The Strategy Diamond: Changing the Firm by Appreciations of Dynamic Exchanges of Knowledge and Technology

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ABSTRACT

The validity and applicability of resource-based theories is under serious attack today. The main argument of the resource-based theory opponents is that under an environment that demands intense diversification, resources are exhausted, so companies cannot for hope to employ resources according to their will. This paper argues that this is not so, and that resource-based theories are ever valid. Yet as with any theory, resource-based theory as well needs refreshment. It also needs to be in accord with present requirements of the fast changing business environment. This paper introduces the Strategy Diamond Methodology that, based on research in particular markets and companies, aims to show that resource-based theories can hope to survive for many years to come.

Keywords: Corporate Strategy, Strategy Implementation, Strategic Marketing

1. APPRECIATION OF KNOWLEDGE AND TECHNOLOGY

In the business environment, knowledge can be twofold: external and internal [1]. External knowledge is defined as knowledge coming by appreciations of the external environment and of the factors in that environment than can make or destroy a business. For us such external factors are the political, social and economic developments that more or less determine company's success in implementing its strategy plans. In addition, we see these external knowledge factors as the variants that can win or lose a company a battle in its quest for competitive advantage. It is argued that prior knowledge through appreciation of the battlefield is necessary to win you any battle [2]. The other decisive factor in successfully implementing strategies is internal knowledge, that is, insight coming of the systematic appreciation of organizational knowledge. That internal knowledge is defined as knowing ourselves in the company and communicating that knowledge to all its parts [3, 4, 5 and 6]. In other words, internal knowledge has to do with the general awareness in every corner of the business of what happens to all company corners especially when it comes to plans, systems, practices and procedures and it involves knowledge that springs of all functions, like, for example, finance, operations, sales, and customer service.

Technology now, as with knowledge above, we observe can again be twofold: external and internal. By external technology we mean the thorough awareness of technology changes and developments in the marketplace. We will argue that only a full appreciation of all external technology changes can win a company the battle in shaping and implementing strategies right. It has been argued that to win any battle in today's competitive arenas one should first know the technologies through which the battle is led [7 and 8]. It is much more like a fight between two or more armies that one is equipped with modern, latest technology weapons whereas everyone else in the field is fighting with bare hands. The fight is unequal. Without knowledge of the technological developments of the marketplace, companies are doomed to fail [9].Such possession of external technology awareness in the business can be the appreciation of systems, technologies, materials, and education methods existed at present at large and which can win the company the fight if acquired. On the other hand internal technology is defined as the accumulation of the above identified systems, technologies, materials and education methods and their proper use by a specific company to help implement strategic decisions. In this work we aim to prove that the employment of these internal technology advantages coupled by a continuous appreciation of external technologies and combined with complete and lasting awareness of internal and external knowledge of the organization and the market can win any business any battle.

2. STRATEGY FAILURES: THE CASE OF FORTHNET

It has been argued that companies which manage to link their marketing strategy with corporate strategy are market winners as they open the road to competitive advantage and they are ahead of the competition [10]. Established theories about strategy claim that there are four different strategies that can provide companies a competitive advantage: cost leadership, differentiation, focus cost and focus differentiation [11]. Figure 1 below depicts this situation:

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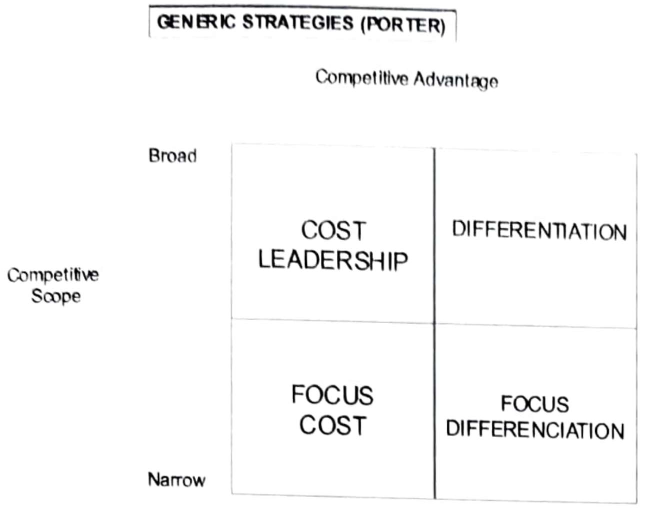
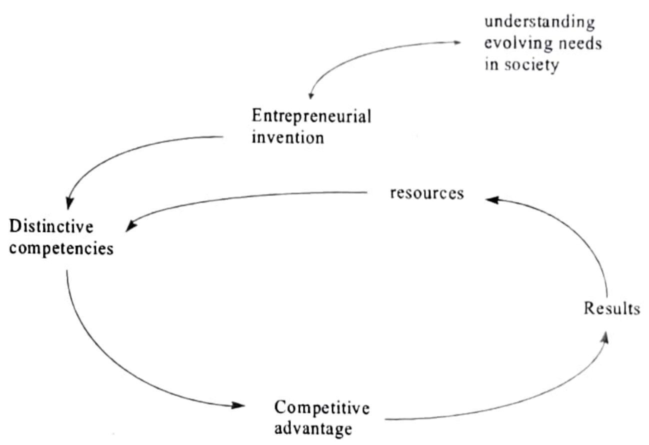
Figure 1: Generic Strategies (Source: Porter, M.)



Traditional research on strategy claims that to make possible the implementation of each one of these strategies, a firm has to have a trusted product and an established market, and the capabilities that will enable it to apply one of the above strategies [12]. Cost Leadership can be possible when our company is in the position to sell cheaper than rivals. This only can be possible by acquiring economies of scale. If this is not feasible, then the organization may gain competitive advantage by differentiating its products or services, or both, from other competitors, though better quality, larger variety or superior service. Moreover, through a focus cost strategy a firm may again gain advantage over its rivals by selling cheaper in a niche market.. The same applies with a focus differentiation strategy but in this case the company is doing this by offering additional quality, variety or service, or other benefits to customers [13]. Research in this area has shown that for a company to obtain such an advantage, it must concentrate in only one of these strategies [14]. This because adopting more than one of these strategies requires additional resources which most of the time companies do not have the luxury to employ. According to this theory trying to apply more than one generic strategy, it leads to stagnation rather than any competitive advantage even though more recent research questions these findings [14, 15 and 10]. This paper aims to show that concentrating in one strategy is probably right by taking FORTHnet S.A. example, the leading Internet Service Provider (ISP) and landline telephony provider in Greece and South East Europe as an example. By looking at its size and resources, FORTHnet was supposed to be the leader in the Greek and South East Europe ISP market, but this is not the case as in March 2011 the company managed to occupy only a 17 percent of these markets, even though it was trying for more than ten years to acquire a larger share in the market. In fact from 2005 onwards FORTHnet's strategy was to satisfy customer requirements by employing state-of-the-art technology that allows the company to offer a variety of ISP services at a low cost [16]. To achieve this, FORTHnet went on to use traditional sales promotions through its sales network, whereas from 2008 onwards it has started to advertise widely by means of both traditional methods (TV, magazines, road advertising etc) and Internet advertising. Nevertheless, its market share is not increasing despite the additional resources employed to support these strategies. In the past seven years, FORTHnet has not been able to change these percentages significantly although the company has doubled expenses, aiming to sustain its policy to conquer extra market share.

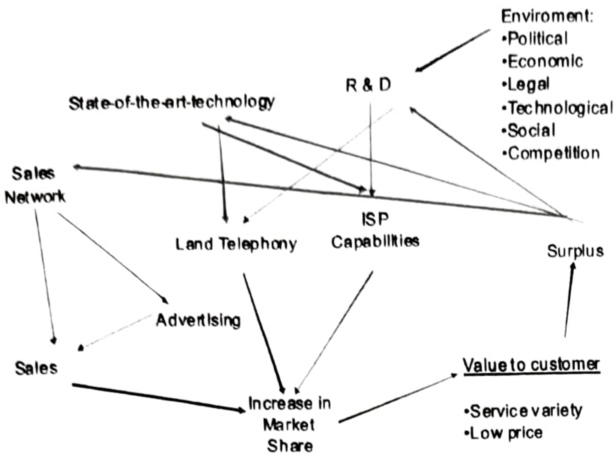
Kees van der Heijden writes that our ability to sustain our core competencies can help us get a sustainable competitive advantage [17]. A core competence is a unique strength that takes both time and recourses to develop and therefore it is almost impossible to be imitated by rivals. By employing these core (or distinctive) competencies we can add value to customer's money and retain our customers [8]. Yet, to achieve this, it is necessary always to manage and increase our resources; otherwise, as van der Heijden argues, it is almost impossible to sustain any advantage. This situation is depicted in Figure 2 below where resources, competencies and competitive advantage are put together to give us the concept of the Business Idea.

Figure 2: The Business Idea Concept (Source: van der Heijden)



A business idea is a description of the systemic relationship between an organization's distinctive competencies and customer's value systems, which creates the viability of the business. By looking into society needs and in our ability to identify and take advantage of opportunities, the business idea examines if an organization has any competencies which supported by our resources can give us a competitive advantage and create value to the customer [17]. As Figure 2 above shows an equal important factor in creating any competence and therefore a possible competitive advantage is also entrepreneurial invention, which is the mind-set of the entrepreneur that is shaped through his or her appreciation of evolving needs in society. At this point, we will suggest that companies should make use of the Business Idea concept to understand their domestic strengths and weaknesses. Figure 3 below shows us how FORTHnet is trying to accomplish this in the past 7 years

Figure 3: The FORTHnet business idea.

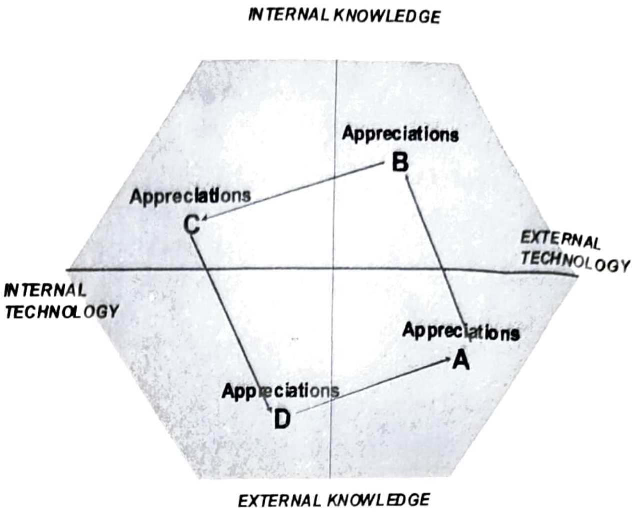


As one can see in the above business idea diagram for years FORTHnet is using recourses to enable it implement its service variety (differentiation) and low price (cost leadership) strategies. All this is used to support its ISP and Land Telephony capabilities and increase its market share in order to enable service variety and low price for a long period that would promise the company a competitive advantage. Nevertheless, from 2005 to 2011 FORTHnet's market share has increased by only 1.2 percent in the ISP market and by 1.9 percent in the landline telephony market [18]. Although the company is trying hard by investing in technology and sales and marketing, these numbers are by no means supporting any prominent increase in market share. It seems that for years FORTHnet is simply trying to serve its customers by offering exactly the same benefits as with most rivals. In other words no excess customer value seems to have been created, that would support any sustainable competitive advantage through a cost leadership and differentiation strategy. As FORTHnet continues to invest in these strategies with no real benefits, this suggests, that there is, most probably, a gap between the knowledge acquired from the market all those years and with how this knowledge is employed internally in the firm to help introduce any competitive advantages. Also, although FORTHnet continues to invest in modern technology, the figures above suggest that this investment is not institutionalized to gain it any advantages. As we will demonstrate below, the acquisition and employment of knowledge and technology can be decisive factors and without mastering them, seemingly, no company can get any advantage.

3. THE STRATEGY DIAMOND

We consider that external knowledge, internal knowledge, external technology and internal technology as defined above can be combined to give us a full picture of institutional learning as the Strategy Diamond® shows below

Figure 4: The Strategy Diamond



Source: Barbas, M., "The Strategy Diamond", 2012

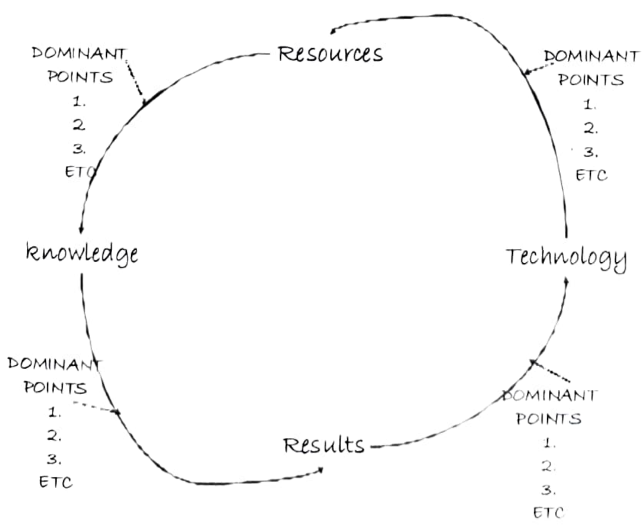
The Strategy Diamond idea assumes that companies need to pass successfully through four kinds of appreciations related to knowledge and technology in order to be able to implement any strategy. Appreciations A are formed by being fully aware of all external knowledge and external technology factors. By knowing what can make it undefeatable in the two most important external variables, as we have shown above, - which are the sole factors that determine success, - can make the organization confident that it can simply succeed because it knows the rules of the game. After getting insights of Appreciations A, the firm can then get into the Appreciations B area. The Appreciations B area is basically defined by the variables of external technology and internal knowledge. By having a full appreciation of external technologies and how internal knowledge is presently communicated to the firm, and what we lack in technology, companies can then get an appreciation of their urgent technology needs and whose acquisition may lead to improvements to internal knowledge gaps which may delay us or even stop us of implementing our plans. By having such an appreciation then companies are better equipped to know how to understand state-of-the-art technologies and to turn them to their own internal knowledge filling therefore all internal technology gaps and making external technology their own internal technology. This situation is depicted into the Appreciations C area in Figure 4 above. This in turn helps the organization to appreciate how its newly acquired internal technology can be used to assist us be always in touch with any future external knowledge developments, in other words to employ our own internal technology to identify external opportunities, which is an important factor in securing strategy implementation. We will call this area Appreciations D.

When all this is understood, the strategist can then take down the Dominant Factors in the four appreciation areas. The Dominant Factors are the important points in every appreciation area that enable us to pass into the next appreciation area, and derive of combinations of the knowledge-technology variables in the four appreciation areas, that is, of combinations of external knowledge-external technology, external technology-internal knowledge, internal knowledge-internal technology and internal technology-external knowledge. The Dominant Factors are important in order to achieve the goals defined in each appreciation area. The strategist can place these factors in each appreciation area in a counter clockwise sequence starting from the Appreciations A area, then going to the Appreciations B area, then to Appreciations C area and finally to the Appreciations D area. Filling the gaps in that sequence, we observe can definitely prepare us for action in a process fashion and indeed help us with the execution of strategic plans. Our Strategy Diamond method sees strategic management implementation as an ongoing and therefore dynamic process. In other words, here we argue, that we can only gradually turn the 'rocks', that is companies without a precise strategy implementation plan, into precious stones, that is 'diamonds' or companies that really possess and employ dynamically such a plan.

4. THE PRECIOUS CYCLE : USING APPRECIATIONS TO SUSTAIN COMPETITIVE ADVANTAGE

Once the diamond is completed we need to pick it up and wear it. Below we see how by using the Strategy Diamond method we can distinguish ourselves from the rest of the market. Once our Diamond is ready the only thing we need to put our plans into actions is to employ our knowledge – Technology appreciations that comprise our diamond. We observe having the right technologies allows us to use our resources dynamically and supply the organization with fresh knowledge of products and markets to achieve expected results. The results in turn will help us excel our technologies. We will name this process 'the Precious Cycle®'. The Precious Cycle is presented below in Figure 5

Figure 5: The Precious Cycle and Dominant Points

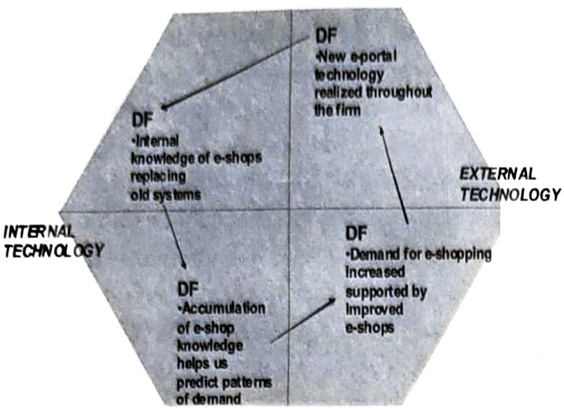


Source: Barbas, M., "The Strategy Diamond", 2012

An important component of the 'Precious Cycle' is the identification of the 'Dominant Points'. Dominant Points are these activities that will allow us to progress from one stage of the cycle to the next. Here we wish to make it clear we must not confuse the 'Dominant Points" with Critical Success Factors (CSF's) and Critical Activities (CA's). CSF's serve to identify the factors that are critical to enable a business implement its strategic options [19 and 20]. CA's in turn are the identification of those activities that will enable the CSF's to work positively. Both CSF's and CA's help us implement parts of various corporate strategies. Nevertheless, the 'Dominant Points' represent only these activities that allow us to get from one stage of the 'Precious Cycle' to the next. The Dominant Points then are dynamic in the sense that the points identified in one stage can be used to generate the 'Dominant Points' of the next stage in the Precious Cycle. Therefore, the Dominant Points are fundamentally different from CSF's and CA's in the sense that they derive solely from the strategy implementation process within a very particular, company individualized and therefore unique, Precious Cycle. Dominant Points in one stage are in fact the food for the points that we consider dominant in the next stage of the cycle. Moreover, the 'Dominant Points' can only be realized in the process as we get from one stage to another, so they tend to be long-term. In other words, the Dominant Points are not one-off considerations like CSF's and CA's of how we implement strategy in a given situation. This because the situation in the cycle, as it seems, is shaped by the Dominant Points whereas CSF's and CA's just support a strategy situation [21. 22, 23, 24, 25 and 26]. Therefore, as the strategy process goes on, the Dominant Points can be adjusted to the individual circumstances of the particular firm to bring us safely to the next stage in the cycle. In the 'Precious Cycle' diagram, as we can see above, the 'Dominant Points' are placed along the arrows that take us from one stage of the cycle to the next.

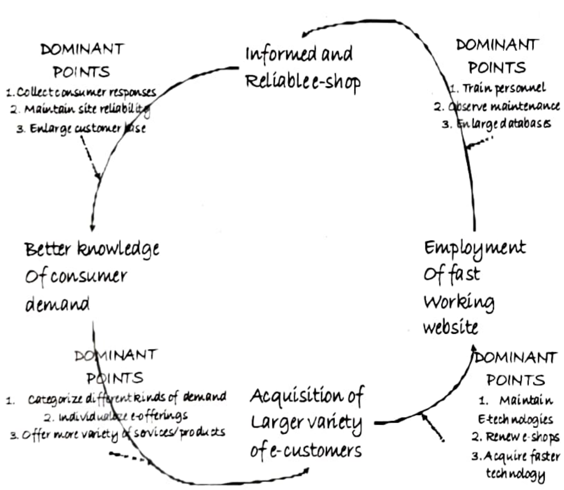
Here we shall argue that the 'Precious Cycle' can be customized to give any company sustainable competitive advantage in the marketplace. Sustainable because the Dominant Points in the cycle, it goes without saying, belong only to the particular company and are cultivated by that company as being the seeds of the appreciations derived by the same company of its Strategy Diamond. So they cannot be imitated by rivals even if the rivals have the resources. In a number of markets this already is happening. We observe companies that nowadays excel in e-commerce, like e-Bay and Amazon.com, are instinctively using the diamond. We have observed that the protagonists in these electronic markets seem to have gained an appreciation of new technologies and to have made this appreciation their own knowledge and have used this knowledge in turn to improve their own web technologies which have increased them their market share. This situation is depicted in Figure 6 below

Figure 6: The Diamond used in e-commerce



From this it is obvious that in the long-term, we see no reason why the companies that we have mentioned above cannot be able to appreciate any new external knowledge in half the time that their rivals need. Recent research shows that getting first to knowledge can give us a sustainable competitive advantage [27, 28, 29 and 30]. The Precious Cycle that allows the above situation in our example to happen is given in Figure 7 below. The tools to help us realize our plans throughout the process of the cycle are the specific Dominant Points identified above and shown along the ensuing four continual stages.

Figure 7: The Cycle and DF's for the e-commerce market



We should expect the Precious Cycle concept presented above can be used to deal with the implementation of any strategic decision. Not only FORTHnet S.A. but many more firms that have tried and failed with traditional strategy policies can gain a lot via the Strategy Diamond Methodology. The real value of this tool is that it is simple and derives of facts identified previously in the strategy diamond, not on any would be advantages of continually investing in resources without the prior institutionalization of knowledge and technology. Besides the examples given above, in the last five years the method have been tested in a good number of companies including Coca Cola HBC, Popular Bank of Cyprus and DSG International (ex-Dixon's Group) to help them improve their long-term personnel training plans. Still, although some critical issues are revealed in implementing training strategies in these companies, the final results are still waited to be seen. We will return to this issue when we will have more. The present paper aims only to introduce the Strategy Diamond Methodology and to explain its steps. More will follow on the implementation of the Diamond model when results from the studies in these companies are definite.

5. CONCLUSION

In this study we have introduced the Strategy Diamond® and Precious Cycle® and we have presented how combined these tools may assist companies to implement faster and safer their strategic plans by providing a full appreciation of the factors dominant to strategy implementation such as appreciations of internal and external knowledge and technology. Here we observe that the Strategy Diamond approach is a systemic methodology to facilitate strategy implementation.It is systemic because it considers that in order to implement our plans successfully we first need to consider all factors related to the situation as a system of appreciations that derive from more than one variable. Of course as the method is new and still tested, any definite conclusions about its applicability are still premature. Yet, as the application of the Strategy Diamond methodology employs ongoing learning in the organization and the appreciation of knowledge and technology in and around the company we cannot see why it cannot make the organization richer in implementing strategy decisions in practice.

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