

## Chapter 8

# Expanding the Model of Competitive Business Strategy for Knowledge-Based Organizations

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### ABSTRACT

*The established competitive generic business strategy model continues to be the dominant paradigm, despite the rapidly changing internal and external environments that companies face today. This article evaluates other strategy-related elements identified in current business research and determines if an expanded model can be applied to companies that have become more knowledge-based organizations. Ten such companies are selected for case study examination of their generic strategy, purity of usage, innovation, strategic entrepreneurship and clarity. The results provide a potential basis for an expanded model of the dominant competitive business strategy paradigm that includes these additional elements and provides a framework for future research.*

### INTRODUCTION

Successful business strategies have been examined for many years in regard to the competitive forces that craft their shape, the impact of the external environment on strategic approaches, the emphasis on innovation, level of strategic entrepreneurship

and purity of execution. There is little doubt that combined with a variety of other factors (e.g., operational effectiveness, superb execution of the chosen strategy) innovation is a key element of success – especially for companies today that are increasingly knowledge-based.

The value innovation imparts to organizations is indisputable. Scores of studies have highlighted how innovation enables organizations to renew

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themselves (Brown, 1997), adapt to changing environments (McGrath, 2001) and ensure their long term growth and survival (Eisenhardt & Tabrizi, 1995). Innovation provides an important foundation for an organization's dynamic capabilities (Eisenhardt & Martin, 2000) and is indeed a cornerstone for its competitiveness (Christensen, 2000). Evidence comes from numerous empirical studies irrefutably linking innovation to market performance outcomes such as sales growth, market share and profitability (Nonaka & Kenney, 1991; Bierly & Chakrabarti, 1996; Hage & Hollingsworth, 2000; Kenney, 2001).

Yet while company strategies and approaches are normally well known, and many are clearly understood by business scholars as well as the public, the question arises whether a generic strategic taxonomy accurately conveys the true emphasis on innovation and strategic entrepreneurship that are so important to success. Questions have already been raised in the literature regarding the value of generic strategies (cf. Bowman, 2008). Therefore, the basis of those strategies, namely Porter's Five Forces (Porter, 1980, 1985), also needs updated study. This article seeks to begin an exploration of the possible relationships among strategy, innovation, and entrepreneurship and expand the dominant strategic paradigm model to include these and other additional aspects.

## **A BRIEF OVERVIEW OF THE RELATED LITERATURE**

Most fields of study have widely accepted patterns of thinking that are the exemplar upon which much research, practice, teaching, and current thinking is based. In the field of strategic management, Michael E. Porter's model of the five competitive forces that form business strategies have been an important tool in examining industry structures and choices that organizations make in strategic appeal for nearly three decades (Porter, 1979, 2008). These competitive forces – the rivalry

among competing organizations, the threat of new entrants in the field, the threat of substitute products or services, as well as the bargaining power of buyers and sellers – have been widely studied in regard to how they influence choices that companies make in their strategic position in the market and how well the choice succeeds (Grundy, 2006; Ireland, Hoskisson, & Hitt, 2008). This concept proposes that the strongest force in most industries is usually the action of competing companies. To a somewhat lesser extent the existence of products outside the usual arena sometimes leads customers to switch to substitutes, or perhaps new entrants in the industry offer an attractive alternative – both of which impact strategy. Concurrently the bargaining power of the providers of raw materials (such as suppliers, labor and expert services) and/or customers who purchase the product or service can be a potent determinant of the micro-environment threat level that is important when formulating strategic plans.

The subsequent dominant theoretical construct that has had the most extensive and powerful influence on business strategy was also pioneered by Porter and contains two essential elements that describe firms' competitive strategies as indicated by (1) the scope of their market as being broad or focused, and (2) the source of competitive advantage as being cost or differentiation (Porter, 1980, 1985; Campbell-Hunt, 2000). Although scholars have developed various interpretations and nuances of this descriptive structure, it is still the basic paradigm by which many, if not most, strategy researchers, consultants, and instructors think about company strategy. An additional widely accepted aspect of the Porter generic strategy concept is the 'stuck in the middle' notion where companies normally fail to be competitively successful if they do not choose and implement a clearly defined (as by the model) business strategy.

In the past twenty-plus years there have been some attempts to expand this set of 'generic' strategic behaviors (Miller, 1986; Mintzberg, 1988; Campbell-Hunt, 2000) that some research

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