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The Yin and Yang of Business Strategy

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Abstract

The purpose of this paper is to provide a 'grounded' approach to business strategy formulation on the basis that the generic strategy approach lacks contextual sensitivity. Today's strategists need to constantly assess the degree to which their businesses are achieving both market effectiveness and organisational efficiency. Drawing on primary and secondary research the paper examines business strategy formulation as a balancing act between achieving organisational effectiveness and efficiency and provides a matrix that can help identify where a business lies in this process.

Key Words: Business Strategy, Generic Strategies, Strategic Management, Efficiency, Effectiveness

Introduction

Generic strategy models such as Porter's (1985) framework have long been popular in strategy circles as they are perceived as offering guidance for strategy formulation or at least describing organisational strategic positions (Leitner and Güldenberg, 2010; Moon et al., 2014; Parnell, 2006; Speed, 1993). The use of such typologies can be seductive in so far as they help us to make sense of complex phenomena by acting as heuristic devices for strategic decision-making (Wright et al., 2013). For example, if one follows Porter's (1985) model, one understands that there are four (and only four) discrete business strategies to achieve sustainable competitive advantage and that if one attempts to 'mix' or 'combine' these strategies (or elements within) a business will become 'stuck in the middle' and become uncompetitive (the latter assertion being particularly controversial) (Allen and Helms, 2006).

While such models may be useful for strategists as a starting point, dissatisfaction with generic strategy models has been expressed on the basis of a lack of a common interpretation as to the nature of the strategies and an unclear link with performance (Bowman, 2008; Allen and Helms, 2006; Campbell-Hunt, 2000). Some scholars have attempted to revise/revamp Porter' model by 'tweaking' it in so far as adding strategies to the model to add greater complexity (Bowman and Faulkner, 1997; Mintzberg, 1988; Murray, 1988), nevertheless, the essence is still the same – a typology of strategies from which to choose in strategy formulation with in some cases a set of specific actions (see Allen and Helms, 2006). However, given that industries and organisations vary considerably in nature and are constantly evolving, there is a danger that such models may lack of sensitivity to contextual differences, organisational or industrial, that contradict these 'rules of thumb'(Bowman, 2008).

An alternative to following such formulaic strategic models is to develop a more 'grounded' approach to strategy formulation - one based on the unique circumstances within each business finds itself. One approach to maintaining contextual sensitivity in strategy formulation is to return to the essence of our understanding of ‘management’ where in its essence, ‘management’ can be described as ‘doing the right things (effectiveness) in the right way (efficiency) (Drucker, 2007). As strategic management is simply a subcategory of ‘management’ (a point perhaps sometimes forgotten), one can draw on this description as a guide for understanding and formulating business strategy.

Doing the Right Things

From a strategic management perspective, ‘doing the right things’ can be understood as achieving sustained market success through sales revenue as a result of achieving customer satisfaction (Martinez, 2014). This market success is achieved through a coherent and attractive marketing mix that stems from a deep insight into customer needs. In this way businesses can be seen to supply ‘quality’ products/services where ‘quality’ in this context is defined by the customer (Mehra and Ranganathan, 2008; Sureshchandar et al., 2002; Petersen, 1999). This market-definition of ‘quality’ is, of course, a ‘moveable feast’ – a whole range of factors such as PEST and industry variables (not least competition) shape this interpretation of ‘quality’. For example, a business’s failure to conform to a new regulatory requirement is a ‘quality’ failure, likewise, so is a company’s products or services failure to adapt to changing cultural practices. The failure of a business’s products or services to remain attractive vis-à-vis its competitors may be the ultimate quality deficit. Thus, ‘effectiveness’ can be seen to be an external measure of process output or quality.

The Right Way

In contrast, the principle of ‘the right way’ is more internally-focused as it balances customer needs with the needs of the business to provide the products/services in a manner that achieves organisational financial goals. After all, there is little point in achieving external market success through measures that achieve customer satisfaction if the organisation is unable to make a sustainable financial return from those activities. However, importantly, what constitutes the ‘right way’ or ‘efficiency’ is contingent on the notion of ‘effectiveness’ for a business’s product/service. For example, if an integral selling point of a product is that it is ‘hand-made’

e.g. the Ferrari, an ‘efficient’ manufacturing process in this context is highly different to that employed in the production of a mass-market car such as the Tata Nana. Nevertheless, in both of these cases the principle is the same i.e. to ensure that the organisation is as efficient as possible in developing the ‘right things’.

‘Efficiency’ has become somewhat the ‘ugly duckling’ of strategy literature where strategy gurus have dismissed it as ‘dangerous’ or simply as an ‘operational’ (and therefore non- strategic) issue (see Mintzberg, 2014; Porter, 1996). For example, in Porter’s seminal work aptly entitled ‘What is Strategy?’(Porter, 1996), the first sentence, a headline, proclaims that “[O]perational Effectiveness is not Strategy” (p.2). Porter also states that “operational effectiveness includes but is not limited to efficiency...it refers to any number of practices that allow a company to better utilize its inputs" (p.2). However it is contended here that *how* an organisation utilises its inputs is the essence of what constitutes 'organisational efficiency'. If Porter claims that efficiency is not a component of strategy (and by extension strategic management), this brings us to the question, what is meant by the term 'strategic management'?

In an attempt to identify some common interpretation/usage of the concept of 'strategic management' in the much contested and somewhat fragmented field of 'strategic management' literature (see Mintzberg et al., 2005; Spender, 2001) Nag, Hambrick and Chen (2007) asked a large panel of strategic management scholars to analyse 447 abstracts of articles appearing in major management journals as to whether the articles were 'strategic management' articles or not. The authors identified common elements amongst these articles and arrived at the following definition:

The field of strategic management deals with the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilization of resources, to enhance the performance of firms in their external environments. (p.945)

'Resources' are defined by (Barney, 1991) as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" (italics added). Therefore it is contended that the notion of 'efficiency' is embedded in the concept of strategic management as it is commonly understood, after all, to ignore efficiency is to ignore the obvious fact that organisation have limited resources. Of course, similarly to 'effectiveness', efficiency is also a relative term - defined or understood in the context of ever-changing market circumstances. For example, technological changes can make a business's manufacturing or logistical methods obsolete or outdated therefore efficiency is inherently linked to the marketplace.

Business Strategy – Balance of the Yin and Yang

The principles of Yin and Yang emanate from Taoism, an ancient Chinese philosophy/religion, and are used to explain the fundamental nature of the universe (Li et al., 2011). To briefly summarise, Yin (feminine energy) stands for passivity, or intuition, softness, contraction and yielding, whereas Yang (masculine energy) stands for rational thought, hardness, expansion and assertiveness. Balance between these two symbiotic energies is important and ensures harmony (Li et al., 2011). Ignoring the unfortunate gender stereotypes, here the term 'Yin' will represent 'effectiveness' and it can be seen as soft in the sense that it is subservient in that it aims to achieve customer satisfaction. Yang will represent 'efficiency' as it seen as hard in the sense that the organisation is machine-like and not focussed on people per se (see Figure 2 for some of the 'levers' used to manage Yin or Yang elements in organisations). Achieving this balance can be a tricky task, for example, a restaurant owner may be concerned about the level of operational costs and decides to cut the number of staff (Yang) but in effect this reduces customer satisfaction (Yin). In contrast another restaurant might have decided to increase the number of waiting staff in order to improve customer satisfaction (Yin) but effectively only raise the cost base of the business (Yang).

Figure 1: The Yin/Yang Matrix

	Ineffective	Effective
Efficient	Producing the wrong goods/services in an efficient manner (The Busy Fool)	Producing the right goods/services in an efficient manner (The Master)
Inefficient	Producing the wrong goods/services in an inefficient manner (The Hopeless)	Producing the right goods/services in an inefficient manner (The Dreamy Artist)

(Adapted from Martinez, 2014)

The Busy Fool

The culture in these businesses are essentially inward-looking where efficiency targets are prioritised over market needs – in some cases the production/operations department may be dominant in setting organisational priorities with marketing values secondary. While such organisations may succeed in an environment with little or no competition such as in some areas of the public sector, they are highly unlikely to succeed in fast changing industries. Organisations who have been successful for a long period of time may become complacent and fail to take into account changing customer needs e.g. Kodak in the digital era (see Morozov and Morris, 2009).

The Dreamy Artist

In contrast businesses operating in this quadrant produce market-desired products or services but in a manner that does not make the best use of available resources (internally or externally). Such businesses may be SMEs where the owner/manager has a 'technical' expertise associated with the product or service but lacks knowledge of important business skills and knowledge (Wong et al., 2018; Hayton, 2015; Koryak et al., 2015). In the case of an SME, if the organisation wishes to grow, the owner/manager will most likely need to add employees with sufficient expertise and delegate authority accordingly (Wong et al., 2018; Hwang and Lockwood, 2006). In other cases, the business may have enjoyed many successful years but may have become complacent and failed to adapt to a new environment of greater competition from new entrants that may engage in price competition (see Lego below).

The Hopeless

Unless this business is in a monopolistic position, where barriers to entry are very high, it is highly unlikely to survive. The business may have reached this point due to a myriad of reasons but it is likely that mismanagement may be a key factor. One such scenario could be a family business that has been passed from one generation to the next where the new management may lack to the knowledge and/or the drive to successfully manage the business (Westhead, 2003).

The Master - Balance of the Yin and the Yang

Business value/worth, according to Martinez-Hernandez (2003, p. 30.), *"resides in the satisfaction and fulfilment of customers' expectations, at the same time, generating wealth for organisations"*. However there is a view that, deciding how a business 'makes money' (as represented by a business's '*business model'), is a separate activity to crafting a business strategy (see Ben Romdhane Ladib and Lakhal, 2015; Casadesus-Masanell and Ricart, 2010; Magretta, 2002; Ritter and Lettl, 2018; Štefan and Branislav, 2016). For example, according to Magretta (2002, p.86), "business models describe, as a system, how the pieces of a business fit together. But they don't factor in one critical dimension of performance: competition. Sooner or later—and it is usually sooner—every enterprise runs into competitors. Dealing with that reality is strategy's job"*. However, identifying what customer-needs the business aims to satisfy (for example see Almquist et al., 2016) and how this can be achieved efficiently, should never, and probably rarely does, take place without an analysis of the competition. To assume that customers do not consider alternatives when examining a business's value proposition seems highly erroneous. Instead what is required is a more holistic paradigm for crafting strategy that takes into account the symbiotic nature of efficiency and effectiveness. In order to further illustrate this need for a balance between Yin (Effectiveness) and Yang (Efficiency) two well-known international company cases will be used, Lego and Starbucks, along with a case study of a successful Irish business – Lily O'Briens.

Lego

The LEGO Group is a privately held company based in Billund, Denmark. The LEGO Group's vision is to "inspire children to explore and challenge their own creative potential" ("www.lego.com/en-us/aboutus/lego-group," n.d.). has stuck with the company since 1932 when Ole Kirk Kristiansen, a Danish carpenter, established the company in the small town of Billund in Denmark, to manufacture wooden toys ("www.lego.com/en-us/aboutus/lego- group," n.d.). The company is still owned by the Kirk Kristiansen family today ("www.lego.com/en-us/aboutus/lego-group," n.d.).

The Lego Group, famously ran into financial difficulties at the beginning of this century and much of this could be attributed to organisational inefficiencies (Larsen et al., 2010; Heckmann, 2007; LEGO A/S – Annual Report 2004,). Lego has always had a culture that prided itself on high quality products and indeed its company motto was and still is "Only the Best is Good Enough" (www.lego.com/en-us/aboutus/lego-group, n.d.). The 'Kitchen,' the company's product development lab, was a source of corporate pride however the developers failed to factor in the price of materials or the costs of production. Similarly, the supply chain had become extremely bloated (over 11,000 suppliers) while the manufacturing processes were inefficient as a plethora of different pieces for figures meant that production was a 'stop/start' affair. Ignoring the 'pareto principle' in sales management, the lack of discrimination in Lego's handling of different-sized customers meant that a disproportionate amount of organisational resources were allocated to dealing with smaller customers. Finally, while previously Lego may have overcome such inefficiencies through price premiums, the company now faced both increased direct and indirect competition (Larsen et al., 2010; Heckmann, 2007).

Under the stewardship of then CEO Jorgen Vig Knudstorp, Lego began to create greater efficiencies throughout the organisation – cutting unnecessary costs such as the production of excess pieces for different play figures. Lego's transformation is legendary where profits at the company increased dramatically, initially primarily through increased efficiency (reflected in lower costs to sales/production ratios) and later through both increased efficiency and effectiveness (see thelegocasestudy.com, n.d.)

The prevailing corporate culture at Lego was described as one of 'craftsmanship' where attempts to cut costs were seen as going against Lego's motto of quality (Heckmann, 2007). In effect, it is a dichotomous paradigm where a business must either choose between low costs or high quality products/services – the essence of porter's generic strategy model. While it may seem self-evident, it is worth stating that the purpose of most businesses is to make sustainable and acceptable levels of financial returns (usually reflected as profit) from their activities. There are two variables involved in this equation, namely revenue and costs and the neglect of one these two variables over a sustained period of time leads to fundamental sustainability problems.

Starbucks

Originally Starbucks was founded in 1971 but its present day 'coffeehouse' format can be traced back to 1984 (Starbucks Company Timeline, n.d.). Initially Starbucks grew at a rapid rate however the company suffered serious financial problems in the late noughties that threatened its solvency - but in an entirely different manner to LEGO. Under pressure from shareholders to achieve financial targets, Starbucks embarked on a process of increasing operational efficiency (see www.wsj.com). However, according to the then CEO Howard Schultz, one of the 'side effects' of this process was a deterioration in the customer experience (removed much of the "romance and theatre") where the store was robbed of its "soul" (see www.wsj.com). In an effort to readdress these 'Yin' issues Starbucks refocused on addressing customer needs through investing in what was referred to as the 'Starbucks Experience' through increased expenditure on staff training and store redesign (Starbucks Annual Report 2008). Again here we can see an effort to rebalance the Yin/Yang relationship where Starbucks had focussed excessively on addressing the company's needs for financial success at the cost of the customer's needs.

Lily O'Briens

Lily O'Briens, a premium chocolate and desserts manufacturer, was founded in 1992 by Mary Ann O'Brien in Newbridge, Co. Kildare, Ireland (Lily O'Brien's Chocolates - Our Story, 2016). The company has approximately 120 employees (staff numbers can rise to 300 during high-volume peak periods) and in 2017 had revenues of approximately €30 million (€32m, 2016) with EBITA of €4 million (€5m, 2016) (Lilly O'Briens Submitted Financial Statements 2016 and 2017). In 2018 the company was bought by Colian Holdings SA, a Polish producer and distributor of food products in the confectionary, culinary products and beverage sectors (Donnelly, 2019).

The current CEO Eoin Donnelly joined the company in 2009 with the goal of growing the business however during this period the company found themselves hit by the 'tsunami' of the Irish (and global) financial crisis (Donnelly, 2019). The company faced multiple challenges, firstly there was a drop in consumer demand. Secondly, many UK retailers insisted on 50% discounts on promotions at Christmas time – the industry's most important period. Finally, the Euro/Sterling exchange rate had dramatically worsened from 0.7 to 0.98 during 2009 and the products had been priced at the 0.7 exchange rate for the year resulting in a significant decline in revenue (Donnelly, 2019).

Faced with this significant drop in revenue, the company management was forced to re-examine its cost base. Labour hours and salaries (including senior management) were cut, redundancies were made, logistical cuts were cut and terms with suppliers were re-negotiated. Significantly, management decided not to cut costs in any area that might affect the quality of the brand:

> "A discussion would have taken place in terms of that we could effectively go for cheaper ingredients, raw materials, all the various packaging, and the board effectively felt if you do that, you actually can destroy your brand. So everything that we did (in terms of cost-cutting) was on items that didn't impact the product that arrived into the consumer's hand" (Donnelly, 2019).

Here we can see that the starting point is Yin –the company's marketplace position and then *Yang* with improved efforts to deliver that level of quality in the most efficient manner.

As part of this continued focus on improved performance the management teamed up in 2011 with Enterprise Ireland (a state agency in Ireland responsible for supporting Irish businesses) to conduct a strategic assessment of the business's marketing mix. Consumer research conducted during this period led to a significant re-branding of the product. In particular, packaging was identified as being both overly complex (nine styles) and ineffective in terms of consumer recognition. As a result, product packaging was simplified resulting in both increased product identification in retail outlets and decreased costs of production (Donnelly, 2019).

Internationally, the company is faced with the significant need to adapt to local consumer preferences in places such as western USA and the Far East, nevertheless management are always attempting to identify overlapping needs in order to minimise production costs. Moving forward, with the advent of Brexit, the pressure to maintain a competitive cost base may be a major challenge to the business and the management team are constant looking at improving manufacturing efficiencies (Donnelly, 2019).

While the company is determined to grow in size (with the marketing department particularly keen to introduce new products quickly and regularly to the marketplace), a stage-gate process conducted by cross-functional teams is used to meticulously examine the suitability of new product proposals (Donnelly, 2019):

> "Are we going to sell it? And that's where marketing will come in. If we are, what volume is it going to be? Will it be cash sales? What will be the margin and do we need this profit? Are we able to make it on existing equipment or do we buy need to buy new equipment? If we need to buy new equipment, what's the payback on that? Is it

> replacing an existing product? And if so is there obsolete packaging that has to be run down and what is the time frame on that? All these various stages that you have to have to go through to make sure that it actually is the right product
>
> While a lot of products go into the filter, by the time they come out, probably only about somewhere in the region 12 to 15 percent of products annually get through the process but they are the right 12 to 15 percent new products."

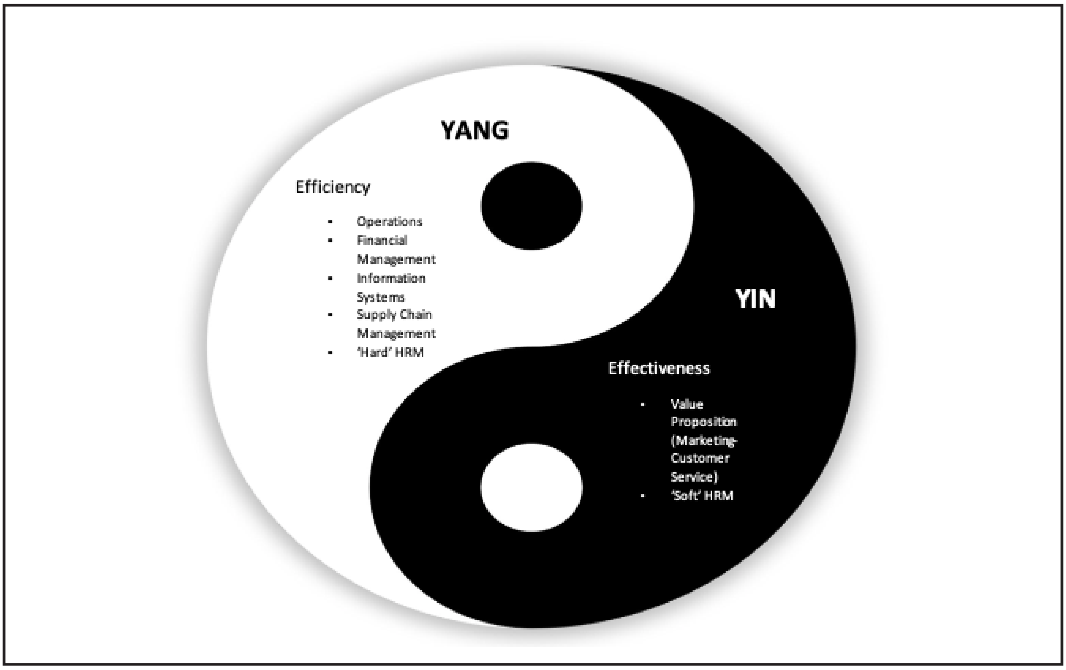
A stage-gate process is an outside-inside/Yin-Yang process that firstly involves an analysis of the market including the Voice Of the Customer (VOC) before assessing organisational resources at structured past/fail test stages (Marquis and Deeb, 2018). However even if a new product is introduced, management at Lily O'Briens try to cut some incumbent products so as to minimise SKU costs (such as storage) and avoid product cannibalism (Donnelly, 2019).

To-date Lily O'Briens has been a very successful business - built on a blend of creativity and financial prudence. The company's vision is "to be the affordable premium chocolate luxury of choice" (Donnelly, 2019) – a strategic position at odds with generic strategic recipes (for example the notion of 'stuck in the middle') but instead based on customer needs (Yin) and organisational capabilities (Yang).

Leveraging Activities to Achieve Yin/Yang Balance

Broadly speaking, organisation activities (and departments) tend to fall under the categories of either Yin or Yang in their orientation. Famously, manufacturing and marketing departments can clash on the basis of very different paradigms where manufacturing performance is often measured on the production targets on a timely basis with the minimum of resource usage. In contrast the marketing department may be measured by sales volumes, market share, customer satisfaction and brand recognition. While organisations may tend to appear to Yin or Yang only, this is not the case. For example, Ryanair may appear to be wholly 'Yang' on the basis that it operates a very efficient airline but this ignores its recent attempts to address what was perceived as an Yin/Yang imbalance where customer needs were not being met – better baggage allowance, 'friendlier' staff etc. In order to address these issues Ryanair initiated a strategic shift through its 'Always Getting Better' programme aimed at improving its brand image. As Michael O'Leary, the CEO of Ryanair said "If I'd only learned in college that being nice was good for business, I'd have done it years ago," (Farrell, 2015).

Figure 2 – Yin and Yang of Business Strategy



Conclusion

It has been argued that a more 'grounded' approach to strategy formulation is required that draws on the (changing) needs of customers and that such insight may be clouded by the use (conscious or otherwise) of generic strategy models as a paradigm for understanding a business's relationship with its customers and competitive position. There is more to business strategy than deciding whether the business should be low cost-based or produce high-quality products/services and while proponents of Porter's model might argue that this is a simplification of the model, it is argued that this is the paradigm that the model promotes to students and practitioners.

Businesses need to identify how they can offer value to customers in the marketplace while ensuring that such activities are carried out in the most efficient manner possible in order to earn acceptable returns, in short, identify the 'right things' first and then work out the 'right way' afterwards. Lily O'Brien's stage-gated approach to product development perhaps best reflects the 'Yin/Yang Master' approach to strategic management. While it is market-driven, its prudent appreciation of organisational competencies and resources ensure that the organisation is not overstretched and remains financially stable. Of course market conditions change therefore the process of maintaining a Yin/Yang balance is a continuous one that needs to be constantly reviewed. In order to do this effectively the CEO/business owner should draw on expertise from different functional areas to get a holistic view of the organisation and ensure it is operating as a 'Master' (see Figure 1).

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