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Xiu-bao Yu

The Fundamental Elements of Strategy

Concepts, Theories and Cases

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I am a professor of strategy and am often ashamed to admit it because there is a dirty secret: we only know a great strategy when we see one ... we do not have a comprehensive theory of strategy creation.

Gary Hamel (1997)

Preface

My Teaching Experience

After my Ph.D. study at the University of Queensland in 1999, I was hired as a lecture in School of Economics and Management (SEM), Tongji University in Shanghai. Since my doctoral thesis was on strategy, Prof. Yu-Xiang Huang, who was then the Dean of SEM, convinced me to take the course of Strategy which was in need of teachers. And that's how I throw myself into a close relationship with Strategic Management.

During years of teaching, I have introduced more than ten books concerning Strategic Management and given this class to students of MBA, double-degree MBA, master degree and bachelor degree in SEM, Tongji. I've also delivered lectures on strategy for MBA students at Rice University, and MBA and EMBA students in ESCP-EAP, France, and I've once been invited to give classes for EMBA students at the University of Haifa in Israel, and master students at Marquette University, USA.

I would like to summarize my teaching experience into four stages based on my interpretation of the course of Strategic Management in the past 20 years.

The first ranged from 1998 to 2003, a primary stage during which I selected and studied textbooks I agreed and liked, and then illustrated them in class with related cases. At this point, I had a thorough understanding of the essentials of the textbooks, which allowed me to have a skillful lecturing. Although I had no doubts or puzzles, I hardly drew my own opinion at this stage.

In the second stage from 2004 to 2006, I started to feel perplexed about the course. At that time, SEM reached out to cooperate with schools in other countries, and I had opportunities to attend lectures on Strategic Management given by overseas professors from well-known universities in the USA, Europe and Australia. They provided distinctive explanations for strategy; for example, some laid particular stress on marketing prediction, while some illuminated from the perspective of economics, and one of the professors from the USA was the director of finance in a company before teaching in the university, which explained why he mainly focused on financial analysis. As each professor held various opinions on the essentials of strategy courses, they differed in their emphases, which, however, made me confused.

The third stage was from 2007 to 2008 when I began to question the definition of strategy in textbooks and literature as I read more and gained increasing accesses to communicating with corporate executives. Moreover, during the process of reading MBA graduation theses concerning strategy, I started and kept doubting the strategy discipline and some parts of this course.

In China, it is required by the education system that MBA students cannot graduate without finishing their dissertations after taking all the courses selected. In the past decade, I have reviewed more than a hundred MBA papers on strategy, while few of them could offer insightful and incisive analysis on company strategy. Most of the thesis applied strategic tools such as PEST, Five Forces and SWOT to give a general analysis of the industry and competition situation, then proposing strategies like overall cost leadership and differentiation for companies. Others, based on SWOT analysis, adopted more than five strategies (such as two SO strategies, one ST strategy, two WT strategies and two OW strategies), which seem better than the former.

Analysis tools could be seen as weapons in wars like tanks, airplanes, artillery and submarines, which are equipped with distinctive functions targeting different battlefields. However, the final victory to a large extent depends on the strategic thinking of commanders and the operational efficiency of soldiers since analysis tools could only assist rather than turn around the course of the war. Therefore, to obtain the core analysis of company strategy, we should develop appropriate content for each specific strategy.

In MBA papers on strategy, analysis on the macro environment and companies through different methods holds a prominent place, thus people always mistakenly think that this topic is easier compared to others. But that's not quite true because strategic decision is not supposed to be the decision by the most senior in a company should it be inferior to finance, marketing and human resources' decisions.

Due to the lack of core theory for practice and application, and the ambiguous definition of strategy, few students have penetrated into the analysis of the essential part of this course and failed to answer the questions of how to reach a strategic decision, what decision should be made and on which problems.

In doubt, I stepped into the fourth stage.

In the last stage from 2009, I built a new perception of strategy. I went through a large number of literature about the concept and definition of strategy, studied on practical cases in companies, and then gradually realized that the theory in the textbooks is not as exactly the same story as what takes place in the strategic decisions in companies. Later, I summarized some rules based on my supervision of MBA theses and reading military books, which helped shape my new understanding towards strategy.

The Discovery of the Three Elements of the Strategic Concept

According to Henry Mintzberg (2002), we make our overall judgment of strategy on the basis of one-sided viewpoint, which is like blind men feeling an elephant. Those who touch the legs of the elephant would think strategy is a pillar while those who feel the body would believe strategy is a piece of board. But the fact is that both the pillar and the board are fragments, rather than a complete strategy.

In 2010, I started to realize that the literature seems to fail to give neutral explanations on the strategy concept because different people see the same thing from different perspectives. If they captured the essentials of the concept differently, they would draw different conclusions. However, there is but one nature because if the elephant does exist, and the legs and the body we feel are only parts of it. Similarly, if we believe there is a strategy, then the concept would be there, and would be independent of our own wills.

In 2011, I was greatly inspired after reading an article on the definition of strategy published in *Strategic Management Journal*, which illuminated me two points. First, there are still studies focusing on the basic question (what is strategy) or the concept and definition. Second, there are still problems that need to be solved, among which, the most fundamental and significant one hasn't been thoroughly addressed.

In 2011, I wrote my understanding into an article, and sent the abstract to Prof. Henry Mintzberg. Although we never met each other, he wrote me back and told me to give a clear description of how I concluded the three elements during my guidance of MBA thesis. I was excited and encouraged by his reply.

The whole process of how I shape a new understanding towards the strategy concept and discover its pattern is as follows.

Though I have read a large number of literature on strategy, my breakthrough understanding and discovery are further enlightened by my supervision of MBA theses and my case studies.

During the past 14 years, I have been the supervisor of more than 100 MBA and EMBA theses, and have reviewed more than 100 theses about company strategy. And I find some of the papers are much better than others in readability and logic. When I was the adviser and communicated with my students, I was gradually aware of the patterns of good theses, one of which is that the key problem in the company development is specific at the very beginning of the thesis, and the purpose of writing is to propose plans or methods to tackle the problem through analysis and research. For example, one of my students said: "My company has high quality products (a small company), but they are only sold in the low-end market", and I asked: "Why doesn't the company target at the high-end market"? My student answered: "The high-end market is dominated by foreign products, and the clients believe that domestic products are not supposed to be expensive". This company is unable to launch a large-scale promotion and marketing campaign due to its small scale, so the student would like to find out approaches to address this problem. And the emerging of this pattern makes me realize that this kind of strategy is problem-oriented.

Another pattern is that some students are quite clear about the specific strategic objectives of the company when they write, and their purpose is to look for ways to achieve the goals or to address the problems their company may encounter. One of my students who works for a foreign-funded enterprise told me that his company produces and sells high-end products, but the mid-market in China is now in great demand for products, which has a strong appeal to his company. So if the company considers to enter the mid-market, how can they do that and what problems do they need to tackle? Other students would like to analyze the feasibility of the company's long-term goal by analysis and research in papers so as to find out the approach to it. For example, if a company wants to reach out to Africa, then the values and the ways of entering the market should be the focus. And this pattern illuminated me that strategy can also be goal-oriented.

When Geely purchased Volvo in 2009, media rushed to give coverage of this acquisition. I also paid particular attention to this case, and carried out detailed analyses of each report. Based on this, I connected the patterns aforementioned in MBA theses with information and details in this case, which helped to uncover the theory of three elements of the strategy concept: long-term goals, major development issues and overall guilding principles (for addressing the problems), by which I reanalyze Geely's acquisition of Volvo. I also studied on successful strategy cases in other companies, and found out that the three elements are key to the essential of strategy, comprehensively explaining strategic decision and practice in companies. Further discoveries also show that if any of these elements is missing, then the strategic decision would be unbalanced and misleading.

The discovery of the three elements, seemingly simple, has actually been through exploration of more than a decade. It's virtually impossible for me to discover the three elements were it not for my teaching experience over ten years, listening to the interpretation from other professors, my confusion, supervision on MBA and EMBA theses, communication with students and company executives, analysis on related cases and reading and research of literature.

After I discovered the three elements, I studied literature covering various strategy definitions and articles researching strategy definitions and realized that the definition has long been a controversial issue over half a century, and other questions such as the elements of the strategy concept and the relationship between different elements are still up in the air. There are now more than 90 definitions of strategy in the available literature, most of which use different terminologies and hold distinctive understandings towards the nature of strategy concept. In fact, the problems noticed in MBA dissertations are associated with those in the Strategic Management discipline.

After conducting close research of literature on the strategy concept, I saw that many definitions actually cover two of the three elements. As for the confusion in terminology, different authors adopt different words that convey the same meaning. Sometimes, the same signification is expressed by a dozen of vocabularies in different literature, which explains why there are so many terms in defining the strategy concept. Apart from vocabulary, the literature also varies in the perception of the strategy concept as some authors also hold distinctive understandings towards the essence of the concept. What creates more than 90 definitions? How should we make sense of the appearance of the multiple words and understandings of strategy definition in literature? I went through the literature systematically, sought the cause of the multiple terminology (multiple vocabularies), definitions and perceptions, and analyzed the reasons.

My inspiration for the relationship between tactic and strategy comes from the description of battles in a novel about Chinese history *All about Ming Dynasty*, especially the battle between Chen Youliang and Zhu Yuanzhang, the first emperor of Ming Dynasty. The author, Ming Yue, gave specific narration of this battle where the army led by Zhu defeated enemy troops despite the fact that his forces were outnumbered, and of the wisdom and courage of his military counselor, Liu Bowen. And when I reorganized the key parts of the battle in terms of the three elements (problem: weak forces facing strong forces; goal: winning the battle; strategy: ambush), I found the elements failed to reveal the brilliant details in war strategy. As I further analyzed, these details turned out to be what we call tactics, and the relationship between tactics and strategy became more transparent later along with my studies on other battles and related cases in companies. The story of Zhu and Chen specified the role of tactics in strategy. Since I found out the relationship between tactics and the three elements of strategy during my creation of this book, I decided to write an article about it and include it in the book.

Pfeffer (1993) once criticized that some journals only rewarded new (strategy) concepts, not criticism on the existing ones. My research, by systematically analyzing previous literature on strategy definition, doesn't aim at a critique of the literature, but at a new perception of strategy concept the discussion of which spans across half a century.

Shanghai, China Xiu-bao Yu

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Xiu-bao Yu

About This Book

This book includes nine chapters probing into analysis and research on strategy concept, definition and extensions from the new concept.

Why are there more than 90 definitions? What is the reason for the three problems in literature on strategy definition? The first chapter will analyze five papers related to strategy definition, and then summarize the results and identify questions. In view of the inconsistency in both strategy concept and vocabulary in the literature, this chapter, based on basic logic, puts forward new methods (the details will be included in this book) for organizing and analyzing literature about strategy definition. This chapter begins with discussion on the definitions given by gurus such as Chandler, Andrews, Mintzberg and Porter, and then thirty more articles are randomly selected for detailed research on vocabulary used in defining the strategy concept so as to figure out the specific reason for the chaos in word choice. In the first place, the primary factor is the diverse understandings towards the strategy concept. Also, different words used actually convey the same meaning and another reason is that some authors introduced extension into the strategy definition. The chapter, seemingly academic, is interesting as readers can see that the explanations of the strategy definition are above all, varied from each other due to different situations in corporate practices in which each individual strategy allows for different perspectives and opinions. As Mintzberg once pointed out, we make our overall judgment of strategy on the basis of one-sided viewpoint, which is like the blind feeling an elephant. People would naturally confuse the parts they have touched with the overall concept of strategy.

There are many understandings of “what is strategy” in academic circles, which leads to confusion. Chapter 1 of the book introduces this situation of the confusion.

Chapter 2 is my study on explaining the reasons of why we have so many definitions on business strategy. The development of the research methodology used in this chapter takes nearly a year. It is designed specifically for exploring the answers to the question of “why so many definitions”. Reading of this chapter may not be a pleasure.

Chapter 3 introduces the three core elements of strategy concept, the inner links between the three elements, and the theoretical model associated with them. The chapter suggests that a complete strategy has three basic core elements, and the lack of any would break its integrity. Strategy is undirected if it has no goal elements, unrealistic if it fails to identify the element of major issues, and confusing if it lacks the principle to guide tactics.

Chapter 4 explains what a strategic decision is from a practical point of view. A complete strategic decision-making, including three decisions, is supposed to make simultaneous decisions on the three major issues related to company development, and organic integration of the three decisions is difficult in strategic decision-making.

Strategy serves to guide tactics as the three elements greatly enrich the relationship between the two. Chapter 5 describes the relationship between tactics and the three elements of strategy by first showing a military case, from which the relationship between strategies and tactics at the Strategic Business Unit level, as well as the relationship between Corporate Strategy and tactics is introduced. The chapter raises the question of whether tactics should be included in the strategy, and answers with a large number of illustrations demonstrating the relationship between tactics and the three elements of strategy in a variety of situations.

How are the three elements interpreted in a particular strategy? Chap. 6 details the three elements of each specific strategy. Study finds that the research of competitive strategy (and tactics) in the strategy discipline, from an academic standpoint, is relatively mature as the name of the element at the right bottom of the triangle model of each competitive strategy contains the basic concept of how to compete, which can be applied to guide specific tactics that companies adopt in market competition. While Corporate Strategy, in terms of its name itself, does not actually contain a thoughtful strategy so it cannot be used directly to guide the company's specific tactics. As a result, it's rather likely to arrive at a confusing strategy (i.e., strategy in the absence of guiding principles) when developing a corporate strategy.

A complete strategy is not necessarily a perfect strategy, because a good strategy needs to meet the basic principles. Chapter 7 describes the most important basic principles of strategic decision-making, such as the strategy to match the external environment and the company's own resources and capabilities. In violation of the two basic principles, there will be internally blind (externally biased) strategic decision, or externally blind (internally biased) strategic decision. The chapter illustrates their definitions, as well as the dually blind strategic decision. The core content of the chapter stems from my research on the literature concerning strategy definition, in which I found that much papers included relevant content and vocabulary of the principles of strategy making in the definition of strategy.

If the decision-maker does not understand the key information and circumstances inside and outside the company, the strategic decision made will be biased. It is the responsibility of every strategic decision-maker to master and judge the key information. Chapter 8 will brief the key information needed for strategic decision-making inside and outside the company, including the evaluation and analysis of industry trends, etc.

The making and implementation of each strategic decision involve a great deal of investment and human resources, so a wrong decision often means investment failure, which will generally result in huge loss. After making a strategic decision, how can we re-examine or identify whether the decision made is in line with the actual situation of the company, the external environment and industry development trend? Chap. 9, based on the fundamental principles proposed in this book that should be followed in strategic decision-making, attempts to proceed from the three elements of strategy and put forward the basic logic and ideas for the evaluation of the strategic decision. This chapter not only puts forward the basic evaluation ideas, but also comments on some specific strategies.

This is the first time that the three elements of the strategy concept are proposed, and in fact, they still leave much room to be further studied. Chapter 10 of this book, on the basis of reviewing and summarizing the three elements, puts forward the strategic decision-making model, as well as directions of future research and many questions to be explored, including research on the three elements, decision-making model and related contributing factors in strategic decisions, follow-up research on competitive strategy, objectives of corporate strategy (such as goal typology research, long-term typology research, research on the impact of individual factors of decision makers on goal-setting, etc.), the major issues of company development and the overall strategy.

The following presents my research, and I ask respectfully for suggestions and criticisms.

Shanghai, China Xiu-bao Yu

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About the Author

Xiu-bao Yu received B.S. and M.S. in Mining Engineering from China University of Mining and Technology, and Ph.D. from the University of Queensland (Australia). Dr. Yu served on the faculty of Shandong University of Science and Technology for six years. Late she spent 4 years in Australia where she did her Ph.D. at UQ. She currently is an Associate Professor of Strategic Management in the School of Economics and Management (SEM) at Tongji University, Shanghai, China. In 2007, she was honored with the "Shanghai Municipal Award for Bringing up Talents (Shanghai Yucai Award)" for her outstanding commitment to teaching. In 2015, her strategy course received the Award of "Shanghai Municipal Demonstrative English Course for Colleges and Universities". She had been on positions of the assistant to the SEM school dean and DBA program director at Tongji University for eight years.

Her areas of specialization are business strategy, and industrial safety management. She has done extensive consulting for companies in China including several state firms. She severed as National Review expert of Firm Safety Culture in China for two terms. In addition to publishing over 25 articles in academic journals, she has authored and co-authored 2 books and 1 textbook.

Dr. Yu and her husband are close to 60 years old and have one son.

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1 Introduction: What Goes Wrong in Our Understanding of the Strategy Concept?

The term strategy in Chinese originated from war, and the book *The Art of War* by Sun wu in the Spring and Autumn Period (B.C. 770–221) was the first strategy book to guide military action. In the West, the word “strategy” came from the Greek word “strategos”, meaning military generals, later referring to the plan that generals adopted in their command of troops. A good strategy can be a vital weapon to vanquish the enemy as history has witnessed quite a few battles of defeating enemy troops with forces inferior in number, which embodies extraordinary philosophies of military strategists.

The first application of the word strategy in the field of business management was in the book The Practice of Management by Peter Drucker, father of modern management back in 1954. In the 1960s, Chandler (1962) and Ansoff (1965), discussed the role of strategy in corporate management, based on which strategy has been developed and evolved into a discipline.

Strategy, regarded as the decision-making of senior executives in the development of companies and organizations, is significantly decisive to the overall future growth of the organizations. The appropriateness of the strategy is closely related to the survival and development of an organization as it has crucial effect on the direction, adaptability to the surroundings and economic benefits of the organization.

Since Peter Drucker first definition of strategy in 1954, the discipline has gone through development over 60 years, but there is still no clear explanation to answer the question: “What is strategy?” According to the paper published by Ronda-Pupo and Guerras-Martin (2011) on Strategic Management Journal, there are currently 91 definitions of strategy used by scholars.[1]

[1]Now the number of definitions may have increased.

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Here are some definitions.

"Strategy is the means by which individuals or organizations achieve their objectives" (Grant 2010).

"Strategy is a pattern of resource allocation that enables firms to maintain or improve their performance" (Barney 1997).

"Strategy is understanding the structure and dynamics of an industry, determining the organization's relative position in that industry, and taking action to either change the industry's structure or the organization's position to improve organizational results" (Oliver 2001).

…….

If we give the full list of all the 91 definitions of strategy, it would be confusing.

We can give a precise definition of strategy as long as we anchor the core elements of the strategy concept, which, however, have very distinctive illustrations in different literature (Koontz 1961, 1980; Chaharbaghi 2007). In fact, the three definitions listed above also show authors' significantly different understandings towards the definition of strategy, and I would like to describe this phenomenon as the issue of having several numbers of definitions. Different definitions involve different understandings of the essence (or connotation) of strategic concept. As the nature of a concept lays the foundation, the concept and its definition of strategy is the basis of strategy discipline. Therefore, if we fail to give a thorough description, the discipline would develop in a biased way.

The strategy concept not only has various definitions of (Cox et al. 2012; Oliver 2001), but also has many elements in the literature. It is confusing as there is no internal links between the elements (Ketchen et al. 2008) and consistency (Hambrick and Frodrideson 2001; Ketchen et al. 2008; Leontiades 1982; Markides 2004; Nag et al. 2007; Oliver 2001), which I conclude as a lack of internal consistency or multi-understanding. This issue involves two fundamental questions about the understanding of the strategy concept. (1) Which elements should be adopted to define strategy, and (2) what is the relationship between the elements.

From 1962 to 2008, up to 20 terms have been used in defining the strategy concept in literature (Ronda-Pupo and Guerras-Martin 2011), and there is a large divergence among those words (Koontz 1961; Knoontz 1980; Chaharbaghi 2007; Ketchen et al. 2008). The confusion brought about by over- or misuse of vocabulary, as I call it, is terminology or semantic confusion (or multi-semantics).

Here, I refer to the three problems in the literature of strategic definition as "Three-multiple problems" (several numbers, multi-understanding, multi-semantics). That is to say, there are many understandings, definitions and vocabulary of the core content of strategic concepts in the literature towards the essential part of the strategy concept.

In addition to the "Three-multiple problems" above, literature on the definition of strategy still has the following problems.

Firstly, the vocabulary used in the literature for defining strategy is not only numerous but also confusing. As I summed up some definitions in literature, I found that different vocabulary emphasizes different aspects, such as strategic goals and objectives, strategic means (approaches and tactics) and principles on making strategies. Moreover, different literature (or authors) tends to use different words to express the same meaning; for example, 8 terms are respectively used in 12 papers for strategic goals, and nearly 10 terms are adopted in more than 20 papers on approaches for achieving a goal. Many scholars do not know that different words actually refer to the same core content of the strategy concept.

Secondly, there are some problems in the research methods adopted in the literature on strategic definition. In the absence of clarification of the basic logic, complex research methods, in fact, can merely solve the real problem. In this matter, I agree with Hillman who believed that the theory sometimes could not be simply studied by empirical methods (Hillman 2011).

Thirdly, it seems that literature concerning or studying strategy concept did not draw lessons from practice. Scholars define strategy from their understanding based on the existing literature, which, as mentioned before, has a great deal of problems, and in this case, the research conclusions would not be convincing enough. Therefore, to figure out what is strategy and what are the core elements of strategy concept requires us to step out the existing literature and learn from practice.

As for having the multiple terminologies and meanings in strategy definition, some scholars believe that it is normal for the same noun to be interpreted differently. However, if there are dozens or even hundreds of definitions for a noun, various understandings could raise serious confusion between terms and meanings, which will lead to ambiguity in our comprehension of the core content of the discipline, and the noun itself in ambiguity will lose its academic value. Chaharbaghi (2007) writes that the exponential growth of literature on strategy is directing attention in different ways, is adding greater complexity and is provoking more and more uncertainty while communicating less and less meaning to its audience. Markdall also pointed out in 2004 that the lack of sufficient agreement on the definition of strategy leads to more new definitions, which creates more confusion and disagreement between academics and executives.

It is known that the purpose of science is to apply the theoretical knowledge derived from academic research to social practice to serve business. The current Three-multiple problem in the strategy concept, resulting in great confusion in the strategy discipline, have become the obstacles and bottlenecks in its further development. The Three-multiple problem in literature on the strategy concept draw back academic knowledge from actual demand of companies, and if a key word in strategy embraces too many interpretations and too much ambiguity, it would be pointless in guiding the industry and the corporate sector.

Ronda-Pupo and Guerras-Martin (2011) have called for a strategy definition that requires a language allowing everyone to share, so that people can know what should be the essence of this branch of science. Strategy concept has too many definitions that lead to a variety of perplexities, which require us to at least figure out or understand the causes of the puzzles in order to grasp a better comprehension of the strategy. Even if we cannot completely eliminate all the confusion, reducing it to some extent is also constructive for the development of the strategy discipline.

Hambrick and Fredrickson also pointed out in 2001 that what actually consists a strategy is missing; therefore, currently the key is achieving a robust and reinforced consistency among the elements of the strategy itself. As it is known from the perspective of science, to obtain this consistency, we first need to find the strategy concept (real) core elements or content, followed by the need to find the relationship between the elements, all of which are the most basic and fundamental preparation.

Baidu interprets the term "definition" as "a brief and accurate description of the meaning of a concept or a word without changing the subject matter itself". If the same word that refers to different meanings (or different words that convey the same meaning) is used in the exchange between people, communication will be difficult and impossible if people fail to have a common understanding towards certain names and terminologies. For this purpose, description of the meaning of names, terms and concepts needs to be made, and clear provisions, in other words definitions, should be given.

Therefore, the study of strategy concept is of importance and necessity from the perspectives of history, the development of strategy discipline, and theoretical guidance on practice. Although some scholars believe that science does not require consensus (Kuhn 1996; Mintzberg 1987a, b: 11), we know that the problems arising from too many strategy definitions are not merely a consensus problem, but serious confusions within the discipline. I am very much in favor of some of the scholars' arguments in the early years that "re-examining the basic definition of strategy" and "improving the accuracy of definition" (Bowman et al. 2002). In particular, study on the language (vocabulary) shared by the strategy concept so that we can find out its nature as a science (Ronda-Pupo and Guerras-Martin 2011).

Pfeffer (1993) once criticized that some journals only rewarded new (strategy) concepts instead of critics on the existing ones. The analysis of this book reviews and analyzes the various definitions of the literature. The main purpose is not to criticize but to sort out the literature through my research and work, to provide systematic understanding towards the nature of strategy to shed light on this concept that has been discussed and argued worldwide by experts for more than half a century.

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2 Why Are There Over 90 Definitions of the Strategy Concept?

The strategic concept suffers from the pain of semantic problems.

(Hambrick 2001; Ronda-Pupo and Guerras-Martin 2011)

2.1 Overview

For long, people have been looking for answer to the question "what is a strategy?" Although the strategy concept has experienced about half century of development, not much consensus has been reached on the content, especially on the fundamental elements that make up the strategic concept. There is also a lack of internal links between the elements. The complexity of strategy in real business world probably results in the lack of success of development of the strategy concept.[1]

As illustrated in the preview of this book, the "Three-multiple problem" in the literature of strategic definition causes confusion in our understanding of strategic concepts. We cannot help but ask:

Why are there over 90 definitions of "strategy"?

Why do people use so many different wordings to define strategy?

How could the Three-multiple problem in literature on strategy definition be understood?

[1]In this chapter, the author analyzes literature on the definitions of strategy for the purpose of explaining the reason why the definitions of strategy are so many and trying to solve the problem. Readers who are not interested in this process can ignore this chapter.

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If we can find out the answers of the above questions, we will then be able to address the issue of the Three-multiple problem of literature on strategy definitions.

For the readers' convenience, I would like to make it clear that the word "literature" in this chapter refers to two kinds of literature. One is literature which defines strategy (called "*definition literature*" for short), and the other is literature which studies strategy definition (called "*definition research literature*" for short).

In this chapter, I conducted analysis on definition literature and definition research literature. The Three-multiple problem of definition literature and the reasons behind it are untangled with my attempt to clarify the confusion related with having so many definitions of the strategy concept.[2]

The structure of this chapter goes as follows: the second part analyzes five research papers on strategy definition. The intention of this part is to know some questions. (1) Which scholars have studied the definition of strategic concept? (2) What research issues they have considered? (3) What methodology they adopted? (4) What are the conclusions they reached? (5) What are the remaining issues of their studies?

The third part is the designing of research methodology. Definition literature is analyzed and the issue of the Three-multiple problem is addressed in this part. It is a great challenge to choosing the appropriate logical approach to analyze definition literature, and to solve the confusion and figure out the reasons for the Three-multiple problem. After being troubled for more than one year, I finally established my analytical approach by reading the definitions in literature repeatedly. Research method is explained for analyzing the confusions caused by definition literature.

The fourth part of this chapter elaborates on the analysis and comments on strategy definition literature. According to the logical approach put forward, a few typical definitions of strategy by four gurus are first analyzed and reviewed, which is similar to a pilot study. The main emphasis of this chapter is on examining the following questions. (1) Is there a difference in essence between the definitions of the four gurus? (2) Are there situations that different wordings are used in definitions of the four gurus, which actually refer to same meanings? (3) Are there any elements that they agree on in their definitions? (4) Are there situations that some terms in definitions by the gurus are actually the contents that belong to subclasses under the same category and etc.? These questions are based on the logic of the analytical methods in Part III. The pilot study lays a foundation for the large-scale analysis of literature definitions in the fifth part.

The fifth part presents analysis on 32 definitions based on the study of the fourth part. The analysis focus of this part is similar to the previous part.

The last part summarizes and answers the aforesaid questions about the confusions related with the strategy definition literature.

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[2]With regard to the lack of intrinsic consistency of definition, systematic research has not been made yet in the academia. In Chap. 2, the author will illustrate the details.

2.2 Review of Definition Research Literature

Previously we mentioned that there are many flaws of literature on strategy definition, i.e. the confusion raised by having too many definitions. Some scholars had paid attention to that phenomenon (Chaharbaghi 2007; Ketchen et al. 2008; Koontz 1961; Koontz 1980) and done research on literature on strategy definition. Most of these scholars expect to find answer to the question "what really strategy is" through review of strategy definitions rather than to the question of why we having so many definitions. Anyway, they are the scholars who did studies on strategy definitions.

In 1978, Hofer and Schendel analyzed 13 definitions of strategy and suggested to find their general characters. For example, they found that 13 writers had used five different wordings to describe functional strategy, including "policy", "action strategy", "functional strategy", "operating strategy and policy" and "functional strategy and policy". After that, they put forward the following four questions requiring further study[3]:

Should strategy include "approaches" and "general and specific goals"?

Are there "elements" in the narrow sense of the strategic concept?

Should the strategy concept include "goal setting"?

What is the logical relationship between the elements? How do they form the essence of the strategy concept?

It can be drawn that those four questions are of great importance to understanding the strategy concept, its definition, and fundamental questions on what is strategy. Moreover, we will find that indeed, the third question can be included in the first question.

In 1980, Bracker explored whether there was any consensus as to 17 strategy definitions, based on which he made a conclusion about different strategy definitions. In his opinion, the strategy is to "analyze the environment and situation for the purpose of determining the position of companies in competition and allocating resources to realize companies' primary target‶.

Professor Barney, the originator of strategic resource-based view doctrine, reviewed nine strategy definitions in 1997. Although he did not find out any common element, he considered strategy as a theory test. From where Barney stands, "As a scientist verifies research hypothesis according to available information of literature, the strategy is a process during which an enterprise seeks its competitive advantage based on the understanding of the industry it operates and the key market economic process under the circumstance of incomplete information".

Based on five strategy definitions, Grant (2008) analyzed the strategy definitions and pointed out that companies should shift from planning to strategy. He holds that the strategy includes the following aspects: (1) Set a consistent "long-term

[3]This chapter will provide answers to the first three questions, while the fourth question will be answered in this chapter.

Table 2.1 Summary of Research Literature on Strategy Definition

Literature	Sample of strategy definition	Research method	Research conclusion
Hofer and Schendel (1978)	13	Manual listing	Proposed some further questions
Bracker (1980)	17	Manual listing	Summarize the characteristics of strategy definition
Barney (1997)	9	Manual listing	Give a new definition
Grant (2008)	5	Manual listing	Give a new definition
Ronda-Pupo and Guerras-Martin (2011)	91	Content analysis	Give a new definition

objective"; (2) Know your competitor; (3) Evaluate your resources objectively; (4) Execute your action effectively.

Ronda-Pupo and Guerras-Martin (2011) analyzed the strategy concept in which they studied 91 different definitions of strategy by using the content analysis approach. They were of the opinion that the development of the core elements of strategy concept included three stages. They found that, from 1962 to 1977, the three core elements of strategy concept were "company", "environment" and "action", which was the first stage. During the second stage (1987–1992) and the third stage (1993–2008), the elements of strategy concept included "company", "environment", "characteristic", "resource" and "action". Based on the before-mentioned discovery, they also gave a new definition. Table 2.1 is the outline of the five studies.

The aforementioned five papers (7 authors) have studied different definitions of strategy, and among them three papers (4 authors) gave new definitions based on their research. However, the conclusions about "what is strategy" varied considerably, regardless of the research method authors applied, such as listing different definitions, or content analysis.

When studying the same question, different conclusions that reveal the essence of the question ought to be convergent, meaning that even the conclusions are reached under different samples and periods, the conclusions should be consistent to some extent. Since the conclusions in the research literature on strategy definition listed in Table 2.1 differ greatly, in some way, we can say that the question of "what is strategy" remains unsolved.

Do the aforesaid authors conduct research on the terminology confusion about strategy concept we mentioned?

The research by Hofer and Schendel as well as Ronda-Pupo and Guerras-Martin discussed the terminology confusion issue. Hofer and Schendel analyzed the terminology about functional strategy and policy and found that 13 authors used five different wordings. However, Hofer and Schendel did not do further study on the reasons for that phenomenon (or the cause of that). Therefore, we are still puzzled about the roles of the five wordings in the strategy definitions.

Ronda-Pupo and Guerras-Martin, the only group that applied the text analysis method rather than manual listing, studied the terminology used in different literature on strategy definition. They expect to find the common elements of the strategy concept. Taking 90 definitions as research sample, they concluded that the core elements of strategy concept varied in different time stages. Their study seems not very convincing. Firstly, the core elements should be basically consistent regardless different time stages. The essence of the core elements of strategy will not change greatly, although the core elements may take various different forms in real business world due to different situations and environments. Secondly, compared with the strategy definitions proposed by several masters, the core elements such as "company", "environment", "action", and "characteristic", "resource" and so on, put forward by Ronda-Pupo and Guerras-Martin were so different. Moreover, as mentioned before, there exist many problems in the 90 definitions of literature. Therefore, using them as research samples would be inaccurate to form a new definition. The logical approach applied by researchers is the root of a study. Nevertheless, above-mentioned issue was not well considered by Ronda-Pupo and Guerras-Martin when employing the collection of 90 definitions as their research sample.

Although the conclusions of the above studies are not sufficient, their research sets a precedent for the analysis on the confusion about the strategy concept. The five pieces of research show that the study of strategy concept is complicated because we are not sure about where to begin and how to begin in analyzing the Three-multiple problem of the definition literature of the strategy concept.

2.3 The Methodology Applied in This Chapter

Analytical method of literature on strategy definitions. My ideas go as follows. How to analyze the literature definitions of strategy involves methodological issues. Develop an appropriate method is a great challenge. The above-mentioned five papers on definition studies shows that traditional research method (listing the definitions) and text analysis failed to well explain the Three-multiple problem issue. Hillman (2011) once said that sometimes we should not examine a theory by taking traditional empirical approaches. In the earlier stage of my research, I could not make it out at all on the research method I should apply. After several tries, I decided to read and reread different definitions in literature. As the old Chinese saying goes, a book's meanings will naturally come clear if it is read over a hundred times. Moreover, I am inspired by the repeated readings.

The main problem is that there are a great number of strategy definitions. Specifically, plenty of different definitions, different wordings that are used to describe strategy and diverse interpretations of strategy concept appeared. It is obvious that there must be a reason or some reasons for this phenomenon. In order to figure out why are there so many different definitions, we need to identify the cause of the diversity firstly. How should we understand the diversity and the difference it brings?

It is of great importance to have the answers to the question in the above for the analysis of literature definition. As only upon logically figuring out the problem, we then can better understand the reasons of having the Three-multiple problem issue of strategy definition literature mentioned earlier. Then, we will be able to analyze and study the definitions in literature appropriately according to the logical approach shown by the reasons.

While reading different literature definitions of strategy over and over again, I also reflect on what is a good definition and find some clues, based on which I establish my train of thought about the analysis.

(1) Studying the question of "what is definition?"

In the process of studying strategy definition literature, I am enlightened by searching for the answer for "what is definition". Knowing what is definition is the first step of defining strategy. The exploration of definition is beneficial to knowing the content of a definition (or the connotation parts that a definition includes) and what shouldn't appear in a definition.

The Wikitionary describes definition as "a statement expressing the essential nature of something or a statement of the meaning of a word or a concept" and "a definition should include the only element and only elements of a word". For example, when defining the word "bachelor", the difference between single men and non-single ones is the major concern. By its extension, the concept of "bachelor" should include thousands of millions of singles. However, the definition of "bachelor" refers to a man who has not been married yet. Therefore, a bachelor must be an unmarried man and only bachelors are men who are not married yet (Wikitionary).

The Oxford Dictionary defines "car" as follows: "a road vehicle, typically with four wheels, powered by an internal-combustion engine and able to carry a small number of people". It does not indicate the type, color or size of a car, or its technology and manufacturing process, which should belong to its extension definition (or denotation part).

The before-mentioned explanation from Wikitionary is enlightenment for me to analyze the problems of literature on strategy definitions. Similar to cars, there are also various types of strategies. From the perspective of purpose, some strategies are for improving competence, some for positioning, some for entering a new field and some for contending against competitors. The methods and process of developing strategy also vary a lot. Some strategies are made by executives. Some are made with the help of consulting companies while others may be made by the company's strategy group. Moreover, from the perspective of implementation, some strategies are implemented successfully, some failed, some are partly operated and some are possibly not applied completely. Furthermore, there are also successful strategies as well as unsuccessful ones. The definition of strategy cannot list all the above aspects. Therefore, we should explain only the essential nature of strategy rather than other extension content in its definition.

The analysis of the question "what is definition" has given me great inspiration. Nothing belonging to the denotation of a concept should be included in its definition. The same is true of the definition of strategy.

(2) Possible cause of the confusion about strategy definition in literature

Based on understanding the definition of strategy in Wikitionary and Baidu, I also read different definitions of strategy in literature. After repeat reading, I concluded that the following four reasons were responsible for the existence of so many understandings and so many wordings describing the strategy concept.

First, different vocabulary is used to explain the same meaning. In other words, the writers apply different words that have the same meaning when defining strategy. For example, the words "warm", "hot" and "high-temperature" mean the same when describing the weather. In another example, "tangerine" and "orange" refer to the same fruit in China. Plenty of authors did not follow an agreed standard of terminology when giving definitions of strategy, resulting in this phenomenon.

Second, different terms used by the authors belong to the same category of vocabulary. For instance, the authors use "apple", "orange", "banana" and "longan" to describe fruit. However, these various words fall under the broad heading of "fruit". The same situation may exist in the literature on strategy definition, namely different words used by writers belong to the subsets of a same category.

Furthermore, the scholars have diverse understandings of the strategy concept, leading to the use of various words. The analysis of this situation is more significant than the above two conditions because this issue involves the validity of research, i.e. whether the definition of strategy can really illustrate the core content that strategy concept includes.

Last but not least, the definitions of strategy in literature may incorporate expressions that don't belong to the strategy concept. It can be drawn from the definition in Baidu and Wikitionary that a definition should explain the core content of a concept. It is possible for authors to highlight an aspect of strategy that is crucial from their points of view, while it is not part of the strategy concept. For example, the manufacturing of good quality cars is crucial for the company and users, while the definition of car does not indicate the process of making good cars.

The following chart (Fig. 2.1) concludes the four possible causes of problems of strategy definition literature.

The aforesaid ideas are of great help for settling issues like "different vocabulary, the confusion about the use of terminology and the great difference of understanding of the content and element of strategy". In fact, the diverse strategy definitions in literature that seem to be disorganized may present in a certain form.

(3) Analytical methodology

Based on the above-mentioned four situations, I develop the following methodology for analyzing strategy definitions in literature.

First, I check whether the following cases appear in the literature. Writers may apply a variety of words to explain the same meaning. In this case, I establish ***a general term*** (a term that is commonly used in strategy definition) to summarize

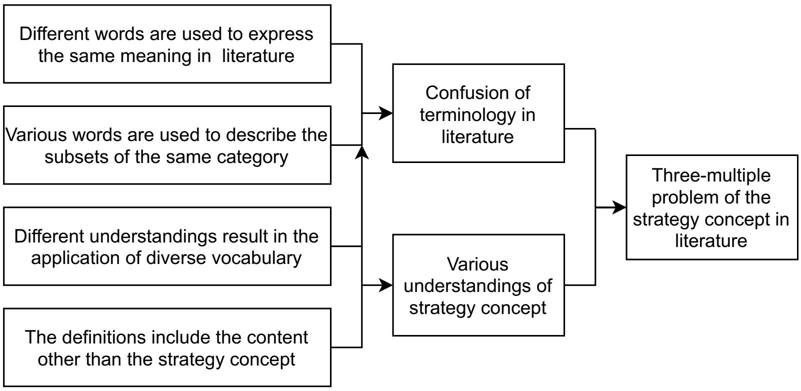

Fig. 2.1 The possible reasons for confusion of literature on strategy definitions

various words with the same meaning. This solution not only reduces the number of vocabulary used in strategy definition, but also is beneficial for us to figure out the basic parts or essential elements of the strategy definition. Moreover, I also find out the cause of the case in the above. In my opinion, there are two possible causes; one is that the writer just uses different words (that is to say, the diversity of expression leads to the use of various words). Another cause is that the writer, who has a different understanding of a word, which has the same function in strategy definition, uses vocabulary different from another scholar. Almost no author explains the reason why he or she applies different vocabulary because the writers do not communicate with each other directly. In a word, the two reasons are both of help for us to understand the definitions of strategy in literature.

Then, I check whether some specific words under the general category of "fruit" appear as "apple", "banana" and other fruit names. If so, I will find out the cause of this situation and list the words having the same function in strategy definitions. After the analysis of these words, I collect different types of names and then propose a ***general category term*** like the word fruit to include apple, banana, etc. Therefore, the number of vocabulary in definition can be decreased. The exploration of ***general category term*** is also helpful for us to find the basic elements of the definition of strategy.

Then I check whether diverse definitions contain different comprehension of the essence of strategy concept. If this kind of situation does exist (it will certainly happen in general), various understandings and the causes are analyzed. Suppose that different understandings are similar to various types of fruit under the same general category. Then we can sum up or subdivide different understandings. However, if the situation differs from the above, it may belong to the fourth (following) situation, that is the content other than the strategy concept is included in the definition.

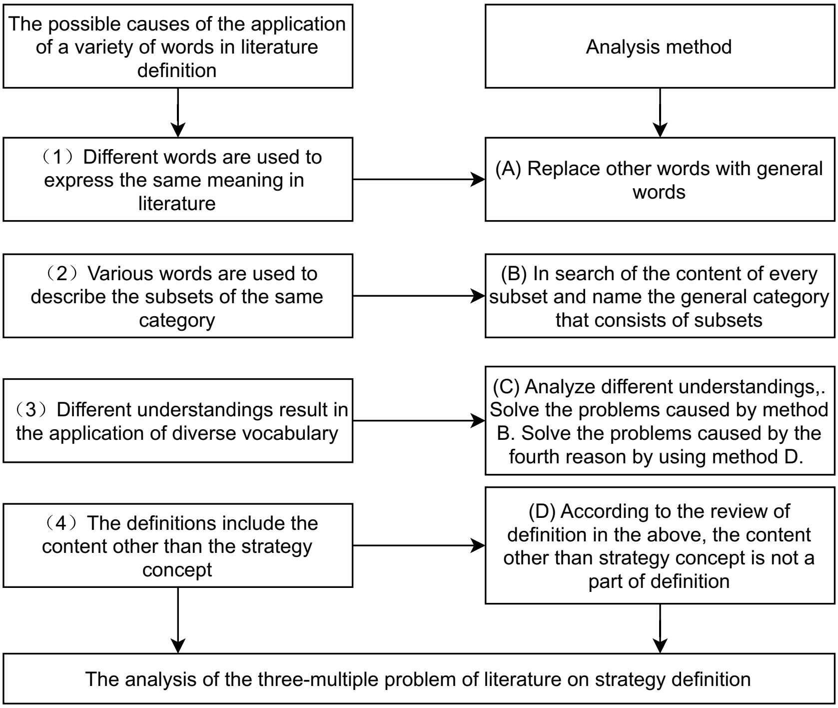

Fig. 2.2 Ideas of literature analysis on strategy definition

Finally, whether content other than the strategy concept (or extension content) is included in various literature definitions is examined. There are three guidelines to determine if the extension content is included in the definitions. I am of the opinion that any expression making strategy decision better is an extensive one.

We see that among the five pieces of literature on studying strategy definition, four adopt the research method of listing a limited number of strategy definitions to analyze the vocabulary and term related to definition. In this chapter, I will also analyze diverse definitions one by one. From where I stand, a researcher will be puzzled when studying a great number of definitions by using manual listing. Thus, I choose a few literature first to study strategy definitions. Figure 2.2 shows the analysis method.

Owing to the existence of plenty of strategy definitions, choosing the appropriate definitions influences the reliability of samples directly, and thus, is of great importance. Here I select some definitions of representative scholars and analyzes the key words and their functions. The four scholars are Chandler (1962), Andrews (1965, 1971), Mintzberg (1987a, b), and Porter (1996).[4] The academic reputation and the citations of the scholars indicate the representation of their definitions.

[4]According to Google Scholar, the citation number of different masters' definitions are 11,391 (Chandler), 1668 + 1291 (Mintzberg), 6104 (Porter).

Based on the representative study on definition by several masters, this chapter studies the rest definitions of strategy, which will promote the analysis and comprehension of puzzles about strategy definitions.

2.4 Review of Literature Definitions by Four Gurus

In 1962, Chandler defined strategy as “the basic long term goal of an enterprise and the adjustments of route made to reach the goal and the necessary allocation of resource.” The phrase “*long term goal*” is clearly a part of Chandler’s definition. Moreover, it can be drawn that the core of the above-mentioned definition is setting and realizing goal with “*course of action and resource allocation*”.

As far as Andrews (1965, 1971) is concerned, strategy is “the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be.” It shows that the first part of the definition by Andrews is similar to the one by Chandler, stressing the *target and approach*. While the second part of the definition by Andrews can be deemed as the further explanations of target or a more detailed illustration of target model.

The explanation of strategy by Mintzberg (1987a) is “the plan of future and the summary of past models”. This definition resembles the definitions by Chandler and Andrews in core idea. Mintzberg (1987b) also gave another definition of strategy in his article *Five Ps for Strategy.* At the beginning, he writes: “…… strategy is a plan - some sort of consciously intended course of action, a guideline (or set of guidelines) to deal with a situation.” “… consciously intended course of action, a guideline (or set of guidelines)” mentioned here is not identical to the “approach” put forward by Chandler and Andrews. It means the basic guideline and principle of handling “a situation”, guiding method and approach. As for the term “*a situation*”, he uses two examples to illustrate its meaning, such as “a child needs a strategy to deal with how to cross a fence, and how an enterprise can acquire a market also needs a strategy.” Here, for a child, how to cross a fence is a situation (a situation) he faces, so he needs to have a plan to deal with the problem. In this definition, we can see that, in Mintzberg’s view, strategy is more like a solution or idea that a company needs when it comes to a particular situation.

From where Porter (1996) stands, the essence of strategy is “choosing to perform activities differently than rivals”, “find competitive advantages” or “the creation of a unique and valuable position”. Thus, insight and creativity are required. He also (1996) holds that “operational effectiveness is not strategy”. It is emphasized that “owing to the company’s inability to serve all customers, a choice must be made and the company needs to find the unique position in the market, requiring trade-offs in operating different activities from rivals”. However, Porter did not give a definition of strategy in the article *What is Strategy.*

Table 2.2 The summary of terms applied by the four masters in strategy definitions

Literature	Definitions	Terms describing	
		Development goal	"Something"
Chandler 1962: p. 13	The basic long-term goal of an enterprise, the adjustments of route made to reach the goal and the necessary allocation of resource	Long term goal, Goal	Course of action
Andrews (1965; 1971)	…objectives, purposes, or goals, produces the principal policies and plans…	Objective/purpose	Principal policies and plans
Porter (1996)	"choosing to perform activities different than rivals do"	Competitive advantage	Different from rivals
Mintzberg (1987a)	…model in the past and plan of the future	Future	Plan
Mintzberg (1987b)	"strategy is a plan - some sort of consciously intended course of action, a guideline (or set of guidelines) to deal with a situation"	Development goal	Development issue
		Plans, course of actions, guideline, or a set of guidelines	A situation

In fact, other writers define strategy on the basis of the four definitions by the above-mentioned masters. Therefore, the four definitions are critical for us to understand the strategy concept.

After careful reading the four definitions in detail (although Porter did not tell what strategy is, he offered some insight into strategy concept), it can be drawn that there are some common elements as illustrated in Table 2.2.

The first element is a long-term goal. Terms like "long-term goal" and "specific goal" (or narrow sense goals) are clearly expressed in the definitions by Chandler and Andrews. Mintzberg applied the word "future". He implicated "goal" in the two examples of *Five Ps for Strategy*, notwithstanding the word "goal" was not clearly expressed. The "goal", which can be understood as a specific goal or branch goal and implied in the two examples, can be deemed as the extension of the "goal" put forward by Chandler and Andrews. Porter (1996) pointed out that strategy is "choosing to perform different activities than rivals", "create competitive advantage" or "the creation of a unique and valuable position". How to understand the "competitive advantage" and "the creation of a unique and valuable position" put forward by Porter? Most companies aim to be dominant in the target marketplace and able to defense the rivals depending on their unique values. If we regard the "long-term goal" proposed by Chandler and Andrews as fruit, then "to find competitive advantage" and "to create a unique and valuable position" in the definition by Porter belong to the subset under the general category of fruit or are specific targets. Therefore, we can consider "create competitive advantage" and "the creation of a unique and valuable position" as the specific goals of company. According to the Internet search data, the "competitive advantage" raised by Porter is widely accepted with over 6000 times of citation. Achieving competitive advantages may be the paramount strategy goal for companies and it holds a special place in corporate strategy.

The second element appeared in the four definitions by the gurus is "*something*" to achieving long-term goal. In the definition by Andrews, "*the principal policies and plans* for achieving those goals" are for reaching the long-term goal. In the definition by Chandler, "*the adjustment of course of action and resource allocation*" is for realizing the long-term goal in effect. Mintzberg offered a different understanding of the function of this element. He thought, "A strategy is *a plan* - some sort of consciously intended *course of action, a guideline (or set of guidelines)* to deal with a situation". We can see that "course of action", "a guideline", or "a set of guidelines" here is used to cope with a situation or to solve the key difficulties in the company's development path.

I have been thinking a lot about which word to use for the term of "*something*" in Table 2.2. Terms of "course of action", "principal policies and plans" and "a guideline, a set of guidelines" are adopted in above literature. Whether these expressions differ essentially or they just serve the same roles in different forms in the strategy definition? If they are not differ essentially, we then should be able to express this element in a general term to replace the word of "*something*". Let us have a look at the *16-Word Principle*,[5] a military strategy developed by Mao Zedong and other Chinese revolutionaries. The content of this strategy goes as follows: "Retreat when the enemy attacks, disturb when the enemy stations, fight when the enemy is exhausted, chase when the enemy retreats". As we all know, we usually take the *16-Word Principle (in Chinese)* as a guideline. Now, think about whether we can understand this principle with the vocabulary adopted by Chandler, Andrews and Mintzberg. The answer is sure. The *16-Word Principle* can be deemed as "principal policies" (Andrews) or "a set of guidelines" (Mintzberg) for realizing the long term goal of "active defense". Moreover, it can also be understood as the "course of action" (Chandler). In a word, although the three masters employ various words, the functions and meanings of the vocabulary are basically the same. In this case, we can deem the situation as the application of diverse expressions, which have the same role in their definitions. The purpose of "*choosing to perform activities different than rivals do*" is to create competitive advantage, which is organizational goal. "Choosing to perform activities different than rivals do", in effect, is like a guideline to gain "competitive advantage". We can interpret it as a specific manifestation of the word of guideline. Thus, though Porter did not point out the the second element, the element of "guideline" is implied in Porter's comprehension of strategy concept.

The third element is "a situation", from where Mintzberg stood, "a situation" indicated that a company was confronted with obstacles in development and strategy was more like a plan for settling the difficulties. Ansoff (1980) once discussed the definition of "strategic problem in his papers. He pointed out that the strategic problem is a question which has a great influence on a company's ability to realize its goal, whether inside or outside an organization, in the future

[5]In Chinese, there are 16 words of the principle.

development. It can be drawn that the “strategic problem” by Ansoff has the almost the same meaning with “a situation” in the definition by Mintzberg. In the two examples listed by Mintzberg, a child is faced “a situation” of how to step over a fence, which is the problem he is faced with in fact. Therefore, “a situation” in the definition by Mintzberg, in effect, is the development problem of a company. It may be difficult to understand the meaning of “a situation” as it is a little bit abstract. Thus, here, we will replace “a situation” with “key development problem or strategic problem” for easier communication and understanding. This element does not appear in the definitions by Chandler, Andrews and Porter. The following table gives a summary of my analysis about the four definitions by masters.

Can we summarize the vocabulary for the second term in Table 2.2? I hope to develop a generally accepted term to cover all these words, which play the same role in strategy definitions for decreasing the number of words. In this case, readers will face less ambiguity caused by the application of diverse vocabulary. From the perspective of the vocabulary function, “course of action” (Chandler), “principal policies and plans” (Andrews), “course of action” or “a guideline, a set of guidelines” (Mintzberg) all belong to a kind of strategic *mean or strategic approach* for achieving the company’s long term goal. Therefore, it is possible that we can summarize the words adopted by the three masters in a general word. The analysis of the vocabulary employed by the three masters lays a solid foundation for understanding strategy concept. For describing the essence of the strategy definition more accurately and the implications from the “16-word Priciple” of Chairman Mao, I use “guideline” (or strategic mean) with the characteristic of “approach or mean” so that the ideological and leading feature of strategy can be presented. From this, the second element mentioned earlier, “*something*”, can be understood as guideline, which can be used to express the role and meaning of the second element “*something*” in Table 2.2.

Do the four gurus have different understandings of the strategy concept? It can be seen from the figure that there are basically two understandings. Simply, (1) strategy is a guideline, or set of guidelines (for guiding plans or actions of) achieving long-term goal. This seems the most tendentious understanding. (2) Strategy is a guideline or set of guidelines (for guiding plans or actions of) to resolve company development problem as suggested by Minzberg.

Table 2.3 Questions concerning the strategy concept in literature and answers

Questions	Answers
(1) Is there a difference in essence between the definitions of the four gurus?	Not much
(2) Are there situations that different wordings are used in definitions of the four gurus, which actually refer to same meanings?	Yes, Port’s
(3) Are there any elements that they agree on in their definitions?	Yes, long-term goal, guideline
(4) Are there situations that some terms in definitions by the gurus are actually the contents that belong to subclasses under the same category?	Yes, but not many

Next, the summary of definitions by the four masters will be made.

Let us look back on the Three-multiple problems in literature on strategy concept at the beginning of this chapter and the probable reasons (or probable four situations). The first case is that a variety of vocabulary is used to express the same meaning. The second situation is that different words that applied by the writers belong to a general category. The third case is that the writers understand strategy concept differently, resulting in the application of diverse word. The fourth situation is that the content other than strategy concept may be included in definitions.

First, the masters do "use a variety of vocabulary to express the same meaning". Specifically speaking, it is similar to the case of using "warm" and "sultry" describe the same weather. For instance, "long-term goal", "goal" and "future" are employed. We can use "long-term goal" (or development goal) as the general term to substitute these words. Vocabulary like "principal policies and plans (Andrews) ", "A guideline, a set of guidelines (Mintzberg) can be replaced by the term of "guideline".

Then, different words belonging to a general category are also used. In other words, words like "apple", "orange", "banana" and "longan" that all belong to the general category of fruit, are employed. The "competitive advantage" expressed by Porter can be deemed as the specific development goal of a company.

Next, let us check whether the masters have different comprehension of strategy concept (the third situation). The understandings of Chandler, Andrews and Mintzberg are similar to each other in goal, the guideline of reaching goal, and so on. However, they all omitted the specific content of goal and guideline. Although Porter pointed out the specific goals like "competitive advantage" and specific guideline like "choosing to perform activities different than rivals do", this difference just involves the discrepancy between general goal or specific goal, and general guideline or specific guideline rather than essential difference.

Last but not least, do the four masters include content other than the connotation part of the strategy concept in their definitions? In the definition by Chandler, "resource allocation" that is not expressed in the definitions by the other three masters appeared. "Resource allocation", can be viewed as a part of denotation of the strategy concept, i.e. we are supposed to distribute resource reasonably to implement strategy more efficiently.

It is concluded that if the definitions of the four masters are taken as a small sample, the four situations (or reasons) mentioned above that lead to the Three-multiple problems of strategy definition more or less exist in the case sample. However, generally speaking, the comprehension of the four masters differ slightly and the four masters rarely include the content which isn't a part of strategy content, while the problem of applying different words does exist.

Going back to the questions raised in this chapter overview, we now have some answers.

The definitions in other literature is analyzed in the following part.

2.5 Review of Literature Definitions by Some Other Authors

Can we summarize and explain the problem of the divergence of strategy definitions by other writers with the three elements of "long-term goal", "guideline" and "development issue" summarized from definitions of Chandler, Andrews, Mintzberg as standards? In addition, can we summarize the subsets of a class, which are represented by different wordings, like the one by Porter?

To answer these questions, I collect 32 definitions in different academic papers; Most of them are the earlier researches in this field. Eight of them are from academic journals including Strategic Management Journal, Academy of Management of Executive, Organization Studies, Harvard Business Review and California Management Review while the rest are selected from all kinds of books whose publishers are Sage, MIT Press, Prentice Hall, McGraw-Hill, and Little Brown. John Wiley & Sons and West Publishing. The released date ranged from 1960 and 2011.

Reading these definitions carefully, you will find that most scholars gave definitions for strategy based on the definitions by Chandler and Andrews and terms describing the element of "long-term goal" are frequently used. The phrase "long-term goal" is used in the literature by the following writers: Ackoff (1974), David (2003), Eisenhardt, (1999), Glueck (1976: p. 4), Hambrick and Fredrickson (2001), Hatten and Hatten (1988), Higgins and Vineze (1989: p. 166), Hill and Jones (2007: p. 87), Hofer and Schendel (1978), Knights and Morgan (1991: p. 251), Learned et al. (1965: p. 17), Schendel and Hatten (1972: p. 100), Steiner and Miner (1977: p. 7), Summer (1980).

(1) **Terms in literature concerning the element of long-term goal.**

Plenty of strategy definitions contain the two elements of "goal" and "mean" and general terms can be found in the literature by authors (Table 2.4) like Ackoff (1974).

Table 2.4 Literature that includes general terms of "goal" and "guideline" in definitions

The elements in definitions	Literature
Literature which includes both general terms of "goal" and "guideline" in definitions	Ackoff 1974; Andrews 1971; Chandler 1962: p. 13; David 2003; Eisenhardt 1999; Glueck 1976: p. 4; Hambrick and Fredrickson 2001; Hatten and Hatten 1988; Higgins and Vineze 1989: p. 166; Hill and Jones 2007: p. 87; Hofer and Schendel 1978; Knights and Morgan 1991: p. 251; Learned et al. 1965: p. 17; Schendel and Hatten 1972: p. 100; Steiner and Miner 1977: p. 7; Summer 1980

Table 2.5 The literature in which the definitions present specific goals

The elements in definitions	Literature
The literature where the definitions contain general "guideline" and narrow "goal"	The narrow goals in definitions go as follows: Maintain or promote productivity (Barney 1991) Maintain the long term development and profit of corporation (Drucker 1954: 49–61) Find competitive advantage with core competence (Hitt et al. 1997: p. 115) Improve performance (Ronda-Pupo and Guerras-Martin 2011) Change industrial structure or competitive posistion (Oliver 2001) Attract and please customers, successful competition, business increase, reach corporate goal (Thompson et al. 2011: p. 4)
The literature where the definitions only contain narrow "goal"	Narrow goals: Find competitive advantage (Bowman et al. 2002; Johnson et al. 2005: p. 9; Porter 1996) Gain special position (Porter 1996) Choosing to perform activities differently than rivals (Porter 1996) Satisfy the expectation of stakeholders (Johnson et al. 2005: p. 9)

Some scholars employed specific goals, such as "find competitive advantage" and "maintain and promote productivity" instead of general terms of goal. My study on literature shows that there are 8 subsets (i.e. as the eight fruit names under the general category of fruit) of the comprehension of "long-term goal", including "maintain and promote productivity" put forward by Barney (Barney 1991) and "find competitive advantage" by Porter.

Table 2.5 shows the literature in which the definitions present specific goals. The narrow goals in the following table are the different targets of companies in various cases.

Let's review the question put forward by Hofer and Schendel in their analysis of 13 strategy definitions in 1978. **Should target setting be contained in strategy concept?** The answer is surely yes on the basis of the literature on strategy definition by the several scholars. **The goal should be an essential part of strategy definition**.

With regard to strategy definition, Hofer and Schendel (1978) also proposed a question: **should strategy definition include general or narrow goal**? How should the general and narrow goal in this question be understood?

We can consider the eight subsets of the long-term goal (or goals that are more specific than the general goal) as the narrow goals in the question asked by Hofer and Schendel. Then, the narrow goals should belong to the general category of "long-term goal". Therefore, strategy definition should contain the general goal, while it is doubted that whether the narrow or specific goals, which are of great significance for corporate strategy, should be included in strategy definition. It is obvious that the definition will be too long if all the eight subsets are covered. Moreover, the definition must present the basic feature of an object, describe the meaning of a word or a concept and list all the characteristics of elements or the only element. If we deem the narrow goals as a part of strategy definition, we are just unable to include all of them. Therefore, "long-term goal", one element of strategy concept, should be presented in the form of general feature and there is no necessity of including other narrow goals. Nevertheless, the company should set the specific goals according to different situations. Moreover, the question that "whether strategy definition should include general or narrow goals" by Hofer and Schendel can also be settled. **The strategy concept should contain general goals rather than narrow goals**.

We can conclude that a great number of scholars gave strategy definitions that contain narrow goals (or the specific goals of corporation under different situations). I want to stress that **the omission of narrow goals does not mean the insignificance of specific goals**. Actually, the concrete aims in the above chart play an important role in our understanding of the general long-term goal. The narrow targets enable us to clearly comprehend all kinds of cases under which the strategy is made, offering us a great help in comprehending strategy goal.

(2) Terms in literature describing the element of guideline

Next, let us look at the element of "guideline" and check whether this element is presented in strategy definitions. If so, what kinds of words are employed to illustrate this element?

I find that this element is contained in a large number of literature on strategy definition. They include as Barney (1991); David (2003); Drucker (1994); Eisenhardt (1999); Glueck (1976: p. 4); Hambrick and Fredrickson (2001); Hatten and Hatten (1988); Higgins and Vineze (1989: p. 166); Hill and Jones (2007: p. 87); Hofer and Schendel (1978); Knights and Morgan (1991: p. 251); Learned et al (1965: p. 17); Schendel and Hatten (1972: p. 100); Steiner and Miner (1977: p. 7); Summer (1980); Thompson et al. (2011: p. 4).

The aforesaid analysis of the definitions by the four gurus shows that three of them applied rich vocabulary playing the same function of "guideline". This phenomenon also appeared in other papers by the rest writers. According to my research, nearly ten kinds of words exist, including "choosing plan", "plan", "action", "how to", "the principal policies and plans" and "method", see Table 2.6.

Some scholars (Hambrick 2001; Ronda-Pupo and Guerras-Martin 2011) believe that the strategy concept suffers from semantic problems. Based on the analysis and classification, I found that the diversity of strategic semantics reflects the diversity and complexity of strategy functions.

As previously mentioned in our analysis of the different wordings that appear in the definitions of four masters, in the real business world, there are a variety of practical problems in the corporate development and different solutions are required. Many authors applied various wordings to explain these solutions, resulting in the divergence of "guideline" in strategy definitions.

Table 2.6 The summary of vocabulary in literature on strategy definition

Element	The vocabulary and terms in literature on strategy definition
Long-term goal	(General term) General goal: long term goal/goal/target/future Specific goals: Find competitive advantage/Change the industrial structure to improve organization result/Create unique position/Choosing to perform activities differently than rivals/Satisfy the expectation of stakeholders/Gain competitive advantage/Maintain or promote performance/Improve productivity/Attract and please customers, successful competition, develop business and realize the target
Guideline	Actions/approaches/choice of programs/guidelines/how/plans/major policies and plans/mean/solutions

(3) Terms about major development problem in literature

Then, let us have a look at the third element of “a situation” in literature on strategy definitions. This element is only presented in the two literature by different authors, Mintzberg and Von Neumann and Morgenstern (Von Neumann and Morgenstern 1947). Von Neumann and Morgenstern held that “strategy is a course of action decided by the particular situation). Since few papers present the element of “a situation”, any branch of this element is not found.

(4) **Terms in literature that are not part of the connotation of the strategy concept**

In analyzing and filing the literature concerned with strategy definitions, I have noticed that quite a few scholars categorized “matching up organizational resources and capabilities with the external environment” in the definition of strategy (Hofer and Schedel 1978; Jemison 1981; Katz 1970; Miles and Snow 1978; Mintzberg 1979: p. 25).

From the perspective of strategic decision, if a company has realized the mismatching of organizational resources and capabilities with the external environment, it needs to make decisions to change the situation and keep the company foundation everlasting. Therefore, we can see that when making a strategic decision, considerations in “matching up organizational resources and capabilities with the external environment” will lead to the making of a better strategic decision.

Back to our introduction about the definition of an automotive in Wikipedia and Baidu we have mentioned before. When we talk about definitions, the topic only needs a concept with core meanings and content, so the definition of a car does not include how to make a good car no matter how important it is, for it is an extension of the definition. “Matching up organizational resources and capabilities with the external environment” is a principle to be followed to when making strategic decisions. Therefore, it is the extension of the strategic concept, rather than the connotation.

2.6 Conclusions and Implications

Literature review shows that the words used to describe "long-term goal", such as goal, object and end, are similar to each other in literature definitions.

While the expressions of "guideline" or "strategic mean" differ greatly, diverse vocabulary like "choice of programs or plans", "actions", "means", "how", "major policies and plans", "approach", "moves" is presented. The diversity of strategic problems may cause the divergence of "strategic mean", and thus, a variety of expressions about "guideline" arises. However, these terms, though different, play the same function in strategy concept.

Here, I'd like to divide the vocabulary describing the elements of "guideline" into three kinds. The first kind is about guideline, such as the application of guidelines, major policies and so on. The second is related to mean, such as "solution", "how", "course of action", "plan" and "actions". It is known that the element of "guideline" in strategy concept, with programmatic and leading feature, differs from common approaches and influences the development and survival of a company. Therefore, among the words with respect to strategic mean in the aforesaid part, "guideline" and "policy" which possess programmatic and leading feature conform the characteristics of strategy better than "plan", "action" and so on, which show the specific content of a plan and thus are more like tactics. In sum, some authors hold that strategy should be a guiding, instructional and high-level overview of idea and policy. However, the other writers may define strategy concept with words belonging to tactics, which are closely linked to strategy, but differ in its nature.

Mintzberg (2002) said, "Our understanding of strategy is similar to the situation of the blind feeling an elephant to some extent". Through my research process, I realize that our comprehension and study of strategy concept and definition, just as what Mintzberg said, resemble the metaphor closely. Scholars who touch the legs of the elephant define strategy as "a pillar", writers who touch the nose explain strategy as "a pipe", authors who touch the body deem strategy as a piece of "board", while those who touch both the body and legs may present strategy as "a thick plate on a pillar". For those who include terms other than the denotation of the strategy concept, they can be viewed as those who may touch the leg of the elephant and a tree beside the elephant's leg. Pupo and Martin (2011) are of the opinion that "the present literature on strategy definition is mostly based on our partial cognition". The "pillar", "pipe" or "board" we touch is a one-sided view.

From the above, we find that the explanations of an elephant as "pillar", "pipe" "board" or "a thick plate on a pillar" are the comprehensions of the elephant by the blind. Our study process is very much alike. Therefore, all kinds of definitions arise in the process of understanding the "elephant". In the process of touching the elephant of strategy concept, different scholars find different aspects and thus diverse understandings, terms or vocabulary come into being, resulting in the Three-multiple problems of literature on strategy definition.

In fact, I am also one of the blind who is trying to touch the elephant. The only difference may be that I have been making efforts, though off and on, for more than ten years without giving up.

In the discipline of strategy, the concept and definition is only one elephant. As a large discipline, strategy is similar to a herd of elephants in the deep forest. We still need to make further study on the number, gender, age, relationship and immigration of them.

Perhaps, it is the real process of scientific research, or the process of knowing the law of nature.

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3 Fundamental Elements of the Strategy Concept

> *"It is a little dark secret that most executives don't actually know what all the elements of a strategy statement are, which makes it impossible for them to develop one".*
>
> (Collis and Rukstad 2008; Collins 2001)

> *"What actually consists a strategy is missing. The key is achieving a robust, reinforced consistency among the elements of the strategy itself".*
>
> (Hambrick and Fredrickson 2001)

3.1 Overview

Although there are nearly 90 definitions of strategy concepts in the strategy discipline, answers to the questions of "what is strategy" are controversial academically. In the previous chapter, we examined why there are so many definitions and the reasons for having the problem of the Three-multiple problems in the literature definitions on the strategy concept.

Some scholars (Hambrick and Frodrideson 2001; Ketchen et al. 2008; Leontiades 1982; Markides 2004; Nag et al. 2007; Oliver 2001) believe that we actually know neither what exactly strategy is, nor which elements should be included in the strategy definition. This paper will elaborate on "what is a strategy". Differ from the answer to providing specific managerial suggestion to company's strategy; this chapter interprets the strategy concept from its main components and their relationship point of view. It explains what fundamental elements are included in the definition, and what the linkage is between them from the perspective of definition.

So, what is strategy? What are the fundamental elements of the strategy concept? Throughout the company's various strategies, whether it is trying to gain a competitive advantage, or one wants to enter the high-end market, or one wants to resist the pressure from alternative products in market, or one wants to meet the challenges

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from low-end market competitors, we can find that any complete strategy includes three basic elements. They are development goal (or strategic goal), major development issue (or strategic issue), and guideline (or strategic approach).[1]

What do those three elements mean? How do they relate and constitute the strategic concept and definition? Let us look at a few examples first.

3.2 Examples of Companies

(1) Taobao's early competitive strategy

In 2002, P2P personal online trading platforms were in the early stage in China and Jack Ma, CEO of Alibaba, decided to enter the industry in 2003 after he saw the development potential of China's market. However, a company from the United States, eBay entering the industry earlier had a leading advantage, and achieved great success in the Chinese market with a 70% market share. How did Taobao compete with eBay as a later player? What was its competitive strategy?

We can learn from Taobao's business model that Taobao's *strategic goal* was quite clear at that time that was, successfully gaining the market share from eBay. The *strategic issue* for Taobao at that time was what kind of platform could be appeal to customer and would be more competitive than eBay. Taobao introduced a platform which was cheaper (the price was zero) and had better service (*strategic approach* of Value for Money) than eBay. The platform provided buyers and sellers a direct communication channel. There exists distrust matter in payment transactions between buyers and sellers and the Ali-pay system settles the trust problem. The platform of Taobao, compared with that of eBay, had obvious advantages and attracted many Chinese users. The market share of eBay decreased from 80 to 29% by the end of 2006 (Lu Jiangyong et al. 2007).

The three elements of Taobao's competitive strategy are:

Development goal: successfully gaining the market share from eBay.

Major development issue: We have a strong competitor. What kind of platform could be appeal to customer and would be more competitive than eBay?

Overall guideline: Value for Money, cheaper (the price was zero) and better service.

[1]The meaning of the "major development issue" here is the same as that of the term of "a situation" in the previous chapter as mentioned by professor Mintzberg. For easier understanding, we call it "major development issue". In addition, the word itself of the name will not appear in a definition when we define something. However, when it goes to oral expression, the terms of the three elements of the strategy concept "strategic goal, strategic issue and strategic approach" are easy to read. Strategic goals are different from general goals of a company; Strategic issues are different from ordinary operation issues of a company; Strategic approaches or means, characterized by leadership and guidance, are different from ordinary approaches. The terms "strategic goal", "strategic issue" and "strategic approach, or strategic mean" appearing later in the book are "development goal, or long-term goal", "major development issue" and "guideline", respectively.

(2) **Geely's acquisition of Volvo**

Geely is the emerging auto company, which does not rely on other companies of the auto industry. Mr. Li Shufu, the founder of Geely, had the ambition to enter high-end auto market in 2002 (the ambition can be considered as a *strategic goal*). There are two *approaches* to achieve that goal: one is that Geely can develop high-end technology independently, and promote a new Geely's high-end car brand; the other is to enter the high-end auto market by buying a mature brand. Geely could not achieve the goal no matter which way it followed in 2002 as it had neither advanced technologies nor brand and its financial strength was weak (*strategic issues, or major development issues*). In 2007, the United States suffered a financial crisis due to the collapse of Lehman Brothers. The economy continued to fall in 2009 and Ford experienced heavy losses. Ford planned to sell the brand of Volvo, bringing an opportunity to Li Shufu. While in 2009, Geely has accumulated enough financial resources and industry experiences after years of development. Therefore, Li Shufu decided to enter the high-end auto market by the way of acquisition (Peng and Ling 2010; Wang 2010). Geely has settled technical obstacles of entering the high-end auto market by acquisition while possesses a brand.

The three elements of the company's strategy are:

Development goal: to enter high-end auto market.

Major development issue: does not have expected technologies.

Overall guideline: *acquisition.*

(3) **Business reorganization of Kodak digital camera**

The market of digital cameras hit that of film cameras to a great extent. Kodak produced 6.3 mega-pixel digital cameras in 1991, but it lost the leading position in the digital products market due to wrong high-level decision-making. In 2002, Kodak accounted for 25% of the market share while its competitor Fuji accounted for 60%. Kodak suffered great pressure coming from the success of digital products of its competitors. With declining market share and sales (those are *strategic issues*), Kodak hoped to change the situation and reverse the loss (*strategic goal*). However, due to the rapid development of the industry, the quality increased steadily while the price decreased. Therefore, Kodak cannot gain a foothold in digital cameras industry and for this reason it had several high-level personnel adjustments. In 2006, Mr. Perez proposed to maintain the status by introducing printer and stabilizing Kodak's position in the film market (*strategic approach*) (Gurrera 2006). At the same time, Kodak took radical measures to complete the reorganization of the company, establishing a digital business while successfully aborting some traditional areas, shutting down 13 manufacturers and 130 processing laboratories, and in total cutting about 4.7 million people (*further strategic approaches, measures*). The company's performance continued to decline in 2011—share price fell by 88%, and debt reached 6.8 billion dollars, which was more than the company's asset of 5.1 billion dollars (*the new strategic issue*). The company filed for bankruptcy protection on January 19, 2012 (a further *strategic* *approach*) in order to maximize the interests of shareholders, employees, retirees, creditors and pension trustees and take the interests of the most valuable customers into consideration (the *strategic goal* after the new issue) (Li Guimin 2012).

The three elements of Kodak's strategy are:

Development goal: change the situation and reverse the loss.

Major development issue: (1) declining market share and sales due to competition from digital cameras and (2) performance continued to decline late.

Guideline: (1) maintain the status by introducing printer and stabilizing Kodak's position in the film market, in early stage and (2) reorganization of the company, aborting some traditional areas in late stage.

(4) **SKF's differentiation**

As a leading company of the design and manufacture industry and the industry of selling bearing products, SKF faced the threat of the low-end market where its products may become ordinary with abnormally low prices *(development issue)* in 2006. Tom Johnstone, the president, asked the company to combine the needs of customers with the technology to produce products that meet any customers' needs, so as to achieve complete differentiation between SKF products and other products *(overall guiding principle)* in the industry to face the challenge from low-end market and to ensure the company' profitability *(strategic goal)*. In order to achieve the strategic goal, the company has established five technology "platforms" at its headquarters which "connects" more than 3,000 engineers around the world to quickly solve any technical issues during product development and manufacturing (Marsh 2007).[2]

The three elements of SKF's strategy are as following:

Major development issue: threat of the low-end market where its products may become ordinary with abnormally low prices.

Development goal: ensure the company' profitability.

Overall guideline: achieve complete differentiation between SKF products and other products in the industry.

Four examples of companies' strategies are shown above. Then let us take a look at the three elements of the strategy concept of those examples.

Two of the four companies had new strategies because of new development goals, such as Taobao and Geely. Jack Ma noticed the potential of Chinese market and decided to enter the field of personal online business platform. Li Shufu wished to enter high-end auto market. The rest two companies had new strategies because they faced big problems. Kodak's main film business met the shock from digital cameras while SKF was under the threat of cheap products from low-end market.

The company strategy can be divided into goal-oriented strategy (such as the strategies of Taobao and Geely) and problem-oriented strategy (such as the strategies of Kodak and SKF) from the perspective of the origin of the strategy. Now let us look at the two types of strategies.

[2]According to Marsh's articles(Marsh, P. SKF: Back on a roll in the business of bearings, Financial Times, Feb 7th 2007).

3.3 Problem-Oriented Strategy

In many cases, a company needs a strategy when it meets important problems. The company wants to fix the problems by performing the problem-oriented strategy. Problem-oriented strategy is usually generated to meet market challenges.

The order of the three elements in problem-oriented strategy is to put major s first. The order is major development issue (or strategic issue), development goal (or strategic goal), overall guideline (or strategic approach), wherein the goal generally focuses on company development. The overall guideline proposed is to provide direction to solve the development problems faced by the company. It is a basic guiding principle or an overall thought. Sometimes all the issues are likely to be solved while sometimes only part of them can be settled.

SKF actively faced challenges from the low-end market and set a goal to ensure the company's profitability. The company decided to perform complete product differentiation for meeting the challenges. To achieve the differentiation, the company established five technology-sharing platforms to realize synergistic effect on technologies around the world. We can learn from the SKF case that the major development issue ranked first among the three elements, the development goal (actively facing the challenges and ensuring profitability) and the guideline (differentiation) ranked second and third respectively.

However, Kodak had no other choice but to reduce loss by cutting staff and shutting down factories since the strategic issues it faced were much more severe than that of SKF and it had little impact on the industry of digital products at that time. The order of the three elements here is the same as SKF.

Is there any other order of the three elements in problem-oriented strategy? What about putting the major development issue first, the overall guideline second, and the goal third? The order I just mentioned exists in military strategies or company strategies. When facing development problem, not all decision-makers can find out overall guiding principle to overcome the difficulties. In this case, the goal elements may be listed in the end. In addition, the development goal may change when there is no proper overall guideline. In that situation, the goal element will be determined by the overall guideline element.

Traditionally, we have often thought that strategy is goal oriented, but the problem-oriented strategy gives us another aspect of the strategy.

The three elements of the problem-oriented strategy are shown as follow (Fig. 3.1).

We can see that, how company executives at a company performing the problem-oriented strategy consider the development issue is crucial. The major development issues are often those issues from internal and external organizations having impact on realizing the long-term goal of the company. The development issues generally derive from three aspects: competition within the industry, changes in the macro environment of the company's business, and significant changes within the company.

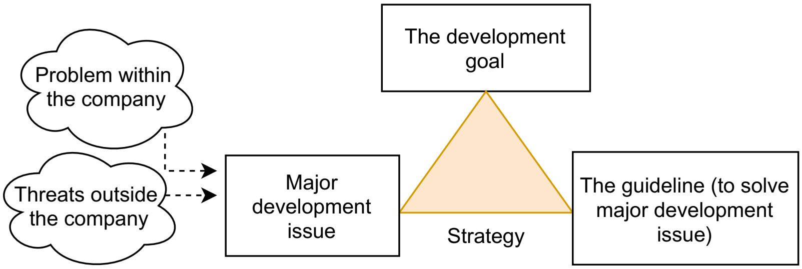


Fig. 3.1 The three elements of the problem-oriented strategy

The development issues deriving from competition within the industry generally have the following aspects:

- In the industry substitute product appears with better functions and cheaper price. For example, digital cameras substitute traditional ones, mobile phone with camera substitutes digital cameras, and network news substitutes newspapers.
- Industry competitors launch products with better quality (better technology, function, and design, etc.). For example, smart phones have great influence on non-smart phones. The industry competitors can also offer services or products with equal quality and even better quality but cheaper price. For example, Taobao offered services on its platform with better quality and cheaper price compared with that of eBay at its early stage.
- The company is hit by higher costs for key raw materials and core components while the products sell at cheaper price because of competition among the industry. For example, the steel industry in China had been suffering the pressure from the rising price of iron giants while the domestic demand and price have fallen year by year.
- The basic business models of the main competitors in the industry has changed quietly, leaving the low value-added activities to those companies that have not changed their business models or have not perceived changes in the industry. For example, the companies of the software industry tended to pursue miniaturization and third-party trading platforms appeared (such as Taobao, Misuland, ZBJ) providing services to suppliers and those in demand. However, the large companies took their sizes as a competitive advantage. The advantage was changing gradually and finally became a big development issue (inability to bear the high costs).
- New business models of an industry have greater competitive advantages and are more attractive to consumers, leaving other companies in venerable situations. For example, online shops have a great impact on physical stores and business of express companies has a great impact on that of post offices.

- Products of suppliers belong to the monopoly industry and the main competitors has controlled the major suppliers of the industry. For example, Huawei faces with pressure recently due to trade wars and the monopoly situation of the chip industry.

The development issues deriving from the changing macro environment generally have the following aspects:

- A decline in demand for products due to slow regional economy development. For example, the United States' financial crisis in 2008 was a threat to many companies.
- The local government introduces the industry policy to curb consumer demands for the industry's products. For example, the new policy lunched by the Chinese government on real estate industry had great influence on the industry.
- The government sets lower barriers to the industry, leading to more competitors and more severe competitions. For example, the Chinese government encouraged private financing and introduced a network financial policy in 2015, which had great influence on the banking industry.

The development issues deriving from the changing inner organization of a company may have the following aspects:

- The senior managers (decision-makers) of a company cannot identify the outer threat or take effective measures.
- Important senior managers leave the company when management regulations have not been established.
- Important R&D people leave the company and take away R&D fellows.
- Critical sales people leave the company and take away teammates.
- A company runs on a small number of customers or suppliers.

The above is an introduction of the problem-oriented strategy. However, for many companies, they often have more development opportunities than issues in a growing economic environment.

3.4 Goal-Oriented Strategy

When decision-makers of a company wish to seize the chance during its development, the company needs to set a new development goal, which represents as the ambition and expectations of the decision-makers. For achieving the development goal, the company needs a strategy. The strategy produced based on the strategic goal is the goal-oriented strategy. The order of the three elements here is to put the development goal first, the major development issue second and the general guideline (to solve issues) third.

You may wonder that the goal-oriented strategy having two of the elements, the goal and the strategic approach to the goal, would be enough as we used to believe that the strategy concept was based on those two elements. However, you will find after careful study that the overall guideline is designed particularly to solve the major development issues. That is, if you cannot identify those key issues, you cannot find out or propose a guiding principle for realizing the goal. Therefore, though the company performing the goal-oriented strategy is not facing serious development issues as those in problem-oriented strategy, it is a key step to distinguish them after deciding the development goal. That is the challenge and charm of the goal-oriented strategy.

To achieve the goal of acquiring the market share from the competitors, Taobao faced a major development issue, that is, how to attract consumers or what kind of platform will appeal to customers. Taobao created a new business model and a new platform with competitive advantages compared with eBay to solve the issue, providing better services and cheaper prices.

To achieve the goal of entering the high-end auto market, Geely faced some major development issues including no technologies, no brand, and no market recognition. However, the company solved those issues by acquiring Volvo. Acquiring Volvo helped the company solve the technology issue while get the brand, which solved the major development issue for entering the high-end auto market.

The relation among the development goal, the major issue and the overall strategy of the goal-oriented strategy is shown as follow (Fig. 3.2).

Differ from the ordinary objects; the goal of the goal-oriented strategy is often long period, relatively stable, comprehensive, divisible and full of challenges. Therefore, the goal is called development goal, long-term goal, or strategic goal.

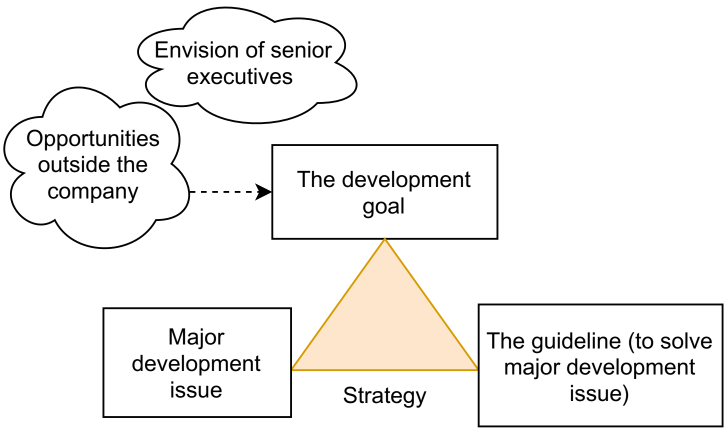


Fig. 3.2 Three elements of the goal-oriented strategy

Different strategic goals lead to different overall guidelines while big goals or small goals determines the way in which the strategic issues are resolved and the extent to which they are resolved. If the goal of Taobao was only to enter the personal online trading platform industry and not trying to grab market share with eBay, we can image that the strategic approach of Taobao would most likely adopt the same business model as eBay. However, its goal was to set up a platform with more competitive advantages compared with eBay; therefore, its business model had a great innovation.

The strategic goal of a company represents the ideals or dreams of its decision-makers. The strategic goal is not generally achieved in a short time or by one-step but achieved with years of efforts. Therefore, it needs to be planned and implemented gradually while the company needs to prepare thoroughly (such as the decision-makers' attention, resources, financial affairs, capacity, talents of the company). If the strategic goal is taken as a routine annual one, there will be a severe shortage of resources and capabilities, or a state of weakness.

The goal plays a leading role in the goal-oriented strategy. Companies often make new strategic goals when operating conditions are good or external opportunities exist. Most companies consider better economic profit as their general strategic goals, but in the relevant literature on strategic definition, some other strategic goals are mentioned:

- Enhance the competitiveness of companies (Bowman et al. 2002; Hitt et al. 1997: p115; Porter 1996).
- Distinguish yourself from the competitors, namely, achieving product and service differentiation (Porter 1996: p38).
- Improve the company's service performance (Ronda-Pupo and Guerras-Martin 2011)

In addition to the strategic goals mentioned by literature, there are some other strategic goals:

- Expand the size of the company in the original industry (such as sales revenue improved 3 times in 5 years).
- Improve the market position and the competitive position in the original industry (such as becoming the leading company domestically, or becoming the industry leader, etc.).
- Move into new industries or new areas.
- Enter the high-end market, the middle market or the low-end market not involved before of the original industry.
- Move into new markets (new areas, new countries, etc.).
- Make competitors at a disadvantage position (by market or non-market means).

There are various strategic approaches to achieve a strategic goal. To choose which is closely related to the strategic issue faced by the company and the guiding principle of decision-makers. Li Shufu of Geely chose to acquire Volvo to enter the high-end auto market instead of self-developing high-end cars. Taobao chose to introduce services with better quality and cheaper prices compared with eBay to gain its competitive advantages. SKF chose differentiation to face the challenge of the low-end market. The strategic approaches of those companies are closely related to their strategic issues and the choices they made expressed the decision-makers' ideas.

You may find that when referring to "strategic approach", sometimes I call it "overall guideline" while sometimes "guiding principle". The strategic approach is different from the usual way of solving the problem. It is not specific and its main function is to guide the tactics. Therefore, the strategic approach is more of a thought rather than a concrete or detailed plan. For example, the strategic approach of Taobao was "Value for Money" and "low price with better services", which embodied the idea of how to compete with eBay while how to achieve Value for Money is the next specific plan. The chapter "Tactics and the Three Elements of the Strategy Concept" of this book has a detailed explanation about it.

We have introduced the problem-oriented strategy and the goal-oriented strategy. From the perspective of the origins of strategy, if there is no new long-term goal, there is no strategy; if there is no major development issue, there is no strategy (or no strategy is required).

3.5 Elements of a Complete Strategy and Definition of Strategy

It can be seen from above that, either it is a goal-oriented strategy, or a problem-oriented strategy, a complete strategy contains three basic elements. They are "development goal", "major development issue" and "guideline". The lack of any one of these elements cannot constitute a complete strategy. The strategy is a kind of overall decision-making of the three elements. The relationship of the three elements is shown as follow (Fig. 3.3).

For further understanding the three elements, let us look at a military strategy example that we introduced before.

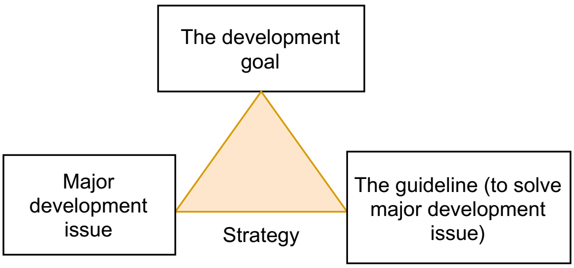


Fig. 3.3 Three elements of a complete strategy

In October 1927, Chairman Mao Zedong led hundreds of people of the remaining troops in the Autumn Harvest Uprising to the middle of theJinggangshan Mountains. Though the enemy was much stronger, Chairman Mao put forward the way to lead the enemy to go around in circles, and fight against the enemy when they were tired and in a vulnerable state. In January 1928, Jiangxi Kuomintang 27th Division launched the first encirclement and suppression at Jinggangshan. At the Suichuan meeting, Chairman Mao put forward the general guideline of guerrilla warfare "I go while the enemy comes, I disturb while the enemy stays, I chase while the enemy retreats", improving the Circle tactics to the level of strategic thinking. At the following battles, based on the basic characteristics of the enemy, Chairman Mao took advantage of the favorable situations. Finally, they won the battle and established the base. Based on summing up the experience of the battle, the guideline was summarized by Chairman Mao and Commander Zhu De as "I go while the enemy comes, I disturb while the enemy stays, I fight while the enemy exhausted, I chase while the enemy retreats." The guideline opened at any time for bringing people together, but also closed at any time for fighting the enemy.[3] As the basic principle of the battle, it combined back and forth, walking and fighting, as well as defense and attack. It was an effective way to save and develop strength when the enemy was much stronger.

We can show the guideline of Chairman Mao and Commander Zhu De according to the three elements[4] of strategy as follows:

Development issue (element 1): Strong enemy and weak me.

Development goal (element 2): destroy the enemy while actively defend, preserve and develop our strength.

Guideline (or general principle) (element 3): I go while the enemy comes, I disturb while the enemy stays, I fight while the enemy exhausted, I chase while the enemy retreats.

Different from the left deviation thoughts,[5] Chairman Mao correctly identified the force disparity between the Kuomintang (The national party) and the Communist Party at the early stage, therefore the strategic issue was characterized as "the enemy was much stronger" and the guideline was taken successfully to achieve the strategic goal of "actively defend". The guiding principle helped make flexible use of limited force of the Communist Party at that time, to avoid weaknesses and preserve force strength during the fight.

We can see from the above that the three elements are integrated dynamically. The guideline will not exist without the goal "actively defend" and the correct judgement of the situation. We can also learn that the guideline (or strategic approach) can be a thought, and that is where the strategic approach is different from other usual ways. The general guideline is expressed as a thought with the characteristics of dominance, rigidity and guidance. Though each battle was unique, the guideline played a guiding role in the specific battles. During the guerrilla

[3]*Chairman Mao Zedong Collection* Volume I, Chinese People's Publishing House, 1999, p56.

[4]As this is a problem oriented strategy, the element of strategic issue comes firstly.

[5]For details of Wang Ming's mistakes on judgement, please refer to Sect. 6.1 of Chap. 6.

warfare, the commander can make flexible use of the guideline of "I go while the enemy comes, I disturb while the enemy stays, I fight while the enemy exhausted, I chase while the enemy retreats" according to the specific situation.

Therefore, whether in a business competition or in a military war, a strategy should contain the three elements, which complement each other, integrate organically and constitute a complete strategy. The lack of any of these elements will have a huge impact on strategy decision-making. In fact, the strategy with the lack of any of the elements will be incomplete. Eisehardt (1989) has pointed out that the integration of (strategic) decision-making is major as it can help senior management to analyze various options to deal with uncertainty within high-risk decision-making, while the lack of integrated decision-making will make them in a state of anxiety.

The theory of three elements of the strategy concept answers three major questions. What are the fundamental elements of strategy? How are the elements integrated? What is strategy? It also solves the problem of what strategic decision-making integrates and finds the specific integrated content in it, which helps us do better strategic decision-making.

Thus, we can define the strategy as follows: **strategy is an overall guideline, which guides the tactics, in order to solve organization major development issues in achieving its development goal**.

3.6 Incomplete Strategies

What the strategy will be if lacking in any element. Let us start with a strategy that lacks the element of purpose.

As we mentioned earlier, from their origins, there are goal-oriented and problem-oriented strategies. For a goal-oriented strategy, the goal comes from the origin of strategic needs. If there is no goal, there will not be a need of a strategy. Therefore, the goal is the origin of demand for strategy.

For a problem-oriented strategy, a company has encountered bottlenecks in its development and needs a strategy, where a goal is still crucial to solve the development issues. In the case of SKF, assume the company did not have a goal when the company was facing market challenge, the company would lose its direction. In addition, it is not likely the company would have an active counterattack to the treats from the market. SKF's goal was "maintain profitability". The executive of the company proposed the guiding principle of "high differentiation" by taking the company's advantage in technology for resolving the development issue.

What will it be if the strategic decision-making has no long-term goal for a company's development?

In a military war, what will you do when your enemy is much stronger? The general guideline or strategic approaches will be different according to the goal of "actively defend" or "give up". Is it possible to have no goal? Obviously not. Imagine that you are the commander, how will you lead the soldiers without a goal?

That is like saying, “Soldiers, all up to you”, which makes them confused. The same is true of corporate strategy.

Therefore, the strategy without the element of a strategic goal is undirected, groping along without any preconceived goal. That is, the strategy with the elements of strategic issues and approaches but without the element of a strategic goal is undirected (Fig. 3.4).

What would a strategy like without the element of overall guiding ideology?

As we have described earlier, the overall guideline is designed specifically to address major development issues. If a strategy does not have the element of guideline, it will lack of principles guiding the solving of major development issues. If major problems cannot be effectively resolved, the strategic objectives may only be shelved and will never be realized. Therefore, the strategy of lacking the element of guiding ideology is a “Utopia” strategy (Fig. 3.5).

In the traditional sense, the term strategy refers to the overall idea of overcoming obstacles to achieve goals. Therefore, if you do not have the overall idea, it means you have no strategy at all.

In the case of Taobao, if Jack Ma and his team had not designed or thought of a personal online trading platform that had better competitive advantages favored by Chinese customers than eBay, gaining the market share from eBay would be impossible and became an empty talk.

Then what will it be if a strategy has no element of major development issue?

For a problem-oriented strategy, a company has encountered bottlenecks in its development and needs a strategy. Therefore, from the origin of strategy, if there is no major development problem, there is no need for strategy.

Fig. 3.4 The undirected strategy (without a strategic goal)

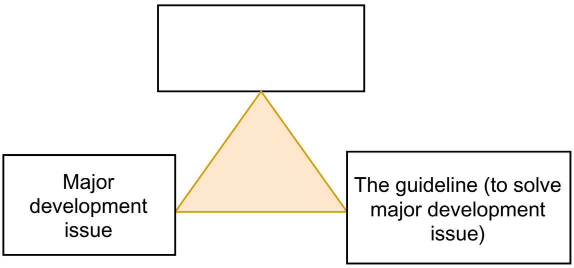
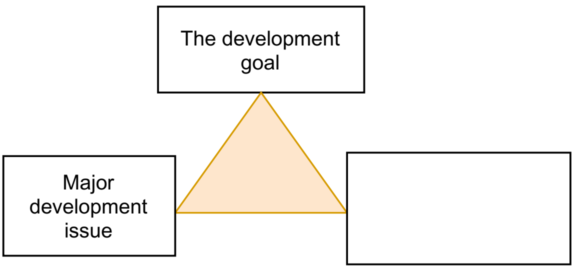


Fig. 3.5 The utopian strategy (without guideline)



For goal-oriented strategy, traditionally, we believe that a goal-oriented strategy requires only two elements of “goal” and “guideline”. However, without the element of “major development issue”, the proposition of guiding ideology will lack its foundation.

We know that if the goals are different, the key issues along the way will be different, and the overall guidelines will not be the same. However, even with the same goal, there could be various ways to achieve it. Let us take a daily example. I live in Shanghai. Suppose I am traveling and my goal is Beijing. Ways to get there can include by air, by high-speed train, by ordinary train, or by bus and coach. It is not likely that every approach is suitable with me. If I am desperately lack of money, I may chose taking ordinary train to go to Bejing as this is cheap and safe. If both money and time are not problems, I may select high-speed train. In this example, you may say that the final selected approach depend on my judgement on my own situation. You are then right; the judgement is exactly the element of the identification of the “major issue”. Without the judgment of the situation, it will be hard to choose appropriate approach to go to Beijing.

For strategy, the choice of guiding principle depends on the level of development goals. It also depends on decision makers’ perception, identification and understanding of company’s major development issues. If key issues are unknown or are unclear, it indicates that company executives cannot identify the nature of the company’s development problem.

Early we mentioned the 16-word principles, which are “I go while the enemy comes, I disturb while the enemy stays, I fight while the enemy exhausted, I chase while the enemy retreats”. We know that Chairman Mao and the early revolutionaries in China could not have developed the guerrilla warfare guideline if they had not clearly identified and understood the situations in the early revolution stage. Similarly, if Jack Ma had not clearly understood what key problems the personal online trading platform would face, he and his team would not have been successful in designing the more competitive business model.

Thus, a strategy with only a strategic goal and approaches is a “confusing” one (or bewildered one) (Fig. 3.6).

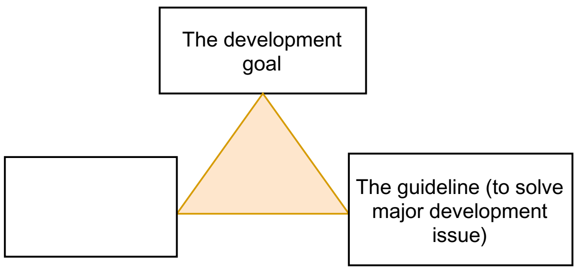


Fig. 3.6 The confusing strategy (without major development issue)

3.7 Conclusions

To know what is a strategy is the basis of the strategic management discipline. We will not be able to formulate a strategy if we do not know what it is. Only if we have understood the nature of the strategy concept, we can learn what a strategy should consist of as a critical decision.

This chapter introduces the theory of three elements of the strategy concept. It answered the question of what elements a strategy includes (Collins 2001; Huambrick and Fredrickson 2001; Collis and Rukstad 2008). A strategy includes three fundamental elements. They are "development goal", "major development issue" and "guideline or guiding principle".

This chapter also provides the solution to the question by Leontiades (1982); Hambrick and Fredrickson (2001); Markides (2004); Nag (2007); and Ketchen et al (2008) of what is the relationship between strategic elements. The three elements are integrated to form a complete strategy. Lack of any one will cause incomplete strategy. A strategy without "development goals" is undirected and one that cannot identify "development problems" is confusing, while one without a "general ideology" is unrealistic.

This chapter also answers the question of "what is a strategy" (Hambrick and Frodrideson 2001; Ketchen et al. 2008; Leontiades 1982; Markides 2004; Nag et al. 2007; Oliver 2001) that has been haunting for more than half a century.

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4 What Is an Organizational Strategic Decision?

Strategy is the overall decision-making on three major questions: where are we going? What are the main obstacles and challenges (or major problems) we face on the way to development goals? What kind of guiding ideology should we use to deal with the major problems in development?

4.1 Introduction

The word "strategy" emerged from the war. In ancient times, wars were common. For example, Country A (hereinafter referred to as A) attempts to expand its territory by conquering Country B (hereinafter referred to as B) which is normally the weaker one, so A needs a strategy for success, a *goal-oriented* one, which means the goal calls for the strategy.

Under the threat of A, B has to resist the aggression of A with a strategy, a *problem-oriented* one, which means the threat demands for the strategy, so the strategy originated from serving the goal or the key issue.

Let us look at B first. B is facing an aggression from a more powerful enemy than it is. Any country will resist when it is invaded by foreign aggression. B will set the goal to protect its territory and expel the aggressor out of the country. How the weak one could get the upper hand over the strong? Or what ways or guiding principles should the monarch of B take to defeat the aggressors? This is something the B monarch must consider, which needs a basic guideline or principle, and is conventionally called strategy. As for B, the strategic approach of defeating the foreign enemy has everything to do with the problem (of a stronger counterpart) and the goal (of keeping the aggressors out of its own territory). If the monarch of B is

X.B. Yu, *The Fundamental Elements of Strategy*, Management for Professionals,
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muddleheaded, he or she might not have faith in expelling the aggressors and will set a goal of tolerating the enemy at large or even allowing them to build a puppet government. With the goal, he or she will not take any measures to resist aggression or even help the invaders to build a governing body.

In this case, we can see that in the problem-oriented strategy of B, there are three decisions that the monarch of B needs to make. One is the decision on identifying the nature of the key problem. The problem in the case is clear that is my country is invaded and my enemy is stronger than me, or my major problem it the aggression from the more powerful enemy (decision related with element of key issue). Second is the decision on setting up the goal. In this case, both goals of blocking the invaders from getting in and allowing them to get inside are possible. The monarch of B has to determine which goal to take (decision related with element of long-term goal). Third is the decision on what or which general guiding principles ought to take in order to resolve the problem of the aggression from the more powerful enemy (decision related with element of guideline). The whole set of the three decisions indeed is the reflection of the three fundamental elements of the strategy concept which we elaborate in early chapter.

Let us look back at A. If it has a strategic goal of expanding territory and occupying B, if A encountered violent resistance from B, which is a problem came up, it will need an overall guideline to deal with B's resistance and achieve the goal of aggression. If B does not resist, the problem A faces will change fundamentally from how to deal with B's aggression to how to rule B, and for governing B, A needs a new strategy to turn B into its colony.

Similarly, the goal-oriented strategy for A also has three decisions: first is the decision of determining the long-term goal. In this case, A made the decision on occupying B and expanding territory (decision on element of long-term goal). Second is the decision on defining the nature of the major problem. In this case, the problem could be the resistance of a weak country; or how to let the civilian population of B complying the rule of A (decision on element of major issues). Third is the decision on formulating general principles of settling the major issues (decision on element of guideline). Also, the strategic decision of A includes the whole set of the three sub-decisions that are related to the three fundamental elements of the strategy concept.

We have introduced the strategic decisions related to the three elements of goal-oriented and problem-oriented strategies in the war, which also exists in companies. Let us look at two examples that we have familiar with in early chapter.

In 2002, when Alibaba was planning to enter the personal online trading platform industry, the company needed to make a strategic decision.[1] It is a goal oriented strategy and has three sub-decisions. One decision is to provide answer to the question of "what is my goal of entering into personal online trading platform industry"? eBay, a well know multinational company in the industry already had about 80% of the market share at that time. We know that even under this

[1]For Jack Ma, it is a strategic decision about how to compete, or what we normally call as competitive strategy, or generic strategy.

circumstance, Jack Ma's decision on "what is my goal" was to gain market share from eBay and be success (a decision about development goal). To compete with eBay, Taobao needed to make another decision on identifying what would be the biggest problem we have in competing with eBay. Jack Ma attributed the problem as "what kind of online trading platform would be favored by Chinese customers" (decision related with major issue in competition and of company's development). The third decision is about the general ideology to guild solving the problems identified in the second decision. Jack Ma adopted hybrid thought (decision concerning the guideline to the solution of main problems). We can see that similar to military examples illustrated early, the strategic decision for Jack Ma also has three sub-decisions. They are integrated and related to each other.

In 2006, Svenska Kullager-Fabriken (hereinafter referred to as SKF), a world-leader in design, manufacture, and sales of bearings, was under the threat of the industry changing into a low-end market with cheap product for common usage. The company needed a strategy to respond to the challenges from the market. The strategy is problem oriented. Again, the executives of SKF needed to make three sub-decisions. The first was to determine what problem was. As the strategy was problem oriented, the problem was emerged from the market. That was the industry was changing into a low-end market with cheap product for common usage and how do we do with it (major development issue). The answer the question "how" needs to provide strategic solution to the problem. The choices of the solutions could be multiple, to plays up to the low-end market or not. SKF realized that if the company caters to trends of competition, they are not likely to maintain their market share and profitability as their costs are higher than low-end providers are. The company made the decision to maintain the market share on the premise of maintaining the company's advantages (decision on goal). As the company had technological superiority in the industry, it choose to be different from low-end market with rapid response to customer needs (decision on guideline). SKF set up five global technological plate forms to link the company's worldwide 3000 engineers in order to react to market needs quickly.

We can see from above examples that on the general consideration of all kinds of practical strategies in companies, a strategic decision is composed of three sub-decisions. They are "decision on the development goal", "decision on the major development issue", and "decision on the overall guiding principle" whether it is a goal-oriented strategy or a problem-oriented one. The business strategy is an integrated overall design making concerning the three elements of the strategy concept.

Now let us look at the specific meanings of the three sub-decisions relating to the three elements in business strategy.

4.2 Strategic Decision

(1) Decision on setting up future development direction

How will the company develop in the future? Where will it go? One task of the strategic decision is to set up the directions or development goals, or long-term goals for the company. The decision-makers need to point out the direction for the development of the company in the next period, say next 5 to 10 years.

Under different circumstances and specific industrial characteristics, the development goals differ among companies. In a rapidly developing economic environment, there are more opportunities than treats. Thus, there will be more goal-oriented strategies than problem-oriented ones.

In the goal-oriented strategy, the long-term goal is ambitions and expectations of the future from the decision-maker with ideals and dreams who makes the decisions with his values and judgments. Normally, the strategic goal has a long-term nature, which takes years of efforts to achieve. The decision on setting up the strategic goal has to be made after overall considerations on the company characteristics and industrial environment of the company.

In general, most companies set their development goals as increasing profits or returns such as market shares goal and financial performance goal according to their own conditions. In Porter's point of view, the development goal on the business level is mainly on getting the competitive advantage and outperforming other competitors. While on the corporation level, the decision-maker needs to decide whether or not they should enter a new area or new trade, and whether or not they should expand business in new regions. Therefore, the long-term goals are different on the business level and group corporation level (See Table 4.1).

Table 4.1 Development goal (business level and group corporation level)

	Development goal
Business level	Enhance competitiveness To distinguish yours (products and services) with competitors (differentiated) Put competitors at the disadvantage situation(e.g. through market or non-market instruments) Improve market position and competitiveness (e.g. become a domestic leader or the industry leader) Increase or maintain market share Improve financial performances Improve development capabilities for new products Sustainable development, environment protection goals etc.
Corporation level	Enter into a new trade or field Enter into an new high-end market or low-end market Enter into a new market (new region, new country) Other goals

We can see from above that the specifics about the long-term goals are mostly qualitative goals (like increasing R&D capabilities, enhancing competitiveness, entering into new markets, entering into high-end market, etc.). Sometimes the goals can be a multi-purpose one, or a combined goal, like "entering into a new market" and "improving performances", or "improving development capabilities for new products" and "increasing market share". Generally, the long-term goals are different from the financial ones in strategic decisions: the former ones are for future directions and the latter are for profitability goals in the directions.

For problem-oriented strategic decision, although there is (are) major problem(s) in the development of the company, and the company is seeking a solution to the problem. Goal setting is still an important part in the strategic decisions, as different goal will lead to different strategic solutions. The goal is closely related to the problems they are facing as well as their own resources and capabilities. Generally speaking, the goal is mainly on solving the problem partially or for all. Like Kodak, when suffering from the impact of digital camera products from 2002 to 2005, it took loss reduction as a goal. While for SKF in 2006, facing the impact of the low-end market, it rose up to the challenge and adopted the differentiated strategy with strong technology to secure its competitive advantage and profit.

What's worth mentioning is that the decisions about the long-term goals are often decided within a time range, i.e. during how long (e.g. in 5 years, 8 years, 10 years, or even 20 years) time should the company have to achieve the goals. It can be divided into some time stages. For instance, a 6-year goal could be divided into two stages, achieving initial goal within 3 years, and reaching final goal within 6 years.

We have seen the strategic goal of Taobao in the above example. Mr. Li Shufu, the founder of Geely, had the ambition to enter the high-end market of automotive manufacturing (development goal) in 2002, which took ten years to accomplish. Now Taobao and Geely all realized their strategic goals, then these were also the dreams and expectations of Jack Ma and Li Shufu.

To set up strategic goal is an indispensable part of the strategic decisions. It reflects a company vision in a certain period, and is the expected result that the enterprise wishes to achieve in a certain stage. Compared with objectives in daily operations, corporate major development goals feature in coherency, long-term, separable and challenging, etc.

A strategic decision, which lacks a goal, will be undirected. In addition, the wrong goal setting will lead to not only big directional mistakes in the development of the company, but also huge financial loss. Knowing yourself and your competitors, especially, correct judgment of the development situation of the industry are the keys for proper goal setting.

The decisions of the strategic goals can be influenced by factors as follows.

First, the industry development stage where the company business lies. As we all know, the life cycle of an industry can be divided into four stages. Sometimes for one industry, different markets will not be in the same stage. For example, in the 1980s when the automotive industry in China was initiated, there was already a mature market in Europe and the United States. Furthermore, different products in the same industry will experience different stages, for example, the mobile phone has evolved from cellular phones, keyboard phones, to different kinds of smart phones updating occasionally. Each is going through different stages. Here we will narrow the product in one industry or service in one market and see what are the differences in the corporate strategic goals.

In the early stages of the development of an industry, the technology has initially started, and there are few competitors and the products are expensive but normally with poor quality. The market favors the seller because of low (not much) supply, and the primary goal of the company is to obtain technologies and produce for sell. The second stage is the growth period when the industry develops fast and technology remains stable. With the increasing numbers of competitors, that of the users grow rapidly as well. In the initial period of the second stage, the development goal of companies normally lies in increasing production capacity and sales channels as well as expanding markets. In the later period of the growth stage, the industrial demand is still rising. However, since there are a large number of competitors, the production scale becomes larger, and consumers are more experienced with more knowledge in products. Therefore, from the perspective of competition, the main goal of the company is to produce better competitive products to attract customers. The third stage is the maturity period when the market demand for products and services was decreasing, resulting in fiercer competitions. Some companies will withdraw from the market and the rest who are still in the industry will take every effort to reduce costs for profit retain when the demand declines. In the fourth stage, the market demand drops dramatically, and most companies in the industry will withdraw its business from the market. The company's development goal is to look for emerging markets.

The second factor that influences decision-making in setting up corporate strategic goals is the competitive strategy of the competitors in the same industry. The attitude and strategy of the competitors have great impact on the corporate strategy making. Apple Inc. had a strategic intent to offer better mobile phone products to the market than competitors. In 2007, Apple launched iPhone, a technology product that combines iPod and mobile phones. It is also a network tool and a mobile computer. Apple’s new products received great favor of the market. Motorola, and Ericsson were left behind. Therefore, you need to monitor your industry and your competitors in terms of their competitive strategies and make a corresponding strategy.

The third factor is the company’s own resource and capability, and the goal that was achieved in the past. According to Barney’s resource based view, corporate strategy should be determined by its resources and capabilities, that is, the strength decides the goal. The implementation of the strategic goal generally needs to invest in funds and human resources. The financial strength, technical strength, management ability, and previous experience of the company have an important impact on the formulation of the company’s strategic objectives. Some big companies with strong strength play the leading role in the industry. Its strategic objective is different from that of the relatively weak companies in the industry. We know that Mr. Wang Jianlin, a Chinese commercial real estate developer, has a well-known sentence. I first set a small goal that I can achieve, for example, 1 hundred million (RMB). One hundred million is a small goal for Mr. Wang Jianlin, but it’s a big goal for many small companies. In addition, the previous experience of the company has an important impact on the development of new strategic goals. In the early 90s, when Geely wanted to enter the car industry. The company is a novice in the industry and has no industry experience. Hence, the company's initial goal was to make the car and to get the license from government. Some companies have rich experience in M & A or transnational management, and they will set a goal concerning the expansion of scale.

The fourth factor is the values, business philosophy and judgement of corporate decision-makers, whose ways of thinking and personalities greatly influence corporate strategic goal making.

We have mentioned about an important strategic decision above, which is to define directions for organization development, or the strategic goals. As far as goal-oriented strategy goals, there is no need for a strategy if there does not exist a long-term goal. Whether it is a goal-oriented strategy or problem-oriented strategy, one of the primary task for setting up a strategy is to make a long-term goal.

(2) **Decision on identifying firm "major development issue"**

What are the major difficulties and obstacles of organization development? Another important mission of strategic decision-making is the identification of important issues laying ahead in the path to achieve the organization development goals.

Organization major development issues, which can also be called strategic issues or development problem, are the key obstacles and challenges encountered in organization development. When making a strategy, decision-makers have to identify and conceptualize the key problems. Conceptualization is to summarize and extract the quintessence that can reflect the real situations. For example, in the early period of the Agrarian Revolution in China, Chairman Mao Zedong conceptualized the strategic problem as "against the stronger enemy" to epitomize the great disparity in strength between the Communist Party and Kuomintang (hereinafter referred to KMT). This decision also has another meaning, which is fighting. In the case of Taobao we mentioned in the previous chapter, Taobao needs to identify the major competition problems it encounters. Jack Ma summed up as following: "We have a big competitor" and "What kind of platform could be appeal to customer and would be more competitive than eBay". This decision has two meanings. One is that I recognize the strength in the other side. Another meaning is fight reflected in gain competitive advantage in the eyes of customers.

In the problem-oriented strategy, the major development issue owes to competition within the industry, external environmental changes and internal operation problems, which can be summarized as below (see Table 4.2).

Whether it is a goal-oriented strategy or a problem-oriented strategy, major problems in company development will block its way to achieve long-term goals, which require the high-level decision-maker to identify and get things under control.

Sometimes there are serious problems in company business and operations, such as declining performances or losses for years, when high-level managers realized the seriousness of the problems in company's development and came up with a

Table 4.2 Origin of Major Development Issues

Development issues arising from industry competition (1) Better product alternatives from competitors with improved functions and cheaper prices (2) Better products or services with same quality and cheaper price launched on the market by competitors (3) Prices of key raw materials and core parts raised while sales prices decrease due to industrial competition (4) Business model changes in the main competitors leaving low value-added business to those who do not realize the industrial changes and modify their business models (5) Products from the suppliers are in an oligopoly market controlled by main competitors within the industry (6) Others
Development issues due to external environmental changes (1) Product demand declines owing to slow growth of regional economy (2) Consumer demand restrained by industry policies from the local government (3) Others
Development issues from in-house changes (1) Senior management (or decision-makers) fails to effectively identify the above threats externally or incapable of making any efficacious countermeasures (2) Key management employees leave when normative management regimes have yet to take shape (3) Key R&D employees leave (4) Key sales employees leave (5) Business rely on few customers and suppliers in long-term (6) Others

corresponding reaction. From time to time, some high-level managers will forecast possible major issues in organization development with everything they get their hands on and bring up strategic resolutions. Hence, for problem-oriented strategy, if there is no major development issues, strategy will not be needed.

The identification of the major issues in organization development path is also important for goal-oriented strategy. Because after the development goal is made, the guideline or strategic approach has to be in place to secure accomplishment of the goal. The guideline is designed or discovered specifically for resolving major organization development issues. Therefore, the discovery and identification of the crux is a key work of strategic decision-makings. For example, when Taobao planned to enter into online personal platform business and win market shares from eBay, the key hinges on how to compete with eBay and how to win customer's affection in its services. In 2002, Geely set up the goal to enter into high-end market; however, it was faced with dual development difficulties of lacking both high-end automobile technology and sufficient capital.

As a result, whether it is problem-oriented strategy or goal-oriented one, high-level managers have to identify major issues in organization development, which is an important work in strategic decision-makings. The lack of the identification of major development problems will lead to muddled strategy. Indeed, correctly identifying and defining the major core issues that actually impede the development of the company will lay a good foundation for the third (or next) decisions of the strategy.

(3) **Decision on setting up the guidelines for resolving major issues**

If the strategic problem cannot be solved, the organization development goal will not be realized. Therefore, after the major issues in organization development are identified, senior managers have to come up with ideas from a high level in resolving the issues, or bring up overall ideology for guiding the resolution of the strategic issues. The overall ideology can be a general guideline manifested in basic philosophy or principle.

As we have mentioned above, Taobao with its competitive mind of value for money and Geely with its technology and brand being acquired externally. Both of them have brought up a general idea or principle for solutions to their problems.

Therefore, the third important task of strategic decision-makings is to bring up a general guiding ideology for resolving major issues encountered in corporate development. As a matter of fact, the strategy conventionally means the general guiding ideology, which can also be called strategic approach.

Strategic approach is different from what we have understood in the general way. It is a guidance representing the embodiment of the policy maker's thought. Let us take an example from the daily life to illustrate the difference between strategic approach and daily or ordinary resolution.

Let us assume that here is a woman surnamed Zhang who lives in Shanghai and just got married. She has to be transferred to work in Beijing for one year. So how do we solve the problem of the love-sickness of the newlywed couple? As we known, there are many ways to solve the problem, Zhang can come back to see her husband in Shanghai on business trip or on weekends. Without the guidance of the overall principle, each time Zhang comes back will be seen as the routine resolution for love-sickness. What will be the strategic approach? When Zhang take an overall view, like she thinks the income of the family isn't that high but she still hopes to go home regularly to see her husband, she will make the plan of going back to Shanghai by high-speed rail once every two weeks. This plan embodies a basic philosophy of realizing the goal of going back home regularly without a high expenditure, which can be seen as a strategic approach with a philosophy for guidance.

There are multiple strategic approaches to resolve major organization development issues. The final decision on the selection of strategic approach not only lies in the values, judgments on corporate resources and capabilities (like technologies and capital) of the decision-makers, but also in their judgments about the external environment and future development trends. This also shows why in strategic management books, there are chapters on the analysis of the company's internal resources and capabilities, and on the analysis of the company's external situation, all of which are intended to help decision-makers master key information. As a company's strategic decision maker, you shall always pay attention to the company's internal and external key information and their trend changes.

Geely can develop the high-end automotive by itself, but it chose to acquire Volvo and enter the market much faster and enjoys high-end automotive brand and technology at the same time. Alibaba chose to provide much better and less expensive service than eBay (i.e. the strategic approach of more for money), and won customer's favor to get competitive advantage. While SKF took the differentiated strategic approach to distinguish itself from the low-end market competitors to avoid competitions. You will see from the examples that no matter the goal-oriented strategy like Geely and Taobao, or the problem-oriented ones such as SKF, they all have clear guidelines on resolving the major development issues. The guidelines are closely related to the development goals and the major development problems of companies.

(4) **Strategy—integrated decision of three sub-decisions**

Any comprehensive strategy is composed of three basic elements. They are long-term goal, major development issue, and general guideline for resolving major issue. The three elements are all closely connected and no one is dispensable to make a whole.

Actually, the three elements involve three core questions in strategic decision. A strategic decision is made up of three sub decisions related to the three elements, i.e. a complete strategy needs to answer three questions in a whole as follows.

- Development goal (defining company development directions): Where are we going?
- Development issue (identifying major issues and challenges): What are the biggest huddles and challenges we will (or have) encounter(ed) on the way of achieving development goals?
- Overall guideline (choosing the general ideology to solve development issues): What are the guiding philosophy that will help us to solve the major issues in our development?

Reviewing the strategies mentioned in Taobao, Geely, SKF and Kodak in the last chapter, we would have a clear picture of company strategic decisions on the three questions above (See Tables 4.3 and 4.4).

In Table 4.3, both decisions about future development goals of Jack Ma and Li Shufu implies their forecast of the future industrial development trend and confidence in future growth. Their identification of the key obstacles and problems, and full knowledge of their firms helped them found the key train of thoughts for problem solving.

Strategy in Table 4.4 is problem-oriented. The problems are emerged in competition. The general ideology for resolving the problems are closely related to the goals. In the example of SKF, if the top managers were deeply convinced that the industry would evolve into the common product, the future goals of the company

Table 4.3 Goal-oriented Strategic Decisions (Examples)

Strategic Decision on the 3 questions	Taobao	Geely
(Development goal) Where are we going?	We are going to enter the personal online trading platform successfully	We are going to enter high-end automotive market successfully
(Development issues) What are the key issues we are facing?	What kind of service platform should we provide to be more popular in China than eBay?	How do we get technology and money to get into the high-end automotive market?
(Guideline) What are the general ideology for solving the problems?	Designed and promoted much cheaper (price is zero) with better service platform (direct communication channels and addressed the problem of trust in Chinese buyers and sellers)	Market acquisition: acquiring Volvo in 2009 with a competitive price

Table 4.4 Problem-oriented strategic decisions (Examples)

Strategic Decision on the 3 questions	SKF	Kodak
(Development issues) What are the key issues we are facing?	Products in the low market will drive the industry into making general product	How do we respond to the impact of digital cameras caused by company's declining performance and losses?
(Development goals) Where are we going?	We need to keep the market share without losing our competitive edge	We have to cut losses
(Guideline) What are the general ideology for solving the problems?	We have to differentiate ourselves with competitors in the low-end market and be specific (we will build five technical "platforms" 3 which will "connect" over 3000 engineers to make quick solutions on every product development problem in design and manufacturing)	Reorganization and layoffs (Established digital business and successfully getting out of some traditional business. Closed 13 manufacturing plants and 130 processing laboratories. Laid off 47,000 employees in total before 2011; filed for bankruptcy protection before 2012)

would not be "keeping the market share without losing competitive edge". Nor would there be an overall ideology of high differentiation.

From above we can see that the strategic decision is different from the daily ones. It is not a simple decision about the corporate development direction or long-term goals, but a decision on three major questions, which are closely connected. Only by integrating the three decisions can organization strategy avoid blankness and sheer abstraction.

Let us have a look at a military example and see how the three sub-decisions are integrated to form a complete strategic decision. Figure 3.1 is the illustration of the military strategic decision of Chairman Mao and veteran proletarian revolutionaries during the early revolution of the Communist Party of China.

- This comprehensive strategy has three decisions. One is the identification or determination of the key development issue. It was “against the stronger enemy” (the box in the low left corner of the figure). This decision seems not like a decision, but it is a decision. This decision needs to determine the nature of the problem. Here it was defined as the enemy was stronger, or we were facing a strong enemy. The difference in the nature of the key development problem has a decisive impact on the decision of the general guideline. If the determination of the nature of the problem is far from the actual situation, we know what the consequences of strategic decision will be. In terms of business operations, a blurred picture could happen when decision makers do not know well of the industry and the organization.

The second decision is to set up the goal. It was “active defense”. We see that even though the enemy was strong, in this strategic decision, the decision for goal was not escape. “Defense” means conserve the forces and avoid large-scale wars and unnecessary sacrifices. While “active” signifies fight against enemy. Hence, the decision on the “goal” was conserve the forces and meanwhile beat against the enemy. Again, we see the decision was clear and designated the direction.

How a weak me can fight against a strong enemy and at the same time to conserve the forces? The third decision concerns about the answers to the question of “how” in general sense. The decision in this case are the four sentences (known as 16-word policy in Chinese). The four sentences embody the essence of guerrilla warfare and provide guidance for the specific warfare.

In this strategic decision, it has three sub-decisions. You will find that without the decisions of actively defended goal on the top of the triangle and identification of the enemy (against a stronger enemy) in the lower left corner of the triangle, there will be no decision of the 16-word policy, which was concluded and extracted in the guerrilla wars and took into shape gradually. The decision of the overall guiding ideology is closely related to the decisions of goals and the major issues to complete in the triangle (Fig. 4.1).

4.3 Making Strategic Decision Is Not an Easy Task

Setting the right goals requires senior managers to have the correct forecasts for the future. Taking Taobao as an example, Jack Ma accurately predicted the development trend of e-commerce business in China. In Geely’s case, Mr. Li precisely predicted demand trends for high-end cars in China. In 2004, Huawei decided to

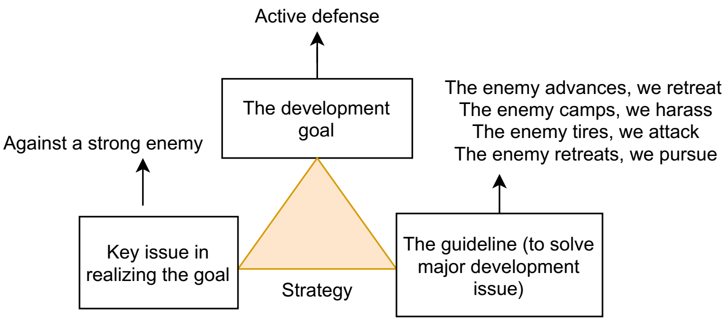

Fig. 4.1 The Three Elements of the active defense strategy of Mao Zedong

independently develop and produce chips. Chip research and development takes a long time and requires a huge investment. Many people could not understand the decision, as there were already professional chip manufacturers in the market. However, Huawei insisted on doing so. Mastering core technologies is what Huawei has been striving to achieve. This effort would free Huawei from restrictions on quality, production capacity and price imposed by third-party vendors. It would also give Huawei a similar market position to Apple and Samsung 15 or 20 years late.

Not everyone shares this wisdom, and for many of us, correctly predicting the future is a challenging task. Misjudgments about business trends will lead to miss assessment about the goal element in strategic decisions. Poor decisions on *where we can go* can also lead to undirected strategic decisions.

Some companies have special group to working on the forecaster of industry development in different regions.

Similar to goal setting, we are not always good at identifying the nature of the problems we encounter. As a Chinese saying goes, the true face of Lushan Mountain is lost to my sight for it is right in this mountain that I reside. In Kodak's case, the company invented digital camera technology, but decided to shelve it because of the impact digital photography would have on the film business. However, the sequestration led to the loss of digital camera business and market share. When executives are insensitive to external changes, they may not notice the development problems facing the company or have a deep understanding of their nature.

The results of strategic decisions can be "confusing" if the decision is incorrect on the question: *What are the biggest huddles and challenges we will (or have) encounter(ed) on the way of achieving our development goals?* As we described in the previous chapter, a strategy that fails to recognize the major development issues would be a "confusing" strategy.

Similarly, we are not always good at coming up with a good overall guiding ideology for solving the company's growth problems. In the aforementioned battle between Zhu Yuanzhang and Chen Youliang, different people proposed different overall guidelines when faced with a strong enemy from Chen Youliang. Without Liu bowen's thoughts on the battle, perhaps the history of China's Ming dynasty would have been rewritten. In Microsoft's case, it took nearly 10 years to understand the characteristics of the Chinese market and come up with a better strategic solution. Without the accumulation of Microsoft's learning, the history of Microsoft in China may be rewritten as well. This brings me to a debate in the field of strategic academics, whether strategy is designed or evolved slowly though learning. The reality is that it is both. The general ideology of the battle between Zhu and Chen is proposed by Liu Bowen and is designed. While the guidelines of Microsoft in the Chinese market in early years are evolved.

Decision makers sometimes make mistakes in the overall guiding principles of strategic decisions. A wrong decision about the "guideline" will lead to a "Utopia" or "Daydreaming" strategy. On the route of company development entwined with thistles and thorns, the long-term goal will be empty-talk without strategic approaches and solutions.

The three circumstances and sub-decisions are embodied in the goal-oriented and problem-oriented strategic decisions. See Figs. 4.2 and 4.3. The figures show that making strategic decision is not an easy task. Any mistake in the three sub-decisions will lead to the incorrectness of a whole strategy.

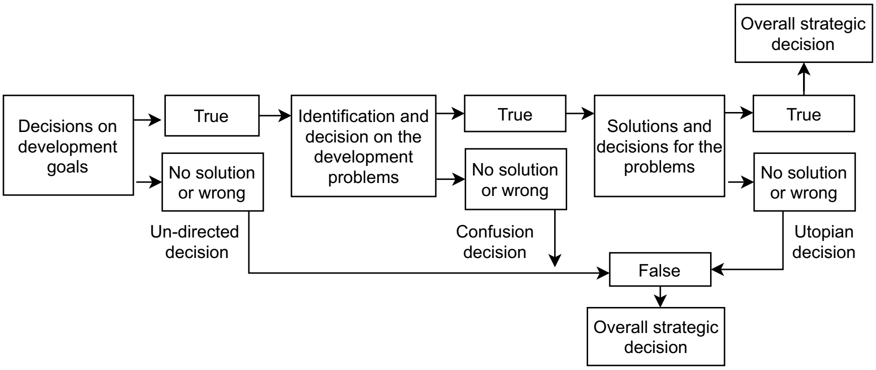

Fig. 4.2 Goal-oriented Strategic Decisions and Possible Mistakes

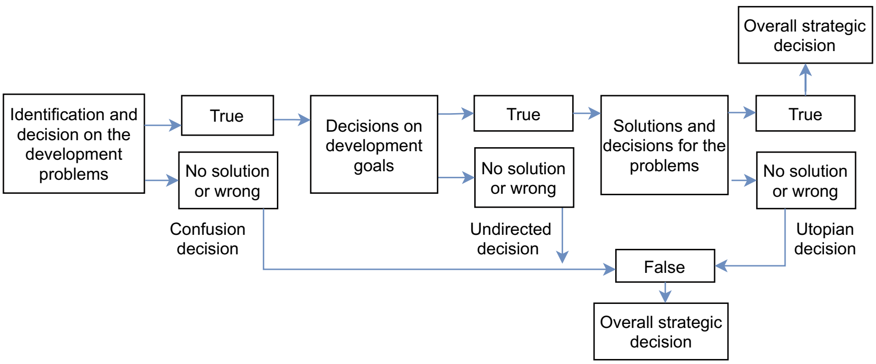

Fig. 4.3 Problem-oriented Strategic Decisions and Possible Mistakes

Due to the complexity of strategic decisions, some companies have special group or experts working on the forecaster of industry development in different regions. Key indicators in company reports are also periodically reviewed. All these efforts are arming at helping and supporting the right strategic decisions.

4.4 Conclusions

To sum up, strategy is an overall guiding ideology that is intended to address major problems encountered in achieving the company's development goals. What is worth noticing further, strategic decision requires getting the hold of organization development directions, forecasting key issues and bringing up general ideology and ideas. A strategic decision involves making decisions on three issues simultaneously. These decisions are all about the development of the company. Getting all three decisions right is not something we can all do, which may explain the complexity and difficulty of strategic decisions.

Any mistake in the decisions will lead to bias and failure. That is to say, **a complete strategy is not necessarily a perfect one**. Take a car as an example, even if we have all the necessary parts of a car, the customer might not like its color or design, which will result in a drug on the market. Therefore, to make a good strategic decision, the decision-maker not only needs to make three major decisions, but also be equipped with good judgement about future corporate development and high integrations of the three sub-decisions. As strategy concerns with organization future development, large capital investments and the gains and losses in the market competition, therefore, the strategic decision is different from company daily operation decision. It has the characteristics of overall, guidance. Its complexity and difficulty are obvious, which is why many executives feel headache.

As for what biases and mistakes will come up in strategic decision-making, we will delve into the topic in Chap. 7.

5 Tactics and the Three Elements of Strategy

Strategy is a philosophy, an overall ideology offering guidance, while tactic is an action plan or action plans, a project proposal, and the former is guiding the latter.

I found that to understand what a strategy is; it is necessary to figure out how tactics and strategies are related? What is the relationship between tactic and the three elements of strategy concept? In fact, I gained a better understanding of what is a strategy after finishing writing this chapter.

5.1 A Military Example

Let us have a look at a battle between Yuanzhang Zhu, the first emperor of China's Ming Dynasty (1368–1644) in his early days and Youliang Chen, a warlord.

When Yuanzhang Zhu was 17 years old, his parents and brother died of famine, and he had to be a monk in the temple and begged for a living. Three years of wandering gave him rich knowledge of the geographical conditions and local customs in the west of Huaihe River. Later, Zhu's friend since childhood, who was in the rebel army persuaded him to join them. Therefore, Zhu went to Haozhou City and fought under the command of Zixing Guo. Convinced that he outsmarted Guo too much, Zhu left and founded his own army. In 1356, Zhu took Yingtian City (now Nanjing city, the capital of Jiangsu province, China) and chose it as the capital. To the west of Yingtian was the territory of Shouhui Xu, who was soon usurped by his subordinate, Youliang Chen, an ambitious and more capable man. Chen took over the troops of more men than Zhu, including a naval force best equipped in China at the time. In December 1359, Zhu's subordinate, vanguard of the general's palace, Yuchun Chang, buried 3000 captives alive after the battle of capturing Chizhou City on Chen's territory. Enraged by that Youliang Chen

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decided to fight back. Chen led the most powerful fleet in the country for Yingtian City, broke the natural barrier of Yangtze River, and occupied Zhu's military fortress-Caishi, breaking Yingtian's natural defense-Taiping.

What should Yuanzhang Zhu do now? For him, a strategy was necessary in this battle, and this strategy was problem-oriented.

Major problem: Yingtian is the capital of great importance. Youliang Chen, the invading enemy is stronger than Zhu.

Objectives: Zhu summoned his advisers for counsel. Most of them suggested to abandon Yingtian City (that is, to escape). Only the advisor Bowen Liu asserted to stand fast to the city because Yingtian was too important to lose. If they do, they would suffer grave consequences. Yuanzhang Zhu took his advice of confronting the enemy in Yingtian.

Overall guiding ideology: luring the enemy in the deep, and then attacking them by ambush (proposed by Bowen Liu).

Zhu adopted the general guiding ideology put forward by Bowen Liu and designed the specific scheme. Given that his navy was at a disadvantage, he intended to induce the enemy onto the ground, a designated place of his wishes (Longwan, in the northwest suburbs of the city), and to seek to vanquish the enemy by ambush. Zhu would not like to see Chen's navy crossing Qinhuai River to the wall of Yingtian. He made an issue of a wood bridge named Jiangdong Bridge, a pass on Sancha River a route to Yingtian's west wall that could not be bypassed. His intentions were to stop Chen's navy here and make them find their way to Longwan. How to make that happen?

Zhu had a double agent Maocai Kang so he commanded Kang to misinform Chen that Kang himself would come to Chen's aid at Jiangdong Bridge (*a wood bridge*). Then Zhu called in his soldiers to dismantle the wood bridge and had *a stone bridge built* that very night. Chen Youliang led his navy to the stone bridge and landed personally. But Kang was not there. Nobody answered his call. He suddenly began to feel panic when noticing that the bridge was not the wood one as Kang mentioned. Meanwhile, he got the news that 10,000 soldiers of his brother had landed in Longwan in the north of new estuary, and were waiting for the reinforcement after defeating the garrison (see Fig. 5.1). Consequently, Chen decided to turn his army to Longwan to the trap set by Zhu. In such a decisive battle, Youliang Chen had more than 20,000 soldiers' dead, and more than 7,000 soldiers were captured. Zhu seized more than 100 ships, and over 100 boats with barely no losses.[1]

From the perspective of three elements of strategy, Yuanzhang Zhu needs to make decisions on three big questions in the battle. What is the situation (or what is my major problem)? Whether should I evacuate from Yingtian or stay to fight? Moreover, if confronting the enemy, what general guideline should I take to possibly win this battle? The decisions of these three questions are crucial to this battle, which are also the three elements of strategy (Fig. 5.2).

[1]Sorted from *Things in Ming Dynasty* Volume One (2014) written by Dang Nian Ming Yue.

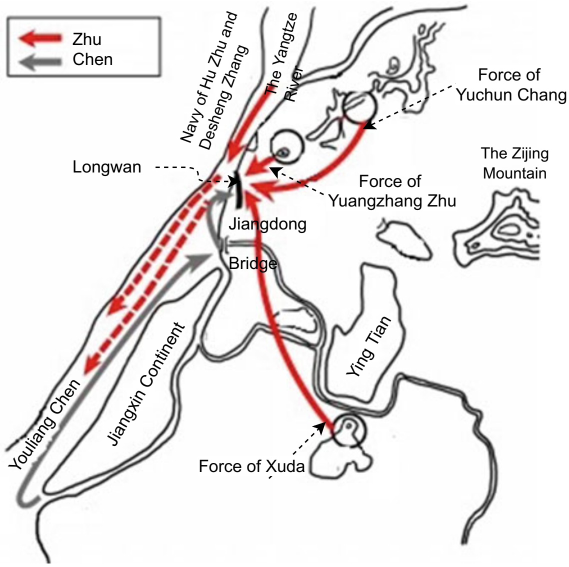


Fig. 5.1 Map of a war between Zhu and Chen

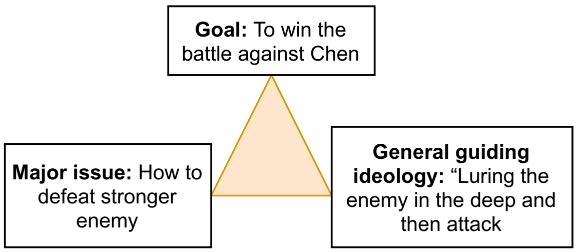


Fig. 5.2 Three Elements of Strategy in Longwan Battle

It is obvious that the three decisions are closely connected. If Zhu's adviser Liu Bowen were not confident enough or had no strategic ideas, he would not propose to stay in the city and fight against Chen Youliang. If Zhu had no idea or confidence in the specific scheme, he would not adopt Liu's proposal. As a result, the idea of "luring the enemy in deep, attacking them by ambush" was put forward and specified for the strategic problem of overcoming the stronger enemy in the battle.

However, if we only use the figure above to show the battle, something seems to be missing. The figure does not well present this combat, in absence of tactics playing a part.

Tactics are specific schemes to realize strategic goals and solve significant problems under the guidance of guideline. The writer Dang Nian Ming Yue (which means Moon In Those Years) calls the specific tactics of Zhu's win over Chen as "plan and conspiracy". In this example, tactics have many implications. Zhu was no strong power at that time, and he personally led troops to fight. The guiding ideology "Luring the enemy in deep, attacking them by ambush" required good

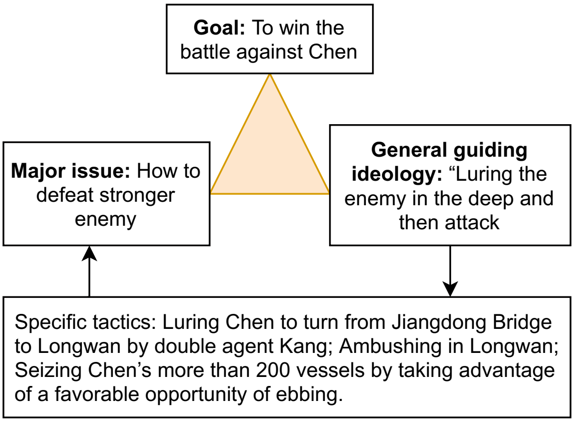


Fig. 5.3 Tactic and the Three Elements of Strategy in Longwan Battle

tactics to implement, as to defeat Youliang Chen. Therefore, for Zhu, specific tactics are highly important. Here he employed a set of combined tactics: (1) luring Chen to turn from Jiangdong Bridge to Longwan by double agent Maocai Kang; (2) ambushing in Longwan; (3) seizing Chen's more than 200 vessels by taking advantage of the favorable opportunity of ebbing.

Let's add specific tactical plan to the figure of three elements (see below). Compared to the former one, it fully displays Yuanzhang Zhu and his colleagues' strategic ideas and plans in the battle (Fig. 5.3).

For long tactics seem to be detached from strategies. But we can learn that tactics and strategy are of equal importance in the case of the battle above. The overall guideline of "luring the enemy in the deep, attacking them by ambush" plays a guiding role in developing tactics. The circumstantial and sophisticated (serial combination) tactical scheme fully expressed the strategic ideas.

That is the relationships between strategy and tactical scheme.

Each battle has its particularity; the commander should tailor respective tactics in accordance with distinctive characteristics. Hence, if a strategy is not proposed for a specific battle, but to guide multiple battles in a certain period, specific tactics may not be included in this kind of strategy. The commander of a battle develops and arranges the tactical plan according to the ideologies in the strategic idea.

Tactic and three elements of strategy are introduced above in military. Then how to understand this in a company?

What is the relationship between tactic and strategy in a company? Should tactics be included in the strategy? These two questions are rarely discussed in most academic researches on company strategy, but are critical for strategic plan and its implementation. Now we look at these two questions.

The question of whether tactics should be included in the strategy can be comprehended from the role of strategy at distinct levels of the company.

5.2 SBU Level Strategies and Tactics

Strategies in the level of Strategic Business Unit, or SBU (including branch company and business unit) share similar nature with the battle between Zhu and Chen. Businesses of SBU needs to face competitors in the market, so their strategies are mostly competitive strategies. For what are competitive strategies, please refer to the article *Name and Three Elements of Strategy* for more information.

Let's look at a specific case of competitive strategy in business by reviewing the silent battle between Taobao and eBay. I will provide some basic information about the case to clarify the relationship between Taobao's competitive tactics and its strategies.

Jack Ma decided to join in the industry when seeing the potential of P2P business in China. How to compete with eBay, an international company who was well-know and had owned more than 70% market share in China market?

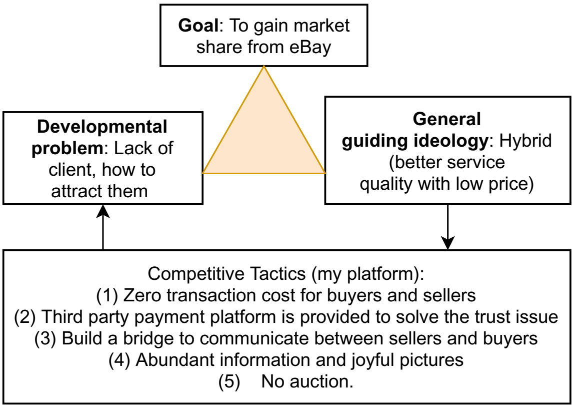
Taobao has set a clear goal: seizing market share from eBay, i.e.to transfer current and new buyers and sellers from eBay to Taobao's platform. Then how to attract people to Taobao's platforms? Clearly, Taobao was facing a crucial issue for competing with eBay. The issue can be eBay is stronger than me. It also can be stated as how to create a platform with more competitive edges than the rival to attract clients (buyers and sellers), which seems a better statement as it seized the core of the competition problem. We know that as a result, Taobao adopted the competitive idea (or general guiding ideology): better quality and reasonable price (also knew as a hybrid strategy), which means to launch a platform with better service quality and economical price compared to eBay. So far, we can learn the three elements of Taobao's competitive strategy, among which the general idea of hybrid is dominant on detailed tactics.

Under the guidance of the hybrid idea, Taobao carried out comprehensive research on eBay's service platform, China's market and psychology of buyers and sellers. Tactics were put forward as following:

(1) A free platform for both buyers and sellers (mine is cheaper than eBay);
(2) A platform that can solve the trust issue between buyers and sellers. Money is first transferred to a medium, Alipay, and will then be transferred to the seller's account after the buyer has received the goods and confirmed the receiving (mine is better than eBay).
(3) A platform on which buyers can communicate with sellers for more information (mine is better than eBay).
(4) A platform with abundant information and joyful pictures that suits Chinese taste for liveliness;
(5) A platform without auction since Chinese people are neither fond of nor familiar with it;

Taobao's competitive strategies, tactics and the relationship between them are summarized in Fig. 5.4.

Fig. 5.4 Competitive Tactics and Three Elements of Strategy of Taobao's in 2003



The figure above shows the three elements of Taobao's competitive strategy and its tactic plan. Underneath the triangle, are the specific competitive tactics developed under the guiding thought of hybrid. And these tactics aim to solve the element "major problem" on the bottom left of the triangle. Today's achievement of Taobao shows that its tactics and competitive strategy were correct in 2003, which attracted most buyers and sellers to its platform and constituted a significant threat to eBay.

We see from the battle between Zhu and Chen, and the business competition between Taobao and eBay, strategies and tactics are closely related in both a military and commercial battle. If Zhu and his advisers hadn't come up with a complete and specific ambush tactics, his strategy of defeating would have been superficial and winning over Chen would have been only a daydream. Similarly, if Taobao had not developed a detailed and all-round competitive tactic that meets Chinese customers' demands, its strategic idea of better value for money would not have been successful.

Now let's come back to the questions raised at the very beginning of this chapter. What is the relationship between tactic and the three elements of strategy concept? Should tactics be included in strategies?

Tactics are scheme developed under the guidance of the general guiding ideology to solve the key problems encountered on the path of the long-term goal of the organization. The relationship between tactics and the three elements of strategy can be illustrated in Fig. 5.5. We see from the figure that the element of "general guiding ideology" plays directing role in the development or proposition of tactic scheme. The role of tactics is to resolve the key problems. Hence, tactics can also be understood as a solution scheme to the major problems of an organizational development. The solving of the problem will lead to the achievement of the competitive goal.

We see from above examples that tactics of how to compete are necessary in a company's competitive strategy and should be included in competitive strategy at the level of business unit.

Competitive strategies such as Cost-leadership, differentiation and hybrid are well-knew in academic field. But without the details of tactic scheme, competitive strategy will be broad and will have less practical significance to business operation.

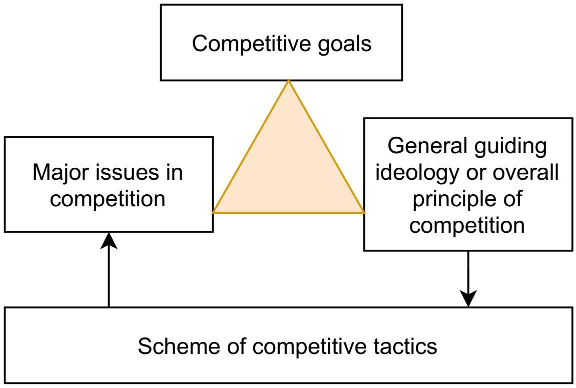


Fig. 5.5 Relationship of three elements of strategy and tactic in the level of SBU

We see from Taobao case, the tactics were proposed after a careful study of the needs of Chinese customers and the service weakness of eBay in China market. Thus a well-developed tactic scheme is crucial for the success of an actual competitive strategy.

5.3 Strategies and Tactics for Subsidiaries

Large companies are usually consisted of some subordinate companies. Strategies in large companies can be divided into two categories: one is for guiding subordinate companies' competitive activity and the other is for corporate organization's own use.

We have seen the relationship between tactics and the three elements of strategy in competitive strategies. For strategies at corporate level, this relationship will be same. Hence following we will be more interested in the question of whether tactics should be included in strategy decisions at corporate level. Let's look at the issue with the two cases of subsidiaries.

(1) When subsidiaries own different scopes of businesses

Generally, if subsidiaries of a company are all based in one place, each subsidiary has different focuses of their businesses. Take Shanghai Electric Corporation as an example, its subsidiaries are nearly all located in Shanghai, including Electric Power Transmission and Distribution Group, Electric Nuclear Power Group, Automation Division, Mechanical and Electrical Company, Electric Group Environmental Protection, Electric Wind Power Group, Electric Finance and Electric Insurance Broker. Although all in power equipment field, these branches vary in business scopes from nuclear power, thermal power, wind power, to finance and insurance industry.

Different industry dictates different competition situations in each subordinate company faces. For example, in the industry of wind power equipment, in the first half of 2015, China had started 270 new wind farm projects, with a total of 5474 newly installed machines and the 10.1 million kilowatts installed capacity, and reached a year-on-year increase of 40.8%. Main manufacturers include Gold Wind

Technology, Sinovel Wind Power, Mingyang, United Power, Yunda, CSR, Xiangtan Electric Manufacturing, and Dongfang. However, despite the large number of manufacturers, several enterprises only pursued single unit capacity, and new models are quickly released. The companies in the industry pay little attention to the introduction and digestion of technologies, re-innovation ability, and product quality, thus lacking the core technologies such as the overall design of wind turbine, load optimization calculation, control strategy optimization, and grid-connected performance, resulting in the unstable quality of some wind turbines and some quality accidents. The industry needs to improve technologies, and further enhance unit design quality and manufacturing quality (Yu Haijiang 2015). In accordance with the characteristics of Michael Porter's industry life cycle, the industry is still in the early stage of development.

But in the design and manufacture of thermal power equipment, China owns the largest amount of (ultra) super-critical units in the world, with mature and advanced technologies, and some world-class level equipment and technologies. Therefore, although all within the power industry, the respective technological and competitive environments of wind power and thermal power are different.

Subsidiaries of Shanghai Electric Corporation are running different businesses, so it will be not appropriate for the corporation to use a unified competitive strategy (or tactics) to guide all its subordinate enterprises. Consequently, under the guidance of the head office, the branch managers can develop their own tactics according to the competition situation, and their own resources and ability.

Thus, when subordinate subsidiaries are in different industries, the corporate generally will not use a unified detailed tactical program to guide the subsidiary competitive tactics. Or detailed tactic scheme may not be included in the corporate strategies.

There are occasions that executives may personally be interested in the tactics of some subsidiary's business due to their importance. Under this circumstance, tactics may be included in the strategies of guiding subsidiary's business development.

(2) **When subsidiaries own similar scope of business**

If subsidiaries focus their business on the same area as that of the corporate company, they are usually located in separate places. For example, General Motors owns the Asia–Pacific branch, the European branch, the US branch, and the Asia–Pacific branch also includes the Chinese branch and the Indian branch, etc.

Soon you will find that the politics, economy and culture environments of the areas that GM set branches in are not the same. For example, sales of passenger cars in Europe have declined continuously for five years from 2009 to 2013 influenced by the US financial crisis and European debt crisis, until a slight rise in 2014. While in China, compared with 2008, China's passenger car growth rate was 59% in 2009.[2] In addition, within the industry, the characteristics of consumers in different

[2]China's passenger car sales reached 10.26 million in 2009, increasing 59%, Statistics from Tencent Car on January 10, 2010.

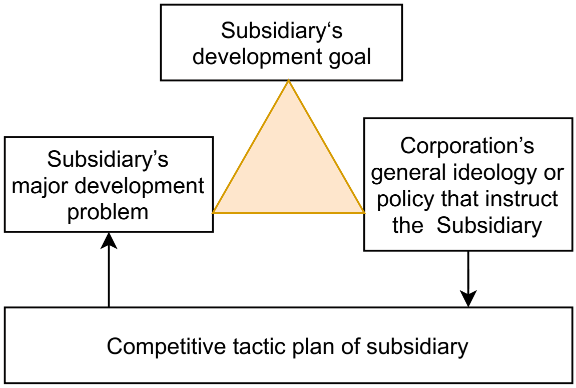


Fig. 5.6 Corporation's strategy that instructs the subordinate

regions will be not alike. Let's take the family as a unit. Many European consumers make repeating consumption. But in 2009 for many Chinese families, it was the first time to buy a car. Consumers had little knowledge of the brand, performance, etc. Besides, Chinese government attaches great importance to the automobile industry, regarding it as a pillar industry of national economic development. So even in the same period, auto markets in Europe and China show different characteristics in the politics, economy and consumer groups.

It is feasible for the GM top level executives to make instructional strategies for each subordinate while a uniform tactic for all may do not make senses. Detailed competitive tactics can be made by the subordinate according to local situations at that certain time and implemented after gaining approval.[3]

Also, there are occasions that executives may personally be interested in the tactics of some regional branch's business due to their importance. Under this circumstance, tactics may be included in the strategy decision of guiding branch subsidiary's business development.

The relationship between strategies and tactics for guiding subordinates can be concluded as Fig. 5.6.

5.4 Strategies at the Corporate Level and Tactics

Not like the competitive strategy, mergers and acquisitions, diversification, forward integration, and backward integration strategies are usually proposed at the corporation level for the company's development, instead of instructing subsidiary branches.

So is it necessary for tactics to be included in the strategy decision? I will look into a specific example of mergers and acquisitions (M&A).

[3]Here are only inferences for analysis. Whether should subordinates' competitive tactics be made by themselves or by the corporation varies in different companies' practices. Further research can be made on this including the way of making tactics and its degree of satisfaction.

In media coverage, there are few practical examples of companies with all information of the three elements of strategy (goals, major development problems, and general ideology) and tactical information. I found an example from the Internet that was not concerned by media and researchers. This example contains rich information I need. I will introduce this case combined with three elements and the relationship between strategy and tactics.[4]

Great Wall Energy, subsidiary of China Great Wall Computer Shenzhen Co., Ltd. (Great Wall Computer, stock code 000,066) entered the photovoltaic industry in 2009. The company draw up a development strategy in 2010, hoping to gain access to the advanced technologies in the field through M&A. I found the strategic plan[5] made by the company's strategy department and the business management department on the network. The main contents of the plan are as follows.

Aim of the M&A.

To complement and synergy with the Great Wall Yituo's solar photovoltaic and computer power business, thus having higher capital gains.

General guiding ideology of the M&A.

To implement the Great Wall's emerging energy industry development plan, choose enterprises with certain achievements in solar photo-voltaic industry as the platform for Great Wall development in this industry. Acquire those having outstanding R&D capabilities to provide technical support for the company's new energy strategy, and especially for photo-voltaic industry. The subdivisions include the inverters, polysilicon battery (from the polysilicon slice) and component products.

Requirements of the targeted company.

Mature R&D team, leading R&D technologies, recognized performances, appropriate size, advanced manufacturing management technologies, weak brand channel, potential to go public, leading R&D and manufacturing capabilities in the industry and certain extents of scale and profitability.

Ways of M&A.

Holding controlling interest as priority, buy in shares in the second place; and industrial investment in the first place, capital gains in the second.

In addition, the plan listed the tactic details of the M & A strategy.

As can be seen from the above, there are clear goals (objectives) and general guiding ideology in the plan. We know that the ideology is used to guide the specific M&A tactics. So this plan has these two elements of "strategic goals" and "general ideology". Ways of M&A in the plan are also directive, and therefore can be divided into the overall guiding ideology. The plan does not reveal the statement and description of the company's development problems. But we can infer from the purpose of its acquisition and general guiding ideology that its development problem is the lack of a platform with R&D and technical strengths in the photo-voltaic industry which can help the company achieve the goal.

[4]Here I only introduce the content but do not comment on the case.

[5]Here the strategic plan refers to a scheme, which consist of the decisions of three elements of the strategy plus its tactic.

Under the guidance of strategic goals and general idea, the company developed a specific M&A tactics.

Figure 5.7 shows the relationship between the tactics and the three elements of strategy of the Great Wall's photo-voltaic M&A example. Tactics, including the product, marketing and those enhancing the company's core competencies, are formed under and in line with the general guiding principles of the M&A, and serve for solving the company's "major problems" in development.

The traditional strategy will regard "M&A" and "acquisition" as a strategy, in fact, "M&A" or "acquisition" are only names. In Fig. 5.7, the three elements of strategy have rich contents. M&A overall idea on the bottom right provides ideological guidance for the specific M&A tactics, and tactics below the triangle are specific plans and programs proposed to solve the company's development problems under the guidance of the guidelines.

In the above example, tactics are clearly and exhaustively included in the strategy. How can we understand this phenomenon? Should all corporate strategies include tactical programs?

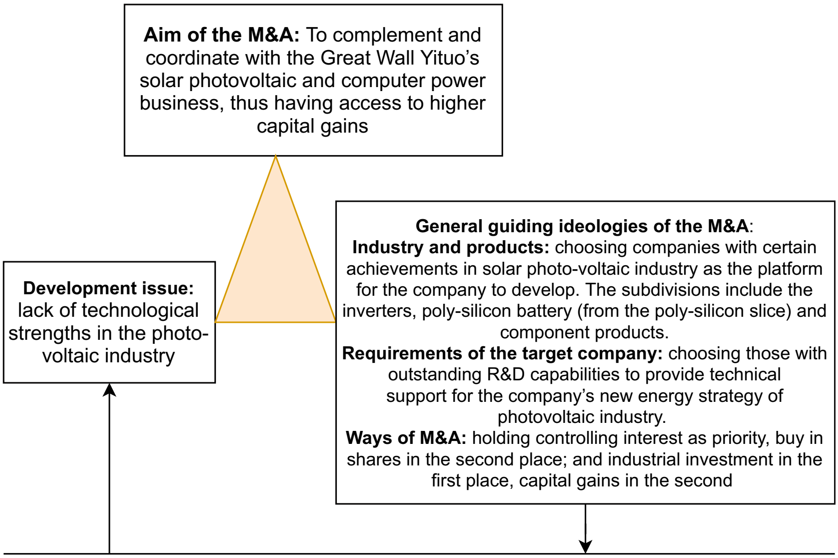
The detailed content of the Great Wall PV business M&A example came from the strategic plan jointly drafted by the company's strategy department and business administration department. This plan is made by the company's middle-level management. However, decisions of the three elements of strategy in this case should come from senior managers. If we wish to answer the question "whether tactics should be included in the strategy", we can look at the circumstances of the decision-makers and decisions.

If strategic decision are from company's top level, and executives do not work out tactics personally, rather they repay on subordinates to develop the detailed tactics, then tactics can be excluded from the strategic decisions by top executives. Alternatively, when the same person or team, specific tactics do not make the strategy and tactics can be not included in the decisions by the top-level decision maker(s). But tactics should be included in the strategy in both of the following cases. Tactics should be included in the strategic plans made by company's middle level managers. In addition, when the decision-makers of tactics and of the three elements of strategy are the same, specific tactical programs (or plans) should be included in the strategy plan.[6]

For other corporate strategies (such as diversification and integration), their tactics have similar relationship with three elements of strategy like in the case of the above M&A strategy. More information on these strategy names can be found in the Chapter *Name and Three Elements of Strategy*. Here the M&A strategy is only to illustrate the relationship between three elements of strategy and tactics.

The relationship of the three elements and tactics at the corporation level for self-use is concluded as Fig. 5.8.

[6]Further study could be conducted to help us understand under what circumstances the company strategies and decisions contain the three elements and the specific tactical plans simultaneously.



Choice of M&A tactics

Categories of product	Batteries	Inverters	Polysilicon slice	Polysilicon battery and component products
Product strategies	Diversification: to complement with former businesses and acquire companies from market with advanced inverter technologies		Expansive: to enter the high-end of the industry chain	Expansive: to enter the downstream manufacturing value chain
Market strategies	Penetrating: diversified battery application fields	Penetrating: to enter small-sized inverter market	Expansive: to enter the field rapidly	Expansive: to gain synergy and scale effect
To enhance core competitiveness	To enhance R&D capabilities, develop small-sized inverters businesses and own related sales channel resources		To enter the high value processes of the chain and optimized the value chain	To enhance core manufacturing capability / brand advantages

Fig. 5.7 Strategies and tactics in the Great Wall's Photo-voltaic M&A

Thus whether the corporate strategy contains tactics (or tactic programs) will depend on the object they serve. If the strategy is for guidance for subsidiary, it may not include specific tactics. The branch managers tend to be more familiar with the possible objects, products and other information. So specific tactic programs can be drawn up by the branch, and then be reported to the corporation for approval. However, the strategy of the group company's own use in general needs a tactical plan.

Fig. 5.8 The relationship of strategy and tactics at the corporation level

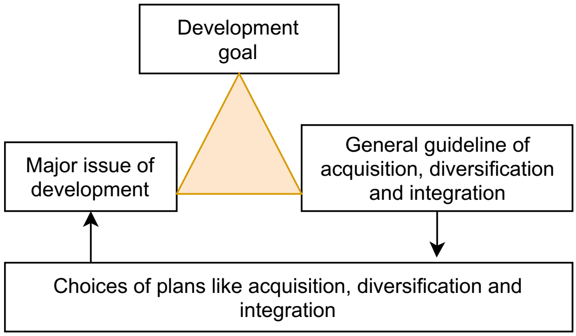


Table 5.1 Summary of whether corporation level strategy needs to include tactics

Aim of strategy	Whether contains the three elements of strategy	Whether contains tactics (or tactic programs)	Notes
Guiding competitive strategy of subsidiary	Yes	Not necessary	When subsidiaries own different business scopes or are located in different places, they can make tactics themselves and report to the corporation
Guiding other strategies for subsidiary	Yes	Not necessary	Subsidiaries make tactic programs themselves and report to the corporation
Corporate own-use	Yes	Not necessary	Made by the top level managers
	Yes	Yes	Made by the medium level managers
	Yes	Depending on the decision-maker	Decisions on the Three elements of strategy and tactics are made by different people
	Yes	Yes	Decisions on the Three elements of strategy and tactics are made by the same people

Through the analysis of the three elements of strategy and the tactics at the corporation level, we can summarize Table 5.1.

5.5 The Relationship Between Strategy and Tactics

The word "strategy" comes with the meaning of guidance and generality. "Strategy" is important as shown in the examples of the war between Yuanzhang Zhu and Youliang Chen, as well as the M&A of Great Wall PV business, where it played a significantly guiding role.

Strategy owns characteristics of overall coherence and guidance. In contrast, tactics are approaches, plans or programs. Generally speaking strategic ideology come in the first place and play a guiding part to tactical programs, while tactics help resolve major development problems and help achieve the strategic goals.

It is noteworthy that in reality, sometimes, the overall guiding ideology of strategy is gradually formed in various tactical practices. Some are even developed and summed up in the lessons of failures. It is not always that the strategy comes first, and the tactics appear later. That is to say, insights of strategic thinking is not a one-step design, but gradually formed from practice and learning.

Let us look at a military example. In the early period of the revolution of the Communist Party of China (CPC), the military strength of the CPC is weaker than that of the Kuomintang. The Communist Party has accumulated rich tactical experience in more than three years of guerrilla warfare. On April 5, 1929, Mao Zedong drafted the "Letter to the Central Committee" in Ruijin, and he said in a letter, "The tactics we have obtained from the struggle for three years are really different from those of the ancient and modern times. With our strategy, the mass struggle is launched more and more day by day, and any powerful enemy is nothing we can do. Our strategies are guerrilla warfare. Main points are: divide out forces to arouse the masses, concentrate our forces to deal with the enemy. The enemy advances, we retreat; the enemy camps, we harass; the enemy tires, we attack; the enemy retreats, we pursue[7]……. This guideline had been used for three years".

The 16 character guidelines are known as the core general guiding ideology for the guerrilla warfare. We can see from above Chairman Mao's letter, it was accumulated in many guerrilla wars.

Some strategies are developed and summed up in the lessons of tactic failure. We know that Microsoft entered in China in 1992. It had a big development issue due to counterfeit copies. How to translate the market share into revenue? After continuous failures by adopting precepts that had led to its success in the U.S. and Europe, it finally realized that their strategies charging hundreds of dollars for its Windows operating system and Office applications were not correct for a market that a consumer's average income was only US $301 annually. A new strategy suitable for the Chinese market was formed. "It took Microsoft 15 years and billions of dollars of lost revenue to learn how to do business in China" (Kirkpatrick 2007).

Based on above, we can sum up the relationship between three elements of strategy and tactics as follows: the guiding ideology in the strategy is to serve tactics, and tactics are plans aiming to solve major problems in achieving development goals. We can interpret that the total solution of major problems which can help companies to achieve their long-term goals are composed of two major parts, the overall guiding ideology and the tactic plan under the guidance of the ideology.

From implementation point of view, a strategy at corporate level should include tactic plans. A strategy without tactic plans cannot be enforced.

[7]Know as the 16 character guideline in Chinese.

5.6 Vocabularies Related to Tactics in the Strategic Definition Literature

By studying the relationship between tactics and strategy, we can see their differences. Tactics are specific programs, schemes and plans under the guidance of the general guiding ideology which is one element of strategy. In the above examples (the battle between Yuanzhang Zhu and Youliang Chen in Longwan, competition of Taobao and eBay), interlinked tactics are implemented to solve development issues.

In the exposition of relationship of tactic and strategy, it came to me that various terminology and vocabulary are used in the literature regarding strategy definition, especially the element of the "general guiding ideology" that locates at the bottom right of the strategy triangle.

The terms describing the element of "general guiding ideology" are muddled with ambiguous expressions in strategy definition literature, like *choice of programs or plans, actions, means, how, major policies and plans, approach, moves, programs* etc., which can be divided into the following categories.

> One has the character of instructive, such as "*guiding principles*, *major policies* and etc."
>
> Second has the property of tool such as "*means, approaches, solution, how,* and etc."
>
> The third has the nature of solution or tactic plan such as "*plan, actions, programs,* and etc."

If we make a careful analysis on those terms, we can find that the third category (programs, plans, and actions) are different from the first one of "guiding principles" and "policies". "Guiding principles" and "policies" are overarching and instructive while "actions", "programs" are detailed content of the plan. Therefore, we can see that the majority of vocabularies in the third categories are inherently tactical. As in the previous section of the war between Yuanzhang Zhu and Youliang Chen, "luring the enemy into the deep and then attacking them by ambush" is the overall ideology showing profound thoughts. How to realize the ideology is a tactical plan. Although there is a meaning of "approach or tool", the meaning of the second category of terms is somewhat close to the meaning of the first category.

In part of the strategy definition literature, the concept of strategy is defined by tactical terms, adding more complexity to the strategy definition.

Competitive strategies in their meaning contain the basic ideologies of how to compete. However, some corporate strategies do not bear the guiding thoughts of the strategy. In order to develop a feasible strategy, decision-makers are required to put forward an overall guiding ideology that fits the practical business environments and company own resource and capability situation to direct tactics.

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6 Firms Strategies and Their Three Elements

The name of competitive strategy itself contains the ideology of how to compete. Unlike competitive strategy, the names of corporate strategies do not contain the overall guidelines required by the strategy itself. Therefore, to make them have the attribute of strategy, the decision makers need to put forward the guiding ideology which fits well with the actual situation of the firm and the environmental characteristics, so as to guide the tactics.

6.1 Introduction

In the Chapter of *Tactics and Three Tactical Elements of Strategy*, we have mentioned certain strategies such as cost leadership, hybrid, mergers & acquisitions, integration, etc. What about the three elements of those strategies? In the following, we will address that concern.

Generally, there are three levels of company strategies (see Fig. 6.1): Corporate Strategy, Competitive Strategy, or SBU Strategy (Strategic Business Unit–SBU), Functional Strategy.

Corporate Strategy takes a portfolio approach to strategic decisions by looking at all of the company's businesses to determine how to create the most value. In order to develop corporate strategies, companies must study how the various businesses they own fit together, and how parent companies are structured to optimize human capital, processes, and governance.

Competitive Strategy refers to a long-term plan made by a company to gain competitive advantage over its competitors in the industry. The goal is to establish a defensive position in an industry and generate a higher financial performance.

X.B. Yu, *The Fundamental Elements of Strategy*, Management for Professionals,
https://doi.org/10.1007/978-981-33-4713-7_6

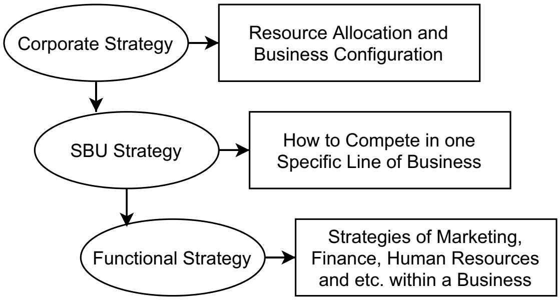


Fig. 6.1 Multi-level Strategies

Functional Strategy refers to the strategy or organizational plan adopted by each functional department, namely market, production, finance and human resources, to achieve organizational goals in line with the overall business or corporate strategy. A company's functional strategy is tailored for a specific industry or strategic business unit (SBU) to support other strategies.

Here we discuss solely on the Corporate Strategy and Competitive Strategy.

6.2 Competitive Strategies and Their Three Elements

My literature review found that the Competitive Strategy (or SBU Strategy) has been well studied and concluded into systematic academic fruition due to contributions of Porter (1997), Bowman and Faulkner (1997) and Mintzberg (1988). Let us look at its three elements of competitive strategies.

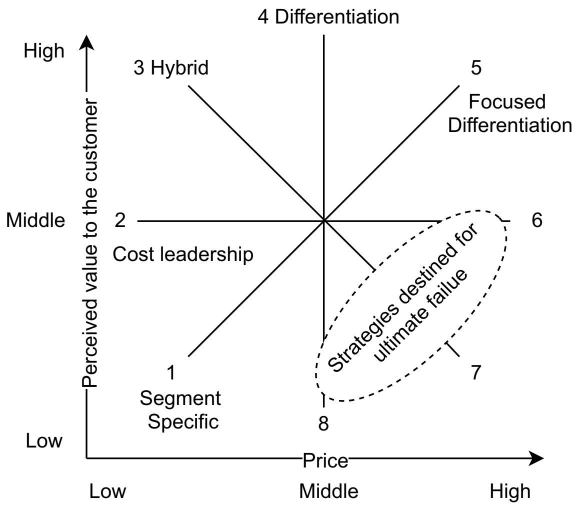
SBU is a strategic concept, which refers to a division managed independently by a large company, whose planning is done separately from other businesses of the company. It has its own products and services, or a specific line of business, its own competitors and potential competitors in the market in the industry. Generally, the SBU of a company is held accountable for its own performance in sales, profits and other indicators. The objectives of the division are different from the parent company and crucial to the long-term performance of the enterprise.

Mintzberg believes that the duty of senior management in a SBU is to know how to compete, which Porter argues that it is to create competitive edges. Competitive Strategy is about how to create and maintain company's competitive advantage, on which is where SBU Strategy focuses. Several competitive strategies proposed by Porter and Bowman are commonly accepted in business practices and academic communications despite Galbraith and Schendel's (1983) contribution to the study of corporate strategy types and categorization.

Porter (1997) argues that there are three types of strategies, which are capable of creating competitive advantages: Cost Leadership, Differentiation and Focused strategy (Integration of Cost Leadership & Differentiation).

Bowman (1997) proposed Strategic Clock Model or SCM, which offers even more options than Porter's Competitive Strategy. In his view, Competitive Strategy may fit into the following categories: Cost Leadership, Differentiation, Hybrid, Focused Differentiation, and Segment Specific etc. (see Fig. 6.2).

Fig. 6.2 Strategy Clock Model (from Bowman and Faulkner 1997)



Taking the price of product (service) as the abscissa axis, and added value as the ordinate axis, the strategic clock model (SCM) draws out different competitive strategies available for companies.

Competitive strategy with low price and low value (Position 1): By focusing on consumers that are quite sensitive to prices, a company may cater to the market by lowering the value of the product (or service), like the less expensive geriatric cellular phones designed for old people with fewer functions.

Low Cost Competitive Strategy (Position 2): This strategy is also known as cost-leadership strategy. The strategy was represented by Porter's Cost Leadership theory. The choice of cost-leadership dictates the enterprise to discover and tap advantageous resources and sell standardized and plain products to pursue success associated with scale of production and economies of scale. For seizing the competitive advantages, Cost Leadership is featured with 2 basic characteristics: First, market positioning which is on the mass; Second, in the case of a fiercely competitive market, companies who adopt cost leadership strategy will attract more consumers with pricing mechanism (lower price) without profit losses.

Hybrid (Position 3): A hybrid position, or value for money strategy, indicates consumers enjoying value-added products or services but with low price. The strategy provides the ideology that consumers do not necessarily have to pay a higher price for better quality. It is exceedingly appealing to consumers. However, we know that providing customers with good products or services requires the company to do good research on customers' demands with capability of turning the research results into good products, which will generally lead to higher costs. To balance costs, prices and developing new products, as an optimized state pictured by the strategy is without doubt challenging many companies. When the company is able to find ways to reduce costs without sacrificing value, or able to reduce costs associated with economies of scale by boosting sales when consumers in the market is huge in numbers, Hybrid Strategy is a good choice.

Differentiation Strategy (Position 4): The option requires the enterprises to offer customers the high level of perceived added value. Through differentiation companies distinguishes their products with that of the competitors', thereby gaining additional revenues. The core of Differentiation is that the needs of consumers in the market are diversified and cannot be met with single standard products. Enterprises offer customers perceived added value at a price higher than competitors by providing better products or services in order to secure more market shares and increased revenue.

Focused Differentiation Strategy (Position 5): This strategy aims to position products or services in high quality (higher than other products in market), where price-insensitive customers would buy for perceived added value. Highest quality of the products or services in the industry often implies their highest selling prices.

High Price and Low Value Strategy (Position 6, 7, 8): Products or services with low value sold at high prices are, when there are other competitors in the market, doomed to be unsalable. Customers will not buy the products and the enterprises will not adopt the strategies in the first place. A company will position their products in Position 6,7,8 under none but two following circumstances:

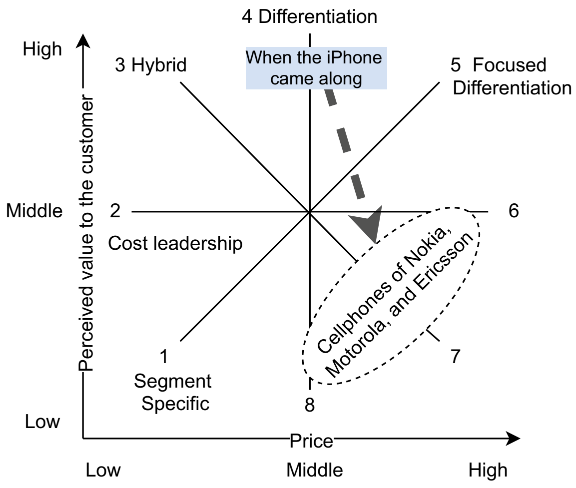
- Monopoly Pricing: consumers have to buy monopolist's products without alternatives.
- Firms in Position 4 are forced to remove here due to fierce competition in industry. One case is that prior to the birth of iPhone, the gigantic Nokia, Motorola, Ericsson positioned their products in Position 4 (differentiation). IPhone was a subversive innovation with only a bit higher selling price. However, consumers perceived much more value in iPhone than any others did. Therefore, non-smart phones from Nokia, Motorola, and Ericsson was shifted from position 4 to High Price, Low Value (See Figure below). The same thing happened on Taobao and eBay Eachnet where Taobao had launched better, cheaper platform and eBay Eachnet was relocated.

Thus, we can see that a company is not static in competitive position, when the company neglects the development of competitors in the market; they are not far from relocation. (Fig. 6.3).

Porter also proposed Focus Strategy, where companies focus efforts on one or two niche market segments to better meet the consumer needs of that target market. The gist of it is to avoid competition with main competitors in the market and to target market segments where the competition is weak. The exemplary case is Wahaha, a nutritional food company founded in the 1980s in China, inspired by the Chinese traditional medical theory of food therapy, developed and sold a kind of nutrition oral liquid targeted for children who do not like eating and it was a huge success. In a niche market, a firm typically looks to gain a competitive advantage by adopting cost leadership or differentiation.

We have introduced several major competitive strategies. From above introduction of the basic contents of the competition strategies, we can tell that *names of these strategies imply the basic guiding ideologies on how to compete*. Cost

Fig. 6.3 Shift of Competition Position



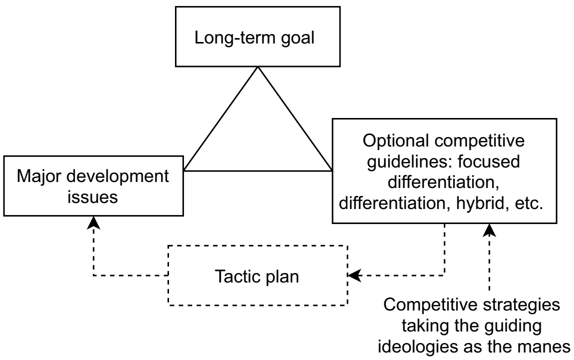
leadership is as simple as "my cost is lower than my competitors". Low cost is not the ends rather the means to appeal to customers with perceived added value and lower price. Understanding that is going to prescribe competitive behaviors in markets.

In addition, differentiation is to promote products or services that are different from competitors' in order to appeal to customers. Corresponding tactics can be derived from here.

Each strategy above is reflective of competitive thinking behind it.

According to the above introduction, competitive strategies imply rich thoughts on how to compete in market, thus the thoughts can be used to guide the company business in the market competition. Let us go back to the three elements of strategy concept. As introduced before, the general guiding ideology of the three elements lies at the bottom right of the triangle of strategy concept. Guiding ideology reflected in competitive strategies are thus located in the bottom right of the triangle of strategy (see Fig. 6.4).

Fig. 6.4 Three Elements of Competitive Strategy



The guiding ideology of strategy serves for tactics. Under the thoughts of differentiation strategy, a company adopts competitive tactics according to its market position. Suppose a company selects Hybrid as its competitive strategy, what kind of detailed tactics shall be accepted for attracting consumers are factored by markets, competitors, company resources and capabilities. Taobao's hybrid strategy is well executed by diverse tactics that are reflective of the strategic thinking (See Chapter of "Tactics and the three elements of strategy"). In Chap. 5, we mentioned that tactical plans should be included in competitive strategy. Though their names imply ideologies for competition, strategy without tactics in practice cannot gain competitive advantages. Companies ought to come up with own competitive tactics or plans to contend for customers in markets.

Let us look at the three elements and tactics of the two most commonly used strategies, which are differentiation and cost Leadership.

There have been some studies on differentiation. Mintzberg (1988) put forward certain themes (or tactical directions): price, image, design, quality, and support. The Figure below shows how the three elements of differentiation strategy and tactics interacts (Fig. 6.5).

Cost Leadership strategy is well studied as well. Porter (1985) in his book *Competitive Strategy*, mentioned many ways to reach cost leadership, which are specific tactics to lower costs. The Figure below shows how the three elements of cost leadership strategy and its tactics interacts (Fig. 6.6).

We can know from above that most of the things about the competition strategy have been paid attention and are well studied. The reasons to say this are as follows:

First, from the perspective of the three elements of strategy, all competitive strategies have demonstrated clear general guiding ideologies that produce competitive tactics or plans for instruction.

Second, competitive strategies displayed in Strategic Clock are a complete set, applicable in enterprises with different business scale, type, and characteristics.

Third, the studies on differentiation themes for differentiation strategy and on cost-saving plans for cost-leadership strategy are relatively mature.

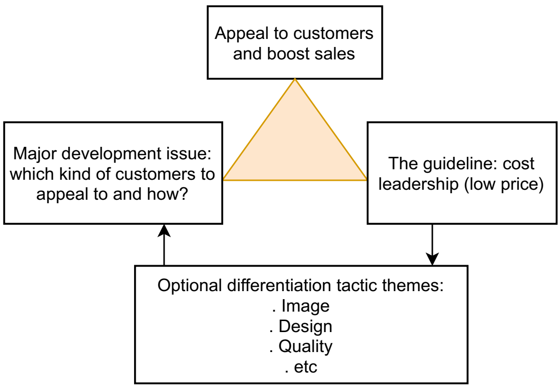


Fig. 6.5 Differentiation Strategy and Tactic Themes

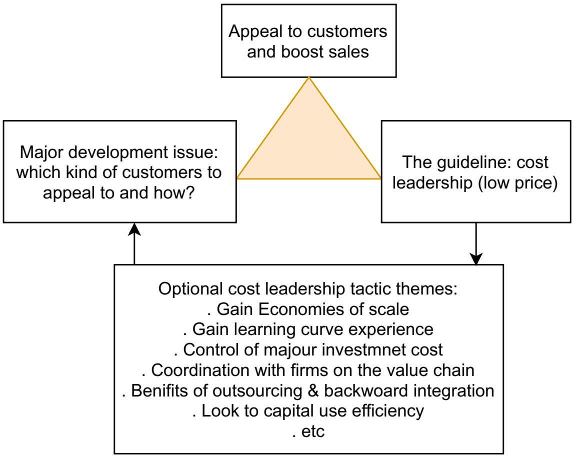


Fig. 6.6 Three Elements and Tactics of Cost Leadership Strategy

One of the most important criteria testing on theoretical maturity is its explanatory and practical application nature. In that sense, competitive strategies have emerged as a system with its theoretical functions.

Tributes shall be given to three professors: Michael Porter, who firstly proposed the concept of competitive strategies; Henry Mintzberg, whose studies on differentiation provided theoretical basis for differentiation tactics; Cliff Bowman, who proposed strategic clock model that improves competitive strategies. All their theories shed light on competitive strategies and make a huge difference on business strategic choices.

6.3 Corporate Strategy

Now we look at Corporate Strategy.

The term *corporate, group or group company* can often be seen in media and some company's websites.

A corporate group is a collection of subsidiary companies that function as a single economic entity through a common source of control. There are two types. One that is involved in a number of business fields by holding subsidiaries respectively (wholly owned subsidiaries and holding subsidiaries). The parent company here is sometimes referred to as corporate group. The other kind of corporate group can be owned by a holding company, which may do not have actual operations. The top-level headquarters are responsible for corporate finance and capital operation, assessment of financial performance of subsidiary companies and oversight of senior management in subsidiary companies. Decision-making power is largely delegated to subordinate companies with its own leaders make the call and corporate company sees to it that subsidiary companies meet financial goals each year.

Our discussion here must be limited to the first type of organizations.

Corporate group manages its subsidiaries in many forms that are as generalized as centralization of power, decentralization of power.

A *centralized organization* is one which decision-making power on major organization development issues is largely limited in the headquarters or a higher level of authority, which take regulatory management over subordinate companies in R&D, quality control, human resources, and even marketing. After the decision is taken, it is communicated to the lower level managers who are expected to follow the orders.

A *decentralized group company* is, on the contrary, one in which part of decision-making power is delegated to subordinate companies who can make their own strategic plans of aimed goals and corresponding resources investment decisions (on funding and human resources). Subordinate companies' plans are generally subject to review and approval by the headquarters.

What strategic decisions are there to be made by senior management in corporate companies?

The goal of the corporate strategy is to optimize resource and business allocation and to develop businesses in different markets, and to navigate subsidiary companies to pursue greatest corporate effects (scale effect, scope effect, speed effect, etc.). Therefore, senior management in the headquarter have to answer to the major questions of targeted market, business scope, capital flow, shut-down or selling businesses.

Corporate strategies in our discussion are as below.

(1) **Strategic decision to guide business of SBU**

Corporate group, either centralized or decentralized, needs a guideline on how subordinate companies compete in the markets. Though the corporate group does not directly compete in the market, some more centralized companies have to make strategic decisions on how their subordinate companies compete globally. For example, low-end products from other companies were affecting SKF. Should the company follow competitors' footstep of low-price position? The headquarter needed to make the decision. The headquarter decided to compete by differentiating their products from competitors', which has had a profound influence in guidance on its SBUs or subordinate companies.

Sometimes the market is so diverse that the corporate group needs to decide on whether to adopt multiple competitive strategies at the same time. Such as the Volkswagen being a high-end product for Chinese consumers in 1990s due to their low income at that period. Volkswagen China needed to meet the Chinese market and enter the low-end market (by adopting cost leadership strategy). The Volkswagen headquarter then had to make that decision accordingly.

Under loose management, the corporate group usually does not exert influence on competitive strategy of subordinate companies and authorizes senior managements of the subordinate companies to make decisions on these issues.

(2) **Decision on business contraction (remote) and expansion**

Changes in regional economic growth, cultural practices and industry policies will bring about changes in consumer in the number of buyers, consumers' purchasing power and their desire to buy in different markets. In addition, the growing market may become depressed. The originally underdeveloped markets, thanks to rapid economic growth, will become tempting. Market changes are threats and opportunities to companies depending on the strategic decisions and judgment made by senior management of the corporate group.

In 2007, impacted by the subprime mortgage crisis, the US economy fell with only 1.7% GDP growth rate with 62% year-on-year drop in 2008, and a worsening 2.1% decrease in 2009. Ford Motor Company suffered a huge deficit and the senior management must make decisions to deal with it. In order to reduce deficit and debt and restore profitability, the company decided to sell unprofitable brands, Jaguar and Land Rover to India's Tata Motors Group, and then sold Volvo to China's Geely Automobile on Dec. 2010.

Let us look at decisions on business expansion. In the early 1980s, China, after nearly 40 years of planned economy, was seeing a rapid economic growth brought by the implemented Reform and Opening Door Policy. GDP annual growth rate soared to 9.1% in 1982 and up to 15.2% in 1984. However, annual per capita disposable income was then still low: 565¥ in 1983 and 651¥ in 1984. A family's income was impossible to buy cars. Foreign automobile manufacturers were concerned about the Chinese market, and their senior management were weighing up the decisions on whether, when and how to enter the Chinese market. Volkswagen, as we all know, was the first to take action and enter China by setting up a joint venture, Shanghai Volkswagen Automobile Co., Ltd. with the Shanghai Automotive Group back in 1985. The US General Motors followed the step much later in 1997 and founded Shanghai General Motors Co., Ltd. These strategic moves are the implementation of the two company's strategies concerning China market.

Sometimes even in the same country, due to economic and cultural differences among different regions, regional markets present different characteristics. For example, China's eastern provinces are more developed than western ones, the provincial capitals, other common cities. Different developmental characteristics determine different corporate competitive and developmental strategies in different regions.

In addition, strategic decisions should be made by the headquarter of the corporate group when changes in competition conditions impose grave influence on business operations.

(3) **Strategic decision to enter another industry**

Sometimes when there is an industry market that is seeing rapid development and high profitability, many companies, though whose main businesses are irrelevant, are tempted and decide to take the share of the market. That decision-making is the strategy of unrelated diversification. Generally, as the business has no experience in the new market and does not know if the product is going to be successful, its entry or not will be determined by the strategic decision-making of senior management.

In the late 1990s, a new policy was implemented in real estate industry and housing system of residents in China, a change from planned allocation to market economy. The real estate market was booming, as it never has, due to the huge demand, which was an opportunity for companies who had nothing to do with real estate. Some entered the market and turned out to be a huge success, while some also did and ended up in bankruptcy.

When the industry of the company's main business is decreasing, the decision-makers need to find new directions for the future development of the company’s business. Therefore, decisions are usually needed to enter other industries which known as unrelated diversification in academic society.

Wahaha, a Chinese company, suffered from the development bottleneck of declining sales revenue, owing to the intense competition in beverage industry in China in around 2010. The company decided to reduce dependence on beverage business and looked for new profit growth point. Its diversification attempts were entry into the retail industry and liquor business. In the early 2012, Wahaha united some of its distributors, established a joint venture of Wahaha Commercial Co., Ltd, and created WAOW PLAZA, a retail mall with the first phase of investment of 1.7 billion RMB. In 2013, thanks to government introduction, Wahaha reached a partnership with Jinjiang Liquor, a hundred-year-old brewery in the renowned place for spiced liquor production, Maotai County. Wahaha invested 10.5 billion RMB and held 80% of the share in the company. Targeted at grassroots, it sold its products at the price of 100–400 RMB.

Apart from unrelated diversification, corporate decisions need to be made regarding the entry into industry-related business fields (not main business), such as parts and material suppliers business or distributors’ business fields and branding.

Mobile phone chip is a kind of IC classification, is a kind of circuit module which integrates a variety of electronic components on the silicon board to achieve a specific function. It is the most important part of electronic equipment, which undertakes the function of calculation and storage. Qualcomm, Apple Inc., Intel Corporation, Samsung and Mediatek Inc. of Taiwan are the main producers of chips. Due to the high concentration of the chip industry, mobile phone manufacturers do not have the initiative. China has a large mobile phone market. Huawei is a main mobile phone manufacturer in China. Despite high technical requirements, in 2000, Huawei made a strategic decision to entering into chip area, in order to free from the dependence on mobile chip suppliers. This is an example of related diversification as well as an example of backward integration.

(4) **Strategic decision on corporate transition**

Sometimes senior management may sense the imperative of development redirection signaled often by performance decline or ceiling effect of development. IBM, a long-term leader in the computer industry, had the most remarkable achievement in large/small machines and portable machines (ThinkPad). The standard of personal computer (PC), which was founded, is still continuously used and developed. Its PC business suffered continued deficits of US$ 397 million in 2001, US$ 171 million in 2002, US$ 258 million in 2003, and US$ 139 million in 2004, adding up to over US$ 1 billion, as shown in the financial report it submitted to the US Securities and Exchange Commission. IBM made a strategic decision to sell the PC business and focus on minicomputers, mainframe and server products for transition.

Powerlong Real Estate is a commercial real estate enterprise (stock code HK1238), founded in 2003 by Powerlong Group in China. Based on the idea of urbanization development strategy of China, its business mainly focuses on the Tier 3 and Tier 4 cities of China. In 2013, a decade after its establishment, it decided to renew its corporate strategy and proposed the transformation strategy of 'Shanghai as the center, focusing on the Yangtze River Delta and Fujian Province and Shandong Province'. XU Huafang, the president of the company, believed that real estate projects are comparatively riskier in Tier 3 and Tier 4 cities with low consumption capacity and the lack of talents despite the low costs than those Tier One and Tier Two cities with high consumption capacity, bountiful talents and stable revenue despite the high costs. In this knowledge, the change of corporate strategy from the pursuit of quantity to the pursuit of quality is understood.

6.4 Corporate Strategies and Their Three Elements

Above are brief examples of corporate strategic decisions. Let us have a look at the relationship between strategies at corporate level and their three elements.

I find, in comparison to strategies at business unit level, the academic community has not yet contributed adequate results in research of corporate strategy perhaps because of its complex, multifactorial nature. Hence, here, I am afraid I cannot illustrate the three factors in one figure as systematically as in the introduction to competitive strategies at present. As difficult as it might be, I will attempt in my best effort to simplify the question and elaborate on each strategy respectively.

In view of the nomenclatural system of strategies (multiple names can refer to one strategy), our discussion will be limited within the most commonplace strategies.

(1) **Integration strategy**

Integration strategies in some books are classified into the subgroups of horizontal integration and vertical integration, or forward integration and backward integration.

Horizontal integration refers to mergers & acquisitions of additional business activities that are at the same level of the value chain in similar or different industries. Vertical integration is a strategy where a company expands its business operations into different steps on the same production path, either in the front-end or in the back-end of the industrial value chain. Integration strategy refers, in a narrow sense, to backward integration and forward integration.

Forward Integration.

Forward integration is a business strategy that involves a form of vertical integration whereby business activities are expanded to include control over the direct distribution or supply of a company's products. Say Company A is professional in OEM (Original Equipment Manufacturer), and forward integration for the company is to create its own brand to consolidate its production, distributors, retailers, etc., and, to expand its business activities to sales. The maturity of Internet technology makes forward integration easier and a more popular approach to business strategy.

Forward integration is often adopted for companies in situations where sellers cannot meet enterprises' needs (costs, etc.), sales are considerably profitable, enterprises have funds and human resources to sell products or services, and enterprises desire to know better about market information and consumers' needs.

Nanfeng Chemicals in Shanxi Province in China was an OEM for starters. In 1992, it established the brand KEON whose products include washing powder, soap, washing liquid, toothpaste, etc. With its sales now among the best in the country, its forward integration worked.

So, what are the three elements of forward integration?

First, it is a goal-oriented strategy. We can see that from its basic idea—to enter sales. Second, we can find no guiding principle in its definition (see Fig. 6.7). Unlike competitive strategy, integration strategy in its explanation cannot shed a practical light on integration tactics. This means a company is still perplexed with all the options ahead—to start its own brand, or to build its own sales network, or to buy shares of an existing brands (to become controlling shareholder) in the market, or to acquire an enterprise in the market. All these are left to corporate decision-makers to ponder on.

Therefore, a complete version of forward integration shall include decision-maker's guiding principle. Company executives need to come up with basic guidelines about whether to build their own sales channels or buy existing

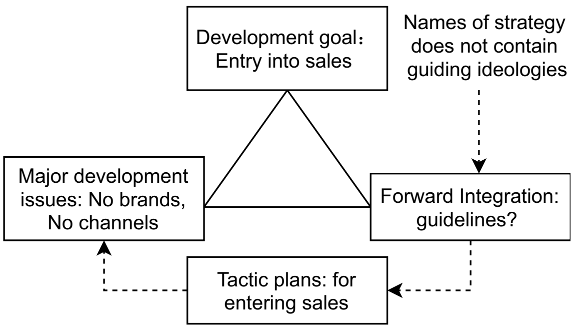


Fig. 6.7 Forward Integration Strategy (simplified)

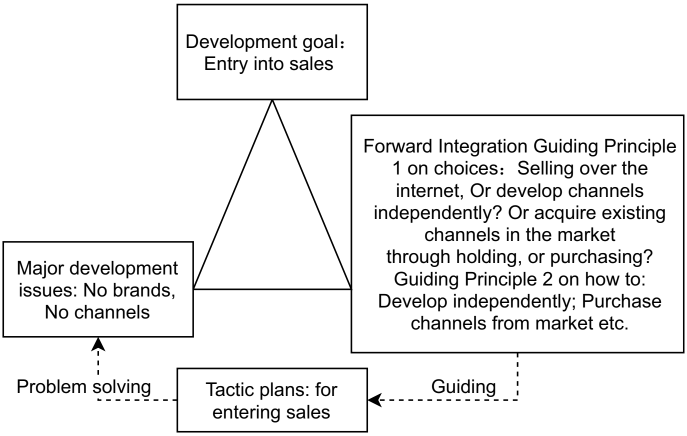


Fig. 6.8 Forward Integration Strategy (complete)

ones from the market. If an acquisition is confirmed, the company's top management also needs to come up with basic guidelines on how to do it. With the two basic guidelines, a detailed tactical plan can be developed. Figure 6.8 shows the three elements of forward integration with major issue of having no sales channels.

(2) **Backward integration**

Backward integration is a form of vertical integration that involves taking place of, or buying shares of, or establishing strategic alliances with, suppliers up the supply chain to control self-made raw materials or spare and accessory parts what was to be outsourced before. Companies usually adopt the backward integration strategy under the following circumstances where suppliers are too costly or providing products of unstable quality or considerably profitable.

Iron ore is indispensable in steel smelting industry. China's demand for iron ore has been rising since 1990s driven by China’s rapid economic development. Benchmark contract for iron ore (iron 62%) in December 14, 2012 was US$ 132.75 a ton, which was 150% of the annual low of US$ 88.75 a ton 3 month ago, a violent fluctuation any company reluctant to see. For some companies in the industry, backward integration would be clearly an option.

Geely Automobile, in the early stage of its development, mostly relied on import of its engines. The engines were essential yet so expensive for manufacturing cars at competitive prices. As a result, since 2002, Geely began to independently develop engines and with its first engine MR479QA debut in the same year in Ningbo in China. Soon afterwards, Geely has launched engines with displacement of 1.3L, 1.5L, 1.6L, and 1.8L with independent intellectual property rights.

Why did Geely choose to develop engines independently rather than purchasing engine manufacturers to meet the demand for engines? LI Shufu, the president of Geely Automobile had his considerations that a large sum of money to be spent in

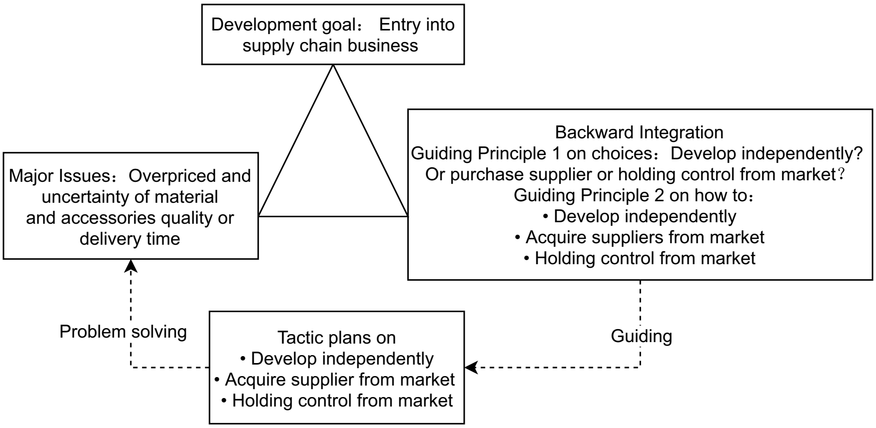


Fig. 6.9 Backward Integration Strategy (complete)

making acquisition is not worthy for a company that had not yet achieved profitability and developed financial strength.

Above are examples on backward integration. Let us look at the three elements of this strategy.

Backward integration has a clear goal—to enter the supply chain of raw material and spare parts to cope with uncertainties of price, quality and delivery time from suppliers. Now the goal and major issue of the three elements are clear enough, which leaves the general guiding ideology unanswered. *How to enter the business? By starting own business (Greenfield approach) or acquiring or shareholding existing businesses in the market? If purchasing, what kind of targeted organization?* These questions need to answer in detail that demands ideological principles to guild the tactic plans. Hence, the name of the backward integration strategy itself does not contain the guiding ideology of the strategy. Therefore, a complete backward integration strategy needs to put forward the guiding principle to direct the tactics (see figure below). (Fig. 6.9).

(3) **Acquisition strategy**

An acquisition is a corporate action in which a company buys another (David, 1998), or if not all, of another firm's ownership stakes to assume control of it. China’s Securities Law stipulates that the acquisition refer to the takeover bid for the shares of a listed company when holding over 30% of the shares of it. The controlling power of the business allows the acquirer to make decisions about the newly acquired assets without the approval of the company’s shareholders.

Such acquisitions are related diversifications when companies acquire homogeneous businesses; and backward integration is when acquiring suppliers on the value chain; and forward integration when acquiring sales businesses (suppose the company's main business is in production) on the value chain. It is unrelated diversification when acquiring businesses are not related to its main business. Though there are various names, they can refer to one strategy some times.

Acquisitions are made out of the following goals: (1) Rapid expansion of market share of company's main business; (2) Obtaining of advanced technology; (3) Entry into new fields (new industry); (4) Obtaining of low-cost resources in the downstream of the value chain; (5) Acquisition of brands and marketing channels in the upstream of the value chain, etc.

The Table 6.1 summarizes the relationship of names of strategies and their goals.

The table has a few of implications that acquisition is probably the solution to realize new developmental objectives (goal-oriented acquisition) or to overcome developmental difficulties (problem-oriented acquisition). The three elements of acquisition strategy are shown in Fig. 6.10.

Similar to backward and forward integration strategies, we can see that there are no guiding ideologies or principles in the name of acquisition strategy. So, a whole set of acquisition decision-making further requires senior management to devise general guiding ideologies which provides instructions on planning acquisition tactics based on practical conditions like acquisition goals, corporate characteristics and the market conditions.

Take acquisition of technology from market as an example. The company probably prioritizes on targeted enterprises with small size, technologically advanced on the merit of low costs and simpler post-merger integration.

Table 6.1 Acquisition and other strategic terms

Name	Definition	Other Strategic Terms	Aims (Goals)
Acquisition	To acquire homogeneous businesses	Horizontal Acquisition	To eliminate competition; acquire economy of scale; obtaining of resources and capabilities
	To acquire suppliers on the value chain	Backward Acquisition, Related Diversification, Vertical Integration,	Obtaining of low-cost material
	To acquire front-end businesses on the value chain	Forward Acquisition, Related Diversification Vertical Integration,	Obtaining of valued business
	To acquire businesses unrelated to its main business	Unrelated Diversification	Entry into a promising industry

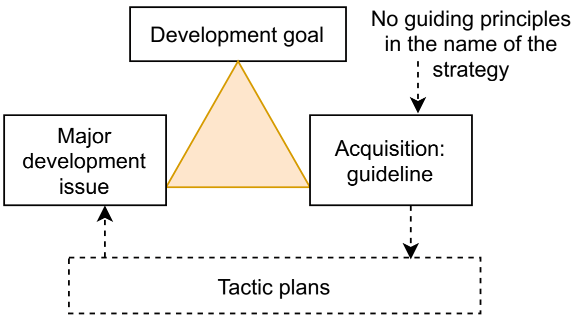


Fig. 6.10 Acquisition strategy (simplified)

Sometimes, different companies may develop different acquisition principles or ideologies even at the same acquisition purposes. For example, with the same purpose to obtain technology from the market, the acquisition principles of a small company will be different from that of a large company. Specific principles could be varied depending on the targets.

Figure 6.11 is here below to show the elements of technology-oriented acquisition strategy.

As acquisition strategy has different purposes, we can have a more comprehensive figure (below) to show the elements of acquisition strategies with different objectives (Fig. 6.12).

Acquisition refers to organization buying or holding shares of company in the market. The element at the lower right of the triangle is the general guiding principles or ideologies of acquisition. It provides guidance for the acquisition tactic plans. The guiding principles in the triangle are important, indispensable component of the Acquisition Strategy. In the case of Greatwall Computer in China, as previously introduced in Chapter Five *Tactic and Elements of Strategy*, we can see how the guiding principle shed a light on its buying tactic plans.

Hence, the acquisition strategy in its name does not contain any guidelines for the development of tactic plans. Acquisition activities would have no train of thoughts without clear guidelines. The Ministry of Chinese Commerce (2016) reported that until the end of 2016, "more than 50% of Chinese enterprises are not

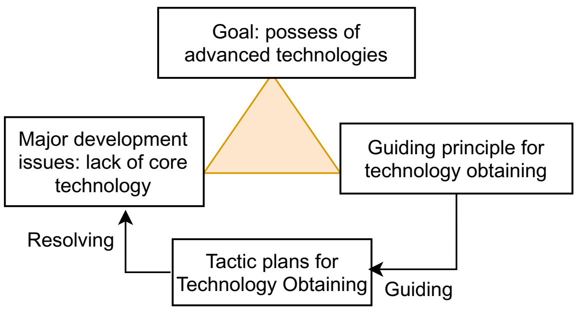


Fig. 6.11 Three Elements of Acquisition for Obtaining of Technologies

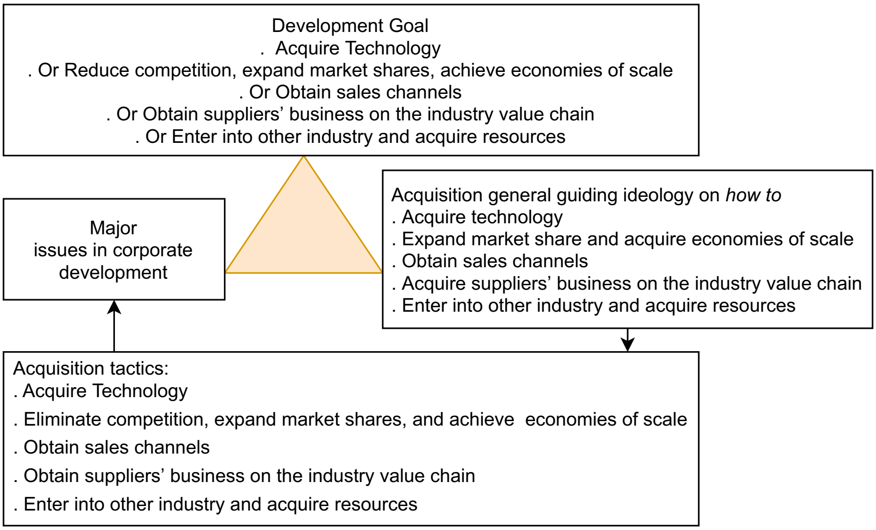


Fig. 6.12 Three Elements of Acquisition Strategy (completed)

successful in overseas mergers and acquisitions. ……. Only 13% are in a profitable State".

One of the reasons that many acquisition strategies failed is very likely due to their decision-makers did not fully understand the gravity of the guiding principles of the Three Elements and turned their action into a blind hunt. It is fallacious to believe acquisition strategy alone enables a company to fulfil its goal of acquisition.

(4) **Diversification strategy**

Diversification strategy is an operation action in businesses of two or more different products or services. It is relative to another term specialized operation and can be classified into related diversification and unrelated diversification.

Related diversification is a process that adds new products and services related to the original business, or adds activities supplementary or complementary and supportive to the main business, or when there are competitively valuable relationships among the activities comprising their respective value chains. The motivations for related diversification are various. High price of suppliers' products and high profitability of suppliers' industry are the main motivations for companies to enter the suppliers' industry.

Unrelated diversification is a process that adds new products and services, which are not related to the original business, or entering into an industry that is not related with the company's business. The motivations for Unrelated Diversification are mainly: (1) The recession of main business urges the company to open up new market; (2) Targeted industry is rapidly growing and lucrative that appeals to the company; (3) The company has surplus funds and human resources that need to be profitable when main businesses have no potential for growth. Of course, all the Diversification Strategies have bearing with senior decision-makers, who may decide to enter one industry they are optimistic about.

The related diversification of adding businesses associated with the suppliers in the industry is also known as Backward Integration. Other than by undertaking independent R&D in the case of Geely Automobile, many companies achieve Backward Integration and Diversification by acquisition business from market.

You may probably have noticed the phenomenon that a diversification strategy can have more than one name. What then exactly is the strategy when it takes several names? What are the three elements of those strategies?

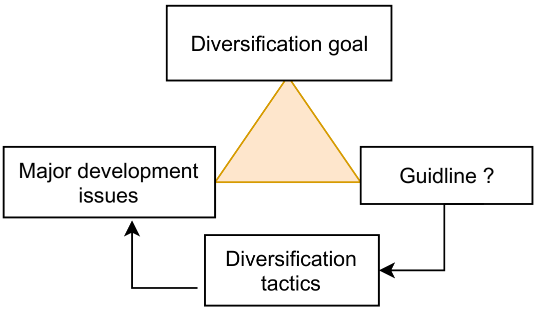
We can find that indeed diversification (entry into supply, sales, unrelated businesses, etc.) is a goal companies wish to achieve. A single element of "goal" cannot make a strategy. The element at the bottom right of the triangle is unknown. From this point, Diversification Strategy in its name reference does not reveal its guiding principles and pathway to accomplishment, which accounts for many failed diversification attempts.

The goal of diversification concerns with an organization's future development direction, is delicate, and has to be the result of scrupulous observation and analysis of the company and the industry. Then what does the question mark in Fig. 6.13 represents?

Let us look at Related Diversification. Generally, the senior management knows the major problems in corporate development, as LI Shufu knew engines are vital in automobile industry and his company could not manufacture them.

We have known a strategy has to make decisions on three questions, to two of which Related Diversification has answered. The two questions answered concern with the goal and development. However, decisions must be made on the bottom right of the strategy triangle—general guiding ideology about *choice* and about *how to* obtain a business. There are three approaches that a company may obtain a business: to purchase, to buy shares of, to start its own. Decision-makers need to supplement the decision and the tactic plans after the decision is made, or in the

Fig. 6.13 Diversification Strategy (incomplete)



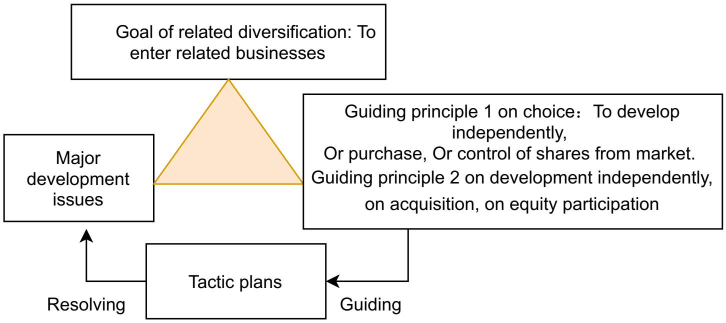


Fig. 6.14 Three Elements of Related Diversification Strategy

sense of strategy and tactic by providing guiding principles (see principle 1 and principle 2 in below figure). The principles will steer the design and selection of specific tactic plans. Figure 6.14 shows the elements of Related Diversification.

Now we move on to Unrelated Diversification.

If, out of some reason, the senior management of a company has made the decision to enter unrelated business. The goal is defined, here again; the name of this strategy, for its own does not entail any guiding ideologies or principles.

Even when executives have made the decision to enter into a business that is not related with company's main business (Unrelated Diversification), it still requires decisions on following questions:

- What industry to enter?
- How to enter the industry (by purchasing? by holding shares? by starting new businesses)?
- What kind of company to purchase or hold shares of ?

Those questions need to be addressed in order to provide general guidelines for tactic plans of unrelated diversification strategy, hence there are three guiding principles on the bottom right of the triangle. (Fig. 6.15).

Unrelated diversification is rather complicated as it requires making additional decision on what industry to enter, which makes even more complicated comparing with strategic decision of related diversification. Any mistakes in the decisions for questions located at the bottom right of the strategy triangle will account for the error of this strategy. This may explains why this strategy accounts for more failures comparing with others.

The decision on *what industry to enter* (Guiding Principle 1) is crucial. The choice of errors will lead to the failure of the whole strategy. Professor Chris Zook (2007) proposed in his paper *Finding Your Next Core Business* published on *Harvard Business Review* in 2007, that if the core of your business is nearing depletion, to venture dramatically away from it is more likely to a failure of an

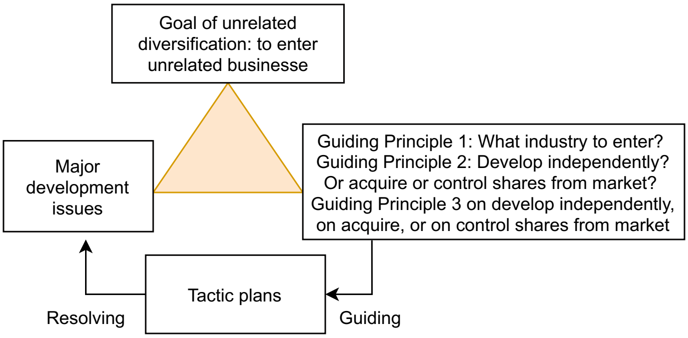


Fig. 6.15 Three Elements of Unrelated Diversification strategy

organization' new strategic. He thinks three hidden assets can be the centerpiece of the developmental strategy.

- Undervalued business platform (new business can be developed based on this platform)
- Untapped insights into customers (take the company's existing customers as the base of business development)
- Unexploited company capabilities.

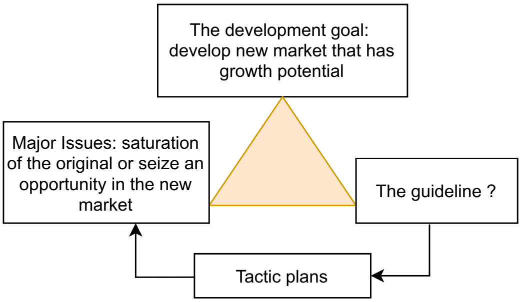
In the viewpoint of resource-based view, new growth could rely on resources or capabilities that a company has. Unrelated diversification is not to venture into new business without recognizing existing resources. Professor Zook proposed the concept of 3 hidden assets that provides his version of "the guiding principle 1" of "what business to enter".

(5) **Market development strategy**

Market development is a growth strategy that identifies and develops new market segments for current products given that perhaps the current market tends to be saturated and the new market has growing potential. Market development is a goal-oriented strategy as a company has set a goal. From the strategy's three elements point of view, goal is on the top of the triangle and key problems is on the bottom left.

However, the name of this strategy itself does not have or imply a guiding ideology, or there is no guiding principle for decisions on where and how in the reference of market development strategy. Hence, the bottom right element of this strategy, the guiding principle of market development is blanked (see figure below). In the sense of strategy, it is incomplete (Fig. 6.16). To make this strategy be

Fig. 6.16 Market Development Strategy (uncompleted)



functional, the senior management needs to make decisions on where and how to develop markets.

In market development strategy, where to go is the paramount concern. Sometimes the answer is out of question like in the 1990s almost all the foreign companies' interest in China's fast-growing economy and market potential. Sometimes it can be tricky like when China's economy starts to slow down and if a company's main business is banking. Where should it go for new market? Senior management needs to have their guiding principles or ideologies on the issue.

Besides, to think about the question of where to go, it is also necessary for decision makers to give a thought on the pattern of ownership—to start a firm with sole proprietorship or a joint venture with a local firm. If it is a joint venture, with which or what kind of company? They are all big choices to make. Strategically speaking, all decisions concerning these questions need to be made out of the general guiding principles. Now a complete version of market development strategy, with which decision makers need to put forward 3 guiding principles, is displayed here in Fig. 6.17.

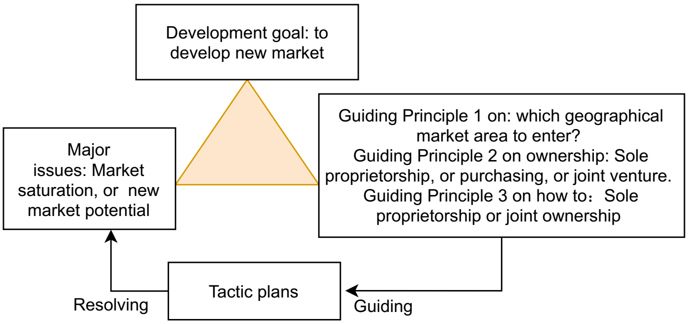


Fig. 6.17 Three Elements of Market Development Strategy

6.5 Strategies and Their Three Elements in Tradition

There were many famous military strategic philosophies in Chinese history, in Sunzi's *The Art of War*, Sun Bin's *Art of War*, Mao Zedong's military ideas, thoughts of all the most sophisticated wisdom.

What is the relationship of strategy in the common sense and the three elements of strategy?

I would like to quote from *Stratagem*, *the Art of War*. "In the practical art of war, the best of all is to take the enemy's country whole and intact; to shatter and destroy it is not so good. So, too, it is better to recapture an army entire than destroy it, to capture a regiment, a detachment or a company entire than to destroy them. Hence to fight and conquer in all your battles is not supreme excellence; supreme excellence consists in breaking the enemy's resistance without fighting."

Many wars in ancient times, even in victory, would devour a country's wealth and human resources, plunging people into the abyss of misery and destitution, costing lives of many excellent soldiers and generals. Victory without fighting is without question a blessing of people and country. The ideology put forward by Sun Tzu's *art of war* is an important thought of war. From the perspective of three elements of strategy, the goal is of course, victory of war, and the strategic issue that has to be dealt with should be "War brings losses and suffering to the people and the army." There arises the idea of "victory without fighting", a profound philosophy. (Fig. 6.18).

In the early days of the Communist revolution, Chairman Mao and other revolutionists, who have struggled for years with enemies and gained experience against stronger enemies, put forward the policy of "Sixteen Words" that defeated the enemy. The essence of the policy was to deploy military forces flexibly, to foster strengths and circumvent weaknesses, to preserve strength and to eliminate enemy forces in guerrilla warfare. It plays a vital role in changing the balance of military strength and is the guiding principle in the strategic triangle.

We can see in military practices, some strategic guidelines show up spontaneously in the names of "guidelines", "general policy", aiming to cope with big issue and serve the purpose of victory.

Therefore, in fact, those military "strategies", as often mentioned in traditions, refer to the general guiding principle or ideology at the bottom right of the triangle of three elements of strategy.

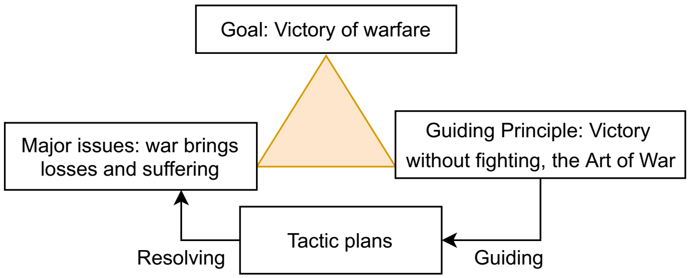


Fig. 6.18 Sunzi's Military Philosophy of "victory without fighting"

Moreover, are traditional strategies in their content, the guiding principle of the three elements of strategy? Porter's four competitive strategies for SBU (cost leadership, diversification, etc.), Bowman's strategic clock model are theories on how to compete and appeal to customers. For example, Cost leadership aims to provide products and services for mainly price-sensitive customers with low price; Diversification strategy argues about distinguishing own products and services from competitors' in order to win the favor of targeted customers. So similar to the situation of military strategy, they shall also lie at the bottom right of the triangle of the three elements of strategy.

In contrast, traditional corporate strategies such as acquisition, diversification, forward integration and backward integration etc. in the sense of their names, do not possess much philosophical thinking and thus cannot to be applied as the guiding principle in specific conditions. In the content reflected in their names, corporate strategies are basically expected goals. For example, "forward integration" refers to enter into brand, channels and sales; "backward integration" shows to entry to supplier's business; and "diversification" represents getting into related or unrelated business. So, many traditional strategies at corporate level, in the sense of names, they are the "goal" element in the three element of strategy.

6.6 Concluding Remarks

We have introduced three elements of many strategies. Competitive strategies for SBU have guiding principles in their content while certain corporate strategies do not. To make corporate strategies bear property of STRATEGY, general guiding principles or ideologies must be generated or developed based on practical conditions to provide guidance for formulating tactic plans in the next step.

Strategies, rather than tactics, are more of philosophies, a product of intellectual mind. Blaise Pascal, an extraordinary mathematician, physicist and philosopher in the seventeenth century, once noted *Thought makes the whole dignity of man*. A good guiding principle will elevate the wisdom of a company strategy.

It is worth noting that a strategy consisting three elements is a complete one, but not necessarily a good one. Right decisions need to be made on all three elements. Though we have assigned a seat for philosophy, guiding principles and ideologies for the bottom right element of strategy triangle, their existence is so ubiquitous in the framework that a strategic goal has to be out of philosophical thoughts. Strategies are distinguished from tactics with their philosophical nature and shall not live up to their names if devoid of strategical thoughts.

It is no easy task for senior decision-makers to set up company's long-term goal and to identify major development issue. It even require enough wisdom and profound understandings to find strategic solutions (general guiding ideologies and tactic plans) to important development issue. Strategies, as decisions made by senior management is mirroring their makers' mentalities.

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7 Strategic Decision Biases and Decision Making Principles

A complete strategy is not necessarily a good one.

7.1 A Model of Four Strategic Decision Types

As is known to all, a car with "four wheels and an engine which drives people from one place to another" is an intact car, however, this kind of car might not be attracted to the car buyers for its color, or design, or incomplete functions. An intact car as it is, there might be dead stock. Similarly, a strategy with three basic elements is a complete strategy, but it does not make it a perfect one, for there might be some flaws (actually the flaws are inevitable). In other words, a complete strategy is not necessarily a high quality strategy.

Strategic decision is about the integration decisions of three aspects[1] (the three elements of strategy) that concerns organization's future development. Decision makers need to be familiar with the internal and external situations of the company. It is necessary to accurately predict the development trend of the industry, be familiar with competitors' competitive strategies, and know well with the company's own advantages and disadvantages. The decision-maker's understanding and judgment on the organizational internal resources, competitive capabilities and industry external environment have a great influence on the quality of the strategic decisions.

[1]The three aspects are: (1) Where is the company going (long-term goal)? (2) What key hurdles will the company be facing in realizing the long-term goal? (3) What will be the basic or general guiding ideology in solving the key blocks?

X.B. Yu, *The Fundamental Elements of Strategy*, Management for Professionals,
https://doi.org/10.1007/978-981-33-4713-7_7

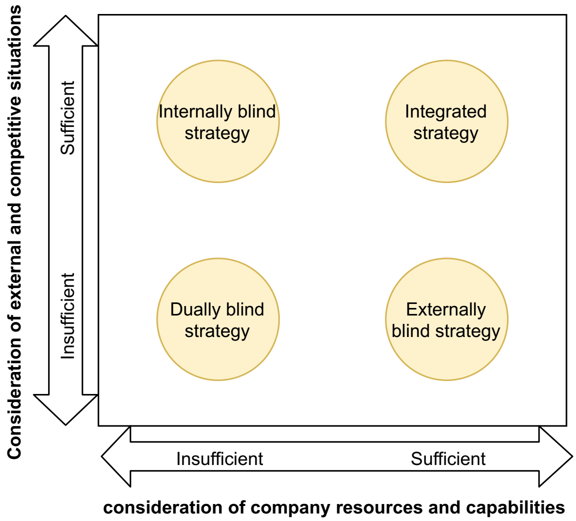

Fig. 7.1 Four Strategic Decision Types

When the judgment of company's own strengths and weaknesses is wrong, strategic decisions will be wrong. Strategic decisions also go wrong when decision makers misjudge the external environment or the strength of their competitors.

Biases in judgment will lead to strategic mistake. According to whether the decision-makers have adequate consideration on the internal and external situations, corporate resource and capability, strategic decisions can be divided into four types (see Fig. 7.1) which are integrated strategy, internally blind strategy (or externally biased), externally blind strategy (or internally biased) and dually blind strategy.

Let us have a look at some cases of the four strategic decisions.

7.2 Dually Blind Strategy

(1) Leftist-inclined decision of Wang Ming

In January 1931, with support from the Communist International representatives, Wang Ming was made the leadership of the CPC Central Committee. Wang Ming wrongly estimated the force of the Red Army at that time (or ignored the fact that the Red Army was relatively weak) and made wrong judgment about the revolutionary nature, the situation and class relations.

In October 1931, Wang Ming left China to serve as head of the Chinese communist party's delegation to the communist international in Moscow, the Soviet union. Wang Ming remotely conducted the interim central committee of the communist party of China headed by Bogu. In January 1933, Bogu and other officials took direct command of the work of the red army and the base areas, and fully implemented Wang Ming's erroneous “left” policy in military strategy, agrarian revolution, and base area construction. In January 1934, the fifth plenary session of the sixth central committee of the communist party of China (CPC) over exaggerated the great situation of the Chinese revolution despite the objective facts. Because of the cognitive errors in strategic “problems” which led to the military guiding ideologies of emphasizing “formalization”, “regular warfare”, “all-out attack” and attempting to confront the Chinese Nationlist Party or Kuo Min Tang (hereinafter referred to as KMT) from the front. The “left” error and adventurism led directly to the failure of the fifth counter-” encirclement and suppression “in the Soviet area and the forced withdrawal of the main force of the red army from the Soviet area for strategic transfer. It caused serious damage to the CPC and the revolutionary cause. In October 1934, the main forces of the red army began the Long March.

In this example, the decision-maker (Wang Ming) was biased in cognition on “major development issues” (decision on the element at the bottom left of the strategy triangle). That is, he perceived the “against a stronger enemy” situation to “against a weaker enemy” and made mistakes, which naturally leaded to the wrong “overall guidelines” (decision on the element at the bottom right of the strategy triangle). Wang Ming's judgment on the situation has gone biased, so no matter it is against the enemy or for the Red Army, his strategic decision was not correct.

In the example of Wang Ming’s leftist-inclined route, he made mistakes in judging the military strength between the Red Amy and KMT. As for the reasons behind the mistake, the problem lies in himself. Wang Ming had always regarded himself as “100% Bolshevik”. Without knowing the actual situation of the Red Amy forces and lack of integrated analysis capability, he failed to realistically look at the specific conditions but only blindly copied Marxism and tried to lead Chinese revolution practice with the experience of Soviet Russia’s “October Revolution”. In 1927, Mao Zedong pointed out the situation in his book ***On Practice*** that “We oppose the empty-talk of leftism, for ‘their thinking goes beyond a certain development stage. Some takes illusions for truth, while some only force the ideal to be realized in the future on present, far away from practices of the majority at present, far away from practicality, and showed an act of adventurism”.

(2) **Possible causes for the dually blind strategy**

If the decision-makers are not familiar with situation of the organization’s internal resource and capability, they will not have reliable decision information to identify the key strategic issue or problems (decision on the element at the bottom left of the strategy triangle). They are thus incapable of choosing appropriate guiding ideology (decision on the element at the bottom right of the strategy triangle) for solving the key-problem, which will lead to incorrect strategic decision.

In the case of Wang Ming’s leftist-inclined route, he not only lacks knowledge in the nature of Chinese revolution, but also does not know well of the reality of different strength between Red Army and KMT military. This led to his misjudgment (incorrect decision on the element at the bottom left of the strategy triangle) and blind copy of Marxism and Leninism, and inadaptability of military strategy (wrong decision on the element at the bottom right of the strategy triangle) in Chinese revolution practice, making it a dually blind strategy.

In the business situations, dually blind strategy generally appears in the following situations:

- Corporate executives who are not familiar with the real situations both of the company and of external environments, or pay not much attention on the company or industry. They are thus lacking of important information in decision-making.
- The cognitive ability of decision makers is insufficient which, will result in making incorrect decisions even with rich information.

7.3 The Externally Blind Strategy

(1) **Microsoft's attitude towards piracy**

In 1992, Microsoft entered the Chinese market but encountered a serious problem that blocked the development of the company (the element at the bottom left of the strategy triangle), i.e. market piracy. Although the market demand was high on software then and customers were buying and using Windows software, Microsoft did not have any income because of piracy. Notwithstanding the serious development issues in the Chinese market, Microsoft did not intend to withdraw from China but wish to stay in China for future development (goal).

We can see that Microsoft needs a strategy to solve the key problems in the Chinese market, a problem-oriented one. From past experience in the United States and other western countries, Microsoft started to sue piracy (original decision on the element at the bottom right of the strategy triangle) in the Chinese market only to get little effect, leading to merely any profit in China in nearly more than ten years.

In the 1990s, Chinese ordinary folks cannot afford Windows software without several months or even one year of salaries according to the pricing then, which means the pricing in the Chinese market is too high for local consumers. Besides, in the beginning of the 1990s, China just entered into market economy with everything to be rebuilt in systems and state laws (including intellectual property protection) to be perfected. As a result, the way of prosecution will take no effect it deserves.

In 2001, senior managers from Microsoft started to realize that the usual ways (or measures) of solving major issues were doomed to fail in China. So they changed their mind and cut down prices of the software products. For example, Microsoft Office's price was depreciated to only 3 dollars in 2007 for students. At the same time, close relations with Chinese government were built up for Chinese corporations and government to use copyrighted software (decisions on the element at the bottom right of the strategy triangle), which in turn encouraged other companies to do the same.

Looking back at the strategy took by Microsoft, the first guiding solution for resolving strategy problem (through prosecution) was not based on a proper analysis and understanding of the external environment in China then, which led to mismatching in "guiding policy" with the given Chinese landscape on the issue of piracy problem.

For senior managers of Microsoft who did not have a clear vision of China's reality, they had only copied the western model of resorting to lawsuit for piracy problems in Chinese and did not make a thorough analysis on the deep reasons behind the problems. In 1990s, China was still in the process of transiting from planned economy to market economy with incomplete market policy and legal environment while the western countries had already toughened up through the market economy for half a century with more mature legal environment and higher income among the common people. In the beginning of 1990s, a college professor could earn only 7,000 RMB per year while an American reached 120,000 RMB. The senior managers of Microsoft disregarded the specific conditions of the new Chinese market and adopted a doctrine way to carry out western business practices in China. It took them 10 years to realize the huge difference in the economic and legal conditions between China and western countries. After that they started to change attitude and the overall guiding ideologies and tactic plans for the strategic problem in the Chinese market without changing the strategic goal.

(2) **Defeat in digital camera business of Kodak**

As we know, traditional film cameras are not able to produce images right after shooting and users cannot see the photo before the film was sent to the film-developing store. While pictures cannot be checked timely and deleted selectively on film cameras, the digital ones have showed convenience with real-time selection. Therefore, digital camera is better than the traditional film ones whether in terms of functions or convenience for users. We can safely say that since the invention of digital cameras, it is only a matter of time for it to replace the traditional film ones.

The digital camera was invented by former Kodak employee Steve Sasson in 1975 after the company invested billions of dollars in developing the technology. Although a 1.3 megapixels digital camera was developed in 1991, Kodak was still focusing its core business on the film business area (took by senior managers in Kodak). For fear of *impact from the digital business on its traditional core film business (*the element at the bottom left of the strategy triangle), Kodak did not expand its business in digital camera and lost developing opportunities (decision on the element at the bottom right of the strategy triangle). Early in 2003, sales on films began to shrinking with profit dropped from 14.3 billion in 2000 to 4.18 billion dollars, and in seven years from 2005 to 2011, Kodak was in the black for only one year with share price jumped from $80 per share in February, 1999 to $0.78 per share.[2] So for saving operational cost, Kodak started to downsize employees from 86,000 staffs in 1998 to less than 20,000 in 2010.[3]

As we can see, with its core resources and capabilities in films (technology, production and sales) against the industrial trend of digital camera unfortunately, Kodak's development direction was not adaptable to digital camera business development. Even though senior managers of Kodak had foreseen the industrial trend, they still chose to bias towards their strategic decision to the internal resources and capabilities nevertheless (or to protect its own resources and capabilities mismatching with the external industrial development situation).

When talking about the failure of Kodak, the inventor of digital camera in 2008 said to *New York Times*,[4] "senior managers of Kodak hold the digital camera prototype with only 0.01 megapixels and said, 'this gadget is lovely but don't tell anyone about it.' I think the time point is very important, because this example exposed Kodak's corporate culture thoroughly: Senior managers are not short of excellent engineers and technologies, but the eager for innovation".

Founded in 1880, Kodak was always the technology pioneer and trailblazer in the field of imaging and boasted of a long-term monopoly position in film business which brought a steady flow of revenues and profits. In 1976, Kodak made up 90% of sales in films and 85% in cameras in the American market. In 1996, Kodak's sales revenue was closed to 16 billion US dollars and its annual net profit reached 2.5 billion[5] in 1999. Kodak's senior managers were quite content with their accomplishments and monopoly in traditional film business but disregarded the industrial change and transition speed as they were afraid of losing the dominance in the film business. Kodak once thought that the middle class of China would buy a large amount of films which turned out to last for a very short time after people found out that the digital cameras are more attractive.[6]

Kodak had monopolized the film business for nearly a century for the digital image product is not as profitable as film business, which led to its reluctance in entering the digital age faster and misjudged the huge market potential for digital cameras, thus losing the opportunity for corporate transition and transformation with new products.

(3) **Possible causes of the externally blind strategy**

If the strategic decisions are biased towards the company's own resources and capabilities while neglecting the external environment situations, the strategic decision will be biased inwardly or become externally blind strategy.

[2]Cohan, P. (2011, Oct 2). How did success smother photography magnate, https://www.forbes.com/sites/petercohan/2011/10/01/how-success-killed-eastman-kodak/.
[3]Qiao, Jihong. (2011, October 2). The decline of Kodak leads to bankruptcy, and the share price plummeted by more than half. https://finance.huanqiu.com/article/9CaKrnJsClD.
[4]https://www.nytimes.com/2008/05/02/technology/02kodak.html?pagewanted=all.
[5]Anonymous. (2012, Feb 22). Legend fallen—Last moment of Eastman Kodak.
[6]Digital technology is developing rapidly, and now, mobile phone camera has replaced the digital camera with complete function.

In Microsoft's case, strategic decisions followed the company's usual practice because it lacked sufficient knowledge of the Chinese customer, market, and environment. Decisions are made from the perspective of protecting oneself only, regardless of the purchasing power of the market and the characteristics of the environment. In Kodak's case, the company predicted the impact of its own new technology on the company's main business. The basic idea of the company's decision was to protect its own original resources and capabilities. It did not predict that other companies would soon master the new technology.

Externally blind strategy generally arises in the following situations:

- Corporate executives are not so familiar with the external environment (industrial development trend, industrial competitive situation, national industrial information, etc.), without which, they cannot make matching strategies according to the external environment. The lacking of information was sometimes owing to the neglect of work, to subordinates not reporting the actual situation, or to the insensitivity of the external environment due to the subjective reasons of the decision-makers such as the values, personal preferences, etc. Like in the 1990s, IBM was always proud of its own technology, taking its own understanding of technology as the demand for the market. It did not link the technology with the real market demand and made attractive products for consumers. This kind of strategy isolated from the market demand and technology boasting is internally biased.
- Corporate executives have full understanding of the internal and external information and are able to judge the influencing external factors on the future development of the company. However, decision-making is not able to judge the influence in an objective perspective, possibly due to the impact by their habits, ways of thinking. It thus leads to a strategic decision biased towards over-protection of the original corporate resources like the example with Kodak.

7.4 The Internally Blind Strategy

(1) **BenQ bought mobile business from Siemens**

In 2005, Siemens mobile phone business was bordering on bankruptcy and BenQ was just hoping to buy this kind of business (decision on the element at the bottom right of the strategy triangle) and develop its own mobile business by acquiring Siemen's technology and brand, thereby becoming the world's fourth largest mobile manufacturer (strategic goal). At that time, the deal was seen as quite a bargain from the outside world, for BenQ did not pay a cent while Siemens reimbursed (subsidized) 250 million euros to BenQ.

However, the real situation is that Siemens mobile phone business was losing €1.2 million daily (€400 million annually). So BenQ prepared €800 million planning to absorb the losses from the acquisition of Siemens mobile phone business. But one year later it came to BenQ that the chances to turn Siemens mobile phone business into a profitable business are slime added with increasing losses and pressure from other shareholders. As a result, BenQ had to announce no more financing on its German subsidiary BenQ Mobile and applied for bankruptcy protection. In the end, BenQ had spent up all €800 million of the loss reserve and ended up with 40% drop in market value.

From this case, we can see that BenQ decided to buy Siemens mobile phone business for it saw the external opportunity: the technology, management system and culture of Siemens. However, whether or not this opportunity could become that of BenQ's is very much depended on BenQ's own resources and capabilities as well as the mobile phone industrial trend in Europe.

Let us look at BenQ's resource and capability on the mobile phone business then. In May 2005, BenQ just got the license plate to manufacture mobile phones. However, it was an OEM manufacture for other brands. It was lack of mature experience in marketing, promotion and brand management. In addition, BenQ did not have experience in acquisitions and cross-cultural management, not to mention that the traditional mobile phone business was already in a mature development stage in Europe. Hence, no matter in the company's capabilities or in the external environment of European mobile phone industry, BenQ did not have the ability to turn Siemens mobile phone business into a profitable one.

Believing in its ability of reversing the loss of Siemens, BenQ spent 250 million euros given by Siemens and then invested 840 million after it took over Siemens mobile phone business, but to no avail,[7,8] and end up in bankruptcy. In this case, we can see that BenQ's focus of strategic decision was biased to opportunities from the external industry and neglected the company's own weakness in this field.

(2) **Possible causes of the internally blind strategy**

If the decision-makers put too much weight on the external opportunities and misjudged the company's ability to seize the opportunity, their strategic decision will be internally blind (or biased externally). BenQ's acquisition of Siemens mobile phone business is an example of this regards. Some will say that in BenQ's case, the deal went into failure only after the acquisition in the follow-up or post-acquisition management process. Please be noted that the things went wrong in the integrating process implied that BenQ did not having the sufficient ability to make up the deficit and transform Siemens mobile phone business into a profitable one. In addition, Apple's first smartphone was released in 2008, just three years after the year when BenQ brought the traditional cellphone business from Siemens.

[7]Anonymous. (2006, Oct 10). Cutting one's own wrist—BenQ give up Siemens after 840 million losses, ZOL.

[8]Anonymous. (2006, Oct 12). BenQ and Siemens—"Break up in October", IT export Network.

The top management of BenQ did not foresee the development of new mobile phone technology. It bought a traditional handset business from Siemens. What looks like an outside opportunity is actually a threat.

The internally blind strategy usually turns up in the following situation:

- The decision-maker hoped to realize a high strategic goal by virtue of the external opportunity but misjudged on the company's ability of seizing the external opportunity.
- The decision-maker hoped to realize a strategic goal by virtue of the external opportunity but misjudged on the external opportunity due to incorrect judgment on industry development trend or the external situations.

7.5 Integrated Strategy

(1) Huawei's strategic decisions on its mobile phone business

Huawei Technology Co., Ltd. (hereinafter referred to as "Huawei"), founded in 1987, is a technology company that produces and sells telecommunication equipment. Its business covers mobile, broadband, optical network, telecommunication value-added services, and terminals. Huawei mobile phone is one of the three core businesses of the company. In 2019, Huawei's mobile phone sales volume reached 241 million, ranking the second in the world (Anonymous 2020). In the first three quarters of the same year, the sales revenue of this business reached 610.8 billion yuan, an increase of 24.4% year-on-year (Reference News 2019). Huawei's mobile phone business department was founded in 2003. Initially, it was a B2B business that had no own brand. It processed and produced products on behalf of telecommunication operators, or OEM business. We know that OEM profit is low. Huawei's mobile phone business has leaped to the second position in the world from OEM manufacturing to today's independent brand sales. Three major strategic decisions have set the direction for Huawei's mobile phone business in its development course.

The first strategic decision is a forward integration decision. The company decided to transform the B2B business into B2C business, create its own brand and enter into the terminal business. That was at the end of 2010, Ren Zhengfei, the leader of Huawei, organized a senior management symposium, repositioning Huawei's mobile phone business. Huawei's mobile phone would enter into a time of having own independent brand and priority would no longer be placed to OEM. It proposed that the company should study consumer psychology, act according to the laws of consumer goods, and make product planning. Mr. Ren reminded Huawei's senior executives to accurately identify themselves and do a good job in the phased target positioning. At the same time, the company should significantly increase the investment in R&D, brand channel and surpass competitors in the budget (Li and Li 2018).

The second strategic decision is an adjustment of competitive strategic positioning. When Huawei's mobile phone was separated into an independent business unit, Yu chengdong, the former head of CMO, 3G and European division, served as the chairman of Huawei's terminal business. Based on his overseas experience, Yu chengdong adjusted Huawei's mobile phone competition strategy, proposed a "high-quality route", and comprehensively transformed from low end into medium and high-end products. The company conducted a lot of interviews on the target consumers and investigations including CPU, core number, memory, screen material, etc. In 2013, it finally launched the Mate mobile phone with a price of 2688 yuan, which was a success.

The third strategic decision is a backward integration into the chip industry, where products are important components. Chips are the most important part of the handset chain and the most expensive part. Among chip manufacturers, only Qualcomm produces the chips needed for high-end smartphones. The monopoly of high-end chips, no matter in terms of chip quality, price and delivery date, seriously restricted Huawei to core components in the supply chain. In order to extricate away from this situation, in October 2004, Huawei separated its ASIC design center and set up Hisilicon Semiconductor Co., Ltd., specializing in the research and development of chips needed for Huawei's products. In order to support the development of Hisilicon, Ren Zhengfei gave Hisilicon great supports in human, financial resources and other policies. From 2012 to 2014, all Huawei mobile phones were equipped with Hisilicon K3V2 chips. From 2013 to 2015, Hisilicon successively launched Kirin910, Kirin920, Kirin 925, and Kirin950 chips. In 2015, the Kirin950 chip achieved number one in its comprehensive performance, which marked the maturity of Huawei's independently developed chip technology.

Let's take a look at these strategic decisions. In December 1999, the first smartphone was launched in China by Motorola. In 2010, Huawei immediately decided to creat its own brand. At that time, the smartphone industry was still in its early stage of development. There was more than 5 billion population in the world. As a personal communication product, the potential demand for mobile phones would be huge. Therefore, Huawei's decision accurately predicted the development needs of the industry. Huawei had been doing mobile phone OEM for seven years before 2010, so the company had the experience, ability, and technology to manufacture and produce mobile phones. The only thing it lacked was sales channel. The company has experienced some setbacks in this aspect. However, based on its advantages in IT, the company established its own platform for sales and achieved success in combination with other channels.

In 2013, the per capita annual disposable income of urban residents in China was 18,311 RMB (around US$ 2577), and that of rural residents was 7907 yuan (Zhu 2014). Huawei's Mate mobile phone priced at 2,688 RMB (around US$ 378) was undoubtedly a high-end product in the market at that time. Unlike Xiaomi, Huawei made a boutique strategy (differentiated competition strategy). Judging from Huawei's achievements today, it is successful. How about the decision at that time?

First of all, Apple had been in the Chinese market for many years, and its high-priced mobile phones were selling well, which showed an example of the popularity of high-end mobile phones in the market. Second, China's economy was developing rapidly. During 2000–2010, the average annual growth rate of GDP reached 10%, which was far higher than that of other countries in the world. China had a large population. With the improvement of living standards, the demand for high-quality mobile phones would be growth.

We know that the R&D of mobile phone chips is costly, risky and pays off slowly. It was undoubtedly a major decision for Huawei to enter into the chip industry. Judging from the industry environment at that time, it was a right decision for breaking away from the shackle of suppliers, but could Huawei's own strength, including technology, capital, and manpower, support this decision at that time? Let's take a look at the situations of Huawei. As an information and communication technology company, Huawei had always attached great importance to R&D and insisted on spending more than 10% of its sales revenue on research and development every year. In 2011, Huawei invested 23.7 billion RMB (around US$ 3.34 billion) in R&D, accounting for 11.6% of the annual sales revenue. Over the past decade before 2011, Huawei had invested more than 15 billion US dollars in R&D. In 2011, Huawei applied for 36,344 Chinese patents, 10,650 international PCTS and 10,978 foreign patents. Among the 23,522 obtained patent licenses, over 90% were invention patents. As of the end of 2011, over 62,000 R&D personnel (44% of the company's total employment) were working on products and solutions. The company had 23 research institutes in Germany, Sweden, United Kingdom, France, Italy, Russia, India and China (Jiang 2012). This investment and strength in R&D, even today, is strong. Therefore, the strategic decision to enter the mobile phone chip industry was fully based on the evaluation of the company's own ability. Despite a decade of trial and error, Huawei's efforts in the chip field have paid off.

Therefore, the three strategic decisions on the mobile phone business of Huawei are all made on the basis of correct prediction of the industry, the correct evaluation of external environment and the correct understanding of the company's own strength. They are unbiased, which showed the wisdom and insights of Huawei's decision-makers.

(2) **Possible causes of the integrated strategy**

A strategic decision, which takes both the real situations of the internal resources, capabilities and the external environment into full consideration, is an integrated strategy. The decision is neither biased internally nor externally, but valuated objectively on the internal resources, capabilities and external environment conditions.

The integrated strategy requires the decision-makers (or the decision-making team) to fully understand the core advantages and disadvantages of the company's business and key opportunities and threats from external environment. They are able to make integrated analysis with full consideration of the external environment, corporate resources and capabilities.

The integrated strategy usually appears in the following situation:

- Decision makers are familiar with the internal situation of the company, especially the key information of the development of the company.
- Decision makers understand the industry and the information that affects the development of the industry, and have a clear grasp of the future development of the industry.
- Decision makers are diligent and have good judgment.

7.6 Key Principles in Strategic Decisions

In the 1990s, the development research center of the state council, China's cabinet, and other departments jointly launched the "survey of Chinese entrepreneurs˵. According to the survey, 46.3% of entrepreneurs believe that the most common problem in business operation is "decision-making error", which ranks number 1 among several problems (China Entrepreneur Survey System 1997a). Among the 15 abilities that entrepreneurs need to improve, "decision-making ability" ranks first, accounting for 47.7% (China Entrepreneur Survey System 1997b). Between 1993 and 1997, China's per capita GDP grew at an average rate of 11.42%. At that time, the economy was on the rise, business opportunities outnumber threats. Decision-making was relatively easy. However, even at this time, managers still think that decision-making error is the most common mistake. We can imagine, during periods of slow economic growth, strategic decision-making would be more difficult.

According to Haohui Xiao (1995), there are two types of decision-making, one is routine decision-making, which accounts for 80% of the total decision-making. Routine decision-making is a repetitive decision-making based on a large amount of daily data, with few random factors affecting the decision-making. Its importance is 20%. The other is non-procedural decision making, which is usually non-repetitive and is influenced by random factors. Strategic decisions are non-routine decisions. The information and data they rely on are uncertain, and need to be estimated. To make strategic decisions, executives need to familiar with the internal and external situation of the company, accurately predict the future development trend of the industry, and at the same time make integrated decisions on three issues related to the development and fortune of the organization. Hence, it is not easy to make the correct strategic decision. Mistakes and biases in strategic decisions are common.

Strategic decision relates to the survival and development of business organizations. Right decision can make firms advance in the right direction, improve their competitiveness and ability to adapt to the environment, and have good economic benefits. On the contrary, decision-making errors will bring huge losses to firms, and even lead to the bankruptcy of organizations. In strategic decision-making, we can abide by some basic principles, which can help us make rational strategic decisions to avoid mistakes and improve the quality of decisions.

Are there basic principles that can help decision makers avoid or reduce mistakes in strategic decision? What are the principles? Or what basic principles should senior managers follow when making strategic decisions? Some terms appear repeatedly in some strategic definition documents, indicating that these terms are important for strategic decision-making. They are likely to be the principle content of strategic decision-making.

In the analysis and collation of strategic literature, I found that some scholars (Hofer and Schedel 1978; Jemison 1981; Katz 1970; Miles and Snow 1978; Mintzberg 1979:p. 25) put “matching of organizational resources and capabilities with external environment” in the definition of strategy. From the perspective of strategic decision-making, if the organization’s resources and capabilities are considered in the decision-making to match the external environment, the quality of the strategic decision can be better improved.

In filing the strategy definition literature, I also found out that in some literature, the definition of strategy includes “rational utilization of resources” (Chandler 1962: p. 13; Ronda-Pupo and Guerras-Martin 2011; Harrison 1999).

Going back to our introduction about the definition of an automotive in Wikipedia and Baidu we have mentioned before. When we talk about definitions, the topic only needs a concept with core connotation, so the definition of a car does not include how to make a good car no matter how important it is, for it is an extension of the definition. Although how to make a good car is important to both car manufacturers and customers, it is the content of the extension of the definition of an automobile. Similarly, terms of “matching organizational resources and capabilities to the external environment”, and “rational utilization of resources” fall into the category of how to make a better strategic decision. They are the scope of the extension of the strategic concept, which can help the decision-maker to avoid mistakes when formulating the strategy. Therefore, in my opinion, the two terms do not fall within the strategic definition, but are important for strategy decision making.

We see that some extension contents about strategy decision-making principles are included by some literature on defining the strategy concept. Although it may seem like an error, it provides the context for our search for the principles of strategic decision-making. These terms, along with the cases presented earlier in this chapter, provide ideas for strategic decision-making principles.

(1) **The matching principle 1—the external matching principle**

One of the key principles to safeguard the quality of strategic decision is matching up the strategic decision with the external environment. The decision should be in line with the requirements of the industry and environment that company’s business is operating in, and be in line with the future development direction of the company’s industry.

The external environment of an organization refers to its social environment, which can be divided into general external environment and specific external environment. The general external environment includes the following factors:

social population, culture, economy, politics, law, technology, resources, etc. These factors of the general external environment, the impact on the organization is indirect, long-term. When the external environment changes dramatically, it will lead to significant changes in organizational development. Specific external environmental factors are mainly for enterprise organizations, including suppliers, customers, competitors, government policies and relevant social groups. These factors of specific external environment have direct and rapid impact on business of an organization.

Strategic management work needs to pay attention to both internally inside the company and externally outside of the company (Priem and Butler 2001). The previous cases show that poor understanding of the external environment can lead to errors in strategic decisions. When the strategic decision does not conform to the real situation of the industry and the environment, the decision violates the principle of conformity with the external environment. There are many examples of strategic missteps, such as the aforementioned Microsoft decision on piracy (unfamiliar to consumers and the local environment) and Kodak's digital camera business failure (underestimating alternatives and competitors).

To make the strategic decision conform to the external environment of the industry the company is in, the decision-maker needs to make a realistic analysis of the overall environment involved in the strategic decision, and should not stick to self-conceit. These include the judgment of the future development direction of the industry, the understanding of industry consumers, the understanding of competitors, and the prediction of the policy in the environment of the industry and so on. Thus, in addition to competitors, in business competition, consideration should also be given to the political and economic situations, technology and culture of the competitive area, which have an impact on consumers in the industry.

Thus, a key principle that can avoid biases and mistakes in strategic decisions is strategy decision has to be in line with the external environment of the organization. See Fig. 7.2.

(2) The matching principle 2—the internal matching principle

Another key principle to safeguard the quality of strategic decision is matching up the strategic decision with the internal resources and capabilities of an organization. That is the decision should be in line with the company real financial strength and its managerial capability.

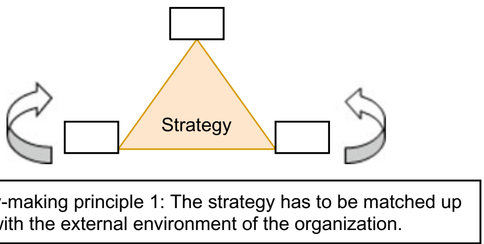

Fig. 7.2 The External Matching Principle

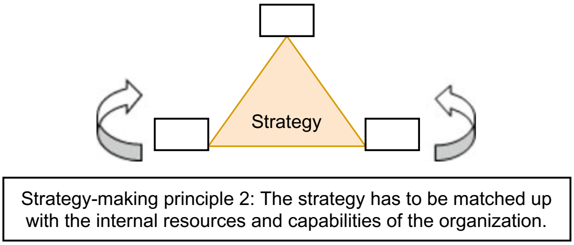

Fig. 7.3 The Internal Matching Principle

Strategic decisions are different from day-to-day management decisions and generally require large amounts of capital. In February 2018, Geely holding group acquired 9.69% of the voting shares of Daimler for 9 billion US dollars, becoming the largest shareholder of the company (Zhang Hong 2018). The investment involved in this decision is huge. The strategic decisions also require investment of human resources and sometimes, new management capabilities. However, generally speaking, resources are limited in every organization, if not allocated rationally, decision risks will be increased. Therefore, considering the rational allocation of limited resources in strategic decisions can improve the quality of decisions. In other words, the strategy matches the company's resources and capabilities, or "living within your means" (Fig. 7.3).

To make the strategic decision conform to the company's ability, it is necessary to estimate the capital investment involved in the implementation of the strategic decision and judge the company's capital and other strength. When the actual required capacity and capital far exceeds what the company has and can pay, problems will occur. There are many strategic failures in this regard, such as the previous BenQ case, the diversification of Chinese giant group in the early 1990s and so on.

(3) **The matching principle 3—the RC-EE matching principle**

The resource-based view (RBV) (Barney 1991, 1995) holds that enterprises possess resources, some of which enable them to obtain competitive advantages. Valuable and scarce resources are important to the creation of competitive advantages.

The accumulation of human wisdom has accelerated the pace of technological development. The emergence of internet, artificial intelligence, aerospace, chip technology, high-speed trains and so on has made it impossible for people a hundred years ago to imagine our life today. The resources and capabilities are the keys to ensure constant market provision of products and services to consumers. Without progress, the resources and capabilities that the company has today may become a burden tomorrow. Strategic management work needs to pay attention to centering on matching up the organizational resources and capabilities with the environment (Bourgeois 1985).

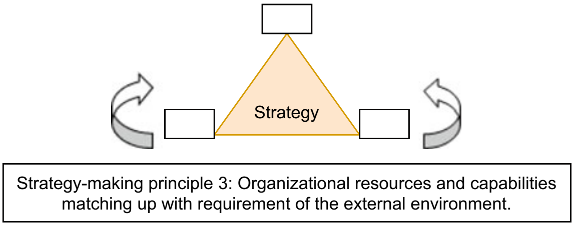

Fig. 7.4 The RC-EE Matching Principle

Therefore, the third principle of strategic decision-making is to matching organizational resources (R) and capabilities (C) in line with the needs of the external (E) environment (E) (Fig. 7.4).

A company's resources and capabilities can ensure that satisfying products and services are continuously provided to consumers when demand changes. If a company can do this, in my opinion, it meets the criteria of "matching organizational resources and capabilities with the external environment". When the environment changes, if an organization cannot change with it, its resources and capabilities will become obsolete. That is to say, when the resources and capabilities of the company do not match the external environment, the company should start to develop the resources and capabilities that are compatible with the external environment, instead of ignoring the changes of the external market and blind protection. Companies need to make decisions, change the status quo, and maintain the company's foundation.

Making strategic decisions in line with the principle of "matching resources and capabilities with the external environment", it requires executives to constantly pay attention to the changes in the environment (including competitors, technological trends, substitutes, consumers, etc.) and to examine and analyze the company's own resources and capabilities.

The word "crisis" is familiar to many of us. Richard Pascal professor of Harvard Business School once said, "There is no sense of crisis, which is the biggest crisis you face." Compliance with strategic decision-making principles requires the company's top management to have a crisis feeling and sense of mission. The rise of the Internet has put many traditional industries at risk of being eliminated. Suning Company in China was originally a traditional electrical appliance sales entity. When it realized the coming of the Internet economy era, the company soon had a huge sense of crisis. It made a strategic decision to transform from a traditional electrical retailer to a combination of traditional sales with Internet sales. It not only succeeded in transformation, but also made achievements that they did not dare to think about. In 2018, Suning Tesco's operating income was 48.84 billion US$, a year-on-year increase of 30.53%. In the context of the overall slowdown in the retail industry, double-digit growth has been achieved for two consecutive years (Stock Market Red Week 2019).

(4) **Specific principles for strategic decision making**

The three principles in strategy-making mentioned above requires the executives to be fully aware of the key internal situations and external information, which is the so-called internal and external analysis. Therefore, the external environment and corporate resources and capabilities should be taken into full account in making a corporate strategy.

In military affairs, the principle of strategy is a set of principles that must be followed in the overall direction of war. For example, on the issues of preserving oneself and eliminating the enemy, concentration and dispersion of forces, focus and sub-focus of operations, persistence and quick decision, and centralized and decentralized command, some general provisions and requirements should be put forward in accordance with the spirit of the strategic principle.

Similar to military affairs, business strategy also needs to be determined according to specific conditions. Therefore, the strategic principles mentioned above are the general principles to be followed in formulating strategies. They are the basic principles. While adhering to these basic principles, a company's strategy also needs to develop its own specific strategic principles. And different strategies shall have different individual principles.

For example, a company wants to acquire advanced technology from the market through acquisition strategy. In addition to following the first three basic principles, strategic decision-making should proceed from the purpose and conform to the principles formulated by the company in technology acquisition. These principles may include: the target size should not be too large, the target entity has leading technology in industry, and the price is acceptable, and so on.

7.7 Other Factors Affecting Strategic Decisions

Strategy is a decision concerning an organization's development on the basis of analysis. We have known from above that the quality of the decision is directly influenced by how well the decision-maker knows about the external environment and the organization's internal resources and capabilities. At the same time, personal value and interest of the decision-maker also affect the quality of the strategic decision.

For example, some companies or organizations will give away short-term interests for long-term ones, some will focus only on short-term profit or performance which applies to the occupant limited time of job tenure who only focuses on short-term goals. In the beginning of the reform and opening up policy, the assessment of a regional official in China was based on Gross Domestic Product resulting in performance-driven GDP at the expense of environmental and resource sustainability.

Besides, if the decision-maker (person or team) who makes the call mixes personal interest or organization internal politics with the decision-making, the quality of the strategic decision will be influenced. Therefore, assessment of the decision-maker is of essential importance to make sure the company standing on the side of overall interests.

There are many ways to make strategic analysis. In a relatively democratic organization, the strategy can be made through collective conference; while in a power centralized company, strategies are made by one person or those in power. Whether the analytical method is appropriate or not also influences the quality of the strategic decisions.

The influencing factors and mechanisms on the quality of the strategic decision are complicated. Chapter 9 will bring up the subject and delve into the question.

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8 Knowing Yourself and Knowing the Others

If the corporate decision-makers know the company's resources and capabilities like their own hands, understand customers' habits and their feelings and also the key information of the industry and competitors, then they know their company and industry; if not, they do not know.

8.1 Introduction

During war times, assuming that you are assigned to be the commander in the army, your first job is to know how many soldiers you have. What are their strengths? Or what skills do they have? How about their fighting capacity and morale? What kind of and how many weapons and equipment do they own? Secondly, you need to know the situation of your enemies, just as well as you know your own army; thirdly, you may need to learn the battle-related information including terrain, even astronomy and other information. Those facts are very significant to you as a commander, because they are relevant to how you will deploy the troops in an actual battle.

There is a famous saying in military in China, "If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle".[1] In the case of a

[1]Sun Zi, Attack by Stratagem, Art of War.

X.B. Yu, *The Fundamental Elements of Strategy*, Management for Professionals,
https://doi.org/10.1007/978-981-33-4713-7_8

commercial war, the purpose of "knowing yourself" is to have a clear understanding of the company resources, including what resources, capabilities, strengths (or competitive advantages), and weaknesses (or competitive disadvantages) you have, whether others in the industry are also good at my strengths. If not, are they easy to be imitated and etc.

For business competition, the enemy in the term of "knowing your enemy" is not all the enemies, it refers to the knowing of external environment. It mainly covers three aspects: first is to understand the competitors, such as their number and strength, etc.; second is to know the industry, including the characteristics of the industry, the stage of its development, the competitive situation, and the development trend; third is to understand the industry's consumers, including their consumption motives, habits, and change of habits and so on.

Early in this book, we have talked that if the decision maker does not understand the nature of the internal and external situations of the company, the strategic decision will be very likely not correct. Knowing only the internal situation of the company, but not familiar with that of the external; or understanding only the external situation, but not having the key information inside the company, under both of the two cases, strategic decisions will be biased. Therefore, on the "knowing yourself", "knowing your competitors" and the correct judgment of the information are the assignments that every strategic decision maker must do before making a decision.

If there is a unified approach to estimate whether a decision maker has achieved the "knowing your competitors" and "knowing yourself" for decision making, the situation of strategic decision bias would be improved a lot. But I found it is rather difficult to answer the questions about if a decision maker has accomplished well of the "knowing your competitors" and "knowing yourself".

In terms of "knowing yourself", it may be hard for us to find the unified systematic tools or methods to help us better understand our organization due to the following reasons.

First of all, every firm is like a person. We know that it is difficult to find two people in the world that are exactly the same. Personalities of twins' could be different. Just as a person, each organization is composed of staff of different characters. Its financial situation, management ability, organizational culture, status in the industry and other conditions are different from others on the market. Therefore, it is perhaps not easy to use a unified approach to measure whether the decision maker of the company makes a correct judgment on the question of "Have I had the correct information of my company".

Second, different industries, such as manufacturing, service, IT, finance, and mineral, bear various characteristics. Judgement of resources and capabilities may have different measurement standards for enterprises in different industries. So perhaps we cannot use some unified approaches to weigh the resources and capabilities of enterprises for various industries.

But we know that, we will have no choice but to judge and answer several questions of "knowing yourself" when making real business strategic decisions. Imagine that you want to lead the troops fighting with the enemy for several years and you do not know your own troops, features and weapons and ammunition. How dangerous it is!

Although it is difficult to estimate whether the decision maker of the firm has made a correct estimation on several issues of "knowing yourself" with a unified approach, it is believed that there are some very basic methods or aspects that can be adopted to judge the "knowing yourself" issue. Just as each individual is different, we can still use some common indicators to measure a person's health, such as blood pressure, heart rate and etc.

I try to introduce the basic concept and put forward some common aspects as much as possible, allowing readers to determine the issue of "knowing your-self". However, we know that each person's physique is different. Some common indicators for each individual will have a different interpretation, for example, a person usual basal blood pressure is low (such as diastolic blood pressure of 60), and when it reaches 84, in spite within the normal range, he or she may have felt uncomfortable. Therefore, it should be noted that a decision maker needs to have a fundamental and comprehensive understanding of their own companies, and use industry-specific methods in order to better judge "knowing your-self" issue.

8.2 Knowing Yourself—To Understand the Company's Resources and Capabilities

Resources are the tangible and intangible assets a firm uses to choose and implement its strategies (Barney, 2001). Resources are the endowments of various elements owned or controlled by an organization (such as capital, finance, manpower, social relations, etc.). For example, there are 50 students in an MBA class. If we give 1 million US dollars to each person and do not use any other resources, the 1 million is each student's capital and financial resources. Each student himself/herself is a kind human resources and the social network he or she owns is their social resources.

Ability is the capability of organization to utilize resources and achieve the desired purpose (Amit and Schoemaker 1993). Let's say, each student is supposed to repay the capital with interest for onetime after 5 years (assuming 5% compound interest per year, a total of 1.276 million US dollars after 5 years). Assuming that each student can use the funds without other constraints, what will happen after five years? How to exploit this capital and make it a better return is the embodiment of each student's capability.

For a company, only when it is capable of turning its capabilities into products and services favored by consumers, and the company is able to control the cost well, it then can have good performance and market achievements.

Above, we mentioned some words such as resources, capabilities, products favored by customers and performance achievements. Resources have several types, including financial, human, social and so on. With only resources are not enough for companies to compete successfully in the market, capabilities are needed to develop products or services that loved by consumers in the market. And with products your consumers are fond of and the ability of cost control, firms then can have good performance and achievement. Figure 8.1 shows the relationship of these key words.

Let's take a look at the detailed meaning of the contents in Fig. 8.1. Because many of the content itself involve a certain discipline such as financial, accounting, financial management, marketing, etc., here I only briefly introduce these aspects from strategic decision making point of view.

(1) Assets and financial resources

Assets are the "resources" owned by a firm at a moment, including cash on hand, deposits in the bank, equipment and factories, etc., which are the "property" of the enterprise.

The enterprise needs to operate and earn profits from these assets. Enterprises may borrow from banks and other institutions, issue bonds to the public, or occupy the resources of suppliers or employees, which are the "liabilities" of enterprises. Net assets are the part of the assets of an enterprise group that exceeds its liabilities, that is, the net value of all assets minus all liabilities.

Net assets represent the property value of the owner (owner or shareholder) of an enterprise group in the enterprise. It includes equity, provident fund (surplus provident fund, capital provident fund), and undistributed profits and so on.

Whether the financial resources of a company are rich enough or not, we can look at the company's own assets and the earnings generated by the assets. Another it depends on the situation that if the company can take advantage of the use of external financial resources.

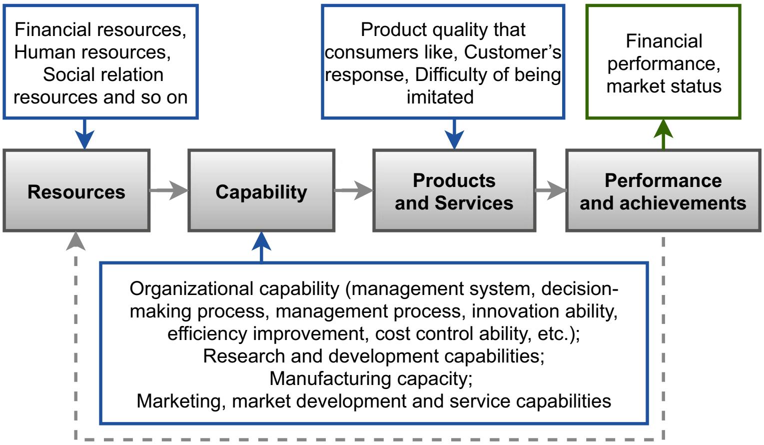

Fig. 8.1 Company Strategic Resources and Capabilities

Table 8.1 Information of Company Assets and Financial Resources

Items of Financial resource analysis	Unit	Remarks
Total assets		
Total liabilities		
Net assets		
Annual profit		
Return on net assets		
Average earnings growth of the last 3 or 5 years	%	
Average profit growth of the last 3 or 5 years	%	
Fund raising is easy (1-totally disagree, 2-not quite agree, 3-moderate, 4-agree, 5-in full agree)		

We can use the above Table 8.1 to briefly summarize the information we would like to know.

(2) Human resources

Human resources refer to the general people or employees in the organization in a certain period of time and their physical strength, the knowledge, the skills that can be employed by the enterprise and contribute to the value creation or the business goal.

One of the tasks of strategy analysis is to understand the basic situation of the company's human resources, such as the total number, gender structure, age structure, educational background structure, category structure, and sub-department structure and so on. Personnel in an organization usually include the following categories: operating personnel, technical personnel, production personnel, and management personnel. The number and allocation of these four types of personnel represent the structure of the internal labor market in the firm.

Large number of employees in an organization do not necessary represent that it has more or better human resources. When there is an excessive number of employees or the skills of the company's staff cannot fulfil the long-term goals, too many staff members can be a redundant. In the strategic transformation period, in general there will be surplus staffs whose capabilities do not fully match well with the company's new goals. Thus in addition to the above basic information, it is necessary to analyze the gap between the existing human resources and the specific human resources required for the achievement of the company's strategic goals. The human resource information and analysis is shown in Table 8.2.

Table 8.2 Human Resources Information and Analysis

Items for Human Resource Analysis	Unit	Remarks
Total number of employees	Person	
Gender structure		
Age structure		
Education structure		
Category structure		
……		
Characteristics description		
Number and structure of personnel requiring training (or redundancy)		
The description of the key personnel required to achieve a strategic goal, gap analysis		

(3) Social relation resources

Relationships are connections or linkages between two or more social "actors" who may be individuals, groups, or larger collectivities (McCall and Simmons 1978). Social relation refers to the relationship and contacts formed by the interaction among individual members or organizations in the society. Managers who have strong social network relationship in an organization, can apply this social relationship working for the interests of the organization (in the case of non-violation of business ethics and law). Therefore, the social relation or network resources of an organization refer to the sum of the social relations that can be applied by the organization and contribute to the organizational goals.

(4) Research and development capabilities

Research and development (R&D) capability refers to the ability of the organization to develop (or digest introduced technology) and provide the market with the products favored by consumers, based on the knowledge of science and technology, the market demand, the organization's human and material resources. R&D investment (capital, personnel, etc.) and R&D management policies have important effect on the R&D output (quantity and quality). R&D capability is the result of investment and accumulation of innovative resources.

In general, we can use the number of R&D personnel and the proportion of expenses accounted for the company's sales to measure its investment and measure its R&D output through the number of patents that year, the total amount of patents over a period of time, as well as the proportion of new product sales accounted for total sales, as shown in Table 8.3.

Table 8.3 R&D Capabilities Analysis

Items for Research and Development Capacity Analysis	Unit	Remarks
Annual R&D spending		
Total number of R&D personnel		
Number of key R&D personnel		
Number of patents this year	Item	
The number of key patents this year	Item	
The number of patents increased over the past three years	%	
Average ratio of new product revenue to total in recent 3 years	%	
The company has a sound management system of R&D and innovation (1-totally disagree, 2-not quite agree, 3-moderate, 4-agree, 5-in full agree)		

(5) Manufacturing and production capacity

Manufacturing capacity refers that an enterprise can convert a design drawing to a finished product that meets the requirements. Production capacity refers that in a certain period of time enterprises use fixed assets and other resources to produce the maximum number of qualified productions, or the number of raw materials handled by qualified processing. Production capacity reflects the scale of enterprise production.

As the production needs the site and equipment, a company will locate the production and manufacturing sites away from the city for a little distance, such as Kunshan, near Shanghai China, is a place where manufacturing is concentrated. According to the Smile Curve, the added value of manufacturing is lower than the design in the front end of its value chain, and is lower than the sales and service of the back end. Therefore, some companies specializing in brand, product designing and sales, such as Apple (mobile phone), Nike (sports shoes) and other companies, will outsource the production and manufacturing to the market manufacturers. However, for some complex product industries (such as cars, boats, aircraft), manufacturing capacity reflects not only the company's production scale, also the embodiment of technical capacity applications, which is a high degree of organization and coordination capacity. Table 8.4 shows the manufacturing and production capacity of the company.

(6) Marketing and sales capability

Marketing capability refers to the ability of an organization to create, communicate, disseminate, and exchange products, processes, and systems that create value for customers, partners, and society. Sales ability is the most direct expression of business marketing ability, so in terms of the output, the increase of company sales volume in a certain time is the embodiment of marketing ability.

Table 8.4 Company Manufacturing and Production Capacity Analysis Table

Items for Production and Manufacturing Capacity Analysis	Unit	Remarks
Design production		
Annual production		
Percentage of qualified products	%	
Average annual growth (or decline) in recent 3–5 years		
Number of production personnel		
Proportion of medium or high-level technical workers in production	%	

The results of the enterprise sales are associated with its numbers and quality of available channels, and its investment funds in marketing and personnel, but also with the enterprise marketing practices. Therefore, a company's marketing and sales ability, not only reflects in its size (sales volume, the number of channels, funds and personnel, etc.), but also in its management capacity, such as sales staff per capita sales volume, unit channel funds sales, sales increase in the year, and in some later years which is result from the company marketing investment in this year. All these reflect the company's marketing and sales staff and organizational skills, as shown in Table 8.5.

(7) Organizational capability

There is not a basically agreed upon interpretation about what is organization capability of a firm in the literature. Here, I briefly introduce my understanding of this concept.

Let's take a look at the changes in China's economy before and after the reform and opening up policy. Before the reform and opening up, China was implementing the planned economy, which was a systematic system. Things such as where to purchase raw materials, what and how many to produce and who to sale, were not decided by the market, but unified national arrangements. Enterprises didn't have

Table 8.5 Company Marketing and Sales Ability Analysis Table

Items for Marketing Ability Analysis	Unit	Remarks
Annual sales in volume		
Annual sales		
Sales volume this year compared with last year	%	
Nearly 3–5 years sales volume average growth (or decline)	%	
Number of marketing and sales staff		
Marketing and sales expenses		
The company has a sound marketing and sales system and policy ((1-totally disagree, 2-not quite agree, 3-moderate, 4-agree, 5-in full agree)		

the autonomy in the production and operation. In 1979, per capita GDP was only 419.8 yuan (around US $70 annually). In the early 1980s, China implemented reform and opening up, and the government gradually changed the model of the planned economy into market economy with Chinese characteristics. Within 30 years, per capita GDP increased significantly to 46,600 yuan in 2014, compared with 1979 by 100 times. Such a big change attributes to institutional policy changes.

From a strategic point of view, the most important side of a company's management system is to ensure decisions are based on the correct understandings of the origin of things and are correct. The decisions could be concerning the motivation of employees, capital investment, new product development and etc. A good decision-making process will ensure that major decisions not be wrong. Companies who are mature in management system and capabilities normally have decision procedures and polies which are beneficial to expected decision outcomes.

There are diverse employees in a company. The extent to which they will transform their ability to achieve business goals depends heavily on the firm's management system and policies related to employees' interests. A good management system will be conducive to employee motivation and initiatives.

An organizational capability of a firm lies in its management system (personnel system, salary system, incentive system, capital management system, etc.), important work processes and decision-making processes (decision-making process of major capital to use and major project, etc.), which is the ability needed for its long-standing goal.

Organizational ability is a product of an organizational structure, process and control system (Hill 2007). A company with strong organizational ability could adapt to the needs of market changes, innovate business models or products, effectively control cost, and have higher efficiency than competitors. Table 8.6 shows the organizational capability analysis.

Table 8.6 Organizational Ability Analysis Table

Items for Organizational Ability Analysis Project	Analysis
The company's cost budget, cost control system and process (poor, in need of improvement, mediocre, good, perfect)	
The company can pay close attention to market changes and take response measures (cannot, sometimes can, mediocre, good, perfect)	
The company has a sound incentive system for its employees (no, somewhat, mediocre, good, perfect)	
The company has a sound decision-making process on the major issues (no, somewhat, mediocre, good, perfect)	
The company has a sound work flow that is conducive to the completion and improvement of the main works (no, somewhat, mediocre, good, perfect)	

(8) Product (services) quality and customer response

Product (or service) is the way that a business transforms their own efforts into the value of consumers, which is the basis for enterprises to create profits. Hill and Jones (2007: p. 89) argue that a product is a combination of attributes that include utility, reliability, shape, characteristics, persistence, style, and design, etc.. If consumers consider that the attributes of a product are better than other competitors', this product will provide consumers greater value.

Different consumer groups have different understanding and preferences for product attributes. For example, the style, color and heel height of shoes have higher value for young girls than for older women. Services also have the quality concept, for example there are several companies selling second-hand cars. Which one will consumers choose? As a customer, you want the situation of the used car introduced by the second-hand car dealer to be real, the price reasonable, and you also want to have more selective choices, and those are quality in the eyes of customers for second-hand car service business.

With the continuous development of science and technology, consumer demand for product attributes is also getting higher and higher. For example, as for mobile phone products, in the early 90s palm phone is a symbol of status in China, and now almost everyone have the palm laptop. Its technical properties, design, color and other attributes have experienced development of several generations. An enterprise which can constantly improve the product attributes in the changing market, and develop new properties and continue to bring new value to customers, will be favored by the market.

Customer response is that either the customers choose the company's products (services) or the company's products (services) have some problems; then the company either provides the required products (services) or deals with the problem. Response time is an important indicator of a company's response ability, and long response time will increase customer's dissatisfaction with the company's services. In customized products and services, good customer response requires companies to have good management capabilities. In today's society of information and Internet, customer response time has become shorter, even for customized products and services, customers also hope to enjoy the value of the purchase in the shortest possible time.

(9) Imitation issue

When a company owns the products favored by customers, someone in the market will imitate. If all the attributes of the product can easily be imitated, the company only has temporary product advantages. Companies normally do not hope that their products are easily imitated.

In general, some properties of a product are easy to be imitated, such as appearance, color and so on. But to imitate all the properties and their combination of a good product, imitators need to have a certain level of capability. For example, Leonardo da Vinci's portrait, Mona Lisa, has countless imitators, and some get the mouth, and some get the eyes, but few people can imitate the whole picture to the level of the original painting of Da Vinci. Therefore, if a product has many attributes and is difficult to integrate them, then imitation will become hard.

I have asked students several times in my strategic management classes, the students using Apple computers, why would they buy Apple computer? What did it attract you? The answer is not about Apple's computer system, but an elegant and beautiful feeling. Elegant and beautiful is the concept of art level, it is difficult to be imitated. Based on the basic functions of the product, the appearance of the product, design, unique color, fine workmanship and so on have to be ultimate in order to deliver elegance and beauty feeling. Elegant and beautiful is the integrated effect of the embodiment of all attributes in the product.

In general, as long as a company has enough capital funds, it can gain the abilities at functional levels from market by hiring peoples who have experiences in marketing, R&D, etc. Imitation seems inevitable, but Collins (2010) argues that imitation has barriers.

One barrier is the special geographical location. Particular geographical position gives a company a competitive advantage. We all know that the Persian Gulf region contains the world's richest oil resources. 70% over-100 million- tons oil fields on the earth are in this area. Natural gas remaining recoverable reserves also account for 26% of the world's total reserves. The land oil resources in the surrounding countries such as Kuwait, Iraq, Saudi Arabia, Qatar, Bahrain and Iran are abundant as well. Such as Kuwait, which has less than 1 million people, and oil reserves and production are similar to China, with population of 1.3 billion. Other countries cannot imitate their special geographical location.

The second barrier of imitation is the fact that the present ability is based on the accumulation of past learning and experience. For example, a very experienced old Chinese medicine doctor, he (she) has superb medical technology based on the accumulation of the past few decades. This experience is difficult to be imitated in a short time by others. An enterprise's management capability, if it is based on a solid system which is formed through continuous improvement, and is able to adapt to the changing needs of the market, other companies will be difficult to imitate, because a company's management system, decision-making system, processes are all related to "people", and the interaction between people. These systems, processes are often the representative of the corporate value, representative characteristics of employees, but also the company's history and status.

The third barrier of imitation is inability to know. That is to say, we do not know what it is the real reason that a company has a good performance. If you do not even know the reasons, we cannot know how to imitate.

The fourth barrier of imitation is cost. If imitation has to pay the expensive costs, some companies won't be able to get it due to the lack of funds. Table 8.7 shows the quality and imitability analysis of the company's products (services).

Table 8.7 Company Product (Service) Quality and Imitability Analysis Table

Items for Product and Imitability Analysis	Analysis
The company's products compared to competitors are better in quality, design, utility and other aspects (completely disagree, not agree, basically agree, agree, fully agree)	
The company in the customer response, does better than the competitors (completely disagree, not agree, basically agree, agree, fully agree)	
The company's products are not easy to be imitated by competitors (completely disagree, not agree, basically agree, agree, fully agree)	
The company's competent management systems are not easy to be imitated by competitors (completely disagree, not agree, basically agree, agree, fully agree)	

(10) Company performance and achievements

Company performance and achievements are the outcomes of the whole company over the years, a comprehensive embodiment of the company's research and development capabilities, manufacturing capacity, sales capabilities, i.e. the company's core competitiveness.

Sales revenue (usually referring main business) is not only the embodiment of the company scale, but also the comprehensive demonstration of the value of the product or service and the company's sales capabilities. Profits (profitability level), asset yield and other performance indicators reflect the company processes, cost control ability, and decision-making capability. The trend of those indicators reflects the company's performance over a period of time. For a prosperous company, its sales revenue and profit should be on the rise, either fast or slowly. And a downhill company, due to its weak organizational capability, or decision-making mistakes, the performance would go downward.

We can use the following table to summarize the overall company performance and achievements over a period of time.[2] (Table 8.8).

We have introduced some concepts of corporate resources and capabilities. As the company's top managers, strategic decision makers need a clear understanding of the company's property situation, including questions of how much assets do I have? How much the fixed asset is? How much the debt is? How much the annual revenue is generated by the asset? When the company is in the need of large amount of capital, can I raise money from the market? How about the channels, difficulty and cost of fund-raising?

Decision makers also need a basic understanding of the human resources including the number, age, structure, and personnel of the company. Like the commanders in the war, you need a very clear understanding of your troop characteristics. In addition, you need to have a clear insights of the company's R&D

[2]Corporate innovation and market achievements are not included in this table due to previous mention.

Table 8.8 Company Performance and Achievement Analysis Table

Company Performance and Achievement Analysis Project	Analysis
The company's average growth rate of sales revenue in past three years	
The company's average profit growth rate in past 3 years	
Compared with the competitors, the company's income, profit performance is satisfactory in nearly 3 years (completely disagree, not agree, basically agree, agree, fully agree)	
The company's market position is satisfactory in nearly 3 years (completely disagree, not agree, basically agree, agree, fully agree)	
Industry Special Information:	

investment, R&D personnel, R&D output (number of patents, new products), sales volume, sales revenue and growth.

It should be noted that each industry has its own special indicators. Decision makers need to know well of the information showing industry characteristics.

Through the above information, decision makers can basically be aware of their company's own strengths and weaknesses. But does the company have some hidden special abilities? For example, you have an army, you can understand the size, personnel structure, supply situation, weapons and ammunition equipment, logistics, etc. through data information, but the morale of the troops and unique combat capability is difficult to know from the figures, which needs troop leaders to investigate through routine training and combat situation. Company situation will be the same as a troop. Besides decision makers will have a better understanding of the company if they can make comparative analysis with main competitors in the industry for above information.

If a company has more financial resources and better human resources than its main competitors, the company owns the financial and human resource advantage. If a company has better capabilities in R&D, manufacturing, marketing, the company possesses these competitive advantages of functional level. If a company has the organizational capabilities that are more consistent with the development of the market and the long-term goals of the company, the company has an organizational advantage. If a company's products are favored by consumers, and bring the company the better benefit than the competitors, the company has a competitive advantage. If a company has the resources and the ability that others cannot imitate, we can say that the company has a sustainable competitive advantage.

We have introduced some information that decision-makers need to be conscious of. "Knowing the other" is mainly about understanding the industry, consumers and competitors from the perspective of the strategic development. Next we look at "knowing the other".

8.3 Knowing the Other—To Understand the company's External and Industry Environment

In commercial competition, "knowing the other" refers to the knowing of the others. Knowing the others not only include the understanding of competitors, but also the development trend of the industry, the behavior of company's main customers, the main suppliers, as well as regional politics, economic, legal and other environmental impact on the industry (including the impact on the industry manufacturers, on the industry's consumers, etc.).

Different from "knowing yourselves", "knowing the others" is more about analysis, judgment and prediction due to the lack of full information of the "others". Here we are going to explore the evolution of an industry trends and changes from three aspects: the industry life cycle, consumers and competitors. From the evolution, we will be able to examine which stage is in now of an industry and be able to predict where it will be in near future.

(1) **Industry development life cycle**

Industry life cycle refers to the process that the industry products emerge in and retreat from social and economic activities. The life cycle of the industry generally includes four development stages (Vernon and Wells 1966; Vernon 1979), which are incubation or introduction period, growth, maturity and recession periods.

The introduction stage is when products or services just come out; the design is not mature, the quality is not stable and technology has uncertainties. On the other hand, the market is generally more interested in new things, so that demand grows faster. Enterprise craves to developing new products, and occupying the market. The main barrier to business entry is the technology. For example, the mobile phone industry, the first mobile phone in the world was born in the Motorola laboratory in Manhattan, New York in April 3, 1973. The emergence of mobile phones brought the beginning of a new era. In 1987, palm phone (commonly known as mobile phone) went into China, and it became an important tool for people in communication and social interaction. At that time the product was heavy, functionless except calling, and voice quality is not clear and stable at all, and its battery can only support 30 min of talking. But even so, market price of the palm phone was more than 10,000 RMB while GDP per capita was only about 5000 RMB per year. Therefore, it was indeed a symbol of identity.

For the service industry, it is important for companies in the industry to find a good profit model in the embryonic period, once the profit model is accepted by the market, the industry will enter the growth period.

In the growth period, the industry's product technology tends to be stable; the market demand is greatly increasing. There is an increase of industry entrants. As the number of competitors keep increasing, industry capacity enlarges. Industry competition grows intense, and industry manufacturers will develop new products, and product quality at this stage is constantly improving, but owe to increased competition, product prices will decline in the mid-growth period.

Some service industries require small investment for its projects. Once the profit model is accepted by the market in the embryonic period, it can soon be imitated by the potential entrants in the market. Therefore, the number of competitors in the industry will increase. In the medium-term growth period, the competition will intensify, which will lead to a decline in prices, or to further improved quality of service.

In the maturity stage, the product is technically mature, but the demand is no longer rising and sometimes even meet with a slight decline. Industry profitability is declining. New products and the development of new uses will be more difficult, and small manufacturers began to withdraw from the industry.

In the maturity period of the service industry, on the one hand, there are a large number of competitors; on the other hand, demand reduces (such as economic downturn, income reduction), resulting in reduced industry demand, some small enterprises began to withdraw from the market.

In the recession or decline period, there is overcapacity in the industry, and the market demand for the products has dropped significantly. Due to the decreased demand, product variety and competitors decrease.

In the recession period, service industry demand dropped significantly, the original industry enterprises will withdraw one after another.

In most industries, when a category of products are in a recession, there will emerge replacement products, and drive a new round of development in the industry. Service industry will get better quality, or cheaper alternative services (Fig. 8.2).

Understanding of development stages in the industry is important for strategy formulation and strategic management. Company strategy will be different at different stages. For example, if the industry is expected to be in the embryonic period,

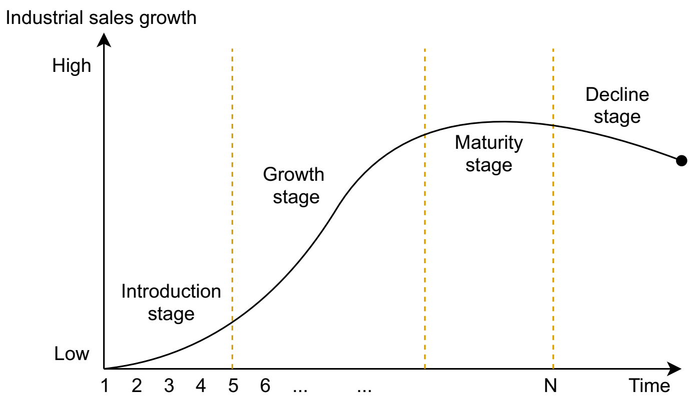

Fig. 8.2 Life circle of industry development

you can forecast that the industry will have a good development potential in the future; the market demand will increase. Companies who have the industry technology can greatly enlarge capacity to provide more products to the market. Companies without independent technology need to manage to have the technology as soon as possible in order to enter the industry, and strive to keep up with the growth of the industry. In the early 1980s, China's auto industry was just in its infancy. In 1984, China's per capita disposable income was only $ 651, and many companies were skeptical about whether China's future economy would have high-speed development, while the German Volkswagen made strategic decisions and stationed in the Chinese market. Volkswagen used the technology from the home country to launch the Santana sedan in the Chinese market, when the Chinese auto industry was in its embryonic period of development. The price of the car was expensive and Volkswagen entered a game that there was almost no competition, the product was expensive and the consumer knew little about the product in this industry at that time.

In the growth period, with the continuing growth of market demand, the number of manufacturers in the industry is gradually increasing, and the industry's production capacity has been rapidly improved, then the industry began to compete. Small and medium enterprises look for market segments to avoid direct competition with large enterprises in the industry. At the same time, companies in the industry need to continue to strengthen marketing efforts and improve product quality, or develop and launch new products to meet intensified competition.

In the maturity period, the industry demand declines. Small and medium-sized enterprises will consider whether to withdraw. Sales and revenue of capable enterprises in the industry will decline because of the low demand. Companies in the industry need to control and cut costs to ensure profits.

For different markets, there will be difference in term of industry life cycle. For example, the automotive industry in the developed countries is already in mature stage, but is in the early growth period for the Chinese market in the 1980s. Therefore, the resources and capabilities owned by a company which may have not been optimistic in a mature market may still be popular in other markets.

(2) **Consumers**

Consumer study is generally introduced in the "marketing" course in detail in business education programs. In terms of strategic decision-making, the understanding of consumers mainly includes the following issues: who are my consumers, or potential consumers (or to whom I provide products or services)? What are their motivations for buying my product? How large is this group? What is the future trend of this group? Will it continue to grow or fall?

"Who are my consumers": This question concerns about the segmentation of consumers in the industry. New comer of the industry has to answer this question. By answering this question, company will not only know the focus of its business (or know what industry you will compete in), but also clarify who will be my competitors in the market. For example, if you are a corn plastic producer, and if you only provide raw materials, then your business will be mainly in the field of raw materials. But if you make a variety of finished products such as quilts, clothing and even sanitary napkins out of the materials, you enter into a number of industries at the same time. Your businesses are not just in the corn plastic materials industry, you will compete with lots of major competitors in several industries.

Shifting of market position 1: For enterprises in the industry, sometimes they also need to re-examine the question of "who is my consumer". Suppose your original product positioning is high-end, but the industry's main market demand is in the low-end, you need to re-answer "are they my consumers" (To answer the question "Do I want go into this segment market" from a strategic point of view, or do I need a transfer of my strategic market positioning)? For example, in the early 1990s, Chinese people had lower incomes, low-price cars (120,000 RMB and below) were favored by the market, and some multinational auto manufacturers in China began to consider "whether they are my consumers". Finally GM and Volkswagen have specifically developed cars for this market segment.

Transfer of market position 2: The market may evolve into another direction. For example, with the development of China's economy, Chinese people's income continues to increase. In 90s, car price with more than 200,000 RMB is out of question for many families. While from 2010, the purchase of 200,000 RMB price of the cars is no longer a difficult thing for some families. Li Shufu saw the opportunity in the Chinese market. The consumers of Geely company cars mainly favored the low-cost cars before. After the acquisition of Volvo, the market's high-end groups have become auspicious target consumers.

Consumers transfer: Your consumers are not always your customers, and they will not love you forever as your parents. They will digress. Under situations that when there is a better product in the industry (same price with better quality), or there is a lower price of the product (with the same quality), decline or increase of income of consumers, or consumers have better knowledge of product, or even when the value of their life changes, consumers will leave you. Therefore, when your product is targeted at a specific group, you need to understand their income and their emotions of pleasure, anger, sorrow, and joy.

The market is composed of consumers. An industry in the market is like the tide of the sea, a wave after another. This wave embraces low-end market, that wave punches a high-end market. The causes of these waves are political and economic changes in the country or region, and changes of product technology in the industry, or business model changes. Consumers are rational, they will choose their own "value" of the product (or service) based on how much money they have in their own pockets.

Strategic decision-makers need to focus the market wave in the industry, the recent market and the future trend? What are the characteristics of future market demand? Where will the future market transfer (regional transfer, or different demands in the same region)? Assessment and confident of decision makers on these issues is critical to strategic decisions.

(3) **Competitors**

In addition to know the competitor's strengths and weaknesses, it is necessary to understand the trend of quantitative change of competitors in the industry and where the industry leaders are developing (including new product development, business model, organization management and other changes), in case of any breakthrough development that will threat you.

For example, competitors introduce the product with better quality, better function than you. In the competition you are forced to cut price or even to be eliminated. Such as, the three giants in the mobile phone industry: Motorola, Nokia, Ericsson, were eliminated by the market because of the emergence of Apple, with the new smart phone.

Business model innovation usually brings greater value for consumers, such as better service, lower price (cost), faster response and so on. Innovation or change in the business model in the industry generally does not happen very often, but when it does, it often brings to the industry a subversive revolution. Such as the delivery company's door-to-door service, imposing a great threat to the traditional postal service; China's online car booking services and other new business models, have an impact to the traditional taxi; online Alipay has impact on traditional bank payment business. With government's good regulation and other financial arrangement, good P2P financing may also intimidate traditional banking.

Company strategic decision-makers need to have a good understanding of the own organization, consumers, and the competitors. If the decision-makers know the company's resources and ability as clear as possible, understand the habits and emotions of consumers, know the key information of competitors, they know well of their own and the industry as opposed to amateurs if not. On the basis of full understanding of the company itself, industry, consumers, competitors, decision-makers can make better strategic decisions.

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9 Evaluation of Strategy Based on the Three Elements

If we evaluate strategy decision from the perspective of the three elements of the strategy concept, we can once again have careful consideration and systematic analysis on many aspects concerning the strategic decision-making, thereby reducing the risk of strategic decision.

9.1 Overview

A strategic decision is an integrated decision, which consists of three sub-decisions on three major questions of an organization. When we make a mistake in any one of the three sub-decisions, it will lead to the failure of the entire strategy. Once a strategic decision has been made and implemented, it involves a certain amount of capital investment (in most cases a lot of capital investment). The mistake of a strategy decision means the loss of funds.

After a strategic decision has been made, can the decision be evaluated afterwards for making further judgment on the correctness of the decision? We know, the process of strategic decision-making itself has been involved in the judgment and evaluation of the competitive situation. A systematic evaluation of strategic decisions itself can help us once again assess the logic of the decisions and the risks so to reduce or minimize error of the decision.

However, it seems to be a hard work to judge whether the strategic decision is correct. The difficulty lies in the following.

First, the judge (decision maker) needs to be familiar with the situations of the company, the industry, competitors and consumers. The strategic decision is about both the current and the future. Any member of any organization, regardless of his / her high position, will not be able to know well of all the (or 100% of) the

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information needed for strategic decision-making. Some key information usually needs to be predicted.

Second, the judger needs to make the right assessment of whether the three sub-decisions of the organization strategy are in line with the situation of the company and the industry, which requires a clear thinking and logical reasoning ability.

The strategic assessment is the outline evaluation of the company's strategic decisions. In Chap. 7, we talked about a basic principle of strategic decision-making. Company's strategy should match up with the organization's resources, capabilities and the external environment. Such strategy is an integrated one. Although the content of each specific strategy evaluation is different, we can still make overall evaluation of the decision from the potential of industry development and the resources and capabilities of the company according to the basic principles of strategy making.

The original purpose of this book is to explain the concepts of strategy (or to answer the question of what is strategy). How to make good strategic decisions belongs to the domain of strategy management. I am not as deep and systematic in studies on how to make good or high quality strategic decisions as the study on the strategic concept. So here, I would like to only introduce some principles of strategic evaluation based on the three elements of the strategy concept. I hope that the application of these principles can partially improve the quality of strategic decision and reduce errors in decisions.

9.2 Evaluation of Competitive Strategies

The competitive strategy is about how to compete and for what consumers are attracted. Although competitive ideas embodied in the different competitive strategies are not alike, from the perspective of three elements of strategic connotation, the major issue element and the element of the competitive goal are the same.

As for competitive strategy, no matter what the cost-leadership strategy, differentiation strategy, or hybrid strategy is, the major issue (the element of development issue) in the competition is "What kinds of consumers to attract? What do I use to attract them"? So we do not need to evaluate this element.

The target element of the competitive strategy is to "attract consumers and increase sales." Different competitive strategies attract different consumer groups, for example, cost-leadership strategy attracts customers who are sensitive to price; differentiation strategy attracts customers who are delicate to the quality value of the product; hybrid strategy attracts customers who are keenness to both price and quality. Information of the number and size of target groups as well as the market competitors who have the same interest in the target customers are important. Hence, the following aspects are vital to the "goal element" evaluation of competitive strategy. (Table 9.1).

Table 9.1 Evaluation for the goal element of competitive strategies

Evaluation items	1-Totally disagree, 2-Not quite agree, 3-moderate 4-Agree, 5-In full agree
There are enough consumers who are interested in my products in the market I serve	
The number of consumers interested in my products will be stabilize or will increase in the future	
The number of competitors in the market is small and there is a room for me in the market	
The size of the competitor in the market is small	

Companies whose competitive strategies are not the same will have different basic guideline. That is the element of general ideology of the strategy will be different for competing in the market. For example, the guideline of a company choosing cost-leadership strategy is different from that of a company choosing differentiation strategy. How do we evaluate the guideline element of the competitive strategy of a company?

According to the strategy clock, there are several types of competitive strategies. Here we only introduce the most commonly used differentiation strategy, cost-leadership strategy and hybrid strategy. Let us look at the differentiation strategy first.

(1) **Evaluation of the guideline of differentiation strategy**

If a company chooses differentiation, how do we assess whether its competitive strategy is appropriate or consistent with the situation of the company and the market?

First, there are enough numbers or size of group (or consumers) in the market that are interested in the differentiation theme of the company's products or services. The number of merchants or competitors providing the same products or services on the market is not large so that there are people in the market who will buy my products or services.

Second, it is an assessment of the company's resources and capabilities. Differentiation means my products or services are special. Generally, they are better than the competitors' are, such as better design, better performance, colors that are more beautiful, more convenient usage and so on. It is in need of R&D and technical support to achieve the differentiation. Does the company have the resources and ability to achieve the expected special themes? Companies need to evaluate in this aspect. Differentiation needs the capital investment. After deducting the cost, do I still have profits? If there is no profit, the company's business cannot be sustained. In addition, if the differentiation can bring me a good profit, there must be competitors imitating me in the market. Is my differentiation theme hard to be copied by competitors? If it is easy, is there a following way to deal with? These questions need to be answered seriously for the company choosing the competitive strategy of differentiation.

Therefore, we can evaluate the "general ideology" (guideline) element of differentiation strategy from the following aspects (Table 9.2). Answers to the questions in Table 9.2 can give us a better assessment of the strategy.

(2) **Evaluation of the guideline of cost-leadership strategy**

If the company chooses the cost-leadership competitive strategy, how do we evaluate the guideline elment of the strategy?

First, it is evaluation of the external environment. There is a large number or scale of groups (or consumers) in the market that are interested in my standardized products or services. There are few merchants or competitors providing the same products or services on the market.

Second, it is evaluation of the company's resources and capabilities. The basic idea of the cost-leadership strategy is that the costs of my product or service are low, so the price can be lower in order to attract customers who are sensitive to price in the market. Cost-leadership strategy is strict on the control of cost, and companies need to have a sound system of management and approaches to maintain a low cost. Therefore, does the company have the capability to achieve the expected cost (for example does it has the economies of scale? What is the position in the experience curve? Is there a good management practice system and method to control the key expenditure of cost? How about decision-making efficiency and operational efficiency?) Companies need to assess from this aspect. The price of products or services is relatively low. So, do I still have profit after deducting the cost? If there is no profit, the business will not be sustained over a long period. In addition, are there any competitors in the market imitating my low cost? If it is yes, is there a following way to deal with it? Is there a tread in near future that the

Table 9.2 Evaluation for general ideology of differentiation strategy

Evaluation items	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The company has the resources and ability to distinguish the product (or service) from the competitors' and achieve the expected differentiation	
There are enough customers in the market who like my company's products	
Our business will continue to be profitable	
My differentiation theme is not easily imitated by competitors	
If it has been imitated, my company has better products or services to market	

Table 9.3 Evaluation for the overall ideological element of cost-leadership strategy

Evaluation Items	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The company has the ability to control the costs and make it less than competitors'	
We are able to gain profits despite a low-priced product or service	
My management or business model of low cost is hard to imitate by competitors	
If it has been imitated, the company has a better management method (lower cost, or higher value with the same cost) to react to the market	

technology or business model in the industry will lead to a breakthrough that will make the cost of the product lower? Will I own this technology or business model in the future? These questions also need to be answered seriously for the company choosing the cost-leadership competitive strategy.

Thus, we can judge the "general ideology element" of cost-leadership strategy from the following aspects (Table 9.3).

(3) **Evaluation of the guideline of hybrid strategy**

In the strategic clock map, hybrid strategy is located in the upper left corner. Choosing this competitive way means promoting high value products or services to market, but with low price. It puts forward higher requirements for enterprises choosing this competitive strategy. The company not only needs to provide special products or services to the market, but also requires to control the cost at the same time. Therefore, as to the resources and capability, the company needs to have almost the capabilities of R&D, design and quality control with differentiation to improve the value of products and services so as to meet the changing needs of consumers. In addition, due to the requirement of low price, companies need to have strong capability of cost control as the cost-leadership strategy.

Thus, we can evaluate the guideline element of hybrid competitive strategy from the following aspects in Table 9.4.

Table 9.4 Evaluation for general ideology element of hybrid strategy

Items Measuring Cost Control Capability	1-Totally disagree, 2-Not quite agree, 3-Moderate, 4-Agree, 5-In full agree
My company has the ability to control the cost and make it less than competitors'	
With low product price, we are still able to maintain profitability	
My business model is hard to imitate by competitors'	
If it has been imitated, the company has a better advanced business model to market	
Items Measuring Differentiation Capability	1-Totally disagree, 2-Not quite agree, 3-Moderate, 4-Agree, 5-In full agree
My company has the resources and ability to distinguish our products (or services) from competitors' and achieve the expected differentiation	
Competitors are hard to imitate my differentiation theme	
If it has been imitated, my company has better products or services to market	

9.3 Evaluation of Corporate Strategies

Corporate strategy involves the direction of company's future development. Once implemented, it generally needs large investment. The evaluation of the strategy refers to the evaluation of the future development trend of the market and of corporate's capability.

There are several types of corporate strategies, such as diversification, forward integration, backward integration, acquisition, etc. We have particularly introduced the meaning and content of these strategies in detail in Chap. 6. Here I will only choose two strategies of backward integration and peer acquisition and illustrate how to evaluate corporate strategy in detail.

(1) **Evaluation of backward integration strategy**

Backward integration refers to a company getting into the industries related to its main industry, such as the main components, raw materials. Companies from different industries entering into backward integration are involved in different industry areas, but the logical thinking of the evaluation will be the same.

Suppose car assembly and sales are your company's main business. Engine is the core part of a car, and you need to buy it from the market. However, the price is so expensive that you plan to enter the field of car engine (assuming mainly for the use of your own production). How to evaluate this decision? As we know, we need money, work force and material resources when entering the engine field. The approaches could be self-development, buying a company from the market that owns engine technology and produces engines, having controlling shares in a company in the market, etc. The latter two options are much more expensive than the first, but can get the needed engines in a short time. While examining the market, we need to analyze and evaluate these three options.

Like all the other investments, we wish to have a good return of the investment and thus hope for a good prospect of the future development of the automotive market. Therefore, we need to assess which stage of development the industry is in now? What is the direction of future?

If the future development of the industry is optimistic, we need to consider whether we have the ability to develop and produce engines. Alternatively, we need to know if we have enough money to purchasing from the market (such as through holding or acquisition). In addition, we need to consider the question of do I have the ability (or team) to manage the business after entering? These issues are important for the strategic decision-making of backward integration.

We evaluate this strategy from the three elements of strategy as follows. For easy understanding, I will divide the evaluation of this strategy into four parts. First is the evaluation of company's major development issue or problem (Evaluation 1). Second is the evaluation of long-term goals (Evaluation 2). Third will be the evaluation of general ideology (or guideline) one of the issue that it is self-development or acquisition from the market (Evaluation 3). Fourth is the evaluation of the specific guidelines of self-development or acquisition approaches (Evaluation 4) (see Fig. 9.1 below).

A. Evaluation of company major development problem (evaluation 1)

In general, if the quality of the raw materials or parts in the market is stable and the price is reasonable, there is no need for the company to invest in the supplier field. But if the market price is expensive, the number of suppliers is small, and the core

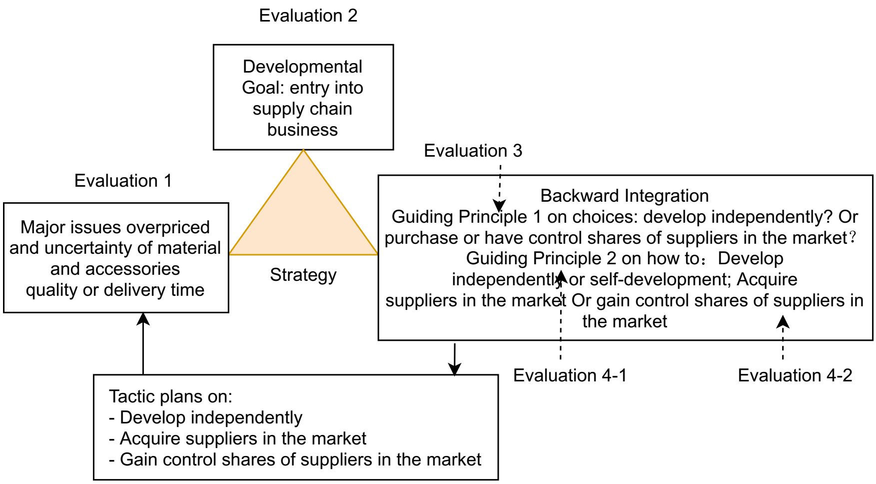

Fig. 9.1 Evaluations of backward integration strategy

Table 9.5 Evaluation for development problem of backward integration strategy

Items (Evaluation 1 in Fig. 9.1)	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The supplier's product is our key component/spare parts/material	
The key raw material or spare part needed for the company's products is expensive	
The quality of the key raw material or spare part is unstable in the market (depending on industry)	
Few substitutes are available on the market	

raw materials or expensive price of parts led to your main product profit margins lower than your competitors significantly (those enterprises who own raw materials or core components), then the company need to consider entering the field of suppliers. Therefore, when the following conditions are met, the company's motivation for backward integration is clear. (Table 9.5).

These items assess the necessity to enter the supplier space.

B. Evaluation of the goal element (evaluation 2)

A company takes a backward integration strategy into consideration, which is expected to enter the field of suppliers of company's main business and succeed in this field. No matter how to enter the supplier's industry, we have to invest in capital, human and material resources. Success means that the funds invested can get a good return. However good returns need the support of the market demand. In addition, the company needs to have the ability of business management in the supplier's industry. Therefore, the evaluation of the goal element of the backward integration strategy involves **market evaluation** and **capability** evaluation in business management, etc.

Let us look at the market evaluation. We hope that the industry in which the company's main business operates is in the early or rapid development stage. The market demand for the products of the industry is stable or growing, so that the company's products have a good market support. At the same time, we need to look at the company's entry into the supplier space and the company's own situation. The following items can help us to identify the market situation of the company's backward integration. (Table 9.6).

The first 3 terms are the forecast of the market size of the company's products and its future development. They are the market basis of backward integration decision, therefore you need to analyze and forecast it. If you think that the market size is large, stable and will continue to grow, your return on investment in the field of the suppliers will grow with the growth of the market after you enter. If you analyze and consider that the market is large, stable, but unlikely to continue to grow, in this case, with the market no longer growing, the supplier of the industry generally will not grow and industry competition may intensify. Therefore, you

Table 9.6 Evaluation for development goal of backward integration strategy

Items (Evaluation 2 in Fig. 9.1)	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The industry development of the company's main business and the supplier field to be entered into is in the embryonic or growing period, or is stable.	
The number of consumers in the market interested in my products is large	
The number of consumers interested in my products is stabilize or will increase in the future	
The number of key raw materials or spare parts suppliers is small, or the key raw material or component industries is a monopoly industry or oligopoly industry	
The supplier's industry is profitable	
There are certain barriers (capital, technology, etc.) to entry into the supplier industry, so there will not be too many entrants in the future	
In general, my company can financially support the entry into the proposed supplier business	
There will be no major technical obstacles when entering the supplier field	
My company has the managerial ability (or program) to operate the business in the proposed supplier area	

need to analyze the supplier area to be entered, whether there is an advantage for your products or service when compared with the main competitors'. If there exists no advantage, or even more disadvantages, the decision of backward integration needs to be decided carefully.

Items 4 to 6 concern with the future competition of the supplier field. If there is little obstacle to enter the supplier's field and the number of competitors is large, you should also make careful decision on whether you need to enter this field.

Items 7 to 9 are about the company's ability. Whether the company is capable (or is there practicable plan) to operate and manage the business of the industry to be entered. Whether the company has sufficient financial resources to support the business to be launched? If the answers to these questions are relatively certain, it shows that the company has the strength to enter the supplier field.

C. Evaluation of guideline 1 in evaluation 3

Guideline 1 (Fig. 9.1) in the backward integration strategy is to provide basic guidance on the issue whether it enters into the field of supplier through "self-development" or "purchasing or having share stake in the suppliers of raw materials or spare parts in the market". With the guidance, we can make the right choice between "self-development", or "acquisition" of the suppliers in the market". We evaluate whether guidance 1 is correct or feasible mainly through judging if it conforms to and reflects the actual situation of company and market (Table 9.7).

If your answers of the above questions are quite certain, it means that you have the ability of self-development.

In general, investment of self-development is less expensive than acquiring suppliers in the market, but it takes more time. In addition, if consumers (or buyers) of the field of suppliers have a strong preference for the brand, maybe it would not be long for you to develop and produce a product, but it may take a quite long time for consumers in the market to accept your product.

If you do not have the ability to self-develop and produce to enter the supplier field, there is a choice to acquire or have share stake in a supplier from the market. In the case where the self-development program is not feasible, although the acquisition or mastering program appears to be the only option for you to enter the supplier field, there is still a need for a strategic evaluation.

The following questions can help us determine whether the thought of acquisition or mastering is correct (Table 9.8).

Item (1) concerns the capital for entering into the supplier field. The funds of acquisition are not only required for the acquisition itself, but also the costs of the acquisition process and the subsequent expenses. Just like buying a house, in addition to funds of buying a house (price), you also have to consider the commission, government tax as well as the decoration and other costs. Companies need to have an overall budget and assess their own capital on this basis. Or to assess the

Table 9.7 Evaluation for guiding principle 1 for self-development in backward integration

Items (evaluation 3 in Fig. 9.1)	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
My company has the R & D (technological) capability of the products in the supplier's field? Or If R & D capability is insufficient, my company has a viable solution to make up for my lack	
My company has the production capacity of products in the supplier field. Or If my production capacity is insufficient, I have a viable solution to make up for my inadequacy	
If the production capacity is surplus apart from the supply of my own, my company has the ability to sell to digest the excess capacity	
My company has the ability to manage and organize products in the supplier's domain	
The self-development approach can ensure the time requirement of the developed product. Or my company has a way to ensure that the required products can be provided on time	

Table 9.8 Items for evaluation of guiding principle 1 for acquisition in backward integration

Items (evaluation 3 in Fig. 9.1)	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
My company has sufficient funds (or raise funds from market) to acquire the holdings from the market	
The proposed acquisition plan needs funds, which will not affect the capital needed for the development of the company's main business	
My company has the ability (a team) to manage the acquired or mastered enterprise	
There are appropriate targets in the market that can be purchased and which are probably willing to cooperate with us	

question of do I have enough money (or channels to get funds) to achieve the acquisition or holding.

Item (2) is about the company's overall financial strength. The attended acquisition will not affect the capital needed for the daily operation and development of the company's main business. That is the company can guarantee the operation of its main business financially.

Item (3) concerns the management of your acquisition of a project or a company. Especially if the acquired target loses, you need to make a viable solution. Item (4) relates to the reaction of the acquired or holding target, which you wish would be positive, but sometimes it will be unpleasant or negative. In this case, it will greatly extend your acquisition time while increasing the cost of acquisition and even leading to failure.

You have to analyze these questions and make decisions based on the analysis.

D. Evaluation of guideline 2 in evaluation 4

Assuming you analyze and make a self-development decision under the overall guideline 1, and then you have to put forward the basic general ideology to provide guidance on the tactics of the acquisition (or holding). With the instruction of the general ideology, you or your subordinates can develop a detailed tactical program. Guideline 2 is to put forward the basic guideline on how to better taking self-development approach when the company has determined on self-development.

Different enterprises will have different main obstacles when entering into the field of suppliers. Sometimes it is a technical problem that the company may not have the technology and capability to develop products in the supplier field. In this case, high-level decision makers need to propose a general ideology to solve the key problems. The general ideology provides guidance for their subordinates to consider specific tactics. When a company lacks the core technical ability, with the help of R&D capability from market, the company can develop technical ability and products based on their own. In general, the basic guideline formulated should be conducive to the formation of self-development capabilities and product development, while the investment is relatively small, or it takes a shorter time to form the ability.

E. Evaluation of guideline 2 of acquisition

This guideline is to put forward the basic ideology of acquiring (or mastering) what kind of supplier in the market to provide direction of the acquisition or share control over entities in the market. The purpose of the basic ideology (or guideline) proposed by the company is to coach the budget (or investment), the completion time of acquisition, the technological level of the suppliers to be acquired, the quality of products, the scale of production and the management team.

We can evaluate whether the company's guideline is consistent with its actual situation from the following aspects: (Table 9.9).

If your answers to the above questions are basically yes, then you have proposed the right guidelines for the company's specific acquisition, and your subordinates can plan and deploy the specific acquisition process according to your guidelines.

(2) **Evaluation of peer acquisition strategy**

The acquisition of a company generally involves the following cases–the acquisition of peer companies within the same industry, the acquisition of suppliers (also known as backward integration), the acquisition of vendors (also known as forward

Table 9.9 Items for evaluation of basic guiding principle 2 for acquisition of backward integration strategy

Items (evaluation 4–2 in Fig. 9.1)	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The technical requirements proposed in the acquisition guiding principle are reasonable and represent the advanced level of the industry	
The product quality requirements proposed in the acquisition principle are reasonable and represent the advanced level of the industry	
The requirement of management team of acquisition target put forward in the acquisition principle is reasonable so as to achieve smooth transition after acquisition	
The acquisition capital plan proposed in the acquisition principle is reasonable and will not affect the normal operation of the company's main business	
The acquisition completion time proposed in the acquisition principle is reasonable and meets the requirements of the company's development time	

integration), or the acquisition of companies unrelated to their main business (also known as unrelated diversification). Although purposes of the acquisition are different, the basic idea of acquisition strategic evaluation is the same. Here we only concentrate on the main content of the strategic evaluation through peer acquisition.

Peer acquisition refers to the acquisition of companies with the same main business, such as Geely's acquisition of Volvo, BenQ's acquisition of Siemens' mobile phone business. Peer acquisition usually requires significant amounts of money. Whether these investments can be recovered within the expected time and has a good return depends on the market and company's own resources and capabilities.

The purposes of the company's peer acquisition are not the same, but on the whole, it is expected to make up for some shortcomings in resources or capabilities through acquisitions, such as getting better technology, brand, or expanding market share to achieve economies of scale. So peer acquisition is generally goal-oriented, that is to say the target first. See the three elements in the figure below.

Let us look at the main content of the strategic evaluation of three elements. As with the strategic evaluation introduced earlier, we will evaluate the decisions of the three elements involved in the strategy. These include an evaluation of the development goals set, an evaluation of the identified major problems encountered in achieving the goals, and an evaluation of the proposed overall guidelines to the problems. The 3 elements and their evaluations are illustrated in Fig. 9.2.

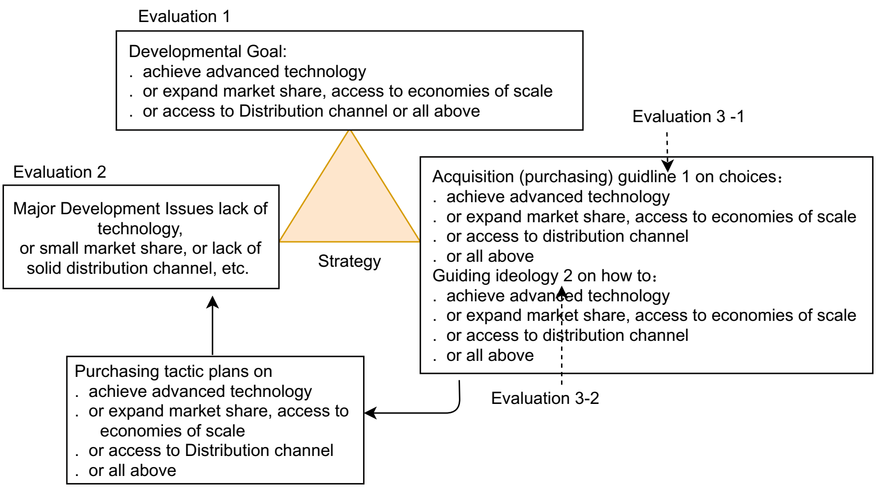

Fig. 9.2 Three elements of peer acquisition strategy

A. Evaluation of the "Development Goal" (Evaluation 1)

The company plans peer acquisitions are to acquire high quality resources and capabilities from the market, such as more advanced technology, more popular brands than their own, and marketing channels that they don't have (or lack of), etc. No matter for what purpose, its ultimate goal is to serve the market better and to get better benefits from (or become more successful in) their own main business in this field. As the integration strategy described above, peer acquisition strategies also invest many capitals, work force and material resources, so those investments require a good return. Whether the investment can achieve a good return, the support of market demand and the business capacity of company in the field are essential. Therefore, the evaluation of the goal element of peer acquisition strategy also involves the evaluation of market evaluation and enterprise capability, etc.

The following items can help us to determine the goal element of the peer acquisition strategy (Table 9.10).

The first three items are about the product's market size and future development. They are the market basis for decisions of peer acquisition strategy. Therefore, you have to analyze and forecast the market. If you analyze and think that the market size is large, stable and continues to grow, the market will gradually digest your production capacity increased by your investment, or your new products, and then your return on investment of peer acquisition will have the support from the growth of the market.

After analyzing, you believe that the market is large and stable, but unlikely to continue to grow. In this case, industry competition will intensify because the market is no longer growing, for the acquisitions of technology and brand; you have to analyze the business you will acquire. Is the technology more advanced

Table 9.10 Evaluation for development goal of peer acquisition strategy

Items for evaluation 1 in Fig. 9.2	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The business of the proposed acquisition company is in embryonic or growth period in our company's market	
The number of consumers in the market interested in the products or services of the company to be acquired is large	
The number of consumers is stabilize or will increase in the future	
We have enough financial funds to make the acquisition and for post-acquisition integration	
The company has the ability to manage the business to be acquired	
If the company to be acquired loses, we have the ability (or program) to make it profitable	

compared to your main competitors'? If there are no advantages, or even more disadvantages, you need to make careful decision. As to the acquisition of channels, if the future market is no longer growing, you need to think it over unless your product is particularly popular or favored by the market, the sales growth of your product or service is good and you need to increase the channels to expand your sales.

Items (4) to (6) refer to the company's ability that the company has capability (or a feasible solution) to operate and manage the company and its business. They include whether the company has the experience of acquisition, whether the company has a viable solution for the rational integration of acquired enterprise, whether the company has a reasonable plan for the arrangements for possible redundant personnel, etc.

B. Evaluation of development problem or issue element (evaluation 2)

What is the motive of my acquisition? Is it clear? What are the obstacles during the process of my company's development? Or is it necessary for me to acquire the necessary resources or capabilities (technology, brand, channel, etc.) through acquisition? The evaluation of the development issue element in the three elements of the acquisition strategy can help us assess the motivation of acquisition and its necessity.

In general, the company has three major motives for peer acquisition. The first is acquiring technology. Or the company lacks core technology, so it needs to acquire it from the market. The technology-driven acquisitions can be evaluated from the following aspects (see Table 9.11).

The analysis and answers to these items are mainly to judge whether the company lacks core technologies and whether it is necessary for the company to obtain the core technologies from the market through acquisition. In general, if the company can develop core technology by itself or by outsourcing, such as recruiting core R&D team members from the market, or working with core researchers in the research institution of university, generally there is no need for

Table 9.11 Evaluating the lack of core technology issue in acquisition strategy

Items for evaluation 2 in Fig. 9.2	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
My company's business lacks core technologies in development	
The lack of core technology held the company's future development	
The capacity of developing the core technologies by myself is insufficient	
Developing the core technologies with "outside brainpower" (or outsourcing) on the company's own basis is not feasible	

companies to invest more funds to acquire the existing enterprises from the market. If the answers of three questions above are positive, there exist advanced core technologies on the market and there are opportunities for acquisition, then it is indicated that the company needs core technologies and the motivation of technology-driven acquisition is clear.

The cultivation of a good brand usually takes time. The second motivation of peer acquisition is acquiring well-known brand sometimes including its sales channels from market. Necessity of this motivation can be evaluated from the following aspects (see Table 9.12).

The analysis and answers to these questions above are about the judgment whether the company lacks the brand (or sales channel) and whether it is necessary for the company to have them through acquisition from the market. Same as the previous judgment on technology, if the company already has a good brand or can create a sales channel, generally it does not need to invest more money to acquire the existing enterprises from the market. But we know that for the establishment of a brand, especially for it to be accepted and recognized by the market, it takes time to accumulate and precipitate. Thus, if the answer to the three items above is quite sure, it means that acquisition motivation of the company driven by brand and channel is clear.

The third motivation of peer acquisition is to gain economics of scale. This is mainly due to the small scale of the company in the industry, the company hopes to rapidly expand the number of products or services in the market through acquisition, to achieve economies of scale. Scale-up can also be achieved by expanding factories or establishing branch companies. For physical product, Scale-up can also be completed through OEM processing. For service product, its scale can be expanded by seeking franchisees from the market. Compared with acquisition, most of these approaches are cheaper. Therefore, for the purpose of expanding the scale of the economy, we should also evaluate the necessity of the acquisition strategy. The following table can help us assessing its necessity (Table 9.13).

Table 9.12 Evaluating the lack of brand or sales channel issue in acquisition strategy

Items for evaluation 2 in Fig. 9.2	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
My company has no mature band (or sales channel) in the selected area	
My company does not have the experience or ability or time to create a brand (or marketing channel)	
Third-party sales platform (such as public e-businesses, etc.) in the market does not sell my products well. Or the third party enjoys high profits leads to low profits of my products' business	

Table 9.13 Evaluating the lack of scale issue in acquisition strategy

Items for evaluation 2 in Fig. 9.2	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The quantity or scale of my company's product or service is small	
The cost of my company's product is higher compared to the competitors' due to the small scale	
The increase in scale can reduce the cost of my company's product (or play a synergistic effect), or can meet the growth of market demand	
Outsourcing of production is not suitable for my product or suitable outsourcing businesses in the market are not available	
Investment in expanding production scale by myself cannot meet my company's needs in time	

The analysis and answers to these items above concern the judgment on whether the company needs to expand the scale and whether it is necessary for the company to become larger in scale through acquisition.

In general, if the company really needs to expand the scale, it can choose to outsource or invest and develop by itself, etc. So sometimes, there is no need for a company to invest large sums of money to acquit existing enterprises from the market. For most companies that invest for acquisition, they obtain the scale (or capacity) as well as other resources or capabilities, such as channels, brands and technologies. Generally, there is little peer acquisition only for the sake of capacity. It is because the peer acquisition is able to acquire the resources and capabilities (technology, brand, capacity, management experience, channels, etc.) needed by the industry at one go, so it is favored by many companies with abundant funds in the industry.

C. "Guideline" evaluation (evaluation 3)

The guideline element in the bottom right corner of peer acquisition strategy triangle is the basic guideline or principle to the question "what kind of enterprise to buy," or instructive recommendation of the amount of funds to invest and the requirement of the target company. The following questions (or aspects) will help us to judge whether the guidelines proposed is correct or feasible (Table 9.14).

Item (1) concerns the plan of the company's acquisition funds. The amount of acquisition funds will determine the scale and standard of the target company on the market. Sometimes it will determine the capital plan of acquisition according to a good target company in the market. In general, the acquisition funds should not affect the funds required for the development of company's main business. Peer acquisition generally invests large amount of funds, for example, Geely Automobile spends 1.8 billion US dollars acquiring Volvo and raises 750 million US dollars as

Table 9.14 Evaluating the guideline in acquisition strategy

Items for evaluation 3 in Fig. 9.2	1-Totally disagree, 2-Not quite agree, 3-moderate, 4-Agree, 5-In full agree
The proposed financial budget for the acquisition plan is reasonable. And it will not affect the company's main business development of the demand for funds	
The proposed technical requirement (for the target company of acquisition) is reasonable. It represents the advanced level in the industry. (Not relevant for non-technology driven acquisition)	
The proposed requirement for product quality (for the target company of acquisition) is reasonable, which reaches the average advanced level of the industry. (Not relevant for non-technology driven acquisition)	
The proposed requirement for sales channels (for the target company of acquisition) is reasonable, which is in line with the needs of company's future product sales. (Not relevant for non-sales channel driven acquisition)	
The proposed requirement to the management team (of the target company of acquisition) is reasonable. It will have a smooth transition after the acquisition	
The proposed completion time of acquisition meets the company's development requirement	

the following operation funds.[1] Although BenQ does not spend much on the purchasing of Siemens mobile phone business, it takes nearly €840 million to maintain operation later. So the company needs a good plan of acquisition funds, including the amount and method of raising funds, etc. When it lacks funds, we need to carefully consider the acquisition or the extension of the acquisition and other issues.

If executives ask subordinates to search for the target company from the market, the subordinates will ask what kind of company to purchase, for which executives need to give them basic advice. Actually, the general opinions are important, because they are the basic guidelines of your acquisition strategy. It is the guidance to the specific acquisition of the target company, and items (2) to (5) concern the requirements of target company to be acquired.

In general, as to technology-driven acquisitions, one of the basic principles to follow is to acquire companies with advanced technologies in the industry. But we know that the more advanced the technology, the higher the price. Therefore, decision-makers can know the industry's technology and its development through

[1]Anonymous. (2010, March 28). Geely costs $1.8 billion to buy a 100% stake in Volvo. Phoenix car network.

technical experts in the industry. They can determine the scope of the advanced technology to be acquired according to their own resource of funds.

The acquisition price of enterprises with larger size and better quality in the market will be higher. Therefore, for acquisitions driven by obtaining the marketing channels, decision-makers can develop the overall ideology of the target companys channel requirements according to their own financial strength and regional development planning in order to provide guidance for the choice of target company's channels.

In general, peer acquisition will consider the technology, brand, channel, management experience and other aspects of enterprises to be acquired, so companies can plan the guideline of the acquisition strategy according to their own acquisition requirements as a whole, or highlight one aspect of the requirements as its guideline in the plan, such as leading technologies and so on.

Item (6) is about the plan of acquisition time. Acquisitions, as a relatively long process, involve the search for target companies, the negotiation, the assessment of the corporations to be acquired, as well as law, finance, tax, business and many other procedures. You can set the basic requirements for time in the guideline of acquisition.

If your answers to the six questions listed above are basically yes, your guideline of the acquisition is normally correct. Your subordinates can plan the specific tactic program of acquisition according to the guideline you determined.

It is worth mentioning that sometimes the elements of guideline in the company strategy will not immediately come out, not alone good ideas. They may be gradually improved in the process. For example, after you have determined your guideline, your subordinates may not find a target company that conforms to the guideline, or a company that happen to be on sale in the market may not exactly meet your basic needs. You need to adjust or improve the guideline according to the actual situations.

9.4 Conclusions

I have introduced some ideas and aspects of the evaluation of strategy from its three elements. The evaluation content will be more systematic. In addition, the evaluation process itself can help us think and analyze many aspects of strategic decisions again, so that it can reduce risks. This chapter also shows that evaluation through the three elements of the strategy is feasible.

If you evaluate a strategy through an actual example of a company, you will find that strategic evaluation involves many predictions, such as forecasts for the industry development, market, consumers, and for their future capabilities. Thus, decision-makers of a company need to be familiar with the industry and its own situation. Otherwise, the strategic evaluation will only be empty talk and the inaccuracy of the forecasts will lead to the inaccuracy of strategic evaluation.

From the perspective of the three elements, the strategic decision-maker is a prophet, thinker, discoverer and solver of major problems.

Reference

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10 Implications for Future Research

Perhaps the impact of strategic decision-makers on the quality of strategies is far beyond our imagination.

We will only see the glory and greatness of a good strategy when its idea has been reflected, which cannot do without the decision-maker.

10.1 Introduction

(1) **Overview**

This book probes into some of the most fundamental questions in strategy. For instance, what is strategy? What are the fundamental elements of the strategy concept? What are their internal links between the elements? How come strategy has more than 90 definitions? What is the relationship between strategy and tactic? What is the key extension of the strategy concept (or the crucial principle of making a strategy)? How can a strategy be evaluated based on the three elements? Etc.

The goal-oriented strategy and problem-oriented strategy presented in this book help us understand the origins of strategy. Strategy we generally refer to is goal-oriented. However, in reality, whenever the economy is sluggish, the latter may outnumber the former, and that's why they are practically instructive in helping companies dig into the origin of strategic problems and take a positive stand against them.

X.B. Yu, *The Fundamental Elements of Strategy*, Management for Professionals,
https://doi.org/10.1007/978-981-33-4713-7_10

The theoretical model of three elements of the strategy concept hopes to put an end to the controversial discussion over what is strategy in the discipline of strategic management for nearly half a century. The traditional understanding of strategy concept is linear thinking. It comprises two basic elements—the goal element and the guideline element for achieving the goal. However, studies in this book show that the strategic decision-making, whether it concerns military wars or business competition, it needs to identify the major problems in the way of achieving the target, while the guideline element is a programmatic general ideology on dealing with the major problems, providing guidance as to which direction should the specific tactics go. Hence, the strategy concept is comprised of **three core fundamental elements**. In other words, **strategy is non-linear**.

Chapter 1 introduces concerns of the literature about the concept of strategy. The discipline of strategic managementsuffers from having too many definitions,[1] semantic and ambiguous meanings in the literature of the strategy concept, of which Chap. 2 analyzed the reason and the interpretation. Studies of the book reveal that the reason lies in the complex strategic issues companies actually face, and in the limited ways some scholars take to view the concept. But it also shows that the strategy concept with too many definitions and meanings reflects the multiple practical strategies that companies hold. The key extension is also included in the definitions of strategy concept by many pieces of literature, thus making the confusion even worse. The most important extension is to make matching strategies regarding the resources and environment of a company, which I induce into the basic principles of making a strategy.

Which basic elements should be included in the definition of strategy? Or what is strategy and what is a strategic decision anyway? Chapters 3 and 4 in this book explain and answer these questions from the theoretical and practical angles respectively. They also propose the theory of three elements, and that the strategy shall be incomplete without any one of the three elements. Many books on strategy do not have chapters on what strategy is or the concepts of strategy. Contents in these two chapters make up for this gap in strategic management field.

The relationship between tactics and strategies is vital to understanding strategies. To some extent, understanding the relationship is the prerequisite for the comprehending of the strategy concept. Chapter 5 elaborates on the relationship between various strategies and tactics. The book also suggests that some strategies, such as the competitive ones, should include specific competitive tactics in order to form a comprehensive corporate competitive strategy. If **strategy is thinking, then tactics are plans under the guidance of strategic thinking**. Many strategic books do not have contents on tactic and its relationship with strategy, which is first discussed in this chapter of the book.

The sixth chapter introduces various strategies and their three elements. It proposes that the strategic names of the corporate level do not contain the expected guiding ideology. Therefore, to make the strategy of this level have the strategic attribute, the decision makers need to propose the guidelines to solve the

[1]The problem of too many definitions.

development problem of the company, and provide guidance for tactics. Taking the principle of strategic matching into account, Chap. 7 puts forward such concepts as the internally blind (or externally biased) strategy, externally blind (or internally biased) strategy and dually blind strategy, etc., which help us understand the various biased errors that may occur in making real strategic decisions. Chapter 8 introduces some internal and external information needed for strategic decision-making.

Strategic evaluation is helpful for us to re-examine whether the strategy proposed by the company conforms to the requirements of the company's resources and capabilities and the market development after the strategic decision, so as to evaluate the risk of the strategic decision. Chapter 9 tries to put forward the strategic evaluation based on the three elements of strategy concept and the principles of strategy formulation, including the evaluation of elements of "long-term goal", "development problem", and "general guiding ideology or guideline``. It helps to assess the risks of strategic decision after re-examining whether the company's strategy matches its resources and capabilities or meets the requirements of market development.

The three elements of strategy concept and the extension principle are of great importance to the future research in the strategy field.

(2) **Positives and normative studies in strategy area**

Positive studies concern research questions about how the world is and its research statements and outcomes are descriptive. It explains the reasons contributing to the outcomes. From positive study point of view, research questions with regard to the reality of company strategic decisions or contributing factors to its outcomes, no matter it is good or not good would be of interesting to us.

We know that a high-quality strategic decision needs to be made under the comprehensive consideration of the company's internal and external situation, which is to meet the basic principles of strategic decision-making. But in fact, a lot of strategic decisions are blind or biased as the decision-makers are human beings that may misjudge situations. Therefore, it will be of great help for us to understand the relationship between strategic decisions and decision makers, and other factors influence quality of decisions if we can figure out the factors that affect the decisions. Thus, from positive research point of view, the strategic decision-making model that reflects the mechanism of factors that have impacts on the outcome of a decision can be developed and studied.

Normative studies are about how the world ought to be. Its statements are prescriptive. Outcomes of normative studies in strategic management field could provide normative guidance to industry managers who make strategic decisions.

One type of normative study is about the general guideline contained in each individual strategy such as that of the competitive strategies and of the corporate strategies. As mentioned before, competitive strategy contains rather mature thinking, but it still awaits us to further explore the corporate group-level strategies on the guideline contents that can provide guidance for companies' practical use of strategies. For example, if a given company (with specific information in size, financial strength, R&D capability, employee characteristics, etc.) encounters a bottleneck in its development (assuming it is technology), given the economic and political environment, as well as the industry characteristics, is it possible to summarize some basic principles of decisions from a wide range of cases in order to provide guidance for the company's practical strategic decision-making.

Besides above, the study on the risk of strategic decision-making will also be interesting to us. Strategic decision-making is about investment and about the future trend, so there are risks. How do decision-makers weigh the risks? What kind of strategic decisions are considered to be highly risky or less risky? How do decision-makers prevent risks? These questions are of both academic and practical value in strategic management field.

Now let's look at these questions and content detailed that can be studied in future.

10.2 Research on the Three Elements

(1) **The content and basic types of "Long-term goal"**

To maintain profit stability or growth is almost the financial goal of most companies, but the profits will not come out of nothing. So the key to forming a strategy is the overall ideology through which the company is going to achieve profit growth in the future. Therefore, the company needs to develop a good strategy, achieve the strategic goals and therefore gains market shares and fulfills its profit targets.

Strategic goals and financial targets are different, for example, the previously mentioned acquisition of Volvo by Geely is driven directly by "technology" and "brand". By acquiring high-end technology and brand, Geely is able to sell its products to the Chinese market so as to obtain market shares and profits. Thus, from the perspective of direct strategic goals, some aim for technology and brand, while others consider social responsibility (including consumer, community, employee benefits, etc.) in making strategic goals.

Different strategic goals sometimes represent different directions, which beg the following questions:

- From strategic point of view, what are the major types of companies long term goals?
- Does each goal have segmented targets or sub-goals?
- Are strategic goals different for different companies (industry, size, age, etc.)?

Study on the types of strategic goals can help us thoroughly and systematically understand the long-term development goal which is one of the three elements of strategy concept, and know whether companies of different types (or features) or in different environments would make various types of strategic goals. If, yes, how the goals are differing?

(2) **How far will a Long-term goal go?**

As far as it goes, how far will a company's strategic goal go (or point to)? By "far" I mean two things. One, time. In other words, for how long will a strategic goal remain effective (five, ten, or twenty years).

Second, quantity or quality. This concept can be explained by the following example. If a young man of 20 or so is to make a long-term goal, he might plan to make 400,000 RMB (a certain quantity) a year after ten years (a certain time). He might also expect to be an intermediate or even senior manager (a certain quality) or to own a self-employed company (a certain quality) a decade later. Ten years is the time limit for realizing the target while the raise of salary or rank, or one's own company are the quality and quantity of the target.

There exist notions of "time" and "quantity/quality" in the goal element in strategic decision-making, i.e. how long will the goal take and what outcomes will the goal achieve? The study of the questions is of significance to our understanding of the strategy goal. **On the basis of the time and quantity/quality, it can be known whether the strategy goals made by companies of different types (or features) or in different environments vary in time, quantity and quality?**

(3) **The element of major issues in development**

Geely was in need of core technologies when it tried to develop into the high-end market, and this problem was fixed by the acquisition of Volvo. BenQ was short of distribution channels and good brand image when it first entered the mobile-phone market, so it tried to obtain what is needed by purchasing Siemens. Baoneng (a local Chinese company) had land resources but lacked of experience or brand image in the real estate industry, that is why it wanted to hold the shares of Vanke, who was prestigious in the industry in China. All these are challenges and strategies made accordingly during the development of companies, and there are too numerous cases to mention.

Mintzberg has compared companies' major development issue to jumping over the hedge in his writings about the 5Ps of strategy. It is known that a short child has difficulty in passing over a rather high hedge (suppose his aim is to do so), but for a tall grown man, this is not a problem, or we could say it's not a major issue for him. Companies in a certain industry are different in size, cost control, management or R&D capabilities. A certain major issue might be the obstacle of one company but not of another.

Therefore, we can study the following questions:

- What are the major issues during the development of small-and medium-sized companies or the young ones?
- What major issues might come across the leading companies in their development?
- When the economy is developing rapidly, what are the development problems companies might face?
- In a sluggish (or downward) economic environment, what are the development problems companies have to deal with then?
- Will there be different major issues in different industries?
- What shock would new technologies or business models enforce on companies of the relevant industries? How would they cope with the new things? Would they make the different overall strategies when they differ in ownership, size or capital, etc.?
- In the past, at present and in the future, which industries were, are or will be seriously hindered or even devastated by the development of the Internet?

Studying the above-mentioned questions can help us foresee the obstacles in companies' development.

(4) **Study on the element of guideline**

From a military standpoint, when facing the invading enemy, if one does not have a good guiding ideology, there are two possibilities, either to escape beforehand or being besieged by the enemy forces. It's the same story in business. If the decision-makers fail to put forward proper guiding ideologies (and tactic plans) when companies have major issues in development, the goals would not be achieved.

The guideline or overall ideology of the three elements aims at solving the major issues companies face in development, **the study of which serves as the core of the strategy discipline**. The outcomes of the study could provide industry executives with normative guidance for the strategic decision-makings of their companies. For example, suppose a company has a plan to enter into an unrelated diversification. Which industry to enter? The company's decision makers will be certainly benefited from adopting a theory (or a mature overall ideology) in this respect. The contribution of the theory will depend very much on research outcomes.

In general, study on the element of guideline or overall ideology can be conducted by taking into account the above-mentioned issues that are related to the element of major issues. The research questions are as following.

- What guidelines or overall ideologies would the small- and medium-sized companies or the young ones adopt when they come across all sorts of major problems in development?
- What guidelines or overall ideologies would the leading companies make when they face various major issues in development?
- Would companies take different overall ideologies respectively to deal with the development issues in booming or sluggish (or downward) economic environments? How guidelines or the ideologies differ from each other?
- When some companies are battered by new technologies or business models, what overall ideologies would the others adopt?
- Some industries are seriously hindered or even devastated by the development of the Internet. What overall ideologies would the relevant companies usually resort to?
- Under what circumstances (internal or external) might the companies baffled by major issues are unable to find the suitable ideologies or solutions?

Studying of these questions means a lot to us for apprehending the element of guideline or overall ideology. And if there are outstanding results in the future study, we could establish the core theories of the strategic management discipline, and thus provide guidance for various companies in their strategic decision-making.

(5) **The measurement of the three elements**

A complete strategy has three basic elements. The quality of a strategy is directly determined by the fact that whether the corresponding decisions on the three elements match the company's actual condition, and whether they are in line with the external environment. To know the overall quality of a strategic decision, study on whether the senior executives can make the right decisions on the "long-term goal", "major development problem" and "overall guiding ideology" should be carried out. Thus, it is necessary to develop the items to measure the three elements respectively, which will be the basis of studies on the core meaning of strategy concept.

The development of the measurement scale is not always easy as the strategic decision-making predicts the future. In this case, we can investigate in the three elements by referring to the real business cases of strategic decision-making or (liberal) disciplines of decision-making, or depending on the satisfaction brought by decisions of three elements.

The theory of three elements unveils strategic decision-making, and the measurement scale of three elements helps uncover all the elements, i.e., to make us understand more of the strategic decision-making and to know the profound mystery within.

10.3 A Strategic Decision-Making Model and the Related Questions

The traditional model of strategic decision-making explains the method of making strategic decisions, which is to evaluate the internal and external environments of a company and then come to the matching strategy. In reality as we can see from wars and cases of companies making strategic decisions that some strategic decisions are practical while some are not.

What factors influence and how they influence the quality of a strategic decision? A theoretical model of strategic decision-making is required to have an answer to this question. It involves the process, the mechanism and the influential factors on the result of strategic decision-making. The mechanism concerns about the positive or empirical aspects of strategic decision-making. The understanding of the mechanism is thus also the core of the strategy discipline. It will tell us when a strategic decision is good and when it is not good.

On the basis of the traditional model and the three elements, this section tries to create a model that wishes to explain the mechanism of strategic decision-making. Besides that, the factor of the decision-makers is also considered in the model so as to explain its influence on the process and result of decision-making, or why different people make correct, partial or incorrect strategic decisions.

Three groups of factors influence the quality of a strategic decision. They are the quality of decision information, (the maturity of) the decision maker and the practice of a company's strategic decision-making.

(1) **The decision qualities of the three elements**

Previous chapters have discussed that one strategic decision should be made by the integration of three decisions bearing on the destiny of the company, i.e., one on the long-term development goal or direction of the company, one on the identification of major issues or obstacles, and one on the general ideology that guiding the solve major issues. The appropriateness of each decision will affect the quality of the complete strategic decision-making.

For example, although Kodak realized that the digital camera might be a shock to the traditional roll film (i.e. the decision at the lower left corner of the strategic triangle is correct), its overall thinking (or decision) to address this key problem was generally wrong, so the overall decision[2] thus formed came as a disappointment. As another example, at the early stage of Chinese Revolution, Commander Wang Ming made the decision of confronting the enemy in regular warfare (the overall ideology), which was a misleading estimation of Communist Party's military power and the "major issues" at the lower left corner of the triangle.

[2]To protect its film business so as to maintain relevant profits.

As a result, it's evident that the three decisions involved in the three elements and their qualities (whether they are right or wrong) directly influence the overall outcome of the strategic decision.

Hence the relationship between the strategic decision-making of the three elements and the overall quality of the strategic decision will be worth of studying.

(2) **The influence of the quality of the internal and external information**

In the part of strategic principles in this book, it has been noted that the strategic decision will not be correct when the internal and external information of a corporate, as well as the situation, is not considered thoroughly. So the strategic decision could only be integrated by taking the internal and external information into full account. Strategic decisions are mainly made on the basis of the macro-environment (population, regional GDP growth rate, per capita GDP, etc.), the industry situation (present stage of development, size, competitive situation, etc.) and the company's unique resources and capabilities (size, nature, financial strength, R&D capabilities etc.) and other information. If a decision-maker is so slothful as to know nothing about the industry or the real situation of the company, he/she could hardly make any strategic decisions that are in line with the actual situation. The only way to win a war is to try to know your rival completely. However, in the age of information explosion, various massages are flooding people's life, and tons of information will not lend a hand in decision-making (Speier et al. 1999).

Therefore, here comes the model of relationship between the quality of decision-making information (the macro-environment, industry situation, and the firm resources and capabilities) and the quality of a strategic decision (Fig. 10.1).

Strategic decision-making needs information, data and the forecast of the future. The quality of the information, as well as the precision of the prediction directly affect the quality of the strategic decision. But it is known that there are hundreds and thousands of pieces of information concerning environment, industry and corporate internal situation, among which:

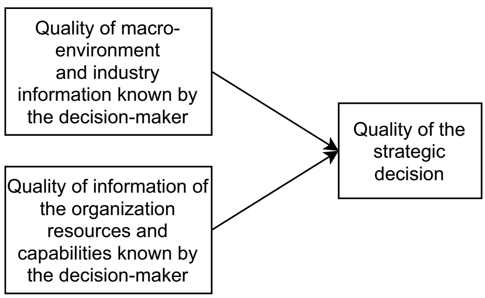


Fig. 10.1 Information quality and strategic decision quality

- What information would be used as the external information of strategic decision-making?
- What information would be applied as the internal information of strategic decision-making?
- Does information used in strategic decision-making process vary in different industries?
- How to measure the quality of the macro-environment and industry information known by the decision-makers?
- How to measure the quality of the information of the corporate resources and capabilities collected by the decision-makers?
- How do the quality of the macro-environment and industry information known by the decision-makers affect their evaluation on the macro-environment and industry situation?
- How does the quality of the internal information of an organization obtained by the decision-makers affect their evaluation on the company's resources and capabilities?

Further research can be carried out to study the above questions.

(3) **The influence of the individual factors of decision-makers**

Judgments are needed in making strategic decisions. They are made by decision-makers who differ from one another in age, personality, and cognitive ability, past experience, social network and resources he or she posse, all of which will affect one's judgment and the result.

For example, in the early days of the Chinese Revolution, Chairman Mao and other revolutionaries made the right judgment on the situation at that time, and also more practical military policy compared with that of Wang Ming. Therefore, even in the same situation (or in command of the same information), different people will make different judgments (Barr et al. 1992; Bourgeois 1985; Tripsas and Gavetti 2000) or even opposite ones on the environment. Beach, Connolly (2005) and Kim et al. (2006) also noted that different levels of judgment ability with respect to the information for decision-making lead to different strategic decision choices.

One's judgment is closely related to his or her cognitive ability. Cognition refers to the process by which people recognize and understand the outside world, interpret the information that the external things act on the sensory organs of human beings, and acquire knowledge by the use of the psychological activities such as concept, perception, judgment and imagination. As early as 1963, Cyert and March (1963) introduced the concept of cognition into decision-making. Haynie and Shepherd (2009) developed the measurement scale of meta-cognition which shows that the stronger one's cognitive ability is, the fewer decision errors he or she will make (Mitchell et al. 2011).

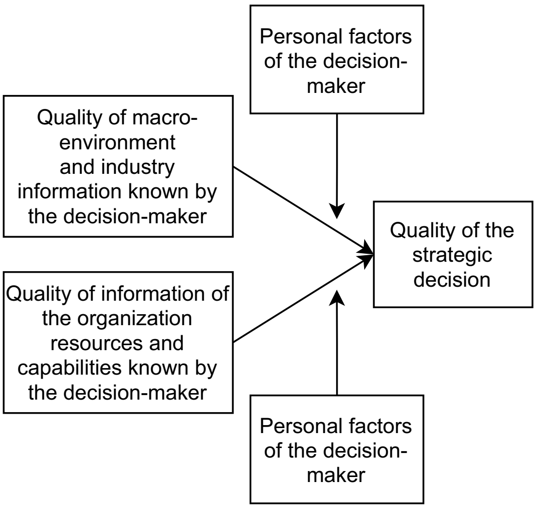
Take the war of Longwan between Zhu Yuanzhang and Chen Youliang as another example. When Chen sent troops to attack Yingtian (Nanjing today), most of Zhu's counselors advised to escape because the hostile forces were much powerful while Liu Bowen insisted garrison. Escape and defense were two decisions made by judgment. During this process, Liu Bowen and other counselors made the same decision (or identification) of the three elements on the major issue, but disagreed on goals (other counselor's goal was "to give up Yingtian", while Liu's was "to station troops to defend") and overall ideology (other counselors' was "to escape" while Liu's was "to ambush"). It can be seen that with the same situation and judgment (the enemy is too strong to fight), the responsive strategies (here referring to guiding idelogy) are different. In other words, different decision-makers would make different decisions under the same circumstances. History has seen the right decision of Liu Bowen as Longwan War ended up with the triumph of Zhu Yuanzhang side which not only defended Yingtian, but also beat Chen Youliang side to bite the dust.

In this sense, the factor of individual decision-maker affects the relationship between the decision information and result of a strategic decision. Or individual factors moderate the relationship between quality of decision information and quality of strategic decision. We thus could have the following model (Fig. 10.2).

Questions concerning the model can be further studied:

- How do the personal characteristics of the decision-maker (age, experiences, intelligence quotient, industry experience, personality, and education) affect the quality of the strategic decisions of the three elements and the overall strategic decision?
- How does the social cognitive ability of the decision-maker influence the decisions of the three elements of the strategic decision-making and the overall strategic decision?

Fig. 10.2 The influence of the decision-makers on the strategic decision quality



- What kinds of decision-makers (or decision-makers with what characteristics) are prone to make internally blind (or externally biased) strategic decisions?
- What kinds of decision-makers (or decision-makers with what characteristics) tend to make externally blind (or internally biased) strategic decisions?
- What kinds of decision-makers (or decision-makers with what characteristics) are inclined to make dually blind strategic decisions?
- What kinds of decision-makers (or decision-makers with what characteristics) are apt to make integrated strategic decisions?

The answers are still unknown, but the influence of each strategic decision-maker on the quality of the strategic decisions might beyond our imagination. In the war of Longwan, were it not for Liu's decision of ambush, or Zhu and Liu's detailed tactical plan based on the geographic features of Yingtian and the characteristics of the vessels of Chen Youliang's troop, it shall never be revealed what are the strategy and tactics that defeat the powerful Chen Youliang; nor shall we ever know the strategic thinking and tactical plan of this war.

The brilliance of a good strategy might only be uncovered when its ideas behind is reflected, which inseparable with the decision-maker. Kuper et al. (2013) suggested that strategy can be better understood if it is explained as a story. Considering the influence of the decision-makers on strategies, I couldn't agree more.

(4) **The influence of the information management practices**

Of all the information related to strategic decision-making, it's rather difficult to obtain full messages of the industry and the competitors. Some companies set up specialized departments or hire personnel to collect and analyze the development trend shown in the information about the industry, market, competitors and consumers. But some companies, especially the small ones, do not have such organizations, so the decision-makers have to acquire information by all means themselves.

Although the internal information of companies can be easily got, some still have specialized departments to extract and analyze the key information.

In that way, do companies that have specialized strategic departments acquire better decision-making information with regard to quantity and quality than those that don't? In other words, does the management method of decision-making information affect the quantity and quality of the information held by the decision-makers? The influence of the information acquisition and management ways on how well the decision-maker acquire information can be then added in the decision-making model (see Fig. 10.3).

Questions that can be studied in the model include:

- Do companies with specialized departments collecting and analyzing information have better decision-making information with regard to quality?

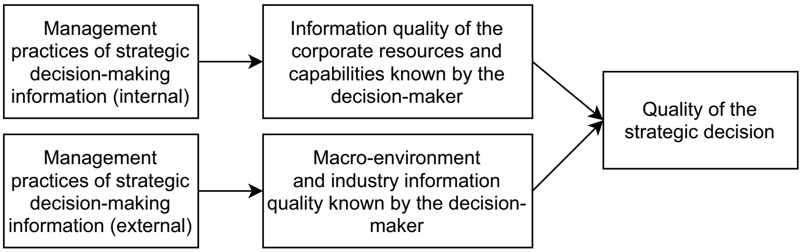


Fig. 10.3 The management of the decision-making information and the information quality

- How does the decision-maker's own habit of collecting information (such as joining the associations, reading the professional information and checking the corporate reports, etc.) affect the information for decision-making and the quality of the information?

(5) **The influence of decision-making practice**

Since the strategy touches upon the future direction of an enterprise, many companies take cautious steps while making a decision. Strategic decisions are made in different processes and methods by different companies. Some would hire the third party such as a consulting company to analyze the strategic plan and argue about it. Smaller enterprises or those with equity concentration, or those centralized firms would probably make more personalized decisions. Some scholars believe that large businesses are more rational during the process of strategic decision-making (Hart and Banbury 1994; Elbanna and Child 2007), while small companies would rely more on intuition (Brouthers et al. 1998; Khatri and Ng 2000).

It is generally thought that the collective decisions, though time-consuming, are better than the individual decisions in terms of quality. However, the strategic decisions, unlike the daily ones, needs to be made on the basis of deep and comprehensive understanding of the internal and external environments of the company. The study of McNamara et al. (2002) shows that positive correlation exists between the complexity of the decision-makers' knowledge and the performance of the companies.

Questions are raised therefrom:

- Is every participant involved in the collective decision-making familiar with the internal and external situations of the company? Or how familiar is every member of decision-making with the decision information?
- Do the collective decisions always surpass the individual ones in terms of setting the goals, identifying the major issues of development and making the overall ideology? If so, then under what circumstances?

- How does the maturity of a company's senior management team affect the quality of strategic decision (setting the long-term goals, making the overall ideology, etc.)?
- Under what circumstances would a certain decision-making method contribute to making the right strategy?

Studies show that there is no significantly positive correlation between the uniformity of the senior management when making strategic decisions and the performance of the company (Bourgeois 1985; Grinye and Norbarn 1975). Priem (1990) believes that when the environment remains stable, the uniformity of collective decision-making should be positively correlated to the performance of the company, but when the environment becomes complicated, low uniformity of collective decision-making should contribute to the performance of the company instead. It can be explained that when the environment is rather stable, most people can give fairly accurate prediction on future development, and thus make comparatively right decisions. But when the surrounding is full of uncertainties or complexities, special insight and judgment are needed to foresee the developing trend, while only a few are equipped with such skills. A complete strategy decision is composed on three sub-decisions. If the accuracy of each sub-decision is 50%, the set accuracy of the three sub-decisions will only be 12.5%. According to a reported (The Ministry of Commerce, 2016), only 13% of Chinese companies' overseas projects are profitable and 63% are non-profit or loss-making. Chinese entrepreneurs are not as familiar with the foreign business environment as China's native environment. The low success rate of Chinese enterprises' internationalization strategy shows the complexity of some strategies to a certain extent.

The following question can be thus drawn forth:

When the environment is complicated, are the individual decisions made by decision-makers who know the company and the industry better than the collective ones in terms of quality?

Studying the above question would be helpful in understanding the effects played by different ways of making decisions in the strategic decision-making.

Above introduced research questions are about positive aspects related with strategy decision. These questions concern with objective facts and the outcome of strategy decisions. They reveal the mechanism of strategy decision making process and factors that have influence on the outcomes. The following figure shows a theoretical model and factors influencing quality of a strategic decision. In the figure, the quality of decision information has a direct impact on the quality of strategic decision-making. Personal factors of decision makers play a moderate role between information quality and strategic decision quality. In addition, a company's strategic decision-making practices impact on the relationship as well (see Fig. 10.4).

For strategy to have the theoretical function of providing guidance for company practices, we need to understand normative aspects of strategy decision. Normative aspects relate with questions of "how company strategies should be".

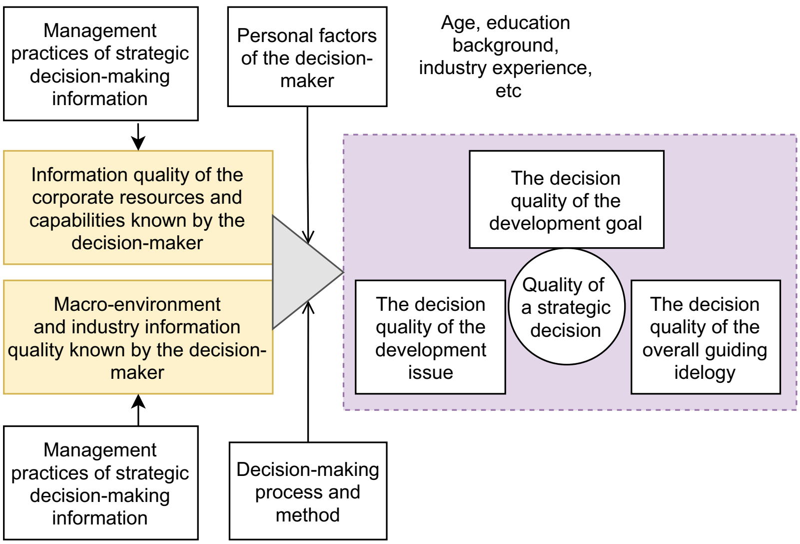


Fig. 10.4 A theoretical model of the strategic decision-making

There are many books about military such as *The Art of War* and *Sun Bin's Art of War*, etc. summarizing the basic military strategies and tactics that should be taken under various circumstances including when the enemy is weak, strong or well-matched in strength. The strategy and tactics are refined and profound military thinking that tell the ways to achieve victory (including the laws of military management and of logistics, etc.) and humanitarianism in war (avoiding war to the greatest extent and conquering without a single fight, etc.), and thus can provide guidance for the overall ideology of wars. A commander who has a good knowledge of the art of war, can use the thought of the art of war according to the specific situation and put forward the idea of solving the problems when encountering problems in the war.

If we can summarize the regularity of enterprise strategic thoughts and provide guidance for senior managers in making strategic decisions, we will make great contributions to the discipline of strategic management. The guiding ideology of war is called the art of war, we can name the guiding ideology of commercial competition as the Art of Business Strategy. The art here mostly refers to the guiding ideology element of strategy.

I mentioned early in the book that due to the contributions of Professor Porter and Professor Boman, the art of competitive strategy (or the art of strategy at business unit level) is relatively mature. The art of strategy at corporate level needs our development and research refining. Following I will present some research questions.

10.4 Questions Concerning the Competitive Strategy

Chapter Six mentioned that the strategy at business unit level concerns mainly the question of how to compete. From this perspective, the keynote of a strategy aims at attracting the consumers in the market. Competition is bound to happen in every industry as long as it is not monopolized. All the companies in competition are faced with the question that what makes their products more appealing than that of their rivals so the customers are more willing to buy their goods instead of those of other companies. In other words, how to attract the consumers in the market and what could I use to attract the consumers? Or it could be interpreted as what better added values I (my products or services) can bring the consumers, compared to the competitors. These questions share the same core content, and are of great significance for companies to make decisions in terms of products and services.

(1) **The element of guideline of the competitive strategy**

It can be seen from the strategy clock that the competitive strategy of a company could be measured from two dimensions: the price of the products (or services), and the added values brought to the consumers by the products or services. The way that a company sells its products or services with middle and high added values to the market in low prices is called Hybrid Strategy. So when a company formulates its competitive strategy, it defines its targeted customers in the market. It is clear that even in the same market, enterprises would adopt various strategies to deal with the great challenge of by what means to attract consumers, such as the competitive strategy of cost-leadership, the hybrid, the differentiation and even the focused differentiation. Here is a question that can be studied:

For what reason would different companies of the same industry choose different competitive strategies? What are the roles of such factors as the corporate history, company capabilities and the values of the head or founder of the company, etc.?

Throughout the competitive strategies of all sorts of companies, it can be found that they (or the company's positioning in the market with regard to the prices of its products or the added values the consumers enjoy) have their traditions and heritage related closely to the founder of the company. For example, Louis Vuitton was founded in 1854 by Mr. Louis Vuitton who won the trust of Queen Eugenie. This brand has attracted the upper class with chic taste, and has always uphold the concept of producing perfect products.

According to resource based view, a company's strategy is mainly determined by its resources and capabilities. Mr. Louis Vuitton has the capability of producing and selling elegant and exquisite products to the market, so his company launches high-end products.

The principle of strategic matching suggested that a company needs to consider the external environment as well as its resources and capabilities. Calingo (1989) and Zajac and Shortell (1989) also believe that the competitive strategy of a company is affected by the environment. When the environment changes or is contrary to expectation, **would the company alter its basis competitive strategy or work out a new one accordingly?** Or what is the role of the external environment in determing a company's product position?

For instance, in the manufacturing industry, the qualities of the products cannot be improved within a short period, which is why an auto manufacturer who has never produced high-end cars would not enter such a market before acquiring the technologies needed. If a company has been following the competitive strategy of cost-leadership, would it develop its technologies and introduce new competitive strategies when the demand for quality products increases significantly in the market as time passes? If the answers are yes for some companies and no for others, then we would wonder why some change their basic competitive strategies while others don't?

Similarly, if a company only provides products and services for the high-end market, **would it enter the mid- and low-end market when the demand is huge?**

(2) **The dissociation of the clients and consumers on the internet platforms**

The development of the Internet has given rise to numerous network platforms where the definition of traditional clients and final consumers change, and the clients are no longer equal to the consumers. Take Baidu, the search engine, for example, its clients are companies who could pay for its services (those who advertise themselves on baidu.com), but its consumers are people who need the information. In that case, the needs of the clients and of the consumers are not the same to Baidu. In the case of Wei Zexi (who was misled by the search results on Baidu, and died of synoviosarcoma), the doctor information listed on the top was not the information the patient needed, which shows a contradiction between the demand of the clients and the consumers.

As another example, P2P platform companies have two kinds of users, project launcher (those in need of funds) and investor (those who provide funds). Some companies used to conceal the actual situation of the projects in order to attract investment, leaving investors suffer from property lose.

Today, the development of the Internet sees many new business modes in which the clients are separated from the consumers.

In the incident of Wei Zexi, Baidu regards the advertisers as its clients, instead of the final consumers who use the information on the platform, and wishes to provide them with more added values. Questions worth studying here are:

If the clients are not the final consumers, what kind of overall strategy would companies choose in competition when there is conflict of interest between the two?

When there are contradictions between the interests of the clients and the consumers, would there be obvious performance differences between companies who ignore the interests and demands of the final consumers and those who don't?

Studying the questions above would help to better reveal the competitive thinking presented by the competitive strategy, especially the business ethics and thinking.

(3) **The competitive tactics**

When it comes to military affairs, the details of each and every tactic are vital to the result of a war. Take the battle of Chibi during the Three Kingdoms Period (208 A. D) of China for example, after making the overall plan of attacking Cao Cao's vessels with fire, Zhu Geliang had to think carefully the tactical details. For instance, how to trick Cao into chaining his vessels together so that they could not move during the fire attack? When would there be Southeast wind to blow the fire unto the enemy's vessels since in winter the wind normally comes from the Northwest? In face of defeat, which way would Cao choose to flee? The correctness and perfection of tactic making is decisive in a war.

In business competition, the competitive tactic plans are equally important.

For example, when a company chooses the competitive strategy of differentiation, how can it differentiate its products or services so as to make theme preferable for the clients and consumers in the market? Although picking differentiation themes only concerns the tactics, however, if a company goes to the unwelcome one, it will seriously impede the achievement of the competitive goal. So the following questions can be asked:

Given a certain industry, what basic differentiation themes (competitive tactic plan) do the products or services have?

When a company chooses to compete with differentiation thinking, how does it determine or pick the competitive tactics (or differentiation themes)? In other words, which factors (such as the idea, artistic culture of the manager, and his/her familiarity with the clients and the technologies) have influence on the differentiation themes of the products or services?

How do the company's capabilities and the characteristics of the main clients in the market affect the selection of differentiation themes?

These questions are of great significance in further explaining the differentiation strategy.

For companies that choose the strategy of cost-leadership, the next move is to determine the specific tactics which aim at lowering the cost after making the overall strategy. Some industries need large scale and investment (such as aircraft manufacturing, automotive mount, etc.), while some want large amounts of labor input (such as construction, catering, etc.). **Does every industry have a different way of lowering the cost?** On the basis of traditional cost management, given a specific company, **what other methods remain available to reduce the cost?** Studying these questions would also help to discover the strategy of cost-leadership.

10.5 Research Questions of the Corporate Strategy

Now let's see what research questions remain to be studied concerning some of the specific strategies at corporate level. And in this part, I only investigate the following three strategies.

(1) Questions of the backward integration strategy

The strategy of backward integration is a company's aim to enter the field of suppliers. The three elements of this strategy have been introduced in Chapter Six, and related research can be carried out from the following perspectives.

Study on the element of major development issue.

Normally, a company would consider entering the field of suppliers when the prices of the raw materials or accessories are so high as to increase the procurement cost, or when the qualities of the raw material or accessories which could be purchased from the market are not stable so as to affect the quality of the products. Apart from these reasons (or major issues in the development of the company), are there any other important reasons for the company to take backward integration into account?

Study on the element of overall guiding principles.

The element of the strategic triangle at the lower right corner involves two basic guidelines, whose specific content needs to be decided by the company's senior management.

The first guideline (guiding principle 1, see Fig. 10.5) is to decide on choices of the following three: to development the new business by its own, or acquire or hold the shares from the market. Then the following questions are raised (or could be studied):

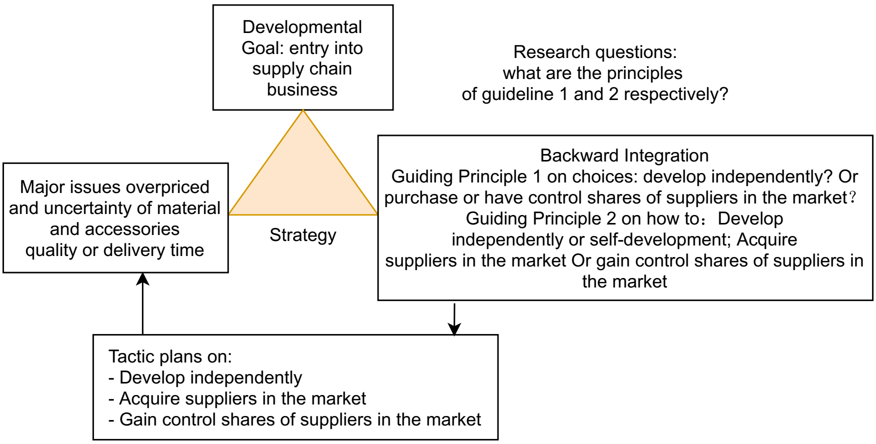


Fig. 10.5 Study on the guidelines of the strategy of backward integration

- How would a company generally decide on its basic guidelines? Or what factors would affect a company's decision choices (self-development, share-holding and acquisition)?
- What are the characteristics that make a company inclined to choose self-development? If such characteristics do exist, does it mean that the companies having no such characteristics have made the wrong strategic decisions when they choose self-development? Or what would the result be?
- What are the characteristics that make a company intend to choose share-holding or acquisition? If companies having no such characteristics choose share-holding or acquisition, does it mean that they have made the wrong strategic decisions? Or what would the result be?
- In addition, with what characteristics would a company never consider backward integration but to accept the given prices and qualities in the market when it comes across the development problems including high prices and unstable qualities?

The second guideline (guideline 2 in Fig. 10.5) is to put forward guiding thinking or policies on "how to". For example, on the assumption that the guideline 1 prefers acquisition, the question would be asked:

- What are the differences between the requirements or standards of different companies (with respect to scale, profitability or status in the industry) in deciding (or choosing) the target enterprises? Is there a regular pattern?

Studying these questions is important for explaining the strategy of backward integration because this process is instructive in establishing the basic acquisition principles of the strategy of backward integration.

Study on the risks of the decision.

Even though by adhering to the strategy of backward integration the company enters an industry that is related to its own, the two industries are not the same. For instance, when a company of iron and steel melting enters the industry of iron ore, it enters into the mining industry. Since the two industries are abruptly different, if the company has no experience with regard to the field of the supplier, then such a move could be risky as the company enters into an unfamiliar field.

Therefrom questions can be asked (or could be studied): from which aspects would the company ponder over the risks (such as the risks of management, technologies, funds, market demand, etc.) of the backward integration strategy? What are the features of the highly risky decisions that adhere to the strategy of backward integration? How about the low-risk ones? Would companies normally choose the highly or the moderately risky ones? How do they control or manage the risks?

Study on the satisfaction of strategic decision.

Would the strategic decision of backward integration without clear guideline 1 and 2 in Fig. 9.7 or risk control scheme bring about significantly lower satisfaction than those opposite ones?

(2) **Questions of unrelated diversification strategy**

The strategy of unrelated diversification means that the company enters a business field which is not related to its own. From the perspective of the strategic decision-making of the three elements, the following questions of the strategy are worth studying.

Study on the drivers and the company features of unrelated diversification.

What are the problems during the development of a company that make the senior management think about entering a field that is not related to the main business? Would the main reasons for many companies to consider unrelated diversification be that the target industry can bring about development potential or high profits and that the main business of the company is on the decline?

When the Chinese economy was progressing rapidly in late 1990s and early 2000, the real estate industry boasted high profits and return as to attract many enterprises from other industries. Therefore, the high profits of the target industry make some senior managerial staff think about a major development question, which is whether the company should enter the industry that bears no relation to its main business. But the fact is that many competent companies did not enter the real estate field even the industry was at its peak. So here come the questions that what kinds of enterprises would consider entering the target industry when there are high profits? What kinds would not? What are the effects of the company's scale, capital and leaders' characters, etc.?

Apart from the high profits of the target industry and the decline of the main business, are there any other development problems that make it necessary for the company to enter an industry which is irrelevant to its own? Would the hobbies and interests of the decision-makers and fund surplus of the company also be factors for considering unrelated diversification?

Study on the research questions of guideline 1.

In China, there are lot of private coal bosses in Shanxi Province in China. Due to the slump in the coal mining industry, many have turned to other businesses such as the real estate, catering or transportation. From study perspective, how do they manage to find new industries and businesses? What are the basic principles of doing so? Based on what principles would the decisions of unrelated diversification succeed? What roles do the original resources, social connections and individual personalities play? What's more, what are the principles for a company to decide between acquisition, share-holding and self-development when it is determined to enter a new industry or business? What are the effects of its original capital and social connections? All these can be concluded in Fig. 10.6.

Studying these questions is helpful in establishing the basic principles for the strategic decision-making of unrelated diversification, and it is crucial for explaining strategy theoretically and for guiding future practice.

Study on the risks of the strategy of unrelated diversification.

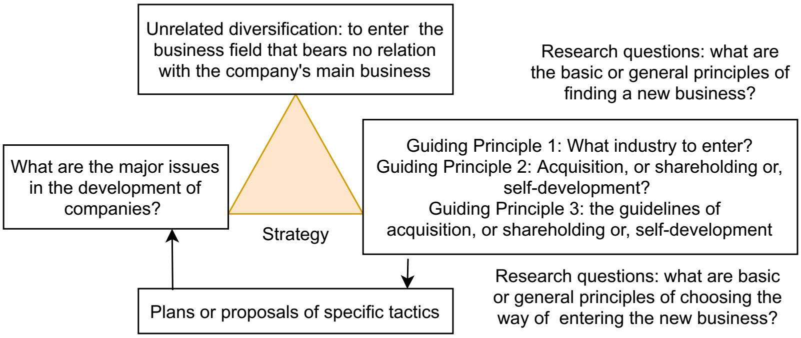


Fig. 10.6 Study on the guidelines of the strategic decision-making of unrelated diversification

Just like the backward integration, the strategy of unrelated diversification instructs companies to enter an unfamiliar industry. The following questions might be raised (or studied): from which aspects would the company think over the risks (of technologies, funds or market demand, etc.) brought by the strategy? What are the characteristics of a highly risky strategy of unrelated diversification? How about the low-risk ones? How do companies control or manage the risks?

(3) **Study on the questions of the peer acquisition strategy**

Peer acquisition means that the company purchases an enterprise who has the same main business. Generally speaking, the aim of such acquisition is to obtain key technologies, brand or economy of scale. The following questions of the strategy is worth digging.

Study on the element of major issues in company development.

A company acquires another enterprise of the same industry to gain some new advantages in the market such as advanced (or core) technologies, marketing channel, brand, economy of scale, or rapid expansion, etc. In other words, the company cannot develop further because it lacks advanced technologies, a brand recognized by the market or scale, so it wishes to solve the problems through acquisition. In that case, **apart from the major issues in development, are there any other challenges that must be tackled through acquisition?**

Actually,technologies, brands, marketing channels and the expansion of market shares could be achieved through companies own effort. For example, Huawei basically depends on itself and works with the western companies to improve its technological ability of products and solutions. In 2006, it cooperated with Motorola to establish the Joint R&D Center in Shanghai for the purpose of developing UMTS (Universal Mobile Telecommunications System) technology. In 2007, it founded a joint venture with Symantec to develop the products and solutions of storage and security. And in the same year, it cooperated with Global Marine to jointly invest in working out the solutions for developing the end-to-end network of cable. By 2010, Huawei R & D personnel accounted for 46% of the total number of employees in the company. The company also set up 20 research institutes in the United States, Germany, Sweden, Russia, India, China and other places, and founded more than 20 joint innovation centers with the leading operators.[3] Questions worth asking (or digging) are as follows: when companies are facing major issues (or bottlenecks) such as technology and brand in development, which of them would take (or not take) acquisition as the solution? What are the roles of the factors of a company such as the age, size, profitability, relations with the government, interpersonal networks, past acquisition history, and personal characteristics of the high-level decision-makers?

If a company does not take advantage of acquisition to solve development problems in terms of technology and brand, etc., it seems that the decision has nothing to do with the acquisition strategy. But if we look at it from the angle of the strategic decision-making of the three elements, or if we do not take the word of acquisition into account, it can be found that the strategy is born out of the problems met by companies. But why do some companies use acquisition while some choose other ways to solve the obstacles encountered? Understanding this question can **illustrate the influencing factors of the decision of acquisition and non-acquisition, and thus further explains the acquisition strategy**.

Study on the questions of the element of guidelines for acquisition.

The company's guidelines or principles regarding the requirements of the target company are essential to the choice of the acquisition target. In addition to the monopolized and oligopoly industries, there are many companies in other industries, then why is the certain company being selected? **What are the basic principles of companies' peer acquisition? How do they determine these principles? What are the roles of the acquisition purpose, the resources available, the profitability, the social relations and the interpersonal network, and the personality of the decision-maker?** All the questions are included in Fig. 10.7.

Studying these questions helps to establish the basic principles of the strategic decision-making of peer acquisition. And it is crucial for understanding the strategy and for guiding the future practice.

Study on the risks of the strategy of fraternity acquisition.

Strategic decisions concern investment. Usually the investment involved in the acquisition strategy is relatively large. What risks of the acquisition strategy (such as the market risk, technological risk, funding risk, and the risk of being boycotted by the acquisition target, etc.) would generally be considered by companies? How do companies control or manage the risks?

Study on the satisfaction brought by or performance of the strategy of fraternity acquisition.

If the decision violates the acquisition principles, is it destined to fail? Do acquisition decisions that have no clear guidelines or risk control schemes bring about significantly lower satisfaction than those that do?

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[3]Huawei Technologies Co., Ltd., from *360 Encyclopedia*, November 15, 2016.

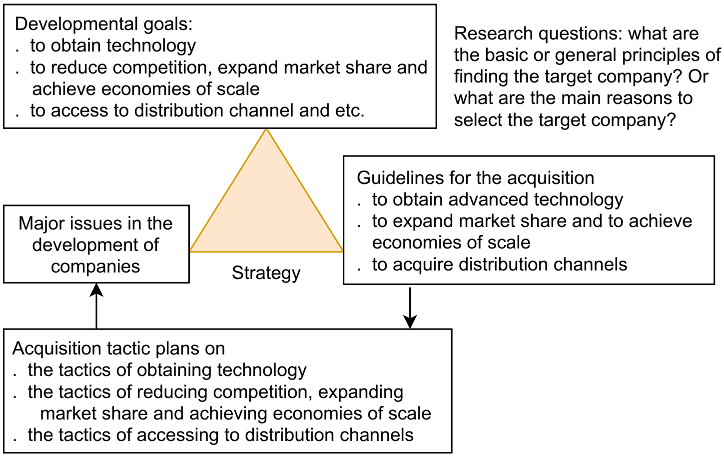

Fig. 10.7 Study on the principles of the peer acquisition for choosing the target company

10.6 Research Questions on the General Principles of Strategic Decision-Making

In Sun Zi ‘Art of War, there are several chapters concerning principles on war, such as “initial plan, battle section, attach and seek, military contention, march and topographical work”.

In the chapter of “attach and seek”, there is a principle of “subdue the enemy without fighting”. The supreme end of war is to keep the country at peace and protect the people. “Subdue the enemy without fighting” is to serve this end. This theory or principle is applicable to any war that wishes to avoid the suffering of the civilian people.

Enlightened by the military thinking, I have been thinking about two basic issues. One is from academic point of view, do we have such principles for helping managers to make various business strategies? If yes, what are they? In Chapter Seven, I introduced three principles that need to be followed in strategic decision-making including matching the external environment and the internal resources. Are there any other principles apart from the ones in Chapter Seven? The answer should be positive. And they can be refined and summarized to guide the strategy of companies.

(1) **The factors of macro environment and industry**

Since 1980s, the development of China’s economy has witnessed the change of consumer groups, and I am also one of them. In 2003, I went to Paris for a business trip, and three bottles of ordinary mineral water almost cost my one day’s wage, so it's fair to say that in the streets of Paris, I was absolutely a poor person. But at present, many Chinese consumers can earn more salary income, so their consumption habit are proceeding from being barely fed and clad to a more comfortable life.

During the development of an economy, the environment in which various industries are located is also changing. In the process, some enterprises expand while some disappear. The development of an industry is closely related to the trend of economic development and government policies in the region, therefore a company can only survive when its strategy matches the external environment. Then questions can be raised:

- When the economy is developing rapidly, what principles of strategic decision-making should company with different characteristics adhere to (or insist on) to explore and seize the opportunity of developing with the economy?
- When the economy is sluggish or even downward, what principles of strategic decision-making should company of different characteristics adhere to (or insist on) to avoid risks?
- Can we summarize or deeply understand the regularity of the principles of strategic decision-making that various companies adhere to in the process of economic development? Or is there any regularity of business strategy similar to the "Art of War"?

What is the practical significance of studying the questions above? Assuming that in a fast-growing economy, there is a medium-sized company of low-profitability producing low-end products. If the company would like to develop in a sustainable way, are there any theories that can tell the company what basic principles its development strategy should adopt in order to achieve the long term development goals? Or can research results (theories) provide a pattern for the company's strategic decision-making?

It can be seen that if the regularity of the principles that various companies adhere to when making strategic decisions in different stages can be concluded, not only would the strategic disciplines be developed, but the practice of enterprises would also be guided.

(2) **The factors of corporate resources and capabilities**

It has been introduced before that an important principle of strategic decision-making is that the strategy must match not only the external environment, but also the company's internal resources and capabilities. Under this basic and general principle, is there "specific" (or sub-) principles in terms of companies' resources and capabilities? What does this question mean? For example, compared to small- and medium-sized ones which are generally weaker, do large companies with good profit adhere to different principles while making the strategy? Are the principles of the problem-solving overall guiding ideology different when the two kinds of companies encounter the same or similar major development issue? Are there corresponding principles of strategic decision-making for large and strong companies to refer to? Similarly, are there basic principles of strategic decision-making to provide theoretical guidance for smaller and weaker companies?

Or we can study the following questions:

- What overall ideology or principles would companies of different sizes and profitability choose to overcome the key development problems? Is there any regularity in the principles embodied? If any, what is the regularity?
- Would small businesses generally choose schemes or plans that require smaller amount of investment (for instance, if the company is lack of core technologies, would it choose to develop by itself or work with others)?
- Would large and competent companies with good profit normally choose schemes or plans that require larger amount of investment (for instance, if the company is lack of core technologies, would it choose to acquire another company that has such technologies)?
- Why would "a snake tries to swallow an elephant" (small businesses acquiring large ones)? How should we interpret the phenomenon? What logic (or principle) does the decision-maker follow?

When viewed from the perspective of logic, acquisition of snake swallowing an elephant is against the basic principles of strategic decision-making (that the strategy should match the company's resources and capabilities). But this phenomenon does exist with successful cases. There were many overseas acquisitions in Japanese companies during the 1980s when its economy was in a boom. Nowadays, China's economy is progressing while the western economy is sluggish. Many Chinese businesses, including some small- and medium-sized private companies, have started to acquire and merge with overseas enterprises. In 2015, Changjiang Elec. Tech. (stock number is 600,584) announced its plan of making a tender offer to STATS ChipPAC Ltd which ranks the fourth in the world and is twice its own size.[4] Jschina.com.cn reported on November 3, 2016 that Jiangsu Cubespace Furniture Co., Ltd., a growing private enterprise, invested USD 78 million to acquire Friant Associates, an American company leading the industry of office furniture.[5] We can probe into the questions that under what conditions (or in line with what principles) would such M&As have a better chance to succeed? Without the conditions (or principles), would such M&As less likely to succeed? Studying those questions will give us a better understanding of such acquisition strategy, while at the same time the summarized theory can also provide guidance for the practice of companies.

[4]Fu, Shengbin (2015), Deep Analysis of the Overseas M&A of Changjiang Elec. Tech., New Fortune, May 18, 2015.

[5]Sun et al. (2016), what gives the private enterprise in Yangzhou the courage to buy the US leader of the furniture industry? Jschina.com.cn, November 3, 2016.

10.7 The Risks Brought by the Element of Overall Strategy

What brings the victory in a war, fighting or compromising? If the answer is the former, then what should be the guideline? Fighting strategies born out of different guidelines directly influence the military powers put into the war, and bring about different potential risks.

(1) **How to ponder over the risks of different guidelines**

The strategic decision-making of a company concerns the scale of the investment. One factor that affects the investment is the "guideline or overall ideology" element at the lower right of the strategic triangle. For example, when a company wants to improve its technological capabilities, it can cooperate with others in the market (domestic and international companies), or acquire another enterprise. Through acquisition, companies can directly get technologies and brands but the investment needed is large. So the risks involved in the two different strategies are different. Strategic decision-making, in many cases, is to choose different scenarios, and to assess the expected returns and risks. Then we would ask:

- When a company faces a major issue in development, how does it weigh the risks brought by different problem-solving overall ideologies?

(2) **Thinking over the risks brought by the element of guideline**

It is evident that Geely's acquisition of Volvo is a success, but BenQ's acquisition of Siemens is not. Every strategic decision (especially the decision of the overall ideology element) is made with a corresponding basic investment plan. The failure of a strategy indicates the failure of an investment.

When an ideology of a strategy decision making is selected, this indicates that the senior management of the company has made the strategic decision. If we take strategic decision as investment decision, can the risks of strategic decision be assessed or studied as a whole?

Or:

- With what characteristics is the overall guiding ideology having a low risk or high risk?
- How do decision-makers identify the risks? What are the roles of the future trend of the industry, the economic environment, as well as the companies' financial resources and management capability and other factors in the identification?
- Would different companies in size, ownership structure, and profitability put forward different overall ideologies, and would the potential risks be different?
- Do decision makers' habits of risk aversion or their attitude towards risk significantly affect the risks in the decision of overall ideology? Or what

characteristics make the decision-makers prefer the high-risk in the decision? What characteristics make the decision-makers prefer low-risk in the decision?

Studying these questions can allow us have some insights into the risks of various strategies and their patterns, which would help us take precautions against possible risks.

10.8 Future Outlook

This book alludes that the study of the competitive strategy is relatively mature from an academic point of view. Each competitive strategy, there is corresponding element of overall ideology reflecting brilliant thinking on how to compete. However, with regard to the corporate strategy, there are still many challenges to be investigated and explored.

After studying the relevant theories of strategy, Boyd et al. (2005) concludes that strategy as a discipline is still in its infancy. Today, our understanding of the strategic laws or the art of business strategy still cannot yet meet the requirements of companies' practice, so the scholars are still bearing particular responsibilities. The good news is that we are already at a start-up stage. In the future, more regularities of strategic decision will be revealed and more theories will appear, so as to better guide the strategic practice of enterprises. I believe that the discipline of strategic management will see a better development in the future.

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Afterword

Touching the Elephant

Viewpoint report from School of Economics and Management, Tongji University. Release time: 09–30-2017.

Professor Minzberg once said, “Our understanding of strategy is a bit like the blind people touching an elephant. No one has the vision to look at the whole elephant” At the Tongji School of Economics and Management (Tongji SEM) works a teacher who spent more than ten years trying to understand what is strategy. Professor Zhu Dajian said, “She didn’t hesitate to sacrifice her beauty, grow white hair, and put forward a magnificent theory.”

In 1998, after graduating from the University of Queensland, Australia she came to the Tongji University to teach strategic management. Like most other teachers, she selected textbooks and cases to teach her students—until one day, when she was confused.

The Tongji SEM had introduced international cooperation in teaching in early 2000, and since 2003 she had been a co-faculty of the courses on strategy offered by three professors at foreign universities. She found that the focus area of the three courses varied greatly: one focused on marketing, other on economics, and the professor from the United States—who had served as a vice president of finance in a private company—focused on financial forecasting.

So, what was strategy? What were the main components of a course on strategy? She was lost.

At the same time, while reviewing MBA and EMBA theses on company strategies, she observed a common issue: many of them had little content on companies’ strategic choices or decision-making process. For a long time she had felt that something was amiss in these courses, and now that feeling strengthened.

Like a true researcher, she immersed herself in the study of literature on strategy, trying to understand what constituted the concept, but it was a daunting, confusing task. There were just too many definitions of strategy—91 published definitions in 2011.

This gave rise to yet another set of questions in her mind: Why were there so many definitions? What was wrong with our understanding of the basic concept of strategy?

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She found that according to many scholars, neither did we understand the concept nor did we know about its core elements. Given that we did not understand the principal idea of the concept of strategy, we were unable to guide managers to take strategic decisions.

There was a plethora of evidence to show that despite more than half a century of development, the concept of strategy was still not fully understood by academics and professional managers alike. The problem was obvious; now, solutions needed to be found.

With the passage of time she observed that a few MBA and EMBA strategy papers presented a pattern. Some of them began with a discussion on the difficulties encountered by companies in achieving their goals. A problem-specific strategy was, therefore, needed. Other papers began with the goals of companies and the obstacles in the path of their realization, e.g., challenges in the development of the African market. A goal-specific strategy was needed in such cases. However, both types of strategies had three basic elements: goal, problem, and guiding ideology.

Three elements! It turned out that there was a new aspect to be added to the definition of strategy given by Chandler and other savants. She was excited to find that the three elements were connotations of the concept. She then analyzed other cases using these three elements to find that the elements explained the core content of strategic decisions.

For a researcher it is necessary to analyze literature. Therefore, she returned to the definitions of strategy to understand why there were so many of them.

She asked her French students to collect a few definitions from available sources —36 definitions were collected. However, the wide variety of definitions posed yet another challenge to her.

She inquired if anyone had previously analyzed the definition of strategy, and found five studies. Four of them were manual analyses of a limited number of definitions, including the study of professor Barney. The five studies offered different conclusion, with everyone giving a new definition of strategy.

There were reasons for this over-abundance of definitions, which were yet unknown. Therefore, having exhausted most other options, she resorted to the most primitive, and most laborious, approach available to researchers: she read and re-read the definitions, wistful for a clue. In her quest, she even studied the question: what is a good definition?

Time went on; another year passed.

She read the definitions again and again. "Read a hundred times, and its meaning will show itself," she later confessed. Her relentless efforts eventually paid off and she discovered the reason behind this multitude of definitions. It was much like Mintzberg's metaphor of blind people touching an elephant—they believed the elephant to be the part that they touched: leg, trunk, belly, etc., but none had an overall awareness of the animal.

She realized that the concept of strategy had too many definitions because of four reasons. First, there were different interpretations of the connotations of the term strategy. Second, different terms were used to express the same meaning because of lack of agreement among authors. Third, many studies defined strategy only narrowly—for example, the use of words such as apple or banana to define fruit. Fourth, some scholars included the extended, non-core parts of the concept, thereby diluting the definition. In addition, this definition explosion was due to the diversity of research goals, the diversity of corporate development issues, and the complexity in actual strategic decision-making process. In order to properly define strategy, we first needed to arrive at the common ground amidst this diversity.

After determining the reasons, she wrote an article and sent it to professor Mintzberg describing her findings on the concept of strategy. Professor Mintzberg, who did not know her, asked her to explain the process by which she found the pattern in MBA theses.

In 2013, she decided to write a book on the three elements related to the connotation of the term strategy. After four years, in April 2017, her monograph titled “Reshaping the Strategic Concept” was published by the Tsinghua University Press. Professor Wu Changqi of the Peking University said, “This book is a masterpiece, which clarifies matters and gets to the bottom of things.”

Chandler, Mintzberg, Porter, and other masters have also defined strategy. What is the difference between their definitions and the definition given after the understanding of these three elements? According to Professor Li Jiatao, an authority on the subject of strategy—he works at the School of Management of Hong Kong University of Science and Technology: “Theirs are linear, yours is non-linear.” “Yes, strategic decision is not linear,” she asserted.

She is Xiubao Yu from the Tongji SEM. “For more than 10 years, I have been walking alone to understand one concept.” She jokes: “I am rather foolish, after more than 10 years, I only found one new element of the strategic concept, on the basis of the masters. In fact, I am also one of the elephants touching people. Maybe the only difference between me and other elephant people is that I have been touching for more than 10 years and never gave up, even though it was intermittent.”

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