The Emerging Approaches to Corporate Strategy

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Introduction

There are many new dramatic changes faced by companies in 21st century. Macro-economic instability, technological change (especially information technology), transportations and communications advances, proliferating product life-cycle, fiercer competition, are multiple assaults on the premises of strategic planning (Marsden, 1998). Not surprisingly, waves of new approaches to strategy were proposed to address these threats.

The purpose of this paper is to review and compare the classic and contemporary approaches of corporate strategy followed by the description of the management accounting information role in measuring corporate performance.

Competitive Analysis Approach (Michael Porter's Model)

Most companies in 1980s era formulated their strategy based on the most popular model Michael Porter's five-forces. The essence of the model is that the structure of an industry determines the state of competition within that industry and sets the context for companies' conduct – that is their strategy. Porter suggested there are two basic questions that each of them need to be answered in order to develop effective strategy. Firstly, what is going on in the industry - by understanding what happen in the industry including its potential profitability, a firm could determine the attractiveness of industry in which they compete. Secondly, about own firm position in industry – a firm needs to define its right position in order to achieve superior performance, no matter where they are operating, attractive or non-attractive industry.

Since in every industry, there is distribution of profits, whatever the industry average is, there are some companies that outperform the average and there are some others that underperform it. To be outperforming in the industry, a firm need to have a sustainable competitive advantage. Competitive advantage comes in two flavours, lower cost and differentiation (Porter, 1990).
Core Competence-Based Approach (Hamel and Prahalad's Model)

For companies in 1990s, Hamel and Prahalad suggested that companies should put more focus on their core competence and competing on capabilities. They argue that no two companies are alike because no two companies have had the same set of experiences, acquired the same assets and skills, or built the same organizational cultures. These assets and capabilities determine how efficiently and effectively a company performs its functional activities. Following this logic, a company will be positioned to succeed if it has the best and most appropriate stocks of competencies for its business and strategy.

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This model is moving from outside to inside the company. This approach emphasized the importance of both the skills and collective learning embedded in an organisation and of management's ability to organise them. This view assumed that the roots of competitive advantage were inside the organization and that the adoption of new strategies was constrained by the current level of company's capabilities. The core competencies can take a variety of forms. They are often intangible, not physical, such as brand names, skilled staffs, efficient procedures, and technological know-how. Sony's competencies in miniaturization, Phillips's optical-media expertise, Citicorp's 24 hours operating system (Hamel and Prahalad, 1990) are the examples of unique resources owned or controlled by companies to differentiate themselves.

Competing on the Edge Approach (Brown and Eisenhardt's Model)

Strategy formulation for companies in the new millennium needs more flexibility in order to readapt continually in a rapid changing environment. Customers require product providers to be able to meet their vigorous wants and needs anytime, anywhere, and anyhow. Brown and Eisenhardt in 1998 argued that managers should turn to the new way of strategic thinking and realise that the core competence and capabilities possessed currently, will become less valuable in the near future. The table below illustrates the main distinctions between the three models.

	Porter's Five Forces Model (1980s)	Hamel & Prahalad's Core Competency Model (1990s)	Brown & Eisenhardt's Competing on the Edge Model (2000s)
Perspective	Sees the industry as having a stable industry	Sees the firm as a bundle of competencies	Views the industry as in rapid, unpredictable change
Goal	Develop a defensible position	Develop a sustainable advantage	Deal with the continuous flow of advantages and opportunities
Driver	Industry structure dominates the situation	Unique firm competencies are the key to success	The ability to change is the most critical factor
Strategy	Pick an industry; pick a strategic position; fit the firm into it	Create a vision; build and then exploit competencies to realise this vision	Gain the edge through a carefully paced and implemented strategy and shape a "semi-coherent" strategic vision that people can follow
Success measure	Profits	Long-term dominance	Continual reinvention

Source: Hodgetts, Luthans and Slocum Jr. (1999)

Competing on the edge model is just right for companies in the situation with less structure, less strict regulation and bureaucracy. The virtual corporation, sometimes called the networked organisation, is another form of organisation that is becoming popular to replace the traditional hierarchical structures. It is created by extensive contracting out of activities once performed in-house. The new information technology facilitates the virtual corporation by allowing independent firms to join together in networks, which then act as if they are single corporations. These companies need to be more adaptive to the ever-changing environment and continuously look forward as well. According to Hodgetts at al. (1999), by adopting this new model in formulating their strategies, managers can lead their companies to survive in the competitive market in the 21st century.

Strategy as simple rules (Eisenhardt and Sull's Model)

Within this approach, positive impacts of strategy gained from a stable market position in the industry or from leveraging unique and sustainable resources are considered outdated. Strategy as simple rules suggests that strategy benefits are coming from strategies which grasp great opportunities for competitive advantage in the market (Eisenhardt and Sull, 2001). The table below puts side by side the three different approaches of strategy analysis.

	Position	Resources	Simple rules
Strategic logic	Establish position	Leverage resources	Pursue opportunities
Strategic steps	Identify an attractive market Locate a defensible position Fortify and defend	Establish a vision Build resources Leverage across markets	Jump into the confusion Keep moving Seize opportunities Finish strong
Strategic question	Where should we be?	What should we be?	How should we proceed?
Source of advantage	Unique, valuable position with tightly integrated activity system	Unique, valuable, inimitable resources	Key processes and unique simple rules
Works best in	Slowly changing, well-structured markets	Moderately changing, well-structured markets	Rapidly changing, ambiguous markets
Duration of advantage	Sustained	Sustained	Unpredictable
Risk	It will be too difficult to alter position as conditions change	Company will be too slow to build new resources as conditions change	Managers will be too tentative in executing on promising opportunities
Performance goal	Profitability	Long-term dominance	Growth

Source: Eisenhardt and Sull (2001)

Composite Model (Lioukas and Spanos's Model)

Lioukas and Spanos, 2001 is attempting to review and compare between the Porter's five forces and the resource-based model and developing a new model that merged both perspective. Using this 'composite model' they conducted a study to determine a company's market performance and profitability forces. The result of their study (as depicted in the figure below) shows that there are three distinct but also complementary types of effects. These effects are:

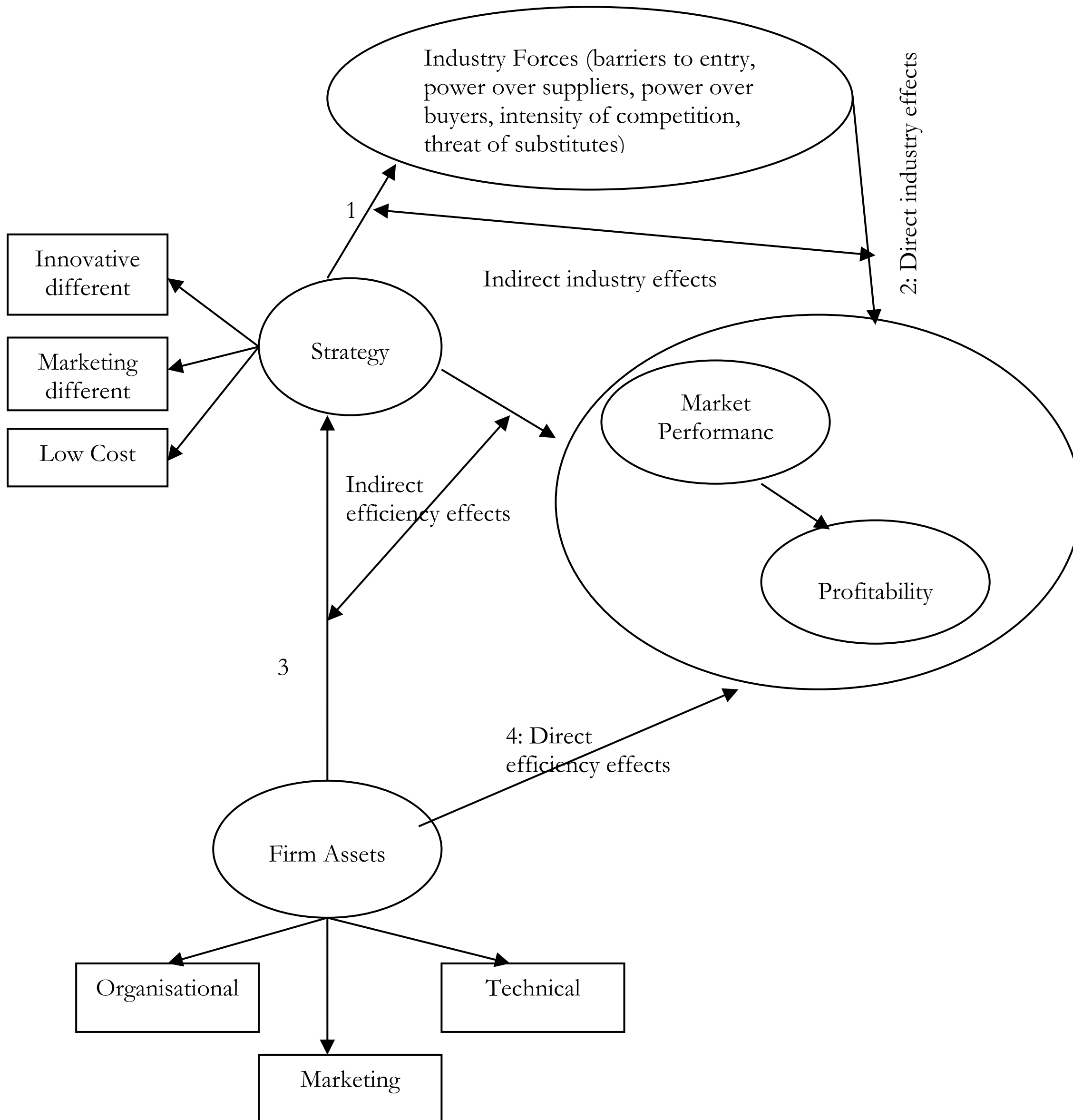
Utility type of effects (i.e strategy formulation) on performance
The two approaches have the similar fundamental compatibility in term of meeting the customers' need, even though each approach has its own specific way to do it by differentiated product or low cost manufacturing process, for example.

Industry effects (direct and indirect) on performance
Porter's framework emphasises clearly on phenomenon at the industry level. Competitive rivalry directly influences company's performance, while relative power of suppliers directly and indirectly influences profitability. Either direct or indirect effects on company's performance it puts the

spotlight on choosing the "right industries" and, within them, the most attractive competitive position. These types of effects are shown by path 1 and 2 in the figure.

Firm assets specific (direct and indirect) on performance
According to core competence-based perspective, managers should build their strategies on their unique resources. In other words, the availability of these resources limits the managers' choice in setting up their strategies. Sustainability, availability, and variability of the superior resources directly influence company's market performance and profitability and indirectly affects in providing a utility for strategy creating.

The Composite Model



Source: Lioukas and Spanos (2001)

Information Technology Strategy

The twenty-first century is an exciting time for managers, with significant opportunity for creative use of Information Technology (IT) to improve their organizational performance. Most corporations

in the world began to depend on IT. Worldwide, IT spending will reach more than $1.1 trillion annually by 2002 (Yourdar, 1999).

In the past, IT was used to support product corporate strategy. Today IT is the corporate strategy. Michael Earl (2000) suggested “FAST” methodology for the information business strategy making. They are futurising, assets, stimulants, and threats. He stated “a business strategy without a matching IT strategy was not a strategy at all” (p.1). In his article, he implied that in some ways IT is also a commodity, an input and also an output, provide threats and also opportunities at the same time. In this increasing virtual world of technology and organisations, perhaps the greatest concern of managers is with building - new strategies, new products and services, new relationships, new organizations – all with integrated IT.

The Role of Accounting Information in Measuring Performance

As explained above, there are many new models used by companies in the new economy. Companies may utilise one or more or combination of the alternative approaches provided by the theorist. These new approaches have brought challenges for the accounting managers to enable them to happen in the real world.

One of the objectives of the accounting information is to provide relevant and useful findings that can practically applied in a company. However, traditional performance measurement systems focus only on financial outcome reports (result oriented) rather than being process oriented. Yeniyurt (2003) summarised the weaknesses of traditional accounting metrics based on the literatures such as inadequacy for strategic decisions (Kaplan and Norton, 1992); too backward-looking and lack of predictive ability to explain the future (Ittner and Larcker, 1998), and not considering intangible assets (Bulkowitz and Petrash, 1997).

Within this framework, the more modern management accounting information is expected to play significant roles in measuring strategy performance. Firstly, it may take on the role as a learning machine of business strategy. Accounting may help to evaluate how alternative actions during strategy implementation may achieve the final goals (strategic objective). Accordingly, accounting information assists the creation of a mental model of the financial implications (ie. key daily production indicator), which can detect problems and monitor results of operations. Eventually, it will not only provide the performance measurement of operational activities but also guidance to strategic decisions in improving performance.

The management accounting information also creates value of information. It establishes new forms of corporate communication through its quality and performance management systems. In this case, Chapman (1997, cited in Veeken and Wouters, 2002) found that accounting information enables to reduce uncertainty. Besides, it would acknowledge that accounting provides some system guidance to warn against the possible danger of company’s performance strategy achievement (i.e. Z score calculation model). Moreover, Kaplan and Norton (1996, cited in Hussain and Gunasekaran, 2002) integrated financial and non-financial performance measures in Balance Scorecard to give top management a fast and comprehensive view of the entire business.

Furthermore, accounting information will help organisation to achieve aggregate understanding of the operational activities to strategic framework. Seals (2001) found that modern accounting approaches might enable the company to define its organisational identity (strategic framework) rather than exercising financial control (day to day operational activities) in the company. In the circumstances of the chosen corporate strategy, accounting differentiates its term based on each organisation level (Burns and Scapens, 2000, cited in Seals, 2002). For example, company may create a process map, describing different phases of the production cycle, and utilise it to measure

performance of each phase/unit, which then the aggregate of each unit performance will determine the overall strategic performance.

The other potential role of accounting information is to determine firm assets in sustainability competitive approaches. Adshead, et al. (2002) stated that accounting enable managers to manage the company assets that consists of tangible, financial, and intangible assets. Further, Fahy (2000, cited in Barry et al., 2003) found that intangible assets give the competitive advantages for firms as its inimitability, immobility and non-substitutability. The intangible assets included human assets (knowledge and skills), intellectual assets (information and publications), intellectual property (patents and copyrights), structural assets (culture and organisation model), and brand assets (awareness and reputation). The successful development and deployment of key intangible assets may facilitate the acquisition of tangible resources, such as good people, which enables the firm to compete more effectively in a rapid change environment. The Skandia Navigator, for instance, emphasised the communication of strategic intent in considering intangible assets measurement.

Finally, it helps organisation to recognise the need for initiating change. The environmental changes, such as organisation grow, merge, leadership changes affect management accounting in two ways (Atkinson et al., 1997). First, accounting information should support organisation change, and help organisation to recognise the needs for initiating change. Instead of inhibiting change (by focusing on performance measures that maintain the status quo), management accounting information should suggest what the most suitable response to those changes. Traditional measurement such as calculating variance between result and target, standard and budget reflects a steady state view rather than look an organisation as an open adaptive system. Management accounting information role in identifying, communicating relevant, important, both external and internal information needed by managers in order to adapt to environmental changes is enormously essential.

Conclusion

Strategies developed not in a vacuum. Before, strategy was only viewed as a state of positioning which was influenced by industry structure as explained by Michael Porter's Five Forces Model in the early 1980s and firm core competencies model, as introduced by Hamel and Prahalad in 1990. Recently, concepts of strategy have revolutionised to accommodate emerging trends and global changes including advances in innovation and technology. Concomitantly, there are tremendous amount of literatures and researches attributed to develop theories explaining such emerging strategies such as "Competing on the edge" model by Brown and Eisenhardt and "Strategy as simple rules" model by Eisenhardt and Sull's. Those models stressed the importance of flexibility in strategies in order to readjust continuously to changes and grasp great opportunities in the market. Next, the Composite Model introduced by Lioukas and Spanos, merged the Porter's five forces and the resource-based model, and propose the three effects on performance (utility type of effects, industry effects, and firm assets effects).

However, strategy concept development will not be limited to current proposed theories, it will always be ever changing and might occur in recurring pattern. These have brought challenges to company to select types of strategies which mostly appropriate to their operation, not to mention the process of implementation. In here, accounting information plays a major role to espouse the strategy selection, strategy implementation, and measurement of the strategic objectives' achievement.

In addition, accounting managers should consider flexibility to adopt different concepts of performance strategy measures. In utilising the management accounting information managers should look at different types of information sources and information exchange, such as financial and non-financial even the tangible and the intangible. In the future, not only accounting managers

but also operational managers need to have in-depth understanding of the accounting information role in strategic management processes.

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