Strategic Business Unit and organizational performance: Theoretical approach

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Abstract:

The aim of this study was to determine the extent of the participation strategic business unit to improve the performance of the organization, and in the composition of added value, and this requires a kind of continuous assessment in the light of specific criteria to measure the performance of the strategic business unit during each application and strategy unit of the organization. And linked to the process of businesses assessment strategy through the organization determine the extent of participation of business strategy for each unit configures value-added strategy college of the organization by achieving a competitive advantage.Where the focus in this study on the competitive strategies of Porter's (cost leadership strategy, differentiation strategy, focus strategy).

Key words: strategic business unit, competitive strategy, organizational performance.

الملخص:

هدفت هذه الدراسة إلى تحديد مدى مشاركة وحدة الأعمال الاستراتيجية في تحسين أداء المنظمة، وفي تكوين قيمة مضافة, وهذا يتطلب وجود نوع من التقييم المستمر في ضوء معايير محددة لقياس أداء استراتيجية الأعمال أثناء التطبيق في كل وحدة استراتيجية تابعة للمنظمة. وترتبط عملية تقييم استراتيجيات الأعمال باستراتيجية المنظمة من خلال تحديد مدى مشاركة استراتيجية الأعمال لكل وحدة استراتيجية بتكوين قيمة مضافة كلية للمنظمة عن طريق تحقيق ميزة تنافسية. حيث تم التركيز في هذه الدراسة على الاستراتيجيات التنافسية العامة لبورتر(استراتيجية قيادة الكلفة، استراتيجية التمايز ، استراتيجية التركيز).

الكلمات المفتاحية : استراتيجية وحدة الأعمال، الاستراتيجية التنافسية، الأداء التنظيمي.

Introduction:

Strategy and the formulation of strategy can be considered as an important part in the firm management process. The strategy is a mechanism with which a firm focuses its efforts . The pursuit of strategic fit has traditionally been viewed as having desirable performance implications. Firms with a clear strategy will outperform better compared with those who have no such strategy firms.

This study is an attempt to fill the gap in the current literature related to explaining the relationship between strategic business unit and firm performance.

The reed of the study:

Reasons that were behind this study are as follows:

1. We argue that to be successful, a company or business unit must achieve goals from generic competitive strategies. Otherwise, the company or business unit is stuck in the middle of the competitive marketplace with no competitive advantages and is doomed to below-average performance.

2. competitive strategy has become the main, if not the only, source for sustainable competitive advantage.

3. Research dealing with the relationship between strategic business unit and firm performance is a little importance.

4. Most of the firms management are not fully interested for the critical role of competitive strategy.

Research Problem:

The study shall examine and identify the relationship between strategic business unit and firm performance. Therefore, the following questions have to be answered:

1. To what extent firms are giving importance to Business Strategy?

2. How are firms are performing within an organization?

3. What is the nature of the relationship between strategic business unit and firm performance?

4. What impact that business strategy can be have on the organizational performance?

Research Purpose:

The overall aim of any research on strategy is “to examine various forms of advantages that a dominant firm may be able to develop and hold over its competitors for some period of time ” (**Shamise, 2003).**

The research on organizational performance as an outcome of specific organizational is well documented. However, a relatively new field of discourse is in the analysis of productivity as an outcome of competitive strategies. Furthermore, much of this research remains exploratory in nature. Researchers like have investigated singular elements that enhance competitive advantage and therefore, they found out incremental increases in organizational performance. Our study was undertaken to address certain gaps in the present research. The purpose of this study is as follows:

1. Identifying the nature of Strategic business unit, generic competitive strategies and organizational performance.

2. Describing the relationships among competitive strategies and organizational performance.

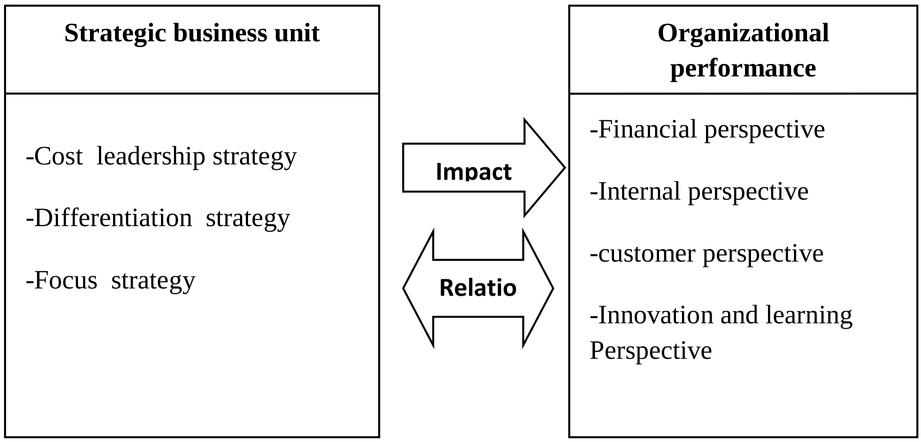
3. Examining the impact of competitive strategies on organizational performance in companies.

Research Model:

Figure (1) represents the conceptual framework for the current study. As can be seen, the Business Strategy (or the Competitive Strategy) investigated herein – Cost leadership strategy, Differentiation strategy, Focus strategy – all have influence on organizational performance that can be expressed in terms of Financial, Internal, Customer, Innovation and learning perspectives.

Figure (1): the proposed conceptual model

Independent variable **dependent variable**



Variables determination:

- **Business strategy:**

Porter (1985) identified three generic ways (i.e differentiation, low cost, and focus) in which can gain and sustain competitive advantage over other business in the same industry. However, the present study adopts **Porter** strategies because they are academically well accepted. **Porter** generic strategies combination implied that organizations should build their performance systems upon financial and non-financial measures.

Business strategy is the outcome of decisions made to guide an organization with respect to the environment, structure and process that influence its organizational performance.(1) In this study Strategic business unit is defined as actions taken by an organization to reach its objective or Business –level studied at the Business –level to discover how firms compete effectively in their product-market segments.

- **Organizational Performance:**

The present study adopts the Balanced Scorecard, the tool is developed through research projects conducted by **Kaplan and Norton (1992),** where the term Balanced Scorecard is used for the first time, the concept is based upon four basic perspevtive: Financial perspective,Internal perspective, Custumer perspective, Innovation and learning perspective.

Laitinen (2002) suggests that performance can be defined as " the ability of an object to produce results in a dimensions determined, a priori, in relation to a target " [(2)] .He also suggests that a well-organized system of performance measurement may be the single most powerful mechanism at management disposal to enhance the profitability of successful strategy implementation. Extensive reliance on financial performance indicators has been questioned by a number of scholars. They argued that a comprehensive performance measurement system needs to comprise both financial and non-financial measures, intermittent and outcomes measures.

Theoretical Framework :

This part of the research represents a review of the literature focusing on the definition of the business strategies, organizational performance, the relationship between the two concepts, models of the strategic business unit and assessing organizational performance.

- ✓ **Definition of Business-level Strategy:**
    - ➢ **Competitive Strategy:**

A corporate business strategy stipulates the broad dimensions that a business uses as a basis for gaining and/or maintaining competitive advantage. Many times competitive priorities are also used synonymously to competitive strategy. Competitive strategy or competitive priorities that a firm adopts have received adequate of attention in literature. There are several competitive strategy classifications in the extant literature. A list of competitive strategy /priority dimensions is shows in table (1).

Table(1): competitive strategy /priority dimensions

N	Author	dimensions competitive strategy /priority
1	Porter (1998)	Specialisation,brand identification, push vs pull, channel selection, product quality, relationship with company, relationship to home and host government.
2	Krajewski et al (2009)	Cost, quality, time and flexibility.
3	Flinch (2007)	Cost, quality, dependabilityof delivery, flexibilty and response time.

4	Chase et al (2003)	Cost, product quality and reliability, delivery and flexibility
5	Mahadevan (2007)	Cost, quality, value and flexibility
6	Gaither and Fazier (2007)	Iow production costs, delivery performance, high-quality product/service, customer service and flexibility
7	Heizer and Render (2007)	Defferentiation, cost leadership and response
8	Russel and Taylor (2003)	Cost, quality, flexibility and speed
9	Buffa (2007)	Overall cost leadership, Defferentiation and market segmentation
10	Chi et al (2009)	Low cost, quality, delivery performance and flexibility

source: [3]

In the industry, a competitive strategy is a strategy whereby a firms portfolio products and services is designed to bring together its unique resources and capabilities to gain advantage in the marketplace. [4] **Chaffee (1985),** business strategy is concerned with competing within the chosen business.[5]

Parnell (2008), a competitive or business strategy outlines how a business unit competes within its industry.[6]

Business strategy typologies are framework that identify multiple generic competitive strategies available to business units. Typologies were developed and used as a theoretical basis for identifying strategic groups across industries. Numerous generic typologies have been proposed, with those developed by **Porter (1980, 1985)** and **Miles and Snow (1978, 1986)** receiving much early scholarly attention. [7]

The **Miles and Snow** typology considers the alignment of the firms strategy with its external operating environment using four categorizations: prospectors, analyzers, defenders and reators (Table 2).

Table (2): A summary of the Miles and Snow generic strategic categories

Strategic orientation	Main focus	Traits
	Entrepreneurial, innovative and new opportunity orientated	-External orientation, environment scanning, maximizing new opportunity.

Prospector		-Innovative to meet market needs. -Flexibility and freedom constraining company rules and regulations -Welcome change and sees the environment as "uncertain".
Defender	Defends existing market(often a niche market)	-Narrow range of products /services. -Internal orientation based on efficiency measures and avoiding unnecessary risk. -Centralized control and a functional structure are common.
Analyzer	Hybrid of prospector and defender types	-Operates well in both stable and dynamic markets. Uses efficiency and increased production in stable markets and innovates in dynamic markets.
Reactor	Reacts to change	-Short term planning, reacts to other action. -Change inevitably presents some difficulties.

Source: [8]

Hill and Jones (2010) suggest that to create a successful business model, managers must chose a set of business-level strategies that work together to give a company a competitive advantage over its rivals, that is, they must optimize competitive positioning. To craft a successful business model, a company must first define its business, which entails decisions about (1) customer needs, or what is to be satisfied, (2) customer groups, or who is to be satisfied, and (3) distinctive competencies, or how customer needs are to be satisfied. The decisions managers make about these three issues determine which set of strategies they formulate and implement to put a company business model into action and create value for customers. [9]

Wheelen and Hunger (2012) see that business strategy focuses on improving the competitive position of company or business units products or services within the specific industry or market segment that the company business unit serves. Business strategy is extremely important because research shows that business unit effects have double the impact on overall company performance than do either corporate or industry effects. Business strategy can be competitive (battling against all competitors for advantage) and / or cooperative (working with one or more companies to gain advantage against other competitors). Just as corporate strategy asks what industry(ies) the company should be in, business strategy asks how the company or its units should compete or cooperate in each industry. [10]

Porter 's competitive strategies (Generic strategies):

Porter 's (1980) framework suggests that organizations adopts three (3) potentially successful generic strategic approaches: (11)

- Overall Cost leadership strategy.

- Differentiation strategy.

- Focus strategy.

1. Overall Cost leadership strategy:

When striving to be cost leader, cost reduction becomes the major theme running throughout strategy. A low-cost strategy addresses facilities, operations, overheads, cost saving from experience, and being relatively frugal in such areas as research and development, services, sales force, training and development lead and advertising.

2. Differentiation strategy:

Strategies based on differentiation seek to establish fundamental differences in a variety of dimensions so that buyers perceive a market contrast between the products / services of one firm and its rivals. Firms that successfully differentiate themselves are rewarded for their uniqueness with a premium price. The economics inherent in this generic strategy require that the premium exceeds the extra cost incurred in being unique. Differentiation cannot ignore cost issues, therefore, because premium prices will be nullified by inordinately high costs. Firms that differentiate themselves successfully also create a defensible position against the five competitive forces.

3. Focus strategy:

The last of three generic strategies is focus. Firms that adopt a focus strategy target narrow segments of the market, rather than the market segment as a whole. To succeed, they still need to achieve either cost leadership or effective differentiation, but their market is more limited in scale. Through cost focus or differentiation focus, firms seek to exploit differences between what they can do for specific segments versus what their competitors can do. These differences imply that the segments are more poorly served by broad-based competitors than they would be by competitors who serve them alone. By directing firms capabilities to specific target segments, the focus seeks competitive advantage even though it does not possess a competitive advantage in the market overall. One prerequisite for a focus strategy is that the target segment are somehow different than other segments in the market.

Before selection one of the Porter generic competitive strategies for a company or business unit, management should assess its feasibility in terms of company or business unit resources and capabilities. Porter lists some of the commonly required skills and resources, as well as organizational requirements, in table (3).

Table (3): Requirement of Generic competitive strategies

Generic strategy	commonly required skills and resources	common organizational requirements
Overall cost leadership	-Sustained capital investment and access to capital. -Process engineering skills. -Intense supervision of labor -Products designed for ease of manufacture. -Low-cost distribution system	-Tight cost control. -Frequent, detailed control reports. -Structured organization and responibilities. -Incentives based on meeting strict quantitative targets.
Differentiation	-Strong marketing abilities. -Product engineering. -Creative flair. -Strong capability in basic research. -Corporate reputation for quality or technological leadership. -Long tradition in the industry or unique combunation of skills drawn from other businesses. -Strong cooperation from channels.	-Strong coordination among function in R&D, product development and Marketing. -Subjective measurement and incentives instead of quantitative measures. -Amenities to attract highly skilled labor, scientists, or creative people.
Focus	-Combination of the above policies directed at the particular strategic target.	-Combination of the above policies directed at the particular strategic target.

Source: (12)

Organizational Performance:

Literature on organizational performance clearly shows a general consensus among theorists these is no single universal measure that can be used to assess the overall organizational performance. Also, traditional financial measures are not accepted as the sole indicators for organizational performance . Moreover, we can hardly find an organization that is extremely successful or failed in every aspects.

Many performance indicators and models have been developed and advocated by various authors, such as: profitability, productivity, efficiency, effectiveness, adaptability, growth, innovation.

However, measuring organizational performance can be also be a problem since there is no universal recognized measure of this concept. Organizational performance can be assessed using either objective or subjective data, the objective approach refers to the financial data provided by the organization, whereas the subjective measurement calls upon the perception of the respondent. (13)

Hodge and Anthony (1994), classified performance criteria into three groups: efficiency, effectiveness and humanism. Effectiveness measures include four models / approach : goal / output achievement, resource acquisition, internal process and satisfaction of main constituencies, these models approaches complement each other. (14)

Kotler (2000), one of the leading authors in competiveness, identified four (4) key dimensions to achieve competitive performance: Stakeholders, internal process, resources and organizational management. (15)

Jaakkola et al (2010), suggested two performance indicators to assess business performance: financial and market performance. Here, the term business performance is used as a general performance construct to capture both market and financial aspects of performance. Financial performance literally refers to financial measures, such as margin and return on investment, whereas market performance implies measures such as market share and sales volume. (16)

One of the approaches / models of assessing organizational performance that became popular and widely applied is the “ **Balanced Scorecard**”. It is a comprehensive management control system that makes a balance between short and long time horizon for goals, between lag and lead indicators and between internal and external perspective. The tool is developed through research projects conducted by **Kaplan and Norton (1992)** where the term Balance Scorecard is used for the first time. The concept is based upon four basic perspective. The Four (4) BSC perspective are: [17]

1. Financial perspective: measures the ultimate results that the business provides to its shareholders. This includes profitability, revenue growth, return on investment, economic value added and shareholders value.

2. Internal perspective: focus attention on the performance of the key processes that drive the business. This includes such measures as quality levels, productivity, cycle time and cost.

3. Customer perspective: focus on customers needs and satisfaction. This includes service levels, satisfaction ratings and repeat business.

4. Innovation and learning Perspective: directs attention to the basis of a future success-the organization people and infrastructure. Key measures might includ intellectual assets, employee satisfaction, market innovation and skills development.

Generic Strategies and performance relationships: [18]

Wensley (1987) argues that **Porter** gives little evidence to support the U-shaped relationship between on investment and market value share, which is used by **Porter** to illustrate the dangers of being stuck in the middle Wensley states that **Porter** cites only two examples, the US fractional horse power electric motor business, where the relationship " appear to hold", and the global automobile markets, where it " Probably also roughly hold". **Schoeffer et al (1974)** stressed the importance of size related factors such as market share, total marketing expenditure and R&D expenditures in explaining variations in profit. **Buzzell et al (1975)** further developed the U-shaped relationship between market share and success by arguing that a 10% difference in market share is accompanied by a difference of about 5% in pretax return on investment. **Hamermesh et al (1978)** illustrated with surveys of successful low share market companies that concentration on market share was dangerously over perspective.

Conclusions:

It can be concluded that the study shows the following results:

- It describes the nature of competitive strategies and organizational performance in the firms.
- The most important components of cost leadership are improvement in skills, improvements and utilization of assets and customer relationships.
- The choice of Balanced Scorecard perspectives depends on the strategy chosen and the Scorecard itself. This has been developed not to serve strategy formulation but to implement it, because the role of the Balanced Scorecard in strategy formulation is bounded.
- The implications for managers in different companies should pay more attention to the analysis and the link between performance indicators and business strategy in order to increase and enhance their companies' ability to achieve the required objectives. Managers should give more emphasis to both financial and non-financial performances of their companies, which can lead to the achievement of competitive advantage in highly intensive competitive markets.

Future Research:

This research should be seen as a starting point for research in the Strategic business unit. It should that it will stimulate more interest, as well as, we suggest for future research may include:

- Investigating structural, environmental, technological and human resource variables that can facilitate and support development and sustainability of competitive advantage.
- Examining the impact of competitive strategies on business performance: the moderating effects of organizational structure and external environment on building and maintaining a sustainable competitive advantage.
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