MODELLING THE DEVELOPMENT OF STRATEGIC MANAGEMENT

Nikolett DEUTSCH – Tamás MÉSZÁROS – Lajos SZABÓ
Department of Strategy and Project Management
Corvinus University of Budapest
1093 Budapest, Fővám str. 8.
E-mail:lajos.gy.szabo@uni-corvinus.hu

KEYWORDS
Strategy, development, history, model, SM Cube, paradigm, literature research

ABSTRACT
Nowadays there are several research focusing on different approaches of strategic management. Because of the wide-ranging approaches and interpretations, it is very important to consider it from different perspectives. This paper provides a systematic view of Strategic Management developed by the Strategic Management Research Group of the Department of Strategy and Project Management at the Corvinus University of Budapest. Using the Strategic Management Cube we are able to examine and model the the effects of environmental components, empirical experiences, and the development of other sciences and disciplines on the evolution of SM as well as the interplay among them.

1. THEORETICAL BACKGROUND
Strategic management (further called “SM”) has been a quite popular scientific field. With its more than five-decade history produced significant international journals and books that could fill up whole libraries. Therefore, it is indeed hard to achieve new or novel scientific results for scholars of SM. It is by no accident, that citations in journal articles often already make it difficult to actually grasp the main argument of the article, not to even mention ever growing lists of cited sources are close to one-fifth of article length. Besides a wealth of rich and comprehensive resources, professionals of this fields need to face further difficulties.

First and foremost, taking note that the theory and practice of SM was formed in the second half of the last century, but considering its most flourishing period, it was rather the last third of the same century. The analysis of numerous textbooks and academic literature proved that the above mentioned period brought to life theories, paradigms, schools, models and methods that are considered determinative even today. It is not at all unexpected, that the creators of these theories and schools marched into scientific history as the “gurus” of SM, and that any publication dealing with SM cannot afford to ignore their works.

As follows, the foregoing scholars of SM can present scientific results by partially enriching the existing theories, presenting arguments against them or their practical application or by doing research into the intersections of other scientific fields and SM, their influence and thus produce new or novel results. Not independently from the above, but deriving from the nature of this scientific field, empirical studies have an important role. Also, from the view of scientific acceptance, a central question is the relationship of strategy and achievement, but other types of surveys and case studies are also subject to these studies.

It could be put that studying the development of this scientific field itself, and its five-decade long process is close to becoming a whole separate scientific branch. The framework within which this study is carried out, what analytical focus points does the process description utilize, could mean a unique and novel approach, scientific result in itself.

2. AIM OF THE RESEARCH
The Strategic Management Research Group of the Department of Strategy and Project Management at the Corvinus University of Budapest started a research project last year. The goal of this research is not to enrich the basis of the above mentioned results, but it is aimed at providing a well-structured view of the half-century development of SM so far, systematically examining and modelling the effects of environmental components, empirical experiences, and the development of other sciences and disciplines on the evolution of SM as well as the interplay among them.

The research group made a literature analysis based on which the first results can be introduced and a three dimensional model – the Strategic Management Cube – can be drawn.

Systematisation is guaranteed by the simultaneous utilisation of two interrelated analytical viewpoints, i.e. the intersections between time reference and the alterations of SM’s content items form the subject of research. Besides temporality, it is advisable to include to more starting points:

a) Strategy, as a tool of thinking about the future, is the “product” of market competition. Its basics date back to the ’60s, when the conjuncture-generating effects of the deferred demand of World War II started to fade. The fast development of capacities produced a demand driven economy built on the mechanism of market competition. A time intersection means the ’60s, when it is a period strategic leadership based on process
(process based view). Its main representatives are Chandler (1962), Ansoff (1965) and the “founders” of Harvard school (Learned et al. 1965).

b) The development of SM in itself can also be studied – what steps and what factors lead from short-term planning focusing on budget to SM, according to some, thus already exceeding the strategy of complex systems (activity based view). Factors of generating change, such as globalisation, technological advancement, socio-political changes can also be included in this thought line. Not independently from the above, the influence of other sciences also forms a weighty part in it (e.g. equilibrium theory in economics). This approach concentrates on the view of strategic thinking, strategic behaviour, the emphasis of strategy alignment and realisation, the relationship between strategy and achievement.

However, there exists a more concrete, maybe not independent from the above, but detailed analysis intersection, which involves the study of SM content elements such as theories, paradigms “providing competitive advantage”, goal-setting points (foci of interest) and strategic management tools and techniques, as well as the mutual relationship of these elements and their self-development. Descriptive-prescriptive, process- or content-oriented approaches and their scientific background can also be fit into this framework.

Based on the aforementioned statements the main question of the research project is defined as follows: Is SM, as a widely used management approach applied both in theory and practice, in the ascending or descending stage of its “life cycle” – i.e. is there a need for a “new management paradigm”?

In order to answer this question, the research project had been divided into four research stages:

- development and refinement of the applicable research framework;
- literature research and processing;
- practical application, methodology and experiences in connection with the different research streams and paradigms of SM;
- creation of the anthology of academic literature excerpts on strategy.

Due to the fact that the results of the first research phase, i.e. the elaboration of the theoretical and cognitive analytical framework define the unique rules of sorting followed by the research group and form the basis of further steps and examinations, in the next Chapter our Holistic Model of the development of Strategic Management and the fundamental guiding principles, driving forces of its formation will be presented.

3. RESEARCH RESULTS

During the examination of the term “strategy” and its relations to the evolution of planning and other fields of science, the different paradigms on strategic planning and management, and the dominant themes of strategic literature two main research hypothesis and additional questions had been emerged.

Thesis 1: The essence of SM has been formed during the second half of the 20th century, however its most flourishing period is concerned to be the last third of it.

How can the process of the evolution and self-development of SM be described (from short-term financial planning to strategic management and beyond)?

McKinsey&Co. provides an internationally accepted presentment of the development process by differentiating four stages: budget planning, forecast based planning, strategic planning and strategic management (Figure 1). Scholars have established that the term “strategic management” was coined by Ansoff, who used it for the first time in 1972 at a conference (Tari 1996). When he realised that strategic planning is only successful in a minority of applications, Ansoff (1965) questioned if strategic planning was a wrong theory or something unfinished that was in need of further development? The answer is the latter, so the unfinished tool, which does not involve the management of change in itself (Bhatia 2014). Grant (2008/e) deals with the series of change that follow each other, obviously supporting the time horizon until the first decade of the third millennium. It is important to note, that this notable scholar of strategic thinking speaks of the evolution of SM and describes the process with the changes “dominant topics” within the system, however he does not establish a new stage that would exceed SM in the development process. The elaboration of studies, articles and their abstracts that were published on the occasion of notable anniversaries in the most renowned European journal of the discipline, Long Range Planning, also belongs to antecedents of this project. It must be mentioned, that the article of former editor-in-chief Taylor (1986) published for the 20th anniversary can serve as a fundamental model for further research, as well as the works of Cummings and Daellenbach (2009) which draw conclusions on changes within SM by an analysis of the abstracts of the first 40 years. It is also worth to invoke a study of O’Shanassy (2001) summarising the results of the past century, and the recently published study of Bhatia (2014).
How can the most important driving forces, such as the change of environment and the impacts of the development of other sciences and disciplines, be revealed?

In his 1986 article, titled „Corporate Planning for the 1990s: The New Frontiers“, Bernard Taylor - as he states - read about a thousand articles and not only depicts the development of planning divided into periods and the essential features of each period, but also presents – as an analytical model – how the planning, later strategic, features of a given period have emerged or changed under the influence of environment factors. Thus he clearly proved that planning and strategic thinking, or to say, the evolution of SM was not just a spontaneous process, but it is indeed the result of environmental change. With all the above, he encourages further research in at least two more fields. Partially, he encourages the description and understanding of changes within a process (see European Business Forum 2001), and voices a question towards the SM “gurus” and top managers after the blast of the dotcom bubble and 9/11 events in 2001. The question was voiced as follows: „Does strategy still have a meaning?“). Also, detected changes in environment adumbrate the need for change and its content within SM (or exceeding it). Grant does this in the last chapter of his book (2008/c) „Current trends in strategic management“, when he describes the summarising features of trends in the external environment of enterprises – third industrial revolution, social pressure, decay of public enterprises- and draws conclusions from these, among many, about the strategy of complex systems or the coming into view of adaptation strategies (Grant 2008/c).

Thesis 2: SM was created by competition, which is a central category of business even nowadays. Although the intensity (e.g. due to hyper competition), extension, and predictability of competition have been modified over time the essence of SM has not changed.

Did the environmental and organisational complexity and change achieve a certain level which calls for a new paradigm (or already has formed one)? And if so, how does that differ from SM?

The contradiction between Thesis 2 and this relevant question is not accidental. There is no definitive answer to this question yet. Rapid changes in the environment raise the need for a new paradigm and some scholars made an attempt to define it.

The works of Prahalad and Hamel (1994), Hermann (2005), Grant (2008/c) and Cummings and Daellenbach (2009) provide much help to the thought about SM’s future. A new theory exceeding the SM paradigm can be found in the studies of O’Shanassy (2001) – „strategic thinking“- and Bhatia (2014) - „complex strategic system“ – and something similar is outlined in the appearance of „strategy as a practice“, (Jarzabkowski et al. 2009). Our review conducted that these “experiments” don’t reach the theoretical and methodological credibility of strategic management, there is no justification of their practical applicability.

How can the direct and indirect impacts of the increasing complexity of the world and the development of the related disciplines on SM be identified and analysed?

Grant (2008/c) does not question the “survival” of SM, but he does deal with “adaptation strategies” within it. He cites Jack Welch „3S” (Speed – Simplicity – Self-confidence), according to whom break-up with conventions, spontaneity and intuition is essential and has come forward. Even more dynamic development, significant changes in approach, content and techniques can be experienced through the study of the mutual relationship of content elements of SM’s system. What are considered content elements? Answers provided to the following questions, more exactly, specific theories, models, schools and paradigms:

- What is the source of competitive advantage? - paradigms 1
- What are the key foci of interest? - value creation
- What are the key components of the tool system of strategy realisation and alignment? - organisation - business models - methodology (techniques, process)

The general introduction of each element’s structure: the basic model - theoretical background, connection - practical application - critique - survival - further development (change, transformation) - exceedance Figure 2 provides an example for this.

1In academic literature, one can read about SM as paradigm (O’Shanassy 2001), but one can also find similar notions related to other theories (e.g. industry structure based view) (Evans 2000).
What is the source of competitive advantage? - one of the basic questions of SM. The industry position that forms the space for competition (industry structure based view) or those fundamental resources and capabilities, which create the base of strategy by differentiating itself from others (resource based view). In the former case (outside-in analysis) the source of profit is the so-called monopoly rent, while in the latter (inside-out analysis) the Ricardian rent is named (Grantham 1991). Both approaches can be considered a paradigm of SM, and is subject to theory and practice until today, including the Porterian industry sector analysis model’s modifications, as well as the trend of emphasis shift in resource-based theory into the direction of knowledge-based dynamic capabilities (knowledge based view). The basics can be found in the publications of Porter (1980; 1986), Hamel and Prahalad (1990), Grant (1991; 2008/d). Their theoretical background includes transaction cost theory, business economics and resource-based corporate theory. Critiques can be found in the works of Evans (2000), Mintzberg (1998), Tapscott (2001), Grant (2008/b; 2008/e), but Carr’s (2013) – “Death to Core Competency” could also be included in this list. Further development can be found in the later works of Porter (Porter 2001/a; 2001/b, Porter and Reinhard 2006; Porter and Kramer 2007) in the book “Blue ocean strategy” (Kim et al. 2005), McGrath (2013a) and his article published in HBR in 2013 (McGrath 2013b). Requirements and characteristics of dynamic capabilities are linked to the study of Teece and Pisano (1994), Teece et al. (1997). Hybrid strategies aimed at merging two paradigms, and the ever more popular studies on dual-ability enterprises also belong here (Lapersonne et al. 2015; Spanos et al. 2001). A separate big “chapter” of development are the so-called international strategies (Czakó and Reszegi 2010; Luthans and Doh 2014), which expand the system of SM to an international stage while it also produces new mutations.

Whose interests should be reflected in strategy, where should it come from? – another basic question, the answers to which has also invoked a lot from different theories. We would refer to the foci of interest and their clearly stated theoretical background. Customer value and main motive, mutatis mutandis plays an important role in this context. The topic boasts a huge amount of related academic literature, mostly in connection with marketing. It may be an exciting question, how core competence vs. consumer value should be treated in strategy alignment. With the advancement of technology (e.g. big data analysis), it also sheds new light on the application of focus of interest. From the SM view of it, the works of Prahalad and Ramaswamy (2000), Anderson and Rust (1997), and Kordupleski and Simpson (2003) could be considered an important base. Shareholder value is the second possible starting point, to which “principal-agent” theory can be linked. Determining focus of interest in corporate practice can be linked to the work of Rappaport (1986; 2006), though it has received much criticism from scholars. Obvious consequences are corporate accounting scandals (Grant and Visconti, 2008/a). Prahalad and Hamel (1994) also puts its extreme enforcement under criticism, while Porter and Kramer (2011) see shared value creation that appeared instead of it as a new motivation of capitalism. In reality, it is a fundamental goal of enterprises to satisfy both values, which is called “dual value creation” by Chikan (2008). The circle of stakeholders that includes the former and expands the groups which are in a relationship of interest with enterprises, as well as its requirements play an important role in strategic goal setting (Ackoff 1981; Freeman 1984). Strategic thinking built on stakeholder theory underwent multi-directional development in the last decade, examining the mutual relationship of groups of interest in a so-called “power-interest network”. This network is based on the classification of dimensions of effect and interest binding on enterprises of those involved. Corporate social responsibility, as a continuously strengthening element that influences strategy and strategic goal-setting, can be linked to involved theories by its own philosophy and practice. Furthermore, the expectations of shared value creation - according to which, value for the enterprise and society has to be created at the same time - has the same roots (Porter and Kramer, 2011).

It can be sensed from the above, that the theoretical background of SM, theoretical base, paradigms and foci of interest “inseminated” each other, changed and developed parallel to each other. Tools (techniques, methods and models) which support strategy alignment (underlying analysis) and decision-making (decision models) – see Bain&Co’s Management Tools Survey (Rigby 2013), Becker et al. (2005) and Berényi (2015) - as well as realisation (organisation, culture, motivation and feedback mechanisms) are closely related. One can count on the works of Balaton et al. 2014, Dobák 2008; Bakácsi 2004 in this topic. The systemised picture of the decades of SM development therefore cannot be short of this toolbox, as the follow-up and presentation of the time change an important content element.
4. MODEL DEVELOPMENT FOR ANALYSING THE DEVELOPMENT OF STRATEGIC MANAGEMENT

Taking into account these findings it can be stated that the development of SM can be investigated from three different but interrelated research dimensions. The result of the analysis depends on to what extent the dimensions are highlighted.

\[ AVP = f(D_1, D_2, D_3) \]

where

- AVP: The dominant analytic viewpoint
- D1: Paradigm Dimension
- D2: Development Dimension
- D3: Process Dimension

As Figure 3 summarises these dimensions are:

- Paradigm dimension: as it was shown above, according to the relevant literature (e.g.: Evans 2000; Herrmann 2005) during the development process of strategic thought three dominant designs or paradigms – business policy, competitive analysis and resource based theory of the firm - had emerged with their own presumptions on the sources of competitive advantage.
- Development dimension: besides the abovementioned disruptive innovations, strategic paradigms had also been developed by incremental innovations which can be identified in the SM literature dealing with the fundamental concepts, their practical uses, their critics and their modifications.
- Process dimension: over the past 50 years different concepts had been appeared regarding the process of strategic planning and implementation accompanied by new and modified strategic models and tools applicable in the particular steps of the process.

Example 1.

\[ AVP = f(D_{13}, D_{21}, D_{33}) \]

where

- D13 = Resource based view
- D21 = Theory
- D32 = Internal environment

Theoretical studies and publications belong to this segment are based on the presumptions of RBV regarding the importance of corporate resources and competencies, assume that competitive advantage can be derived from Ricardian rent and aim to develop analytical tools or techniques for the easier identification of the sources of permanent competitive advantage, such as the theoretical foundation of the VRIO framework (Barney, 1991).

Example 2.

\[ AVP = f(D_{12}, D_{23}, D_{32}) \]

where

- D11 = Industry based view
- D21 = Critics
- D32 = External environment

Those articles, researches and works can be classified into this segment which highlight the weaknesses of the analytical techniques developed and utilised by the representatives of the outside-in paradigm. For example the aforementioned article of Evans (2000) regarding the usability of Porter’s five forces model in the internet era can be mentioned here.

5. FURTHER RESEARCH

The Strategic Management research group of the Department of Strategy and Project Management at the Corvinus University of Budapest is going to start the next phase of this research. The goal of the next phase is to collect case studies, best practices which best represent the evolution of paradigms of strategic management. Furthermore, it aims at identifying and analysing new trends, theories and practices can lead to a new paradigm.
REFERENCES