

Chapter 1

Business Strategy and Financial Performance

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ABSTRACT

This chapter will focus on the relationship between the business strategy and the financial performance, which naturally, will study the different approaches to the competitive context and the strategic initiatives themselves. The contributions of different authors over time and the evolutionary logic of the approaches on business strategy are first, which will emphasize strategic positioning and resource-based theory. Next, several types of strategies will be approached, based on different views: product and market choices, sources of competitive advantages, the activities to be carried out internally or to be subcontracted and the geographic space of action (internationalization). Finally, a number of research papers will be presented that studied the relationships between business strategies and financial performance, mentioning the main empirical evidence from the different studies. In this way, it is intended to contribute to a better knowledge of successful strategies in the business context.

INTRODUCTION

This research work focus is, above all, the connection between business strategy and financial performance within organizations. Naturally, through literature review, different approaches on the competitive context will be studied, as well as different strategical initiatives.

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It begins by presenting different literature contributions over time and the evolutionary logic of the approaches on business strategy, highlighting the strategic positioning and resources-based theory.

The points that follow will describe each of the approaches, the relationship among them, as well as some concepts and results of empirical studies on the two research currents that have attempted to explain the performance differences between companies operating in the same industry. On strategic positioning, it stands out the Porter model of the five competitive forces (1980), and the intra-industry analysis, that intends to study companies' behaviour within an economical sector, by identifying companies with similar strategies (strategic groups) or competing in the same markets (competitive groups).

As far as resource-based theory is concerned, we will highlight the concepts of resources, capacities and competencies, and highpoint different authors' contributions to the development of this business strategy approach. Finally, we will reflect about the complementarity between strategic positioning and resource-based theory, characterizing its importance on success in business.

Next, considering the variety of strategic actions susceptible to be developed by the organisations, we identify scopes that have been considered to explain performance, both in the various approaches of business strategy, as in empirical studies developed for this purpose. Thus, various types of strategies will be addressed, based on different visions: product and market choices (Ansoff, 1984; Martinet, 1989), competitive advantages sources (Porter, 1980; Hill & Jones, 1995), operational chains activities internally carried out or subcontracted (Porter, 1985; Martinet, 1989) and geographic area of action, namely internationalization (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977).

Finally, we will present several research studies about relationships among business strategies and financial performance, as well as their main empirical evidences.

So, the main purpose of chapter one is to characterize the different approaches on business strategy, the different strategic dimensions related to the large management decisions of the organizations and, simultaneously, to present the main results of investigations that have studied the relationships between business strategies and financial performance. In this way, we intend to contribute to a greater understanding of successful strategies in the business context.

METHODOLOGY

The methodology adopted is based on a detail and systematic review of the literature on main topics covered, more specifically, strategy approaches and performance.

The literature review is based on research in databases such as B-on, with access to web knowledge and a great diversity of publishers, like for example, Elsevier, Wiley, Springer, Kluwer, SAGE and EBSCO.

Are also consulted the databases of Proquest, JSTRO, Science Direct, Wiley Library Online, complemented by searches through Google and Google academic. Using specific search terms, the literature about the core concepts is explored and the critical analysis of the literature is made throughout the chapter.

THINKING STRATEGIC APPROACHES

The development of management as a discipline arose from companies' growth in the end of the nineteenth century, because of the second Industrial revolution. The main goal of the classical management approach was the need to systematize work organization and make it more efficient for workers to perform tasks.

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