

# Time Selection of Enterprise Strategy Innovation Based on the Effectiveness of Strategy

Zhou Fengying, Du Wengeng, Diao Zhaofeng

School of Management, Wuhan University of Technology, Wuhan, P.R. China, 430070

(E-mail: diaozf@163.com)

**Abstract:** Because of the polytropy of environment, the existence of imitation and the law of strategy life cycle, the validity of a strategy is limited, so strategy innovation has become inevitable. Carrying out strategy innovation too early will make innovation difficult, while starting too late, the cost of innovation will be very high. Based on a deep analysis on the effectiveness and the life cycle characteristics of enterprise strategy, the paper proposed three models of enterprise strategy innovation, and then discussed the starting time of enterprise strategy innovation on the basis of the analysis on the effectiveness of enterprise strategy.

**Key words:** Effectiveness of strategy; Life cycle of strategy; Strategy innovation; Timing of innovation

## 1 Introduction

In the 21st century, a new competitive environment has formed in which quick technology reform and economic development make profound changes happened in the world. The rapid development of Internet and e-commerce has accelerated the process of global integration, but also brought fundamental changes to internal and external operating environment of enterprises<sup>[1]</sup>. Facing the great changes of environment and thinking about the enterprise strategy innovation, it's obvious that traditional strategy management has difficulty in explaining and solving the matter of dynamic strategic interaction and traditional strategy theory is helpless in describing and working out the complexity, uncertainty, and dynamic change in the current competition environment<sup>[2]</sup>. Using Swedish scholar Mats Lindgren's description on the effectiveness of strategy and the law of life cycle of enterprise strategy for reference<sup>[3]</sup>, this paper discussed that how to start the enterprise strategy innovation to keep the difficulty of strategy innovation less and the cost of it lower.

## 2 Effectiveness and Life Cycle Characteristics of Enterprise Strategy

### 2.1 Effectiveness of enterprise strategy and its influencing factors

The practice of enterprise strategy management has proved repeatedly that the duration of each strategy is limited, which means that no enterprise can dominate the market and be unflinching depending on the formulation of disposable strategy<sup>[4]</sup>, which is determined by the effectiveness of strategy. It's generally believed that the effectiveness of the strategy is affected by the following four factors:

1) The adaptability of the strategy on environment. This adaptability is relative, that is, the strategy is adaptable to environment in the case that the environment is relatively stable or its change trend is invariant, while when the environment reverses, the established strategy will lose adaptability.

2) The consistency between strategy and target. The effectiveness of strategy will no longer exist with the inconsistency between results of strategy implementation and the strategy target.

3) The competitive advantage of strategy. When the effective strategy is imitated by competitors, it will lose larruping novelty, the competitive advantage will be weakened, and the expected excess profit will decrease.

4) The expected profitability of the strategy. When the core competence supporting strategy is imitated by competitors or core competence which is more valuable is cultivated (by competitors or itself), current core competence will lose its value.

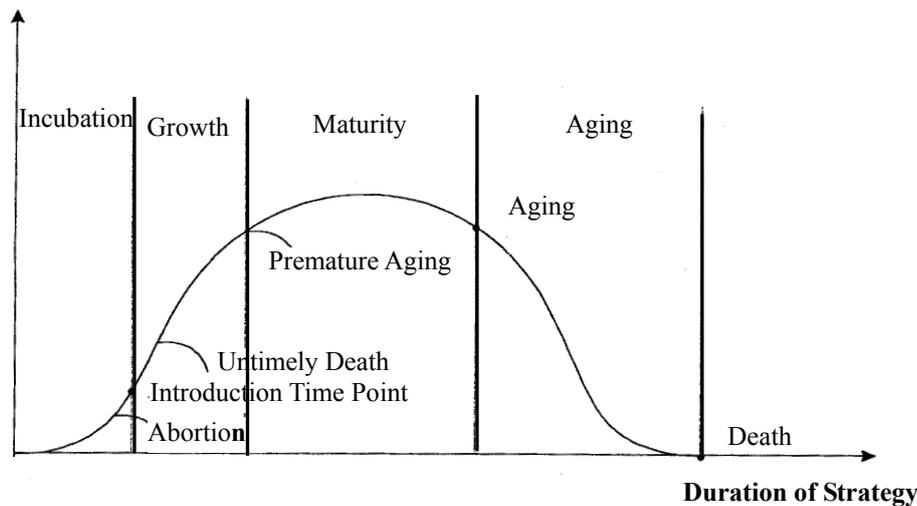
### 2.2 Life cycle of enterprise strategy

Due to the consistent change of environment, innovation and imitation is universal, so the effectiveness of strategy is always relative and the duration of strategy is limited. Any strategy will go through a process including formation, maturation, aging, and death which is the law of life cycle that strategies must abide by<sup>[3]</sup>. Life cycle of strategy can be defined by the effectiveness and duration of strategy, as shown in Figure 1.

In the figure of strategy life cycle, the effectiveness of strategy is used as ordinate, which can be comprehensively measured by four items of indexes such as the adaptability of strategy on environment, the consistency between strategy and target, the competitive advantage of strategy and the expected

profitability of strategy, while the duration of strategy is used as abscissa, on which the complete strategy cycle can be divided into four stages including incubation, growth, maturity and aging period.

### Effectiveness of Strategy



**Figure 1 Complete Form and Probable Abnormal Form of Strategy Life Cycle**

The effectiveness of strategy in each period is different. In incubation period, in which the strategy is still in development stage, the effectiveness of strategy is very low. In growth period, the effectiveness of strategy will increase, and then in maturity period, in which the resources deployment of strategy obtains competitive advantage and both of the adaptability on environment and profitability can achieve ideal level, and strategic behavior is consistent with strategy, so strategy is on a high level.

With strategy in aging period, the effectiveness of strategy will begin to decline. When the effectiveness of strategy is completely lost, the strategy dies and it will be the end of strategic duration. So bell shaped locus of strategy is displayed in the coordinates of effectiveness and duration.

Different stages of strategy life cycle are defined as follows:

1) Incubation period. It's the stage of the generation of strategic assumption and the design, analyses and assessment of strategy project.

2) Growth period. It's the stage of the determination, attempt, gradual implementation, and continuous adjustments and perfection of strategy project. There is an introduction time point from incubation period to growth period at which strategy project is formally determined and admitted to implement.

3) Maturity period. It's the stage in which strategy is generally implemented and is programmed

4) Aging period. Strategy can not adapt to environment more and more seriously because inertia has formed and crisis appears gradually in this stage. At this time, going through every stage in the complete process of life cycle, the strategy comes to a dead end and its effectiveness is zero.

Not all strategies have experienced a complete life cycle. Strategy may be terminated prematurely in any stage at any moment, which means the following abnormal conditions may appear:

1) Abortion. Strategic assumption dies on the vine because it isn't adopted or replaced by a better one.

2) Untimely death. In the early growth period, hypotheses are denied and expected target cannot be achieved according to the practice.

3) Premature aging. In the late growth period, a sudden change of environment causes early aging and death in youth.

## 3 Comparisons of Enterprise Strategy Models

### 3.1 Two models of enterprise strategy innovation

According to continuity characteristic between pre and post strategy in time, model of enterprise strategy innovation can be divided into discontinuous transition model and smooth transition model, as shown in Figure 2 and Figure 3

Discontinuous transition model presents that the latter strategy initiates only after the former

finishes. There is a different length of transition period between two strategies. If there is no transition period, a special continuous transition model may appear. Although in theory it's possible, in fact it's difficult to realize, because replacement of the new and old strategy often requires a process of strategic change.

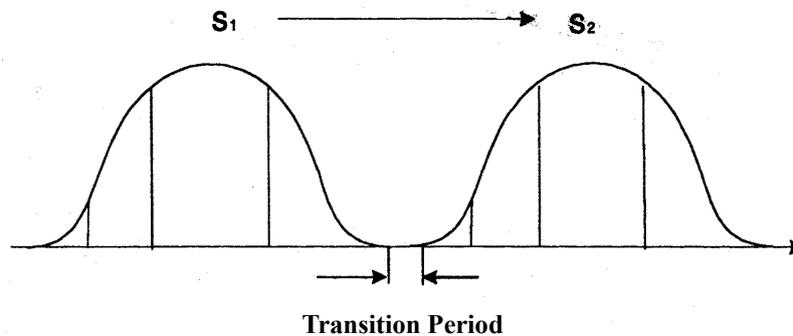


Figure 2 Discontinuous Transition Model

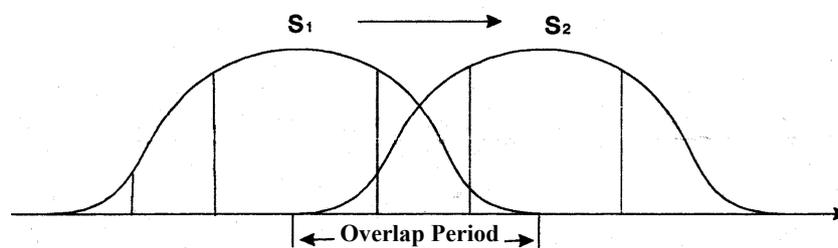


Figure 3 Smooth Transition Model

Smooth transition model presents the latter strategy starts being incubated during the execution period of the former. There is a parallel overlap period between the former and latter strategies and when the former dies, the latter may have been in growth or maturity period.

### 3.2 Comparisons of the two modes

Comparing the two models, the first model can make the allocation of resources and capacities optimal and maximize the value of the first strategy in the first validity period of strategy, while the obvious defect is that a transition period exists between the two strategies in which the enterprise management state is too bad. Even though continuous transition can be realized, the enterprise management efficiency between the aging period of former strategy and the incubation period of the latter is also low. In comparison, the efficiency of the second model is not the highest in the short term, because enterprises must distribute a part of resources and capacities to explore and incubate strategies, which require many attempts and find new strategy in the process of attempts, while this model is harmless in the long run <sup>[5]</sup>.

## 4 Time of Enterprise Strategy Innovation

### 4.1 Opportunity of enterprise strategic innovation

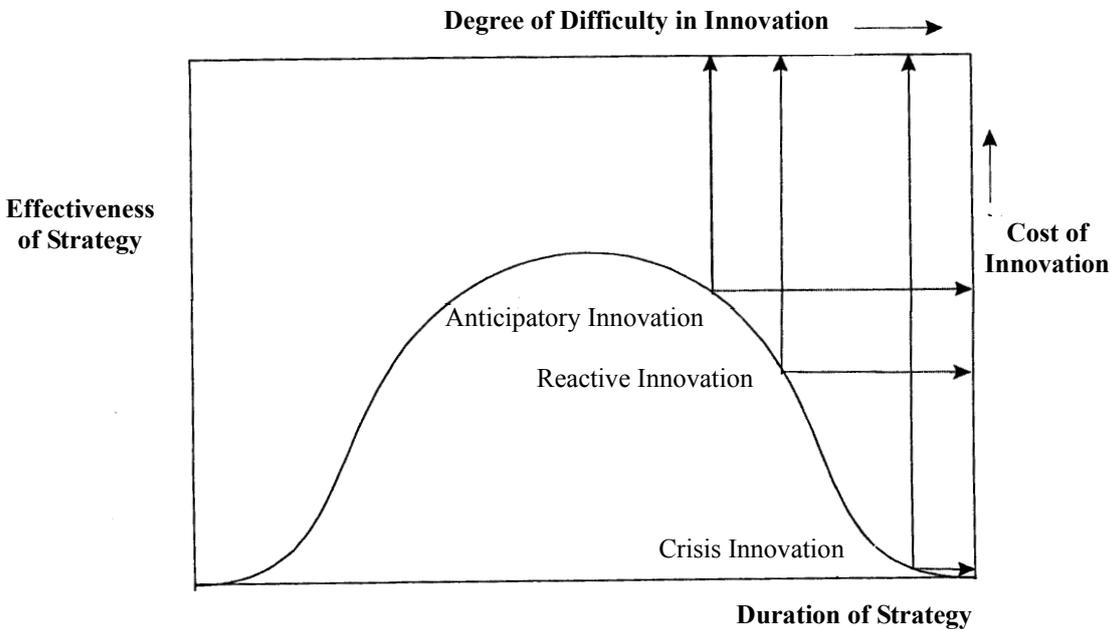
Two models of strategy replacement actually reflect three time strategies of enterprises' strategy innovation: anticipatory innovation, reactive innovation, and crisis innovation. Anticipatory innovation means that enterprises need foresee the demand for strategy innovation and discover the signal of demand early, so that we can realize the old correct strategy will become wrong one. Thus the challenge that we face is to get to know beforehand what the new correct strategy is. Reactive innovation actually reflects that taking action when obvious evidences and signals show that innovation is necessary. With the number and intensity of evidences and signals increasing, competitors have started changing, whereas we are still standing by. In such circumstances, the enterprise is facing crises and has to make innovation, namely crisis innovation.

According to the classification as above and taking the characteristics of strategy life cycle into

account; we consider that anticipatory innovation happens when aging evidences and signals of enterprise strategy appear (during the replacement period between maturity and aging). Reactive innovation happens in aging period and crisis innovation happens near death and even after death, as shown in Figure 4.

**4.2 Time selection of enterprise strategy innovation**

According to Figure 4, we can find that three types of innovation are different in both the degree of difficulty in starting innovation and the cost. The degree of difficulty in innovation become lower and the cost becomes higher from anticipatory innovation to crisis innovation along the curve in the figure [6]. Conducting anticipatory innovation is most difficult, because the evidences reflecting demand for innovation are obscure and the signals are weak so that it's difficult to reached consensus in the enterprise. In contrast, at the time of reactive innovation, the evidences and signals become so universal, intensive, and continuous that reactive innovation is easier to be promoted than anticipatory innovation, while there is not enough evidence confirming that the current strategy will fail. If the enterprise is hesitant and obtuse when the opportunity of reactive innovation is coming, it will hardly wait to start crisis innovation, because at this time the enterprise has suffered losses in many aspects, such as financial income, shareholder's interests, customer loyalty and employment opportunities and so on and everyone is certain of the failure of the current strategy.



**Figure 4 Time Selection of Enterprise Strategy Innovation**

Figure 4 shows that with glide of the curve, contrary to the degree of difficulty in starting innovation, the cost of innovation changes from low to high. The cost of crisis innovation is the highest, because incontestably, crisis has happened in the front of all people and the relevant persons' interests have suffered losses. In contrast, the cost of reactive innovation is lower, because the current strategy has not yet been ineffective completely at this time, which is regarded as the best time for the majority of enterprises to start innovation because of low resistance, low cost and relative abundance of time. It's certain that the cost of anticipatory innovation is lowest. Anticipatory innovation that is able to make enterprises get most potential benefits with lowest cost, which can only be achieved in the enterprises with innovative spirit and powerful entrepreneur of foresight.

According to the above analyses on models of enterprise strategy replacement, we can find that only anticipatory innovation and reactive innovation can make strategy replacement in smooth transition model and only anticipatory innovation can make it harmless.

**5 Conclusion**

According to the research in this paper, we can draw the following conclusions: polytropy and

dynamic characteristics of enterprise environment greatly compress the validity of enterprise strategy, so enterprise strategy innovation is inevitable and necessary and it's vital to select correct time to start it. Research indicates that in order to achieve harmlessness in the process of enterprise strategy replacement, it's the best time to start enterprise strategy innovation when the effectiveness of enterprise strategy decreases slightly from the most effective time point. Being earlier than the time point, strategy innovation is of too many difficulties and resistance, while being later, enterprises can't afford the excessively high cost of strategy innovation. By this token, measurement and judgment of strategy effectiveness is crucial, which is worth further study in the future.

### Reference

- [1] Gary Hamel. The Future of Management[M]. China CITIC Press, 2008 (In Chinese)
- [2] Daveni R. Managing the Dynamics of Strategic Maneuvering[M]. Free Press, 1994
- [3] Mats Lindgren, etc. Scenario Planning; the Link Between Future and Strategy[M]. Economy & Management Press, 2003 (In Chinese)
- [4] Hamel G. Strategy as Revolution[J]. Harvard Business Review, 1996(4):69-82
- [5] Gary Hamel. The Quest for Resilience[J]. Harvard Business Review, 2003(10):56-59
- [6] Yu Laiwen, Chen Ming. Enterprise Strategy Renovation and Its Determinants[J]. Modern Management Science, 2006(8):50-52 (In Chinese)