Strategy Only Matters A Bit

The role of Strategy in the High Performance Organization

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Abstract — Ever since Porter's book *Competitive Strategy* (1980), developing a generic strategy and then executing this strategy well has been seen as the main source of competitive advantage for organizations. However, since the publication of Porter's book the business environment has changed dramatically, giving rise to the questions: How important is strategy nowadays for an organization to become and stay successful? and Are the generic strategies of Porter still valid? To find answers on these questions, research into the characteristics of high performance organizations (HPOs) was looked at. Based on the results of that research it was established that there was only one strategy characteristic of importance for establishing and maintaining an HPO. Strategy thus only matters a bit in the sense that just having a strategy is not enough to become a high performance organization. For this the strategy has to be unique, and this uniqueness cannot be achieved by choosing one of Porter's generic strategies as having one such a generic strategy is no longer enough for the modern-day organization. Thus, the emphasis during the strategy development process should be on identifying the elements that make the organization stand-out from its competitors, and then on devising ways to exploit the unique traits of the organization in order to achieve sustainable competitive advantage.

Keywords - strategy; high performance organization; uniqueness; importance; generic strategies

I. INTRODUCTION

One of the most important tools of every organization is the strategy development process. A survey conducted among 960 organizations found that strategy development is applied by 79 percent of them, and that these companies are very satisfied with this technique: a 4.14 score on a scale of 1 – 5 [1]. A well-formulated strategy indicates the manner in which an organization plans to anticipate on changes in its environment and the consequences these changes will have on the quality, price and delivery times of the products and services of the company [2]. Since long, developing and executing a strategy well has been recognized as a main source of competitive advantage for organizations [3]. Without a doubt, the academic that gave the biggest push to

the field of strategy development was Michael Porter who with his seminal work *Competitive Strategy: Techniques for Analyzing Industries and Competitors* [4] put the importance of the strategy process firmly on the agenda of top management [5]. In addition, Porter introduced the notion of generic strategies: any successful strategy can be labeled as striving for low-cost, differentiation, or focus (sometimes called market niche leadership). If an organization achieves lower cost or higher quality (through differentiation of products or services, or by being better in servicing the customer) than the competition, it has something unique and valuable and is therefore successful [6]. However, since the publication of Porter's book the business environment has changed dramatically [7] through developments like globalization [8], new technology [9], ascension of Asian markets [10], environmental issues [11] and demographic shifts [12]. These changes warrant the questions: How important is strategy nowadays for an organization to become and stay successful? and Are the generic strategies of Porter still valid? This article aims at answering these questions by using the results of the high performance organization research, to evaluate which role strategy plays in creating and sustaining a high performance organization (HPO).

The article is organized as follows. In section II, the high performance research is described. The results of the HPO research, specifically for the characteristics that have to do with strategy, are discussed in section III. The meaning and significance of these results are discussed in section IV. The article ends in section V with a conclusion and limitations of the research.

II. THE HPO RESEARCH

The HPO research [13] aimed at identifying the factors that may explain sustainable success of organizations. An HPO is defined as an organization that achieves financial and non-financial results that are better than those of its peer group over a period of time of at least five to ten years [13]. To identify the elements that make up an HPO, a five year study was undertaken. This study started with a descriptive literature review that consisted of identifying characteristics of high performance and excellence, which subsequently were tested in an empirical study.

HPO research - Phase 1: descriptive literature review

The first phase, the descriptive literature review, consisted of selecting the studies on high performance and excellence that were to be included in the empirical study. Criteria for including studies in the research were that the study: (1) was aimed specifically at identifying HPO factors or best practices; (2) consisted of either a survey with a sufficient large number of respondents so that its results could be assumed to be (fairly) generic, or of in-depth case studies of several companies so the results were at least valid for more than one organization; (3) employed triangulation by using more than one research method (for example a questionnaire and interviews); and (4) there was written documentation containing an account and justification of the research method, research approach and selection of the research population, a clear analysis, and clear retraceable conclusions and results so that the quality of the research method could be assessed. The studies to be reviewed were gathered by searching the databases of Business Source premier, Emerald and Science Direct, and by browsing the internet with Google using the following search words: high performance, excellence, financial performance, organizational results, high performing organizations, high performance managers, high performance workforce, accountable organization, adaptive enterprise, agile corporation, agile virtual enterprise, democratic enterprise, flexible organization, high-performance work system, high reliability organization, intelligent enterprise, real-time enterprise, resilient organization, responsive organization, robust organization, and sustainable organization. In addition, books were reviewed, mainly on business and management. The literature search was conducted in 2007 and yielded 290 studies which satisfied all or some of the four criteria. The studies were grouped into three categories: (A) Studies which satisfied all four criteria. These studies formed the basis for the identification of the potential HPO characteristics. Category A comprised of 105 studies. (B) Studies which satisfied Criteria 1 and 2 but not Criterion 3 and Criterion 4 only partly, because although the research approach seemed (fairly) thorough there was no clear description and justification of the method used. These studies provided additional input for the identification of HPO characteristics. Category B comprised of 66 studies. (C) Studies which satisfied Criteria 1 and 2 but not Criteria 3 and 4, so there was no basis for generalizing the study findings. These studies were used as a reference to support the potential HPO characteristics that were identified in Category A and B studies. Category C comprised of 119 studies. The identification process of the HPO-characteristics consisted of a number of steps. First elements were extracted from each of the 290 publications that the authors regarded as essential for high performance. These elements were then categorized in a matrix. Because authors used different terminologies in their publications, the elements were grouped according to similarity in categories and each category was given an appropriate description. Subsequently, a matrix was constructed for each category listing a number of characteristics. For the first 90 studies this process was

reviewed and repeated by an external academic. The results of this academic review were extensively discussed with the author until agreement on the categorization and the formulation of the characteristics was reached. A total of 189 characteristics were identified. After that, the 'weighted importance' (i.e. the number of times a characteristic occurred in the individual study categories) was calculated for each of the characteristics. Finally, the characteristics with a weighted importance of at least nine percent were chosen as the HPO characteristics that potentially make up a HPO. This resulted in a list of 53 potential HPO characteristics. The reference list with details about the 290 studies used in the review and the matrixes with the detailed scores have been documented in Waal [13].

HPO research - Phase 2: empirical study

In phase 2 of the HPO research an empirical study was conducted. The 53 potential HPO characteristics were included in an questionnaire which was administered in the period 2005 - 2007 during lectures and workshops given by the author and colleagues in Europe, North-America, Asia, Africa and South-America. In the questionnaire the respondents indicated how well their organizations performed on the various HPO characteristics on a scale of 1 (very poor) to 10 (excellent) and also what their organizational results were compared to their peer group. Two types of competitive performance were established: (1) Relative Performance (RP) versus competitors: $RP = 1 - ([RPT - RPW] / [RPT])$, in which RPT = total number of competitors and RPW = number of competitors with worse performance; (2) Historic Performance (HP) of the past five years (possible answers: worse, the same, or better). These subjective measures of organizational performance are accepted indicators of real performance [14]. With a statistical analysis (principal component analysis with oblimin rotation and non parametric Mann-Whitney test) of the respondents data, 35 characteristics which had a significant and strong correlation with organizational performance were extracted and identified as actual HPO characteristics.

III. RESULTS

During phase I, the literature review, in 137 of the 290 literature sources elements in relation to strategy were identified. This means that in almost half of the studies sources (47.2%) strategy was found to be important in creating and sustaining an HPO. These elements were grouped in 13 characteristics, which are given in Table 1. From these 13 characteristics, six surpassed the threshold of nine percent weighted importance and were included in the empirical study performed in phase 2. These six characteristics are described underneath, which some selected references (originating from A studies).

S1. Define a strong vision that excites and challenges by developing an envisioned, meaningful and compelling persuasive vision and mission, based on a winning strategy or big idea and a broad picture of the direction the enterprise has

to go. Continuously sell the vision so organizational units become united by common goals, a shared ambition and an overarching purpose. This way, the organization is mission and 'feel'-driven, not numbers-driven [15]. *S2. Balance long-term focus and short-term focus* in the strategy, in order to safeguard the long-term continuity of the business and its contribution to the world, while at the same time obtaining short-term results which makes it possible to plan against possible futures. Manage seemingly paradoxical values by effectively balancing short-term operations with medium and long-term development and growth, and long-term strategy with short-term action taking [16]. *S3. Set clear, ambitious, measurable and achievable goals* in the strategy, which raise aspiration levels and thereby create a sense of stretch. Set 'outrageous' targets without creating demotivation, do not tolerate 'dog businesses', and weed out everything which takes the focus of the goals [17]. *S4. Create clarity and a common understanding of the organization's direction and strategy* which results in a commonly held strategic mind-set among organizational members. Make sure everybody understands the strategy and knows what matters most. Creates company-wide understanding of individual, group, departmental and divisional contributions, and clarity of purpose and action [18]. *S5. Adopt the strategy that will set the company apart*, and build it gradually and consequently thereby creating widespread opportunities and quantum breakthroughs. Especially look for high-risk, high-reward opportunities. Develop many new options and alternatives to compensate for dying strategies [19]. *S6. Align strategy, goals, and objectives with the demands of the external environment and build robust, resilient and adaptive plans*. In this way, corporate renewal is always based on customers' need which are sure to be fulfilled. Maintain antennae to address critical realities and fine-tune the strategy to changes in the marketplace. The strategies can only be achieved by. Apply scenario thinking and 'what-ifs', and draft resilient strategies and plans tailored to the levels of uncertainty in the environment. When making the plans, be more interested in resilience than in optimization [20].

In phase II, the empirical study, the potential HPO characteristics were correlated with competitive performance. Thirty-five of the initial 53 characteristics correlated with Relative Performance (RP) and Historical Performance (HP) and were therefore designated to be the characteristics that actually create and sustain an HPO (see Table 2). In these 35 HPO characteristics only one of the original six strategy characteristics was present: *S5. Adopt the strategy that will set the company apart*.

IV. DISCUSSION

The results of the HPO research show that organizational strategy seems to have a relatively limited role in supporting an organization to become and stay an HPO. Looking at the 35 HPO characteristics, it seems that a team of good people can achieve anything it wants, while an organization with a clear and well-defined strategy but without the right people to execute it is bound to go nowhere [21]. The fact that from the initial 13 strategy characteristics only one turned out to be important for creating and sustaining an HPO does in itself not mean that the strategy process is not important for an organization. It indicates that merely having a strategy is a hygiene factor: an organization needs a strategy but having a strategy does not necessarily mean the organization will be(come) an HPO. After all, the competitors most probably also all have a strategy. What makes the difference is that the strategy should be unique, in the sense that it differentiates the organization from its competitors. This finding is supported by several studies which have been performed in the past decade. Harris and Ruefli [22] found in an examination of 259 firms over a 36-year period that firm uniqueness was paramount to performance enhancement. Delmas et al. [23] established that firms in the energy sector favored environmental differentiation in order to obtain the uniqueness that would be valued by (potential) customers. Lester et al. [24] identified, in a comparison of high with lower performing SMEs, that high-performing SMEs preferred a uniqueness strategy over a strategy based on efficiency. Finally, Taylor and LaBarre [25] even proclaimed that only mavericks, truly unique organizations, would win the business game.

So, it is not so much the chosen organizational strategy which is important, as no strategy characteristics concerning cost leadership, product differentiation and focus strategies were found to be important for creating and sustaining an HPO, but the uniqueness of the strategy compared to competitors in the same industry. It therefore seems there is not one 'best' strategy for an organization in an industry, as Porter [4] states. This matches with the criticism Porter's generic strategies received in the past decade [26]. Valos et al. [27] and Valos et al. [28] conducted studies in Australian organizations and did not find support for Porter's generic strategies. Pertusa-Ortega et al. [29] conducted similar research in Spain with the same outcome. Bowman [30] pointed out the logical flaws in Porter's thinking behind the generic strategies and concluded that successful firms need to be both differentiated and have a low cost level. Gurau [31] provided an extended overview of the criticism of various researchers on Porter's generic strategies, which come down to theoretical shortcomings (the generic strategies are too general; the strategic approach is too simplified); bad fit with reality (the generic strategies do not fit empirical reality; the generic strategies' model is based on an invalid epistemological approach; the generic strategies do not consider the evolution of the competitive environment), a limited applicability (the generic strategies are not applicable for small firms or fragmented markets; the generic strategies are not alternative solutions, but can profitably coexist in the strategic approach of a firm); and not taking alternative theoretical approaches in account (the strategic analysis should apply a resource-based approach; the strategic process is flexible and emergent, being based on trial and error; the generic strategies do not consider the necessity for collaborative strategies). Gurau [31] concluded that the existent framework of strategic analysis which is mainly based on Porter has to be adapted to the new realities of the 21st century.

He is supported by Kiechel [32] who stated that the useful life of a strategy is declining with the rapid changes in the modern-day economy and that strategic management is becoming "a discipline that is less sure of itself , less certain that its concepts apply to every situation, particularly if that certainty gets in the way of accurately sizing up business circumstances that are radically new or rapidly changing."

V.   CONCLUSION

The research questions 'How important is strategy nowadays for an organization to become and stay successful?' and 'Are the generic strategies of Porter still valid?' can now be answered as follows. Strategy only matters a bit in the sense that just having a strategy is not enough to become an HPO, the strategy has to be unique. And this uniqueness cannot be achieved by choosing one of Porter's generic strategies as having one such a generic strategy is no longer enough for the modern-day organization. The implication for management is a severe one: it no longer is enough to have a well-crafted strategy which is known to everybody in the organization. The emphasis during the strategy development process should be on identifying the elements that make the organization stand-out from its competitors, and then on devising ways to exploit the unique traits of the organization in order to achieve sustainable competitive advantage.

There are several limitations to this study. Despite the fact that the literature search was extensive, potentially valuable studies may have been overlooked. In this respect, it also should be noted that predominantly published studies were taken into account, which could create a potential bias as unpublished studies may contain different outcomes [33]. Another potential bias is the presence of subjectivity in the choice of literature sources that were included in the study [33]. This problem has been alleviated by including literature from many different disciplines during the selection process. As is always the case with research based on a questionnaire and self-reported scores, there is the possibility of attribution. Is it possible that the respondents reporting high performance and those reporting low performance make implicit attributions of characteristics, and in fact, causation. The studies used in the descriptive literature review looked by definition on what organizations have done in the past and can therefore not necessarily give a guarantee that these characteristics will also be valid for the dynamic future [34]. Further research should focus on validating the HPO factors in more countries and industries, and then evaluating whether the strategy characteristics play a different (i.e. more extended) role in those countries. Also, additional research should focus on the "how" now that the "what" is known. The HPO factors stipulate "what" is important to become and stay successful but is does not indicate "how" organizations can achieve success. So future research should concentrate on identifying, collecting and describing "best ideas" of organizations who have been able to develop a unique strategy. Finally, the ever present issue of causality should be further investigated to answer the question whether HPOs have the time and resources to develop a unique strategy, or whether having a unique strategy creates a HPO.

VI.   REFERENCES

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Strategy characteristics	Weighted importance (%)
S1. Define a strong vision that excites and challenges.	15.3
S2. Balance long-term focus and short-term focus.	14.0
S3. Set clear, ambitious, measurable and achievable goals.	11.2
S4. Create clarity and a common understanding of the organization's direction and strategy.	10.5
S5. Adopt the strategy that will set the company apart.	9.4
S6. Align strategy, goals, and objectives with the demands of the external environment and build robust, resilient and adaptive plans to achieve these.	9.1
S7. Focus on bottom-line profit and cash-flow as well as top-line growth	7.1
S8. Keep growing the core business	6.6
S9. Focus on a limited number of key priorities	5.2
S10. Have a ruthless focus on value	3.9
S11. Regularly alter and renew the organization	3.6
S12. Have an integrated set of strategy, structure and systems	3.3
S13. Develop strategy and goals bottom-up using input of people on all organizational levels	3.1

Table 1: Characteristics related to strategy, derived from the literature review

Continuous improvement
1. The organisation has adopted a strategy that sets it clearly apart from other organisations.
2. In the organisation processes are continuously improved.
3. In the organisation processes are continuously simplified.
4. In the organisation processes are continuously aligned.
5. In the organisation everything that matters to performance is explicitly reported.
6. In the organisation both financial and non-financial information is reported to organisational members.
7. The organisation continuously innovates its core competencies.
8. The organisation continuously innovates its products, processes and services.
Openness and action orientation
9. Management frequently engages in a dialogue with employees.
10. Organisational members spend much time on communication, knowledge exchange and learning.
11. Organisational members are always involved in important processes.
12. Management allows making mistakes.
13. Management welcomes change.
14. The organisation is performance driven.
Management quality
15. Management is trusted by organisational members.
16. Management has integrity.
17. Management is a role model for organisational members.
18. Management applies fast decision making.
19. Management applies fast action taking.
20. Management coaches organisational members to achieve better results.
21. Management focuses on achieving results.
22. Management is very effective.
23. Management applies strong leadership.
24. Management is confident.
25. Management is decisive with regard to non-performers.
Workforce Quality
26. Management always holds organisational members responsible for their results.
27. Management inspires organisational members to accomplish extraordinary results.
28. Organisational members are trained to be resilient and flexible.
29. The organisation has a diverse and complementary workforce.
Long term orientation
30. The organisation maintains good and long-term relationships with all stakeholders.
31. The organisation is aimed at servicing the customers as best as possible.
32. The organisation grows through partnerships with suppliers and/or customers.
33. Management has been with the company for a long time.
34. The organisation is a secure workplace for organisational members.
35. New management is promoted from within the organisation.

Table 2: The five HPO factors with their 35 characteristics