

## **ESTRATÉGIAS GENÉRICAS COMO FORMA DE ANÁLISE DO ALINHAMENTO DAS OPERAÇÕES: PROPOSIÇÕES TEÓRICAS E A NECESSIDADE DE EVIDÊNCIAS EMPÍRICAS**

### **GENERIC STRATEGIES IN ANALYZING OPERATIONS ALIGNMENT: THEORETICAL CONJECTURES AND THE NEED FOR EMPIRICAL EVIDENCE**

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#### **Abstract**

*This paper revisits previously-proposed generic strategies for each level of the strategic hierarchy found in companies, as a manner to support discussion about operations (manufacturing) strategic alignment. Based on this literature review, some initial theoretical conjectures are made, considering more advisable combinations of generic patterns for each strategic level. Those initial conjectures aim at being a theoretical basis for further empirical research in order to identify the degree to which generic strategies are found in practice and if they allow consistent analysis of strategic alignment.*

**Keywords:** Strategic Alignment, Generic Strategies, Operations Strategy

#### **1. Introduction**

The improvement of competition, promoted by saturation and segmentation of markets at one hand, and by the diversification of products at the other, has increased the importance of strategic questions for the companies. In such context, due to the strategy dynamics and to different planning hierarchies verified into the companies, strategic alignment plays a key role once that the company can only achieve its strategic goals if all the levels of its strategy share the same organizational objectives, and understand how they must perform in order to support the company.

In this sense, this paper aims at revisiting previously-proposed generic strategies for each level of the strategic hierarchy found in companies, as a manner to support discussion and reflection about operations strategic alignment.

It must be clearly stated that this work do not intend to prescribe the only possible combination of strategic orientations, once that company goals may change over time and different companies may follow distinct paths of action in order to achieve those goals. On the contrary, this paper aims at carrying out a literature review, and making some initial theoretical conjectures, considering more advisable combinations of generic patterns for each strategic level.

Those initial conjectures aim at being a theoretical basis for further empirical research in order to identify the degree to which generic strategies are found in practice and if they allow consistent analysis of strategic alignment.

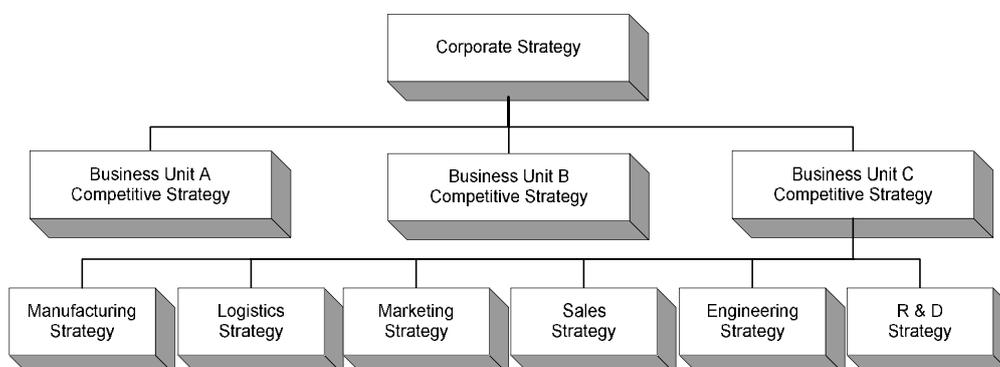
The paper can be outlined as follows: Section 2.1 presents the hierarchy of strategies expected to be found into an enterprise, as well as the concept of alignment of such strategies. Section 2.2 establishes the connection between the deployed strategies and the generic model. Sections 2.3, 2.4 and 2.5 deal basically with each level of strategy belonging to the proposed framework, describing Generic Competitive Strategies, “Sources of Capability” Generic Strategies and Generic Manufacturing Strategies, the latter being the functional strategy covered in this work. Section 3 presents discussion and conclusions emerged from the reflection on the previous sections.

## 2. Literature Review

### 2.1. Generic Strategies and Strategic Alignment

Before discussing strategic alignment, it’s imperative to have a clear understanding of what sorts of strategy do exist in a company. According to Wheelwright (1984), it’s possible to identify in manufacturing enterprises three different levels of strategies: the corporate strategy, the business strategy and functional strategy. These different levels follow a hierarchical structure shown in the figure below:

Figure 1 – Hierarchy of Strategies



Source: Wheelwright (1984)

Andrews (1996, p. 47) defines corporate strategy as “the pattern of decisions in a company

that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving these goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non economic contribution it intends to make to its shareholders, employees, customers and communities”.

At the second level, there is the business strategy or, called by its most famous name, the competitive strategy. The competitive strategy refers to two critical tasks that must be performed. The first concerns the specification of the business breadth and its connection with the corporate strategy. The second is about the manner by which the business unit will achieve and sustain competitive advantage over its competitors (PORTER, 1987).

Finally, at the third level lie the functional strategies, which represent the plans and actions developed by each function in order to, at least, support competitive strategy. Although all functional strategies are important and strategically relevant to the company’s success, this paper will deal primarily with the operations (manufacturing) functional strategy.

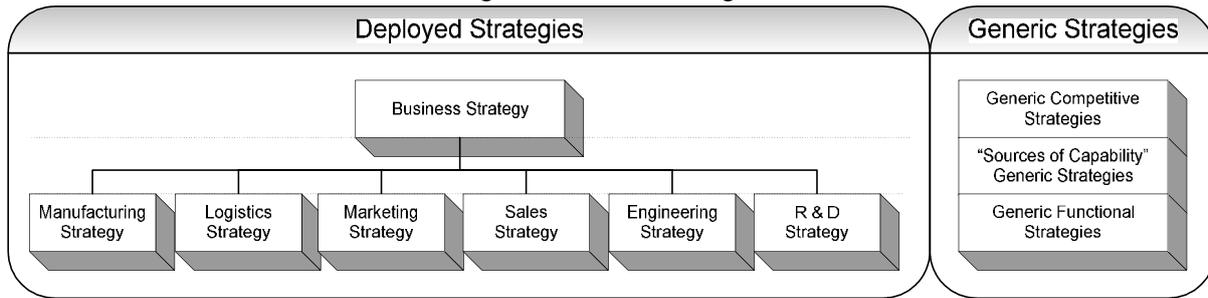
One should also be aware that, in fact, the relations between the hierarchical levels of strategy are more complex than what was portrayed in figure 1, once that the three levels may overlap and influence one another. However, some enterprises fail in recognizing such relationship, developing independent strategies, without taking into account the connections between their contents (HILL, 1995).

The work here proposed will deal only with vertical alignment activities. In this sense, aligning the strategies in a company means being able to “interlock” the three levels of strategic decision (corporate, competitive and functional), in order for them to provide support for the company, and a continuous cycle of improvement in organizational performance (PORTER, 1996).

## **2.2. Evaluating Alignment with Generic Strategies**

This section aims at presenting Generic Strategies as a tool to evaluate and reflect on the alignment of strategies deployed in a company. Further discussion on how using them to achieve these goals will be presented later in this paper, in the “Conclusions” session. Figure 2 presents the Generic Strategies here comprised.

Figure 2 –Generic Strategies



Source: Proposed by the authors (2008)

The idea here introduced is composed of a set of three different groups of generic strategies, each one providing generic strategic orientations for each level of strategy also presented. Except for the corporate strategy, every strategy level shown in the hierarchy of figure 2 has a peer generic strategy. Also, it's important to note that the "Sources of Capability" are not portrayed in figure 2, but they concern primarily the relative importance of each of the functions in providing competencies that support the competitive strategy.

The basic idea lies on trying to identify the strategies deployed by a company, matching it abstractly with the reference models provided by the generic strategies. As it will be later explained, some combinations of strategies in each of the three levels presented are expected to be theoretically more advisable for the company, in the sense that the aims of each strategy in its level will be common, a necessity for strategic alignment.

The next sessions discuss each of the three groups of generic strategies, showing their orientations and the levels they belong into the hierarchy.

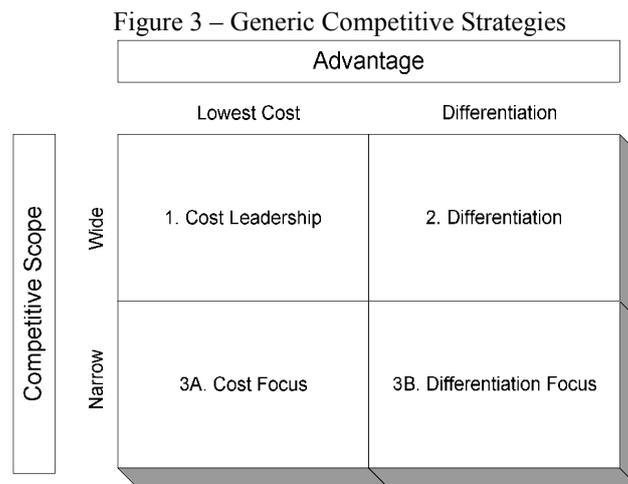
### 2.3. Generic Competitive Strategies

Every company, in spite of the industry it takes part into, the market segment it actuates or the size it is, has developed its strategy either implicit or explicitly. In the center of this behavior is the competition taking place in the market and the quest for a favorable position in their industry, making the companies able to reach their aims of growth in assets and capital.

According to Porter (1989), the competitive strategy aims at establishing a profitable and sustainable position against the forces that determine the competition in the industry. Porter (1986) describes five basic competitive forces: the threat of entry by new competitors, the intensity of rivalry among existing competitors, the pressure from substitute products, the bargaining power of buyers, and also of the suppliers.

Porter (1986) also considers that in order to face the five competitive forces, there are three Generic Competitive Strategies, potentially well-succeeded, to overcome the other enterprises in an

industry, to say: Cost Leadership, Differentiation and Focus (Figure 3).



Source: Porter (1986)

Cost Leadership is the most traditional strategy. It consists of achieving cost leadership in the industry through a set of functional policies developed with the intention of achieving this aim. Even though the main cost advantages depend on the industry structure, they generally comprise: quest for scale economies, gains on cost due to experience, strict control of costs and expenditures in the productive and administrative systems, preferential access to raw materials, minimization of costs with R&D, advertising and technical assistance.

The second generic strategy proposed by Porter (1986) is the Differentiation Strategy. The ways utilized by the enterprises to differentiate themselves have various sources, depending on the analyzed industry. Some companies try to differentiate themselves by the product project, some others invest in brand consolidation, and others take advantage of exclusive sales and distribution channels. The main aim of this strategy is to create a singularity inside the industry, trying to satisfy the needs of one or more groups of clients.

The third generic strategy consists of focusing a buyer group, a product line segment, or a geographical market. The strategy has as premise the fact that the company is able to satisfy its strategic target more effective or efficiently than the other competitors which compete in a broader scope.

This last strategy can be further divided into two variants: Cost Focus and Differentiation Focus. The focus on costs exploits the differences in the behavior of costs inside some segments, while the focus on differentiation exploits the especial needs of the buyers in specific segments. Hence, the focused enterprises may achieve significant competitive advantages by dedicating themselves to a specific market segment.

The type of business a company is inserted into will determine to what degree a trade-off between cost and differentiation will take place (PORTER, 1986). In some industries, the differentiation may not be incompatible with relatively low costs, and prices comparable to the competitors.

#### **2.4. “Sources of capability” Generic Strategies**

The second group of generic strategies deals with recognizing the origin of critical capabilities for the company, and thus placing greater emphasis on the function that can provide them and, consequently, most account for the competitiveness of the enterprise. In figure 2, the “Sources of capability” Generic Strategies is level with the links established between competitive strategies and the functional strategies, aiming at evaluating the relative importance of the functions in achieving competitive advantage.

The typology of strategies here applied was first proposed by Fleury; Fleury (2003) in a paper that concerned primarily competitive strategies and organizational competencies. It’s originally based on the RBT – Resource Based Theory of the firm rather than on Porter’s Strategic Positioning, and its usage in the approach is consonant to (SPANOS; LIOUKAS, 2001; DURAND, 1998), once that according to the authors a convergence and complementarity of ideas is taking place between both fields of RBT and Strategic Positioning.

Fleury; Fleury (2003) proposed three types of what here will be called “Sources of Capability” Generic Strategies. They were Operational Excellence, primarily concerned with Manufacturing and Logistics; Product Innovation, regarding Engineering and Research & Development; and Client Orientation, which emphasizes the Sales and Marketing functions as critical. Following, each strategy will be further studied.

#### **Operational Excellence**

“The Operational Excellence strategy is applied by companies that compete in markets in which the ratio quality/price is the major determining factor in the competitiveness of products and services” (FLEURY; FLEURY, 2003, p. 134).

Companies competing in this way should improve their capacity of developing and marketing products that could grant them greater margins and production scale. This way, Manufacturing and Logistics can be considered the critical functions to the success of the company, once that supplying, manufacturing and distributing are the core competencies that must be prioritized so that the enterprise be competitive.

The Engineering and Research & Development areas are expected to provide the company with incremental innovations in products and in processes, as a manner to rationalize costs. Marketing and Sales will deal primarily in an impersonal basis with a big number of consumers, once that greater diversity can reduce efficiency. According to Treacy; Wierserma (1995) *apud* Fleury; Fleury (2003), Sales and Marketing should “convince the clients and adapt them to the excellent operational way of the company to close deals.”

As it can be inferred, this strategy has a close relationship with Porter’s Cost Leadership, once that the functions seek scale economies, gains on costs due to experience, rigid cost control, preferential access to raw materials, and minimization of costs with R&D, among others.

### **Product Innovation**

Critical to companies that compete this way is the fast conception of new products and of their respective production processes. This way, Engineering and Research & Development functions are critical to the achievement of strategic goals.

The Sales and Marketing functions present characteristics distinct from the previous Operational Excellence strategy. In this strategy, the company must negotiate the release of new products to the potential market, before more significant investments be made. The Manufacturing and Logistics functions should be flexible enough to provide support to the radical innovations introduced both in products and in corresponding processes.

Further extending this concept, a direct link between it and the Differentiation Generic Strategy can be seen. Both aim at differentiating the product or service provided by the company, as a way of making it singular into the whole industry.

### **Client Orientation**

“Companies that adopt the Client Orientation strategy are driven by the needs of specific clients and try to specialize themselves in the development of products, systems and solutions to satisfy their current and future demands”(FLEURY; FLEURY, 2003, p. 135).

Marketing and Sales functions are critical, in the sense that they become a manner for the company to develop the knowledge about each client and its business, being followed by the efforts of the Engineering, Research & Development, Manufacturing and Logistics functions. These latter functions must behave in a pro-active manner, and have enough flexibility to satisfy specific consumer needs rather than achieving world class standards.

This strategy is related to Porter’s Focus Strategy (either on Cost or on Differentiation), once

that the company puts its spotlights on a group of consumers, a segment of products or a geographical market. This way, the company chooses a segment or a group of segments from the industry and orients its plans and efforts to satisfy them.

## 2.5. Generic Operations Strategies

The third group of generic strategies proposed in the framework concerns the functional-level generic strategies. As the focus of this paper relies on manufacturing, this session addresses specifically the Generic Operations Strategies.

Before studying Generic Operations Strategies, it is important to understand what manufacturing (operations) strategies are. According to Gyampah; Boye (2001), operations strategy is the development of competitive strength based on the manufacturing function, in order to help the organization to achieve its long-term competitive goals.

Operations strategy pertains to a function and thus, must support competitive strategy. Once that the elements in a productive system must be developed in order to fulfill certain tasks, different competitive strategies will demand distinct configurations of the production system. In this sense, each sort of strategy demands certain manufacturing tasks, known as “competitive priorities”.

Hayes *et al* (2004) presented the competitive priorities as being price, quality, dependability, flexibility and speed/responsiveness.

The necessity for trade-offs between such dimensions has always been a matter for considerable debate. Some consider that choices will be invariably necessary (SKINNER, 1969), some criticize the idea of such incompatibilities (FERDOWS; DE MEYER, 1990), and some understand that those priorities may be compatible only inside certain ranges of performance (ALVES FILHO *et al*, 1995).

Despite the set of competitive priorities chosen or the opinion on the trade-offs debate, each Generic Operations Strategy will deal with one or a group of competitive priorities, a manner to establish a conceptual link between the competitive strategies and the role that production must play to fulfill them (SWEENEY, 1991)

The concept of Generic Operations Strategies was initially developed by the Miller; Roth (1994) paper. Following is a brief description of each strategy proposed by these authors.

The Caretaker Strategy is uniquely preoccupied with low price, being employed when senior management considers that little competitive advantage can be gained by differentiation initiatives. This strategy can be adopted by higher volume production industries, where productivity increments are achieved through technological changes made to specific stages of the production process.

The Marketeer Strategy is frequently used by organizations experiencing increased competition, needing to enhance and extend the standards of customer service they offer. Aiming at finding new opportunities to sell and differentiate their products, those organizations make efforts to broaden their product lines, to obtain broader distribution or improve the quality of products offered to the market.

The third generic manufacturing strategy found in Miller; Roth (1994) is the Innovator Strategy. This strategy can be considered rather aggressive, aiming to outperform the competition in terms of product performance and the quality of service to the customer, but avoiding price-competition.

In order to verify the current applicability of a study carried out some years ago, the recent research of Frohlich; Dixon (2001) concluded that the objectives of the Innovators still hold true, with delivery speed having emerged as an important issue for them.

Sweeney (1991) still proposes another strategy, called Reorganizer, adopted by manufacturing businesses to enhance the quality and performance of their products and to change their manufacturing operations to reduce their customer delivery lead time. The main objectives of the reorganizer strategy are to achieve efficient product design to manufacture capability and a high throughput efficiency for the manufacturing process itself, thus reducing the additional operating costs inherent to low efficiency.

Frohlich; Dixon (2001) also mention three other strategic groups: the Idlers, which place little emphasis on competitive capabilities (being rather considered “non-strategic” companies), the Servers, which concentrated primarily on service, and the Mass Customizers, simultaneously interested in low price along with design flexibility.

### **3. Theoretical Propositions and Discussions**

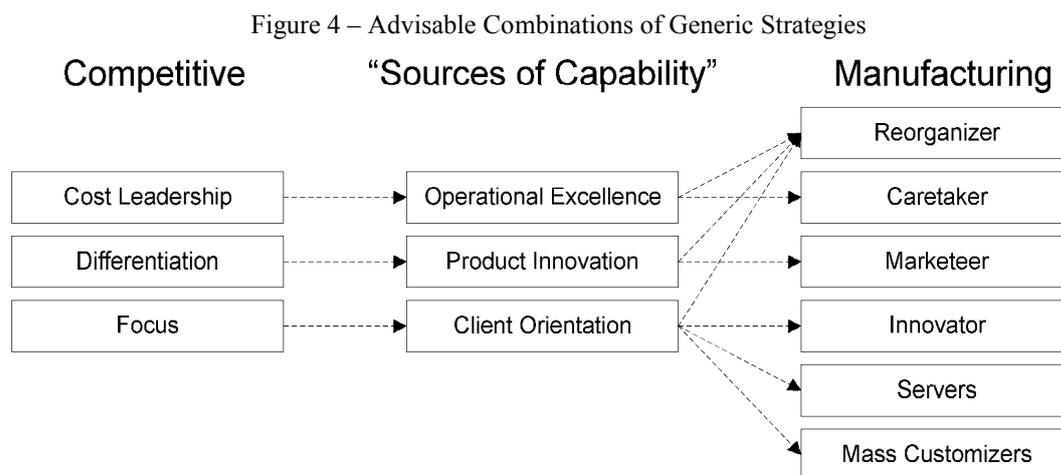
Based on the previous sessions, this discussion here aims at establishing an initial reference for supporting discussion and reflection about operations strategic alignment

Once again, it's important to stress that the approach here described does not intend to be prescriptive in its nature. It intends to provide a starting point for company managers to start reflecting about the alignment of the strategies planned and undertaken by the organizations.

This approach aims at rising questions such as: “If we intend to have the lowest-cost products, should we put all our efforts in developing leading-edge P&D or excelling in our production processes and thus reduce costs?” And under this condition, “Should our manufacturing increase flexibility to cope with changes on customer requirements, or should we standardize our process?”

Of course, the reflection process on strategy alignment is not as straightforward as the abovementioned questions. Complex inter-relationships do take place among strategy alternatives in all levels of the organization, and further empirical evidence is needed to corroborate, refute, or adjust these initial conjectures.

Back to the proposition on strategic alignment, some combinations of generic strategies could be considered more adequate, at least theoretically, once that they would make the company levels share the same organizational goals, a sine qua non for strategic alignment. The main combinations are summarized in figure 4.



Source: Proposed by the authors (2008)

Companies competing on a Cost Leadership basis try to achieve minimum cost. This way, the Operational Excellence strategy would place greater importance on the capabilities from the Operations and Logistics functions, as a manner to achieve big margins and production scale. In this context, a strategy of low price, high production volumes and little efforts on differentiation would be advisable (KOTHA; ORNE, 1989), matching the Caretaker generic strategy.

The Differentiation competitive strategy makes efforts to make the product or service provided by the company singular in the whole industry. In this sense, Engineering and Research & Development functions can provide critical capabilities to the strategic success of the company, fact in tune with the Product Innovation “source of capability” strategy. This way, the operations function should consider the Marketeer strategy, making the manufacturing able to cope with the differentiation efforts undertaken by the Engineering and R&D areas.

Corporations focusing a narrower competitive scope within an industry exploit segments been poorly served by broadly-targeted competitors. The needs of specific clients are supposed to claim form a Client Orientation strategy, in a context where Marketing and Sales would play a key role in understanding specific customer needs. The manufacturing function would then focus its

capabilities around a relatively narrow set of competitive priorities: performance for the Innovators, service for the Servers, and flexibility for the Mass Customizers.

Although not mentioned, the Reorganizer strategy was here considered a somewhat short-term strategy, accounting for the restructuring of the manufacturing function, aiming to establish capabilities for the latter adoption of another strategy. In this sense it can be applicable for all competitive strategies.

Once again, and concluding, it must be clearly stated that this work do not intend to prescribe the only possible combination of strategic orientations, once that company goals may change over time and different companies may follow distinct paths of action in order to achieve those goals. Dynamism and uniqueness are two concepts intrinsically connected with strategy, the former because dynamic competitive environments quickly create and extinguish competitive advantages (DAY, 1999), and the latter because strategy is a sort of art, although being constrained by basic principles and technical aspects (HAYES *et al*, 2004).

On the contrary, this paper aimed at making some initial theoretical conjectures, which needed empirical investigation in order to verify if: (1) generic strategies are effective in revealing the objectives of strategies undertaken at different levels and (2) if the initially proposed combinations of generic strategies are adequate.

Besides this influence on the proposed combinations, case studies, or any other empirical method, could exemplify to what degree such inter-relationships are dependant on the industry into which the analyzed company is inserted, on previous strategic decisions, on the supply chain the organization takes part into, on the customer demands the company must cope with, on the internal environment of the organization, among others.

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