

DEVELOPMENT OF BUSINESS STRATEGIES

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Summary: The classical management approach focused on the increase of productivity which even at that time could not have been realized without setting objectives and elaborating plans. In Taylor's era, however, analyses were primarily focused on solving internal problems of the organizations; structure design, organization, performance evaluation and control had become the focus of attention. In general, short-term, operative goals had been set and the implementation of them had been tried to be achieved.

The term "strategy" came much later into the focus of attention, only in the 1950s. After recognizing the importance of *strategic planning*, *strategic management* has become the most important concept and tool of the corporate governance under competitive conditions. The theory and methods of strategic management have been greatly evolved over the past decades and now strategic management can be considered as the starting point of several new disciplines. But the views on strategies have been also changed: new theories have been developed for the systematization and for their implementation.

The presentation discusses the main stages and approaches of the strategic thinking. It deals with the divergences and branching of the strategic management and the professional areas starting thereof. Finally, it attempts to form groups of the existing strategy development approaches.

Keywords: strategy, strategic management, competitive strategies, innovation, abduction

1. INTRODUCTION

The word strategy is of Greece origin; it is connected with strategics, but in the Ancient China Sun Tzu was also engaged in the art of military leadership⁶. Strategy uses military actions and operations to achieve victory. What Von Clausewitz⁷ meant by strategy was „using battles in order to win the war”; i.e. the goal was to reach a long-term success.

The term strategy was rooted in the field of economic sciences through the *game theory*, where “planning of series of defined game-actions are meant by strategy, where each action is formed depending on the possible own actions and the expecting contra-actions” (Chandler, 1962). On the basis of this corporate economics took over the term strategy and it was used in the American universities at first (Chandler, 1962, Ansoff, 1965). The strategic approach has developed one of the most important management functions, the *planning*.

The main task of the corporate governance is to set up future plans and to make decisions in order to implement them. Conscious shaping of the future can be made through elaborating *plans* and implementing them. Analysing the development of planning approaches, Ackoff (1974) mentions three more basic approaches.

⁶ Sun Tzu: The Art of the War. Original: 500 B.C. Translated by S.B. Griffith. Oxford University Press, New York, 1963.

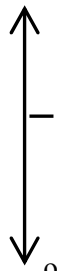
⁷ Von Clausewitz, C.: On War (translated by M. Howard and P. Paret), Princeton University Press, 1976.

The *satisfactory planning approach* means the effort to achieve something better than the existing. At the beginning only this approach could be successful, because satisfactory economic models and information processing technologies were unavailable. The *optimization approach* may have spread in the period after the Second World War, when operation research models and methods for military purposes as well as computer technology became available also for civil users. Its characteristic is the effort to reach the possible best (e.g. fixing the maximum income) which can be realized most easily in static situations. Economic systems, however, can be described only with complex, dynamic models; therefore optimization has only limited possibilities in the planning. The other problem is the continuous changes, modifications in the economic environment that constantly creates new situations for the planning. As a result, the *adaptive approach* has developed, which means the answer to environmental challenges. Compared to the previous planning approaches it is a significant difference that the goal in the adaptive approach is not only one suitable *plan* but to create a *planning system* capable to response. As the environmental forces (e.g. weather, market price, legislation, etc.) cannot be influenced, the passive response was considered to be possible by the adaptive approach at first, but later the active response was also thought to be more and more possible (e.g. victory over the competitors, influence on politicians, etc.). Ackoff's opinion is only one step away from the *strategic approach*: strategy is nothing more than adaptation taking into consideration the expecting actions of the competitors.

2. DEVELOPMENT OF MANAGEMENT CONCEPTS

On the basis of similar thoughts Ansoff (1965) worked out his system about the development of management concepts and on this basis he got to the emergence of the strategic management.

Table 1: Development of management approaches and systems

Years	1900	1925	1950	1975	2000
The future	recognizable	extrapolable	recognizable discontinuity		novel discontinuity
State of the environment	stable	reactive	anticipative		creative
Management approaches	Planning and control, extrapolation		Opportunities and risks, anticipation	Weak signals, flexible answers	surprises, evolution
Management systems: 	rules, prescriptions, plans financial control, budgeting, MbO		Long term planning Strategic planning Strategic management Strategic and Change management		

Source: Ansoff (1965), modified

The opinions about the predictability of the future and the understanding of the environment have significantly changed for the emergence of management sciences and more and more new management concepts have arisen in the course of time. As Table 1 shows, at the beginning the future was assumed to be recognizable, respectively it can be predicted on the basis of the past events. Then certain patterns were believed to be discovered in the events and recognizable discontinuity was mentioned. Later more and more new and unexpected changes were discovered in discontinuity, therefore it was stated that unprecedented events, changes also had an influence on the processes. Accordingly the condition of the environment was characterized with supposing stability first, then with predictable changes and finally with unpredictable turns. Accordingly, the management concepts have developed further from focusing on (short-term) planning and control to methods, concepts capable of responding to unexpected events. In addition, the orientation of the management approach can also be observed: at first, the efforts of the management were directed inwards (inward the company) but later the attention was increasingly fixed on the external environment, respectively the competitors. In this complex development process first the long-term then the strategic planning has evolved, which finally led to the creation of the science of *strategic management* as a general leading concept and the *change management* capable to react to sudden changes, as well as *crises management*.

Beside the views on the environment and the future the management science has also changed a lot in the field of human relations and the dialogue with the society. According to Taylor (1911) the task of a manager was to organize work processes optimally and to increase productivity, but the *behaviourist school* has developed soon and it considered the utilization of human capabilities, the development of leadership skills and conflict solving to be the most important issues of organization science focusing on human relations. These views have spread in the same way in the field of the strategic management. At first, the classics of strategic management considered three issues to belong to the topics of the strategic management: evolving of *strategies, structures and systems*. But Waterman, Peters and Phillips (1988) mention seven factors as the criterion of a successful strategy in their 7S model⁸: over the previous three areas, the importance of *skills, style, staff* and *subordinate goals* is emphasized as well. Beside the *hard* elements of the strategic management, *soft* aspects (i.e. human aspects) have been put into the science of the strategic management.

The views on the society, more precisely the views in connection with the social responsibility of the companies have been significantly improved. In the 1920s Henry Ford said the following: “What is good for business is good for society. Service comes first, but it means increased productivity and profit.” But in the 1960s Henry Ford II revised his predecessor’s concept: “Corporations should help solve major social problems, such as helping disadvantaged minorities and preventing environmental damage.” In the 1980s the Business Roundtable drew up the rule which is still valid in our days: “The long-term viability of the corporation depends upon its responsibility to society” (Montanari, 1990). Later this approach became general, it became business practice and even more some people forged business benefits by making social responsibility (abbreviated as *CSR*) to be a marketing strategy.

3. BRANCHES OF STRATEGIC MANAGEMENT

At the beginning the process of strategic management was considered to be realized in the execution of 3 tasks. The suitable strategy has to be chosen on the basis of a wide strategic analysis and one has to work on its implementation (*strategic analysis, choice and strategy*

⁸ Later this became known in literature as McKinsey 7S Framework.

implementation, Ansoff, 1965). Later the tasks were different and both on the company and business unit level the following steps were differentiated: the determination of vision, mission and objectives, inside and outside analysis, tests, the definition of the strategy, detailed elaboration of the strategy (strategic programming), realization of the annual planning and performing strategic management control (Hax and Majluf, 1991). These steps are repeated again and again, because the strategic management can define the paths and tasks to be followed in the future on the basis of the existing experience and the reaction to the changes in the outside environment.

The progress of the elaboration and implementation of the strategy has enriched with new methods and approaches in the course of time. For example, the determination of the vision, mission and objectives is considered by Hungenberg (2008) to be not a strategic, but a *normative management* task, since the vision of big corporations are determined as a normative for the corporation by the owners outside. He thinks that the determination of corporate constitution and the influence on corporate culture also belong to the normative management. The issue of the corporations' social responsibility (CSR), which is also analysed as an independent topic, is part of this branch, as well.

Similarly to CSR, more and more independent branches have diverged from the strategic management which drew the attention of other scientific fields or inversely, the strategic management uses principles and methods developed by other sciences. Only some of the more important ones are mentioned in this study.

As a result of the researches on *organizational culture*, the issues of corporate culture became part of the strategic management (Handy, 1985). *Scenario writing* (Schoemaker, 1995) and *benchmarking*, i.e. the method of comparison with the best practice are mentioned among the methods of environmental studies. Beside the methods based on SWOT-analysis, *creative techniques* (such as brainstorming, synectic, heuristic methods, error prevention analysis and so on) are more frequently used to elaborate the strategy. Performance objectives are appointed in the phase of strategic programming, where beside the financial goals other important strategic objectives are determined on the suggestions of the *Balanced Scorecard* (BSC). The BSC has become the tool of not only the appointment of objectives, but also the control of implementation (Kaplan and Norton, 1996). In connection with the changes of views on the predictability of changes in the environment (Table 1), *change management* has developed, which is capable to give adequate answers in the organization to the unexpected and therefore usually unforeseen in strategic planning changes in the environment. The increase of the importance of *knowledge management* is also related to this, because the appropriate adaptation is impossible without the adequate knowledge in the rapidly changing environment. In an early phase of the development, *reengineering*, i.e. the total reorganization of the corporations also became an important field, however, due to its harsh methods (radical reorganization, termination of activity, dismissal etc.), its importance is less emphasized today and other methods (lean management, outsourcing, etc) have replaced it. As quality has become an important competitive factor, quality-oriented organizational methods and strategies have also spread about and total quality management (TQM) has become the most famous one.

It is particularly worth to analyse the issues of *strategic management control*. The control was always considered to be one of the important basic functions of the management that is why it was integrated into the management system at the development of the strategic management. The most important role of the control is the comparison of the plans and the facts, which can be the base of the continuous correction of the strategies and the determination of the adequate answers to the changes in the environment.

Parallel with the development of the strategic management, another approach called *controlling* has been developing. Following Horvath's work (1979) a management system based on a "plan and fact" comparison and focused on the last phase of the management process has been developed. Controlling practitioners recognized soon that plans, especially strategic plans are needed for the plan-fact comparison, thus a process determined by the strategic management concept was built upwards from below, too. Consequently, the strategic management and the controlling examine the same issue with partly different focuses and analysis methods.

4. THE DEVELOPMENT OF STRATEGIC CLASSIFYING

In the relatively early phase of the development of the strategic planning it was attempted to determine and classify the different strategic types. For example, according to the stages of the appearance, Mintzberg (1988) differentiated intended, deliberate, emerging and realized strategies. It was also typical in this period to differentiate according to the fields and functions (e. g. market strategies, production increasing strategies, R+D, marketing strategies, organizational development strategies, etc.)

The first methodisation whose base was the logic of the main elements of the strategy can be related to Ansoff (1965). Ansoff emphasized two dimensions: the dimensions of the product and the market, on the basis of the development dimensions of which he classified (existing or new products or markets). In case of the existing products and markets, Ansoff considers the strategies of market withdrawal, consolidation and a stronger market penetration to be possible beside the suggestion "do nothing"; while in the other cases he suggests paths of growth (market development, product development and diversification). Almost the same possibilities are drawn up in the so-called expansion (growth) strategies, which also contain the approaches of the vertical integration. The common principal basis of the expansion strategies is that each corporation focuses on the increase of the corporate value, although this objective cannot always be realized, because of the limited resources and buyer's markets.

The path of growth can also be the diversification which is called the case of "new products, new markets" by Ansoff. Diversification, however, can also be realized so that the company achieves larger sizes, increasing corporate value with the acquisition of existing products and markets. The following figure shows the diversification strategies according to the number of products (markets) and the level of relation (conformity) among the branches of strategy. Accordingly, Hungenberg distinguishes focused, horizontal and vertical diversification, resp. conglomerates.

Taking into consideration the approach that the strategy is the means of corporate governance under competitive circumstances Porter (1989) suggests the methodisation on the basis of *competitive advantages*. At first, Porter thought that the lower price and so the lower expenses or the useful features of the products, i.e. the distinction could be the main competitive advantage and he determined the main (generic) strategies on the same basis. Later he enlarged this approach with a new dimension, with the expansivity of the competition area, on the basis of which he distinguished wider, or focus strategies. In Porter's opinion, strategies are worth to be developed by these dimensions, as the combination of the generic strategies leads to less effective solutions.

Later this approach was disproved by the results of the corporate practice, which also led to success in case of the so-called "hybrid" strategies. For example, SWACH watch, which was made on the image of the Swiss watch and was available at a relatively low price in the 1980s. It has been proved that it is also possible to gain advantages in this way and it is called the "best cost provider strategy" and refers to a service or product of good quality at a reasonable

price. In certain cases, this advantage means that the buyer can save more money with the product than in other cases.

Beside the winners, losers are also supposed by the competitive strategies and market participants actively attack or in certain cases they are compelled to be defensive. This fact has led to the distinction of offensive and defensive strategies. Military terminology is used to describe the offensive behaviour (overrun attack, wing attack, face-to-face fight, guerrilla operations etc.) just as in the case of defence (preventive attack, block behaviour, leaking out of threatening information etc.).

However, the classification according to the offensive and defensive strategies doesn't contradict the competitive strategic concept, but complements it. In case of any strategy, an introduction, a construction stage, a longer utilization stage and an erosive stage can be distinguished. The construction stage can usually be characterized with offensive operations and the growth of competitive advantages. However, from the beginning of the utilization stage the attacks of competitors, which can be more and more intensive have to be taken into consideration. In the erosive stage, the defence is typical as this time the competitors can significantly decrease the advantages with their attacks.

Kim and Mauborgne's (2004) approach seems to contradict the principle of competitive strategies which has become known as "*blue ocean strategies*". The authors indicate in the subtitle of their book: How can an undiscovered market place be created, making the competition unimportant? The authors distinguish *red ocean* strategies, i.e. the traditional competitive strategic actions from the *blue ocean* strategies. The name of red ocean refers to the markets full of bloodthirsty sharks.

In fact, the idea seems really new, although, *pioneers* or those who first introduced innovative products into the market are much earlier mentioned in the literature of the strategic management. Pioneers can achieve significant time and price advantages than *followers* or copiers, but their risk can also be much higher. The authors of blue ocean strategy consider the creation of not only new, innovative products, but also the development of new markets to be an important task. In order to achieve long-term success the corporations following this strategy have to be leaders continuously, otherwise they can soon become victims of the attacking competitors.

Today the issue of innovation and innovative corporations is in the focus of attention and people expect the solution for the more and more depressing problems of humanity (energy shortage, climate change, world food problems, health issues, etc.) from this concept.

5. THE LEVELS OF STRATEGIC THINKING

If every company were able to acquire the "standard" knowledge of strategy development and implementation uniformly and perfectly, competitive advantages couldn't be achieved in this way theoretically and only a greater potential (resources, size etc.) would matter. It means that the strategic management as a corporate governance concept can only be successful if its appliers are able to develop further the concept itself, as well. Science also tries to keep up with this demand and works out newer and newer approaches in the field of the strategic management.

Continuous development could be already detected in the previous chapters, although in these cases it is rather a methodological development. But the elaboration of innovative strategies requires approaches and tools different than the previous ones which expands the earlier views on strategic management. Creativity and innovativity become an ability of special

value, for the development of which the achievements of psychology, sociology, knowledge management and other sciences are also needed.

Table 2 shows the new strategic approaches according to the system of Baracskai and Velencei (2011) that are characterized together with the traditional conception by three levels.

Table 2: Levels of strategic thinking

	Orientation	Features	Schools	Means	Consulting assignments
I.	Data orientation	High-tech	Positioning school (Harvard)	Strategic management methods	Analysis and design services
II.	Innovation orientation	High-concept	Learning school	Strategic business models	Business partner
III.	Abductive orientation	High-touch	Art school	Strategic thinking	Strategic partner

Source: Baracskai et al. (2011) modified

Level I, the classic version of the strategic management, means the basis for further development. Its followers professionally explore the company's strengths and weaknesses with the help of the strategic analysis; they find the main driving forces and the basic competences on the basis of which they are able to elaborate the right strategies. Level II can develop and implement fundamentally new solutions with the help of learning ability, association and innovation techniques. Level III can be achieved by those who are able to acquire strategic knowledge at a high level and also gain a remarkable practice in this field and thus they become the "artists" of strategy. The name of abductive orientation means that on the basis of their knowledge and experience the creators of the strategy come to the correct conclusions obviously and almost from their conviction⁹.

6. CONCLUSION

As a summary it can be stated that none of these approaches can lead to the right strategic solutions alone, with absolute certainty: the first level of strategic thinking makes it possible to learn the essential tricks of trade, and the second and third level can be suitable for achieving long-term competitive advantages surpassing the competitors. But these approaches do not offer guarantee against mistakes, failure or collapse. Therefore in order to elaborate the right strategy we need continuous, well-organized work and a professional staff whose members are excellent experts in their field and are well-motivated to increase the corporate value. The same applies to the implementation of the strategy that cannot be successful without the managers' high-level education and commitment. Furthermore it can be supposed on the basis of the development of strategic thinking that further management trends, approaches will emerge that can offer more and more mature and stable theoretical base and practical basis, as well for the successful governance of economic organizations.

⁹ *Abduction*: discovery of explanatory hypothesis; the creative mind is able to come to the correct conclusion ignoring the rules of formal logic. In addition to induction and deduction this is a third problem-solving mode.

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