Vision: The relationship between a firm's strategy and business model

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ABSTRACT

Leadership and management in all organizations face the problem of choosing among alternatives, and thinking strategically about their company's present circumstances and future prospects. This paper synthesizes strategic vision, analyzing and evaluating the relationship between business model and strategy and provides justification how both concepts can create advantages for the customer and the organization. As business environments become increasingly complex and continuously changing at very fast pace, the strategic management process is applied by most organizations to make the internal and external environments more manageable. While a company's business model is not the same as its strategy, closely related to the concept of strategy is the concept of the company's business model. A company's business model relates to how and why a company's product and offerings can generate attractive revenues and still create value for the customers. Business models convert new innovation to economic value for the firm and the customer. Crafting strategy sets the course, direction, objectives and performance capabilities for implementing and actualizing a chosen strategic outcome. An organization formulates a strategy to establish a difference in the market and to out perform rivals. Both strategy and business model are articulated through a strong vision. This paper suggests promoting more research and awareness in the area of business model.

Keywords: Business model, Leadership, Management, Organization, Strategy, Vision.

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WHY VISION

Vision in its simplest concept means seeing the future today. Nanus, (1992) defines vision as realistic, credible, attractive future for an organization. A realistic vision therefore must be relevant to the organization to be credible. A vision must inspire and motivate those who are to implement it in the organization. It must be seen by the staff as realistic, honest and achievable. It must be attractive. A vision is meant to inspire the leader and the organization to look into the future prospects of the organization. A vision is not in the present or where you are now, a vision is where you will be in the future.

Strategic vision is the first step in formulating and implementing strategy. A company's strategic vision provides the logical reason for future plans and directions of the company, and aims the organization in a particular direction, providing a strategic direction for the organization to follow in the aspirations of shareholders in the long run. The vision must be definite about how the organization leaders intend to position the organization beyond where it is presently. According to Westley & Mintzbery (1989) "Strategic visionaries are leaders who use their familiarity with the issues as a spring board to innovate, who are able to add value by building new perceptions of old practice" (p19). Westley and Mintzberg statement offers a deeper meaning of strategic vision for the use of past knowledge as a spring board to innovate and formulate synergies that create new practices. Strategic visionaries use the knowledge of their environment to innovate. Firms with a good knowledge of their environment remedy environmental problems associated with their products and services. Visionary organizations are capable of leading change, when the leaders realize that their visions of the future are not firmly fixed and remain flexible to accommodate change. A company's strategy should be a blend of proactive actions on the part of leaders to improve the company's market position and financial position and reactions to anticipated developments and fresh market conditions, Thompson, Strickland & Gamble (2005). Consequently, a bigger portion of a company's current strategy flows from managements past actions and business approaches that are working well and new managerial initiatives are added to strengthen the company's overall position and performance. An important part of visionary leadership therefore, is prudence; monitoring change, making the necessary mid-course corrections, and knowing when to initiate a new vision forming process Nanus, (1992). The inference is that a company's strategy emerges incrementally and evolves over time. Changes in the external environment may force management to adjust certain strategic variables in response to unfolding events. When fine tuning the existing strategy is not enough, major strategic changes are required, such as when strategy is failing or when new and better opportunities arise. Nothing could be more common in organizations than a vision that has over stayed its welcome Nanus, (1992). There is no schedule for the revision of a vision as long as it appears to be working and is consistent with the development in the internal and external environment of the organization. However, there may be times when the internal and external environments threaten the existence of the organization. As when an organization is reoriented by changes beyond its control or when rapid changes in technology continue to orchestrate frequent reviews of company vision inline with new technological innovations. When these situations arise, it may be time to review and reverse the vision plan and strategy in line with these changes.

In these circumstances, a company's management must battle with the issues of what direction the company should take to improve its current market position and future prospects. Deciding to commit the company to one direction versus another must be carefully analyzed to draw a reasoned conclusion on why advancing in the chosen direction makes a good business sense for the organization Thompson, Strickland & Gamble, (2005). A strategic vision as a road map should show the route a company intends to take in developing and strengthening its business, and should paint a picture of a company's destination and provide a logical reason for going there; Thompson, Strickland & Gamble, (2005). A vision must therefore be specific to a particular company and must be definite on how the company leaders intend to position the company beyond where it is presently. A well articulated strategic vision communicates management's goals to the shareholders and helps to steer the energies of the company in a particular direction. Thompson, Strickland & Gamble, (2005) asserts that a good vision needs to be a bit beyond the reach of the company, but progress towards the vision is what unifies the efforts of the company. One way to assure that vision formation is a unifying process is to spread the leadership role throughout the company at every level, so that every unit is encouraged to develop its own vision. To this end Kotter, (1996) determines that a well worded vision statement should be graphic, directional, focused, flexible, feasible, durable and easy to communicate.

- Graphic – painting a picture of the kind of company that management intends to create, and the market position the company is vying for.
- Directional – Stating the company's destination and shows the kind of business and strategic changes that may be forth coming.
- Focused – Be specific to provide managers with guidance in making decisions and allotting resources.
- Flexible – A well stated vision must be capable of change, as the company's future operations change to accommodate unfolding circumstances.
- Durable – It must appeal to the long term interest of shareholders.
- Easy to communicate – It must be to explain.

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While strategic vision is concerned with where we are going and why it is good to go there, a company mission statement deals with the present business scope and purpose. Who are we, what do we do, and why we are here Thompson, Strickland & Gamble, (2005). A company's mission defines the segment of customers the company seeks to satisfy, the market segment it seeks to serve, and the resources deployed to achieve the purpose, Thompson, Strickland & Gamble, (2005). If a company's mission is to have any managerial value, or reveal anything useful about its business, it must direct attention to the particular market segment in which it operates; the buyer needs it seeks to satisfy, the customer groups, the market segment it is trying to serve and the types of resources it is deploying to please this group of customers. An effectively worded mission statement typically describes the company's present business scope and purpose.

In our definition of vision, we related an organization's vision to its mission and values. The vision must be related to the values of the company, which represents an embodiment of the company. The company's beliefs and values are critical to guiding the vision. These belief and values are a number of key constituents to the organization such as customers, employees and shareholders and it also includes the organizations goals, management /leadership philosophy. According to Thomson, Strickland & Gamble, (2005) a company's values are the beliefs, business principles, and practices that guide the conduct of the company's business, the pursuit of its strategic vision, and the behavior of company personnel. These values relates to how the company treats its work force, customers, integrity, ethics, innovations, quality of service and social responsibility. These values underline the company's culture. Company's with strong and well established values link their vision and values to create relevance in the market place. Some company's combine their vision and value statements in a single document. An integral part of organizational leadership is to engage in vision setting, horizontal judgments and cultural management. Managers on the other hand engage in efficiency and applied decision Bennis, (1989) in the context of existing vision. Hunt (1992) suggests vision as a form of leadership in which the visionary leader alters organization culture by inducing members to understand, accept, and execute the leader's plans. In implementing strategy, vision provides a frame work and direction for change. Vision formulation addresses the far reaching strategic variables of importance to the organization. Implementation includes the ability and willingness of the leader to share and communicate the elements of the vision. Communicating the vision to the mangers and staff who will implement it and making them to understand and accept the vision is an important process in the execution of a successful strategy. Vision links the strategic function of the organization to its environment, ensuring compatibility with the organizations culture. Thompson, Strickland & Gamble 2005, asserts that some companies couch their mission in terms of making a profit. The notion that companies mission or business purpose is to make a profit is misguided. Making a profit is the obvious intent of every commercial venture. It is management's answer to make a profit doing what must be done in an ethical manner. While making a profit is implied, the vision and purpose of every organization is to fulfill a need in its environment. Building your company's vision, according to Collins & Porras (1996) provide a foundation for more than profits. Companies that enjoy enduring success have core values and core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. The dynamic of preserving the core while stimulating progress is the reason such companies are able to renew them selves and achieve superior long term performance. The rare ability to manage continuity and change requiring a consciously practiced discipline is linked to the ability to develop a vision.

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STRATEGY

Strategy is about growing the business through the efficient allocation of firm's resources. Steiner, (1977) asserts that strategy is what we do to counter competitor's actual and predicted moves. These moves are integrated in the external and internal processes affecting the organization. Kotler & Keller, (2006); Thompson, Strickland, & Gamble (2005), deposes that goals indicate what a business wants to achieve; strategy is the game plan for getting there. For Porter, (1991) Strategy is about being different. It is about choosing different sets of activities to deliver a unique mix of values. These definitions are about competitive positioning, about differentiation and about adding value. Most definitions about strategy in the literature are anchored on Mintzberg, (1994) of the four most common use of strategy:

- Strategy as a plan: defines the means, policies and activities which the organization will pursue to achieve its goals.
- Strategy as a pattern: Reveals the organization's objectives, purposes and directions. It generally asks the question what do we do. Should we copy or should we maintain a high end strategy.

- Strategy as a position: Asks the question about the quality of product or services, and the segment of the market to position in to make a difference, create value and deliver customer satisfaction.
- Strategy as a perspective: Is having the vision about the direction of the organization, and taking the decisions and actions to get there. What is our goal?

In essence, the purpose of formulating strategy is to out perform competition, establish a difference in the market, and maintain already achieved position and to improve on it, to create and to deliver customer satisfaction. These strategic assumptions are articulated by vision. The word strategy means different things to different people, but in all cases it is a means of getting ahead of rivals. There are strategies at all levels of the organization and these include the business level strategy, the corporate strategy, operations or functional strategy, marketing strategy, financial strategy and so on. The business level strategy identifies and builds the strength the business needs in its long term competitive position in the market place. Achieving competitive advantage allows a business to differentiate its products or services from those of competitors to increase market share. Business strategy includes cost leadership and differentiation. Corporate level strategy identifies the group of businesses that comprise the company and how these businesses are related to each other. Diversification, globalization, mergers, consolidation and acquisitions are all examples of corporate level strategies. Operational or functional level strategy identifies the basic actions that each operational unit or department will follow in order to help the business attend competitive advantage. These strategies and sub-strategies are linked to a plan of action, a direction and a path to get from one position to another. Steiner, (1979) asserts that successful strategies are clusters of interrelated strategies. These clusters lay out a firm's plan of actions over a period of time which is reversed as significant new informations become available Gitman, (2009). A company's strategy therefore consists of the competitive moves and business approaches in the form of market segmentation, product segmentation, low cost and best cost provider which the organization may adopt to differentiate itself in the market. Thompson. Strickland & Gamble (2005) suggests organizations employ competitive strategies to attract and please customers, compete successfully, grow the business, conduct operations and achieve targeted objectives. A company's strategy is therefore, the choice among alternatives plans and actions which the organization makes to attract and retain its customers, respond to changes in the market place, and the company's operating environment; to compete successfully among rivals and to develop capabilities for competitive advantage. To this end Porter, (1996) argues that strategy is a combination of ends-goals that which the firm aspires to achieve, and means-policies by which it seeks to achieve these goals. Organizations achieve superiority only when they are unique, and do things in a way that rivals can not duplicate. Margeretta, (2002) suggests that if all company's offered the same products and services to the same customers by performing the same kind of activities, no company will prosper. Thompson, Strickland and Gamble, (2005) suggests how an organization can be different in sustaining competitive advantage through:

- Being the industry low cost provider over rivals.
- Through product or services differentiation features, such as quality, added performance, better services, and more value for money.
- By serving a special need or focusing on a narrow market niche.
- By developing capabilities that competitors can not easily duplicate.

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Successful strategies require that the organization has the capabilities of understanding the needs and values of customers, creating and delivering such values and sustaining them. All strategies lead to a plan. Strategic plan guides the organization to make appropriate decisions about the choice of alternative actions in the allocation of organizational resources to achieve targeted objectives. The role of planning in the strategic process is to support the successful execution of the strategy. A good strategic vision can be badly executed due to bad planning. Corporate strategy as a pattern reveals the decisions the organization makes to achieve its goals and objectives and produces the policies and plan for achieving these goals over time. Competitive positioning is about being different in the eyes of customers through the delivery of a unique mix of values. Competitive positioning reflects the decisions to offer particular products or services to a particular segment of the market.

Business Model: Every business is established on some form of model. In the words of Margeretta, (2002) the flip side of strategy formulation is a company's business model. Even though some people use the term interchangeably, a firm's business model describes how the components of the business as a system fits together, but doe not factor the critical dimension of performance competition. Margeretta, (2002) asserts that a firm's business model sets the economic logic of how the organization strategy can create value for the customers at an acceptable price with reasonable profit. This involves the activities of making something and selling something. Business model is therefore the structure, the frame work on which the business is built. Business model defines what the business does and how a business makes money doing these things, without going into details about the operating systems Weill &Vitale (2004). While revenue and profits generated are the end results of a firm's business model, strategy delivers value to customers at a price and cost that yields acceptable margin of profits Thompson, Strickland & Gamble (2005). In his opinion, Margeretta, (2002) deposes that a firm's business model is an arcane that explains how the organization works. While Chesbrough, (2006) defines business model as a frame work that links ideas, visions and technology to economic outcomes. Generally, therefore a firm's business model is a simplified description of a complex system without going into details on how its operating characteristics function. A common feature of a business model is the emphasis on how the business makes money, and how it creates value.

Chesbrough, (2006) identifies five functions of business model as encompassing:

- Articulating value proposition that is value creating for the users by the offering.
- Identifying a market segment, users who will benefit from the offering and its purpose.
- Defining the structure of the value chain required by the firm to create and to distribute the offering, and determining the complementary assets need to support the firm's position in the chain.
- Describing the firm's position within the value chain network, linking suppliers and customers, including potential competitors.
- Formulate competitive strategy by which the innovating firm will gain and hold and advantage over rivals.

Thus, business models essentially convert ideas into money or value for the organization. One of the new challenges facing organizations in today's business is modifying its innovations to be more open. The closed business model makes no use of external innovations. There are solely designed for specific company use, while the open business model incorporates ideas from external sources, and positions other companies to make investments in new innovations. Open business models also called open innovation simply means, companies will make greater use of external ideas and technologies in their own business, while allowing other companies to utilize their unused ideas. One can easily observe how many different company products and innovations go into making the PC computer. This concept provides low costs for innovation, opportunity to share risk with others and a faster turn around Chesbrough (2006). The open model is sequel to the economic concept of comparative advantage where the firm is able to create superior value for its customers and superior profits for itself. Comparing the definitions of strategy and business model, both seek to achieve the objective of planning, directing and enhancing performance towards a better outcome for the organization. Both equally seek to create value for the customer and the organization.

Even though, the concept of business model appears to be relevant to organizations the search in the literature on the subject appears to be limited to articles mostly on information and computer technologies. Every organization has a business model, whether the business model is articulated or not. There is an under laying model behind what every business does and how the organization does it to make money. Chesbrough, (2006), states that the business model is a useful frame work to link ideas and technologies to economic outcomes and performs three important functions for the organization, value creation and value capture, and shows the entire business operating system. The value creation activity defines new initiatives that will produce new services and new products that will create value through the formation of new activities. The organization captures a portion of this value in the chain of the series of activities in the model. A successful business model should operate from a concept of how the entire business system will work, providing valuable feedback for decisions. A business model creates value by leveraging ideas that become available, due to the inclusion of a variety of external concepts. The values are added as a result of innovation of a new concept of open business model that opens a path of internal/external unused ideas that emerge to the economic potentials of those ideas to go to the market. Magretta, (2002) argues that a good business model is an essential tool for all business organizations, but manager can only apply the concept when it is appropriate and desirable. Different companies possess different assets, resources, and positions and these differences cause companies to look at opportunities differently. When companies recognize the pattern that has proved to be successful for them, they go for it. Companies may have to struggle with ideas that require different configuration of asset, resources and positions. Companies will therefore want to settle where they fit better. A successful business model should operate from a concept of how the entire business system will work, providing valuable feedback for decisions. Dell computer business model is a good example of the relationship between business model and strategy. While other computer manufacturers sell through third party outlets, Dell sells directly to end users and produces products according to customer's specifications. This model like strategy cuts out the link of resellers and gives the company the added advantage of managing its inventory with direct orders from customers; and gives the customers the added satisfaction and value. Dell's direct business model shows which value chain activities the company would pursue, given the company's strategic choices and which customers to serve and what kind of products and services to offer. Direct sales have offered Dell the opportunity to analyze customer's needs and when replacements become necessary. It equally offers the company a way of direct communication with its customers and the alignment of its employees to the values the company wants to create. Magretta, (2002) asserts, business model is the equivalent of a scientific method. You start with a hypothesis, which you test in action and manipulate when necessary. All the activities of strategy – competitive advantage, low cost provision, product differentiation, segmentation and the development of competitive capabilities are aimed at achieving superiority over rivals by attracting and satisfying customers. If a company fails to meet its expected results it would go back to reexamine the model and strategy and make the necessary corrections.

A business model will fail either for the wrong application; building a bridge where none is required or when the profit projections are unrealistic Margeretta, (2002). Many companies have invested in innovations that was unable to find the right customers, such innovations and business models failed because there were founded on the wrong assumption of customer behavior. Margeretta, 2002 asserts that a business model will fail either because the narrative test, the story does not make sense; or the numbers test, the numbers tells you where your model is working, and where you are making a profit. Some of the reasons for a failed strategies steam from a company's lack of clear direction, in formulating and executing strategy. Unrealistic and lack of understanding in setting performance targets and strategies that can not be implemented or completed due to financial constraints, and flawed strategies. A business model is like a financial forecast. A profit and loss statement and a balance sheet forecast. A financial forecast is as good as the assumptions that go into computing the figures Margretta, (2002). A forecast must be continuously monitored and compared to actual for variance and corrective actions taken as soon as it is necessary.

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CONCLUSION

A vision is not in the present, a vision is where you will be in the future. An organizations strategy recognizes where the company is today, and should incorporate the actions necessary to move the company forward towards the realization of its vision. Organizations can not operate in a vacuum, there must be an under laying business model which articulates what the organization does, how it is done, how the organization makes money doing what, and satisfies its customers. To be successful in what the company does there must be a plan of action to achieve the goals and objectives of the organization. There appears to be a misunderstanding in the use of the concepts of business model and strategy but differences exist. These misunderstanding sometimes transcends to application creating a need for more awareness of these concepts in the literature.

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