**STRUCTURE DOES NOT FOLLOW STRATEGY-STRUCTURE IS THE STRATEGY HOW OPERATIONAL EXCELLENCE THROUGH A VIABLE ORGANIZATIONAL STRUCTURE DELIVERS THE FOURTH GENERIC STRATEGY**

***Qeis Kamran and Rolf Neise***

*ISM International School of Management GmbH – Nonprofit Organisation, Dortmund, Germany*

# Introduction

The foundation of management is holistic. Therefore, the scope of embracing and observing the whole in terms of the reality, wherein an organization is embedded is a necessity in the rapidity changing world. The dominant recourse-based-view (RBV) (Barney (1991), Teece et al (1996, 1997 has been essential to developing and enhancing organizational strategic habitus (Bourdieu, …) and eigen-behavior (von Foerster, 2003) in a collective sense. However, the RBV has missed and lacks additional key pillars of managerial foundations. An organization in Bourdieuian sense is required to see the world from understanding and gaining capital resources not only from an economic logic of capital but moreover from a culture capital and relationships capital Weltanschauung (Bourdieu,1984). While Bourdieu’s theories have been developed and applied within the sociological interpretations of individuals and groups, and their structured structures of interpreting realities to reproduce further realities in a societal interpretation of theories of class hierarchies (ability to access capital in Boudieuian sense) and ability to capture resources, it is, thus, a good start to translate them into the organizational and managerial realties. These dimensions: 1) whereby an organization makes sense of itself in terms of its structure, processes, information systems and sub-systems, whereof the organization is constructed; 2) the Weltanschauung and habitus, whereby it structures the environmental and market realities, wherein its embedded; and 3) the nature of strong and weak ties from the RBV lens extended by its understanding of attracting and dominating resources as operant and operand resources (Vargo and Lush, 2014), have essential implications for designing global value chains (GVCs). The authors observe GVCs as a necessary evolution of the field under the umbrella of operations research starting from foundations of logistics, supply chain management to global value chains management. Thus, the authors reference to GVCs, henceforth, carries this evolutionary perspective of the field through-out the paper.

# Structure and strategy debate

As a solid contribution and point of concentration to the state of current theory and practice of GVC, the role of strategy as a point of entry has been distinguished. Thus, based on the recursive nature of the structure of organizational systems, it is essential in designing GVCs. The authors observe strategy not purely from a top down designed apriori calculus of wahrheit imposed on a system, but moreover from coping with emergent phenomenon constructed and designed by the intertwined interactional intelligence of the organization’s internal systems navigating the complex and turbulent global environment in an embodied (structured) sense. (Pfeifer and Bongart 2007) A major foundation, whereupon all of the contemporary strategy models rely has been established by Alfred Chandler (1962). The notion of structure and strategy paradigm through the Chandlerian weltanschauung has delivered the foundation of the contemporary understanding of strategic thought and practice. This top-down and hierarchical understanding of the essence of strategy based on the dimension laid in terms of the Chandler’s thesis *“…structure follows strategy”*,has been responsible for the evolution of strategy with vital implications for GVC. Among many scholars, who have dominated the field the role of Michael Porter (1979, 1980, 1985, 1996, 2008, 2015) cannot be overestimated. Porter’s understanding of strategy and organizational function in terms of GVCs (Porter, 1985). Porter’s 1996 paper “*What is strategy”* as founded within the Chandlerian sense, delivers a solid point of entry to bridge operations research and strategy and is based on the Porterian analogy that: *“operational effectiveness is not a strategy”.* This paper contributes to make two vital corrections within the field of GVCs, thus; 1) from a raison d'être point of view of strategy by establishing, that structure is the strategy; and 2) that, operational effectiveness in a holistic sense frames a viable strategy, hence, it delivers an additional and the fourth generic dimension of strategic logic. These dimension gives organizational structure a special role in designing, constructing and bridging the fields of GVCs and strategic management, and furthermore contributing a new approach to organizational viability. Research in understanding VCs has established Porter’s original contributions to strategy and deliver a solid and essential foundation to embed a new and more holistic approach. (cf. Furrer, et al., 2008 & Ramos-Rodriguez and Ruiz-Navarro, 2004) The very understanding of designing GVCs have started and the term *“Value Chain”*, which itself has been coined and institutionalized throughout academe by Porter. Furthermore, no other strategy scholar as Porter has proclaimed that level of justified impact and status in business administration and strategy, its theory and practice since the last four decades. (cf. Ramos-Rodriguez and Ruiz-Navarro, 2004) While the essential role of Chandler can never be underestimated, hence Porter among many is a Chandlerian, the paper inductively will extend Porter’s Weltanschauung and therefore extending Chandler’s thesis.

The generic strategies

The generic strategies defined by Porter (cf. Porter, 1985,1998) deliver the foundation, where the battle for gaining competitive advantage within an industry is fought. These three pillars of competitive advantage are distinguished in the following manner:

* **Cost Leadership Strategy**

Cost leadership is the strategy whereby a company establishes itself, as *“below the industry price actor”* in the market. This means the company is a low-cost producer and a cost-leader within the industry and among the peers.

* **Differentiation Strategy**

Differentiation enables a company to position itself along the most valued dimensions in the industry for the customers. However, the research work of Kim and Mauborgne, (cf. Kim and Mauborgne, 2005) challenges the common held view of Porter, where a company can be attractive to customers, who are not the general target group, for which the initiated differentiation was incepted, but moreover by a coherent mix of value proposition and breaking the industry boundaries to serve them, additional possibilities of creating a competitive advantage emerges. According to Burke et al. (2009) in their comprehensive study of the Porterian industry-based competition verses the blue ocean strategies they observe: *“Blue ocean strategy seeks to turn competitive strategy on its head by replacing ‘competitive advantage’ with ‘value innovation’ as the primary goal where firms must create consumer demand and exploit untapped markets… Our evidence for the Dutch retail industry indicates that blue ocean strategy has prevailed as a dominant long-term viable strategy”* (Burke, et al, 2009, p. 1).Nevertheless, being a high- and above-the-average performer is the key in any differentiation pursuits and a company must decide on what difference it can establish, whereupon it can preserve the uniqueness against the rivals in the market. (cf. Porter, 1985)

* **Focus Strategy**

The focus strategy differs from the above since by this strategy a company optimizes its strategy via excluding other rivals. (Porter, 1985, 1998, p. 15) These optimizations are:

1. **Cost focus**: seeking and establishing a cost focus in the target segment.
2. **Differentiation focus: seeking and establishing a difference for usual needs of the customers that serves better the needs of the target segment.**

Thus, breadth of targeting customers is clearly a matter of the degree of focus, but the essence of focus lies in the exploitation of a narrow target’s difference from the forces within the industry. (Porter, 1985, 1998)

Table 1 displays Porter’s *“Generic Strategies”* as described above.



Source: Author’s own illustration based on Porter (1985-1998).

Table 1: Porter's generic strategies

Establishing a difference that a company can preserve and combining the notion with the depth of focus the firm decides to establish by its unique attractiveness to the customer,[[1]](#footnote-1) it requires making trade-offs respectively strategic choices of what not to do. Thus, tradeoffs on the assumption of the focus the organization wants to achieve in its endeavors and the difference it wants to preserve against the rivals are the remedies against mediocrity in the market. (cf. Porter, 1985, 1998)

# Porter’s Value Chain Model

The basic *“Value Chain Model”* (VCM) (Porter, 1985, 1998, 2008) is illustrated in figure 1, thus, it explains in three sections the spectrum of the model. At the section (I); are the interdependent activities that firms engage in first to build a system of activities and later to divide these activities into further smaller activities and sub-systems. At section (II) 4: an organization creates its holistic structure. It is a system of dynamic activities and not a static departmentalization. The organization must deliver superior performance on the value it has created for the customer or the need it fulfills, which defines its success. According to Drucker (1954), the purpose of a business is to create a customer or a want. The choices a firm makes, strategies it designs, the quality of its execution it applies via receiving feedback (see: figure 4 - Section III, p. 29). How the firm chooses to differentiate itself and as a result, determines its profitability, attractivity, and superiority over the competition is vital to its success and survival. The competitive advantage is a model that is under the direct command of the strategist. One may not be able to shape the industry in a short time, although the first sign of a good strategy embodies that the market plays the industry leader’s game, as the Apple Inc.’s rise to become the game changer has revealed. The value chain is a set of superb and uniquely designed activities that firm can perform, which as a result will bring a possible competitive advantage that is not easy to imitate (cf. Porter, 1985 & Hamel and Prahalad, 1990), if a firm chooses to differentiate in terms of business model, execution, and customer satisfaction while maintaining a profit-leadership. (cf. Kim and Maulborgne, 2005-Blue Ocean Strategy Model) The notion can also be substantiated by the works of Teece et al. (1997) and O’Reilly and Tushman (2007) as VCM designed based on dynamic capabilities and ambidexterity of organizations, while they do not speak of VCM which relates directly to Porter’s model.



Source: Authors’ own illustration based on Porter (1985, 1998)

Figure 1: Overview of the Generic Value Chain Model

This notion is necessary, hence, it is essential to substantiate the model’s strengths, its weaknesses, challenges, and limitations, while understanding the deep impact designing of GVCs will bring to strategy and operations research scholars and practitioners.

# Viable and Intelligent Structure as the Fourth Dimension of Generic Strategy

While Porter’s claim that generic strategies can only embrace the aforementioned triadic understanding and hybrid interrelationships, however by the evolutionary process of the rise of IT-technology based on the foundations laid within the cybernetics movement (Wiener, 1948; Ashby, 1956; Beer, 1959, 1972, 1981, 1985, 1989, 2002), and not only the Schumpeterian logic of creative destruction applied to product centered innovation, but moreover by the understanding and implementation of process and business model innovation as the locus of competitive advantage, the next frontier of strategic dimension has arisen by the contemplation of the role of organizational design, its structure and the structure of its GVCs as it has been exploited by highly successful companies e.g., Apple Inc. and the Inditex (Zara group).

The enhanced perspective of the fourth generic strategy, as constructed by the authors as a viable and intelligent organizational structure is illustrated in fig. 3. Thus, an organization, which can adapt and sense change ubiquitously by having a structure that can cope with the environmental turbulence in terms of information’s fluidity, structure’s flexibility and capacity of self-organization, delivers an additional generic strategy. This claim is substantiated by the authors’ observations that strategic foresight based on the logic which embraces viability, profits and performance in economic reality and capital, requires an organizational structure that actually can carry out, reshape, refocus and to ubiquitously recreate itself based on organizational autopoieses.

Figure 2 describes the role of operations research since structure is the essence of an organization that can design and embrace, and ultimately execute the strategy holistically. Strategic management so far has ignored the role of execution and organizational eigen-behaviour, and its role in terms of a hierarchical downplay as a separate entity, and thus execution has been left to the organization’s operations, while the very embodiment of strategic thought requires executing a conceiving the realized and emergent phenomenon. Pfeifer and Bongard (2007) state that embodiment expresses that intelligence always requires an executing body (operational capability), meaning that intelligence (performance), is attributed to embody real physical systems exhibiting observable behavior during interactions with the environment. They argue that such embodied systems are confronted with various consequences of embodiment as, for example, being subject to laws of physics, implying that their survival is affected by gravity, friction and energy supply. They conclude that the essential significance of embodiment represents the interaction between physical and information processes. (cf. Pfeifer and Bongard, 2007)



Source: Kamran (2013a)

Figure 2: Extended Generic Strategies

Kamran (2013a) puts the notion of feedback as illustrated above, at the core of organizational viability, thus it’s via feedback that course and policy relating corrections, mission accomplishing, goal achieving and problem-solving activities can be corrected within the adequate response-time, without dangerous and costly time-lags, reaction gaps and organizational inabilities in terms of latency.

In order to appreciate the role of the fourth generic strategy a radical and different weltanschauung in strategic thought is introduced in terms of the purpose of a system is what it does. This lens is established by the application of the science of cybernetics. (beer, 1959, 1972, 1981) So far, the notion of capturing the future in terms of long-range-planning and strategic foresight has been conducted by application of forecasting methods, linear thinking in terms of markets and their governing forces e.g. the FFM, industry-based competition and the raison d'être of organizations mainly observed within an economic reality. The authors challenge these dimensions based on observing the reality of organizations function in terms of variety attenuating activity based on an Ashby’s Law of *“Requisite Variety”*. According to Ashby’s Law*— “the variety in the control system must be equal to or larger than the variety of the perturbations in order to maintain stability”* (cf. Ashby, 1958), and thus, *“variety can destroy variety”* (cf. Ashby, 1956-1957). Beer rephrased it as: *“only variety can absorb variety”* (Beer, 1985, p. 26). This dimension is realized within figure 4, where the role of operations is essential to strategy and organizational viability. Strategy in essence competes on operations not despite of operations. This notion is illustrated in figure 3 below.



Source: Kamran (2013 based on Ashby (1956) and Beer 1979)

Figure 3: Ashby's Law

Recent developments from empirical and applied research perspective as the case of Inditex (Zara) illustrates that a new pattern contrary to the Porterian logic is arising, thus, delivering operations excellence in terms of absorbing VC perturbations based on an embodied and modeled structure of operations by considering to apply real-time control over operations performance, which is regarded as the essence of strategic control. Furthermore, Ashby and Conant’s Theorem, stating: *“Every good regulator of a system must be a model of the system,”* (Conant, Ashby, 1970, p. 1). According to Conant and Ashby: *“The first effect of this theorem is to change the status of model-making from optional to compulsory.”* They argue that model-making is yet viewed as a possibility for regulating complex dynamic systems; however, the theorem indicates the necessity of a “*sufficiently similar model*” for successful regulation within a wider class. The construction of such a model may have been realized explicitly or through improvement of the regulator. This notion is also substantiated and applied in model-based-management (MBM). (cf. Schwaninger, 2010, 2015 & Grösser, et al., 2013) According to Schwaninger: *“… the complexities confronting organizations have been subject to drastic amplification. As a consequence, the pressure on leaders has markedly increased. Orientation and steering devices have become all the more important because they enable actors in organizations:*

* *to find their way in complex settings, and*
* *to decide and act more effectively and consciously”* (Schwaninger, 2010, p. 1419-1420).

Schwaninger further claims that *“…high-quality models can make a powerful contribution”* (Schwaninger, 2010, p. 1419-1420), thus, the strategist occupied with the most essential task of this era needs to model viability, immunity, and competence, whereupon steering and control models need to be designed.

# Conclusions

From a practical point of view, the fourth generic strategy can be substantiated by the rise of the giant firms within the fast response movement (e.g. fast food, fast fashion Inditex (Zara). For the purpose of engaging in-depth with a solid example the quick response movement as fast fashion has been observed, thus, according to Caro and Martinez-de-Albeniz: *“Fast fashion is a business model that others (the perception of) fashionable clothes at affordable prices. From an operations standpoint, fast fashion requires a highly responsive supply chain that can support a product assortment that is periodically changing.”* (2014, p. 1) Hence, it is the organized structure of Inditex (Zara’s) organization, which actually and in contrary to other apparel brands has enabled the firm to obtain a highly defendable source of a sustainable competitive advantage. Based on the sciences of cybernetics, operational effectiveness is a strategywithin the paradigm of the authors’ enhancement of the generic strategies one can establish the logic of *“embodiment”* (cf. Pfeifer and Bongard, 2007) and the author’s analogy of *“structure is strategy”*, (Kamran, 2013a), thus effective strategies require an organizational structure to execute them. This is empirically validated by the example of Inditex (Zara) delivering evidence for the fourth generic strategy. By the authors’ enhancement of the generic strategies, one can establish the logic of competing on operations, which is the essence of structural dynamics of viable GVCs.

# References

* *Ashby, W. (1956). An Introduction to Cybernetics. London, UK: Chapman & Hall.*
* *Barney, J. (1991). Firm resources and sustained competitive advantage. Journal of Management, 17(1), 99–121.*
* *Beer, S. (1959). Cybernetics and Management. London, UK: English Universities Press; New York, NY: John Wiley.*
* *Beer, S. (1966). Decision and Control – The Meaning of Operational Research and Management Cybernetics. New York, NY: John Wiley.*
* *Beer, S. (1970). Cybernetics and Management. Frankfurt, Germany: S. Fischer. Beer, S. (1972 – 1981). Brain of the Firm: A Development in Management Cybernetics. New York,*
* *Beer, S. (1972). Brain of the Firm, 1st ed. London, UK: Penguin Press; New York, NY: Herder and Herder.*
* *Beer, S. (1973). Designing Freedom (CBC Massey Lecture). Toronto, Canada: House of Anansi Press Limited.*
* *Beer, S. (1975 – 1994). Platform for Change. Chichester, UK: John Wiley & Sons Ltd.*
* *Beer, S. (1975). Platform for Change. London, UK and New York, NY: John Wiley.*
* *Beer, S. (1979 – 1995). The Heart of Enterprise. Chichester, UK: John Wiley & Sons Ltd.*
* *Beer, S. (1979). The Heart of Enterprise. London, UK and New York, NY: John Wiley.*
* *Beer, S. (1985a). Diagnosing the System for Organizations. Chichester, UK and New York, NY: John Wiley.*
* *Beer, S. (1985b). Beyond Dispute. The Invention of Team Syntegrity, Diagnosing the System for*
* *Bourdieu, Pierre (1984). Distinction: a social critique of the judgement of taste. London: Routledge.*
* *Chandler, A. (1962). Strategy and Structure: Chapters in the History of the American Industrial Enterprise.*
* *Conant, R., Ashby, R. (1970). EVERY GOOD REGULATOR OF A SYSTEM MUST BE A MODEL OF THAT SYSTEM. Int. J. Systems Sci., 1(2), 89-97.*
* *Foerster, H. (2003). Understanding Understanding: Essays on Cybernetics and Cognition. New*
* *Greene, R. (2006). The 33 Strategies of War (Joost Elffers Books). London, UK: Profile Books Ltd.*
* *Hetzler, S. (2008). Brain Supporting Environments für Entscheide in komplexen Systemen. Schesslitz, Germany: Rosch-Druck.*
* *Intelligence. Cambridge, MA and London, UK: The MIT Press.*
* *Kamran, Q. (2013a). Complexity the Sixth Competitive Force that Shapes Strategy – A Cybernetics Approach to “Porter’s FFM” in Turbulent and Complex Environments. Saarbrücken, Germany: Lambert Academic Publishing.*
* *Kim, W., Mauborgne, R. (2005). Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant. Boston, MA: Harvard Business School Publishing Corporation.*
* *Malik, F. (1984 – 1996). Strategie des Managements komplexer Systeme, überarbeitete und wesentlich erweiterte Habilitationsschrift. Veröffentlicht in der Schriftenreihe „Unternehmung und Unternehmensführung“ des Instituts für Betriebswirtschaft an der Hochschule St. Gallen. 5th ed. Bern, Switzerland and Stuttgart, Germany: Verlag Paul Haupt.*
* *NY: Herder and Herder.*
* *Organizations. Chichester, UK: John Wiley & Sons.*
* *Pfeifer, R., Bongard, J. (2007). How the Body Shapes the Way We Think: A New View of*
* *Porter, M. (1980 – 1998). Competitive Strategy: Techniques for Analyzing Industries and Competitors. New York, NY: The Free Press.*
* *Porter, M. (1985 – 1998). Competitive Advantage, Creating and Sustaining Superior Performance. New York, NY: Free Press.*
* *Porter, M. (1996). What is Strategy? Cambridge, MA: Harvard Business Review.*
* *Prahalad, C., Hamel, G. (1990). The core competence of the corporation. Harvard Business Review 68(3), 79–91.*
* *Ramos-Rodríguez, A., Ruíz-Navarro, J. (2004). Changes in the Intellectual Structure of Strategic Management Research: A Bibliometric Study of the Strategic Management Journal. Strategic Management Journal, 25(10), 981–1004.*
* *Rumelt, R. (2012). Good Strategy Bad Strategy: The Difference and Why it Matters. London, UK: Profile Books.*
* *Schwaninger, M. (2010a). Model-based Management (MBM): A Vital Prerequisite for Organizational Viability. Kybernetes, 10(9), 1419–1428.*
* *Schwaninger, M., Grösser, S. (2008). System Dynamics as Model-Based Theory Building. Systems Research and Behavioral Science, 25(4), 447–465.*
* *Teece, D. et al. (1996). Firm organization, industrial structure, and technological innovation. Journal of Economic Behavior & Organization, 31(2), 193–224. doi:10.1016/S0167- 2681(96)00895-5*
* *Teece, D. et al. (1997). Dynamic Capabilities and Strategic Management. Strategic Management Journal, 18(7), 509–533.*
* *Ulrich, H. (2001). Gesammelte Schriften: Die Unternehmung als produktives soziales System, Band 1. Bern, Switzerland: Verlag Paul Haupt.*
* *Vargo, S. L., Lusch, R. F., & Morgan, F. W. (2014). Historical Perspectives on Service-Dominant Logic. In The Service-dominant Logic of Marketing: Dialog, Debate, and Directions (pp. 29–42). New York: Routledge.*
* *Washington, D.C.: Massachusetts Institute of Technology.*
* *Wiener, N. (1948). Cybernetics: Or Control and Communication in the Animal and the Machine. Paris, France: Hermann & Cie; Cambridge, MA: MIT Press.*
* *York, NY: Springer-Verlag New York Inc.*

1. also observed as “Market segments” [↑](#footnote-ref-1)