months after the acquisition, Google included YouTube videos in its search results and showed that it sees videos as an integral part of search information (Google, 2007). The next big step of Google to further integrate video content in its search result was the launch of Google Audi Indexing in September 2008, that allows e.g. to search for a word in a speech of a politician (Google, 2008).

For me, the Google way is one impressive example of how company uses a smart strategy to position itself for the future, trick its rivals and bring them to desperate and hasty maneuvers, as Microsoft's attack on Yahoo for 45bn dollar emphatically shows (BBC, 2008).

On the other hand, I like to compare the strategy discussion with the *agile* discussion in the software world. The traditional way of developing software was a step-wise approach called the waterfall model. It basically consists of the four phases of gathering the requirements, designing the software, implementing it and testing it at the end (Pressman, 2001, p. 28). One of the big disadvantages is that it can hardly cope with frequent changes. In recent years, an agile approach has been proposed that is based on developing in very small steps and adapt frequently to change (Huo, Verner, Zhu, & Babar, 2004, p. 2).

I think the problem in the software industry can be related to the strategy discussion, whereas the strategy is mapped to the waterfall process and faces the same problem of being too heavy-weighted to adjust to the frequent changes that occur in the market. Not having a strategy but quickly adapting to the environment could be more promising.

To summarize it, I think that a company should have a strategy. Even if it might not pay off at the end and the realized strategy will differ remarkably from the planned strategy, the company still should try to *predict* the future and take competitive advantage to position itself. Reacting to change might result in taking actions too late, and therefore it's generally better to seek modification proactively than reactively.

Although it is possible to successfully run a business as the Semco and Nucor examples show, having a strategy is probably the safer and easier way to go. However the corporation must make sure to quickly react on any change that occurs in the market and not stick to a strategy blindly.

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