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Operationalizing Business Strategy by Questioning

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Abstract

Business strategies often only skim the surface of the matter at hand, presenting general and vague descriptions of the direction of development without providing specifics or hinting at their essence. Strategies must be operationalized to effectively drive concrete actions and results, i.e., presented with a higher degree of specificity. Avoiding streamlined formulations and providing clear and objective language can aid in creating an engaging and mobilizing strategy. Questioning techniques can be employed as an initial phase in operationalizing business strategy. The inquiries used to construct the business strategy are founded on the fundamental questions applicable to any economy – "For whom?", "What?", and "How?". These questions point to the market-product-technology trinity, which constitutes the essential components of any business and, consequently, any business strategy. In addition,, it is important to ask further questions that clarify the relationships between different elements of the business to formulate a strong business strategy. A fair assessment of the developed strategy's efficacy can be made by providing specific answers to these questions.

Keywords: *Business, Business Strategy, Operationalizing Business Strategy, Strategizing by Questioning*

JEL Classification: M21

Introduction

When talking and writing about business strategy, it is usually emphasized that it is a means to realize the organization's purpose or to achieve an important organizational goal. The organization's strategic direction (mission, vision, values, goals, and objectives) is then described. The next step is to present basic strategic alternatives such as cost leadership strategy, differentiation strategy, or focus strategy. There is less discussion of strategy highlights such as the product-market-technology trinity, which constitutes the core components of any business. Ultimately, strategy is intended to help prepare the most important decisions related to the creation or development of a business, many of which are

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closely related to the elaboration of the above trinity. Placing the focus of strategizing on such a level is, in effect, taking concrete steps toward operationalizing strategy.

One of the techniques that can be used in this regard, and which is appropriate for starting the operationalizing strategy, is questioning (i.e., asking focused questions). The most important of these are the same as the basic questions of economics ("For whom?", "What?", and "How?"). However, others seek to highlight the relationships between the basic components of a business in their logical sequence within a market economy. Finding answers to these questions provides a more seamless transition to working out the specific type of strategy that the firm will pursue.

1. Business

Business is the field of human activity that deals with the manufacturing and selling a product (Longman Dictionary of Contemporary English, 2023). The term "product" should be understood either as a good, a tangible object, or a service, an intangible object (EN ISO 9001:2000). A detailed list of products that are typical for an economy can be compiled based on collection level 4 "classes", developed within the framework of the Statistical Classification of Economic Activities (NACE) in the European Union (Eurostat, 2008). As a rule, business activities are carried out within pre-established organizations (business organizations, enterprises, companies). As a legal construct, they differ in the responsibility that their owners bear with respect to organizational obligations to third parties.

In modern economies, business organizations specialize in manufacturing a specific product with a distinct value. Specialization is the result of the deepening of the social division of labor. Every business organization participates in the social division of labor by entering into relationships with other economic agents (individuals or other businesses) and exchanging equivalent products with them. This exchange is facilitated by money as a measure of product value and a medium of exchange. For this reason, the environment plays an important role in business development.

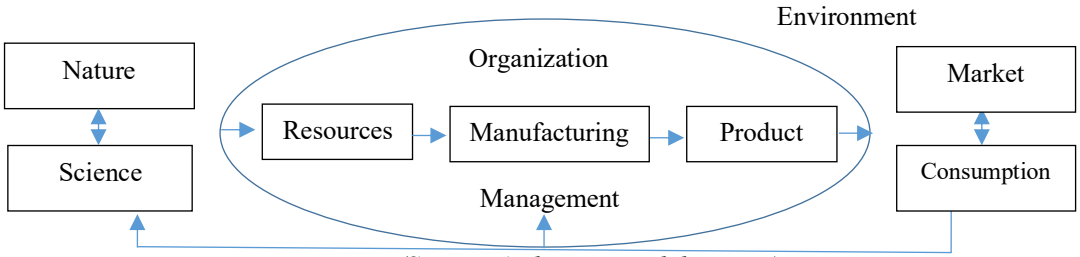
Government is a decisive factor in shaping the environment external to business because it has important protective, social, and regulatory functions. To perform these functions, the government (through its fiscal policy) is actively involved in distributing the total product created by business. For many business organizations, the macro economy has an indirect impact. Small and medium businesses usually focus on tasks related to the specific purpose for which they were created. It can be summarized that in order for a business to fulfill its specific purpose, the following is required:

- First, productive resources are usually provided by the market (other companies or individuals) or by nature through a *supply* chain. As we know from economics, the classical factors of production are land, labor, and capital (in various modifications such as tangible, intangible, financial, and informational capital). However, since these factors do not combine as a result of the intervention of natural forces but have an anthropogenic character, their combination appears to be the result of purposeful management by humans. Therefore, management should be added as a fourth factor of production.
- Second, a production technology that transforms resources into a finished product (*manufacturing*).
- Third, the sales and marketing efforts by which the finished product is marketed and reaches consumers (*marketing*).
- Fourth, the conscious *management* of the production process and the relationship between the firm's internal and external environments.

If we try to present business as an ordered system (Figure 1), the market, the product, the production technology, including resources, will find their place as main elements. The links between the main elements are mediated by marketing activities, including sales and distribution (outbound logistics), production operations (including after-sales service), and supply (including purchasing and inbound logistics).

Figure 1.

Business and its Environment



(Source: Author's own elaboration)

A company is built on how it is managed, and strategy becomes an integral part of business development if it is managed strategically.

2. Business strategy and its operationalization

As in many cases, management science has failed to provide a universally accepted understanding of business strategy (and strategy in general). Different researchers have defined it differently:

- For some, strategy envisions a course of action combined with allocating necessary resources (Chandler, 2003, p. 13).
- For others, it is a policy necessary to achieve strategic goals (Porter, 1980, p. XXIV).
- For third, strategy determines the direction and scope of a business activity to achieve certain competitive advantages (Johnson, G., Scholes, K., & Whittington, R., 2008, p. 3)
- Fourth equate strategy with plans and actions to achieve the purpose of an organization (Lynch, 2006, p. 5).
- For fifth, strategy is personified by "maneuvers" intended to outwit competitors (Mintzberg, 1987, p. 12).

If one wants to draw a rational conclusion from these somewhat divergent definitions, the following can be said:

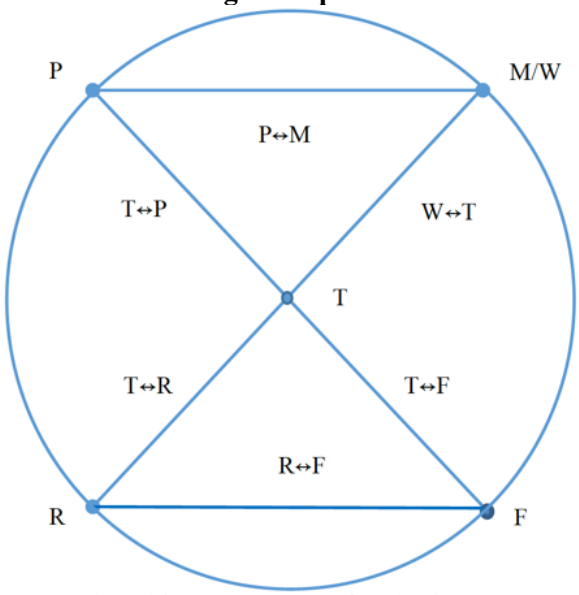
- A prerequisite for including strategy in the management vocabulary is that the organization has a clarified purpose (Witcher, B. J., 2020, p. 9) and a long-term development goal. If this condition is fulfilled, then strategy has the task of determining the way (suggesting the way, working out the course of action), including concentrating resources, working out policies, drawing up plans to realize the purpose of the organization, including its long-term goal.

- By following the chosen path, the organization aims to achieve certain success, which may be reaching the set long-term goal, gaining a competitive advantage, or even deceiving the competitor.

However, if we remain within the framework of the above generalizations, it will be difficult to arrive at meaningful strategic precepts. It is necessary to bring the concept of "strategy" to concreteness by revealing its main components, alternative characteristics (extremes) and their interval ("from-to") dimensions. In other words, strategy should be operationalized. Following economic logic, operationalization should be linked above all to the main elements of each business. The most important components of any business strategy are emanation of the three main elements of any business: its sales (M) and supply (W) markets; its products (P); and its technologies (T) (Ansoff, 1999, pp. 29; 51). Financial (F) and real (R) resources can also be attached to the main business elements (Figure 2), as they remain in direct connection with the previously developed technology. Within a more detailed classification with three levels of stratification (strategic, tactical and operational), such components are sometimes considered tactical (Papazov, E. K., Mihaylova, L. M., 2015, p. 291).

Figure 2.

Basic strategic components and relations



Source: Adapted from (Papazov, E. & Mihaylova, L., 2019, p. 291).

Of course, the fundamental components of a strategy are not limited to identifying new products, markets, and technologies. In operating companies, the strategic parameters extend further to clarifying key organizational structures and processes (including relationships with the parent company or with the home or host government), choosing a leadership style, and identifying key controls. If the company is a start-up, its management will need to address, among other things, important issues such as determining the location of the start-up, choosing a legal form to realize the entrepreneurial idea, appointing key management personnel, etc. However, some of these strategic aspects of management activity will not be discussed further in detail.

In addition to clarifying the main components of a strategy, it is important to highlight some important interdependences between them. The connector links represent an emanation of the so-called functional strategic constructs, including marketing, technological, acquisition, costing, real resource, financial, and investment strategies. The functional strategies are shown in Figure 1 as M↔P, P↔T, T↔W, T↔R, T↔F, and F↔R interdependencies, respectively (Papazov, E. & Mihaylova, L., 2019, p. 291).

Operationalizing a business strategy means not only specifying its core elements but also describing alternative extremes under each of them (Papazov, E. K., Mihaylova, L. M., 2020, p. 211). For example, product markets (M) are often characterized by the opposites "broad" and "narrow"; products (P) are usually defined as "mass" or "differentiated" products; technologies (T) and resources (R) are frequently treated as "basic" or "specialized". The above-mentioned alternative extremes allow defining basic types of strategies like cost leadership and differentiation strategy (for more details on the two distinctive strategies at varying levels of scope, see Ivan, C. D., Marcu, L. & Savu, B. C., 2022.)

3. Strategizing by questioning

Strategizing by questioning means asking the right questions, primarily related to defining the elements of a business strategy. The operationalization of a business strategy in terms of finding the extreme alternatives or the interval values of each alternative serves rather to confirm or reject the correctness of the ideas that have emerged after the application of the sequence of questions. For clarity, the following sequence of questions is systematized into two directions, i.e., market-product and product-technology-resources relationships. Such a sequence implies the leading role of marketing in case the product is not new to the market, i.e., the company intends to introduce an improved product (incremental innovation). We note only that in the case of radical innovation, the order of questioning is likely to be reversed, i.e., the focus will be first on the global novelty of the product and then on its marketability. We will not dwell on this option because it is less common, especially in SMEs-dominated economies.

3.1. Market-product relations

Question "For whom?". This question typically initiates the strategic planning discussion, with a focus on the target market of the product (M). Responses to this inquiry usually address the needs ("Who is the intended audience for the product?"), desires ("Who will be interested in purchasing the product?") and purchasing capability ("Who can afford to buy the product?") of the potential customer. After addressing these additional questions, a marketing strategist may craft a profile of the potential consumer of the product.

Question "What?". Answering this question typically requires collaboration between design engineers and marketers. If the desired product is already available in the market, the marketing team will likely propose its offering based on market research findings. Marketing specialists will focus on the product's general description and desired features based on the target audience. For instance, they may consider microwave ovens with mechanical or electronic controls, with or without a grill. The logical question that arises is "Can our company provide a product with the desired features?"

The product's final appearance will depend on the outcomes of the engineering and development process, which involves considering dimensions, design, and packaging. These aspects are determined by analyzing the project's feasibility and then synthesizing the results.

The analysis involves breaking down the entire project into smaller components to identify possible solutions. The subsequent synthesis involves evaluating the parts and their combination as a whole, emphasizing the interaction between them.

A preliminary product design is created based on the results of analyzing and synthesizing the data. The stage concludes with a list of the necessary materials.

The cycle of questioning from "For Whom" to "What" and vice versa should culminate in determining the potential quantity demands for the innovative product that the firm plans to offer (e.g., answering the question "How many"). This data will later be utilized to specify the firm's production capacity. To accomplish this, one can assess the entire market and anticipate the ability of existing competitors to satisfy product needs. Afterward, one can gauge the potential market size for new players by analyzing unfulfilled consumer needs within a specific product segment (Georgiev, I., 1999). The demand range should consider the requested product quantities and environmental factors.

The interplay between "For Whom" and "What" questions can determine the appropriate market price at which a product could generate interest. Marketers frequently use market-based pricing approaches and "value pricing" techniques to calculate prices. A suggested price range can also be established based on environmental conditions. This data is crucial for forecasting future revenue and assessing the strategy's efficacy.

3.2. Product-Technology-Resources Relations

Questions "From what?" and "From whom?"

The answer to this question is sought by material science specialists together with technologists. Prerequisite: A comprehensive inventory of the necessary materials, including the types and quantities required for product manufacturing, must be established beforehand. This list will subsequently guide material purchasing, production scheduling, and inventory management. At this stage, it is prudent to consider potential make-or-buy decisions, determining which parts and blanks will be manufactured in-house versus outsourced. In this regard, we need to ask several subsidiary questions (Vonderembse, M. A. & White, G. P., 1991, p. 613):

- Can the material be sourced in the market?
- Are its properties in line with our quality standards?
- Can we timely obtain the required quantities from the market?
- Does our company possess the necessary technical expertise and capacity to produce the material in-house?
- What are the costs associated with each option?

The response to these questions regarding required materials is important for logistics experts. It provides direction for the necessary storage capacity they must allocate.

Questions "How?", "With what?" and "Who?"

To arrive at a solution to these questions, mechanical engineers, technologists, and designers work together closely. The process selection hinges on solving engineering issues like production methods, specific operations, and their sequence, as well as economic factors such as volume, scale, and production capacity. The engineering team's primary focus is choosing the core technology to create the product. For instance, implementing electronic analysis for diagnosing engine faults is a technical solution during the construction phase of a car repair shop. Determining the appropriate size for the shop, including whether to service

two or twenty cars per hour, involves making economic decisions regarding volume, scale, and capacity (Vonderembse, M. A. & White, G. P., 1991, pp. 248-249).

The decision to determine the volume or scale requires deploying an adequate level of mechanization to equip the workforce of the organization. While using more advanced tools in the production process, the productivity and capacity of the enterprise increase, and unit labor costs decrease. Nonetheless, as the equipment becomes more advanced, the costs of procuring them elevate, leading to heightened fixed costs. Thus, it is vital to thoroughly assess the ratio of efficiency to cost.

Product design and process selection often occur sequentially. If the product's body is made of plastic, there is no need to invest in metalworking equipment. TV sets and computers are examples where technology improvements can significantly alter the product. However, process selection is limited to known technologies. The volume demanded in the marketplace also plays a role in process selection. If a product has low demand, it's not justifiable to buy an expensive machine with high productivity for its production.

Questions "Where?" and "In what?"

The question of "Where?" to locate a business – whether in a specific region of the country or abroad – arises primarily in the business creation phase. When selecting a business location, significant factors are proximity to customers or the main production resource. A crucial economic criterion for assessing the location is transportation costs (more precisely: a comparison of the transport costs of delivering the basic resources to the enterprise or those of the finished product to the market). The answer to "In what?" pertains to the features of the building(s) necessary for conducting business and managing it, which includes built-up space, premises, common areas, and connectivity. Essential sub-questions in this regard are outlined as:

- What space is required to conduct activities, achieve tangible outcomes, and accommodate involved personnel? The answer to this question is closely related to responses to the questions "For whom?", "What?", and "How much?".
- From answering "How?" / "With what?" / "Who" questions, one can deduce the required orientation of premises for the positioning of equipment or personnel, as well as the logistics for materials, work in progress, and finished products, including volume, location, and connectivity of the premises.
- "How should the building be equipped?" and "What funds will be required to shape the internal environment?" require research into the needs of the employees and the technology utilized for manufacturing products.
- "How should the building be oriented on the lot?" pertains to complying with development plans and legal distances.

The facility planners, technologists, and marketers seek answers to questions regarding an enterprise's real estate. The building can be designed and built with relative accuracy if these issues are clear. If not, alternatives to the original plan, such as incorporating flexibility into the design, should be considered. If it becomes necessary to update the products or technology used for production over time, the building's purpose may need to be changed, resulting in the strategic facility plan needing updates.

3.3. Rationality of the strategizing by questioning method

The strategy questions discussed above are a small but important part of the questions asked when developing a business strategy. For example, when basic questions

such as who, what, and how are fully answered, this is a strong prerequisite for formulating a substantive business strategy:

- If the demand comes from a broad market for a mass-produced product using standard technology and resources, then the company will be oriented toward pursuing a low-cost strategy.
- If there is demand in a narrow market for a differentiated product produced using specialized technology, the firm will be oriented toward pursuing a differentiation strategy.

Operationalizing a business strategy is closely tied to universal questions such as "How much?" or "How many?" These questions serve as supplements to all other questions. When developing a business strategy, it is unnecessary and arduous to strive for unambiguous answers or exact values but rather for answers within certain limits (from-to). For example, determining the market demand range (from to), assessing organizational production capacity (from to), and evaluating necessary supplies (from to) is crucial in evaluating the feasibility of a business idea outlined in the strategy, as well as identifying associated risks.

4. Example of a concise business strategy operationalized by questioning

Related to the digitalization of business worldwide and the expansion of cloud services, an increased (from-to) demand for servers with certain quality parameters is expected (from the companies that provide such services). A manufacturing company aims to offer such devices in quantities close to the mid-range value.

After answering the questions "For whom?", "What?" and "How much?", the firm orients itself towards seeking answers to operational questions such as "From what?", "How?" and "Who?". It has been studied that the construction of a server consists only of a box and an electronic part (the construction described in this example is deliberately simplified). In this situation, the company envisages that (a) the box will be made from sheet metal purchased from outside the company (b) the production of the box will be carried out by a worker using a specialized machine (c) the electronic element will be purchased from another manufacturer and hand-built into the box that has been made previously.

In relation to the investment planning, its financing and the future manufacturing of the product, the cost rates of materials (direct and indirect), labor (direct and indirect), machine time and ensuring the desired product quality are determined, and then the issues with the possible suppliers of the production machines, sheet metal and electronics are clarified (i.e., the "From whom?" / "How much?" questions are answered). In this situation, the investment in physical assets and human capital itself, as well as the costs and profit – in total and per unit of product – can easily be calculated.

The strategic planning process will continue by defining the price ranges (from-to) within which the product will be marketed and the marketing budget along the reverse "What?" – "For whom?" path. The strategizing will end with a calculation of the profitability as a ratio between profit and planned investment. The magnitude of profitability will serve as the final judgement on the acceptability of the chosen business strategy.

Conclusion

For the purposes of strategic management, asking questions and seeking appropriate answers in relation to business strategy formulation should move from a sporadic to a routine process. To this end, it is necessary to clarify not only the nature of the questions but their logical sequence. In this paper the product market (M) is taken as the starting point, which predetermines the further logic of questioning and searching for appropriate answers. Such an approach is acceptable under the hypothesis of offering an improved product to an existing market. If the firm desires to offer a fundamentally new product to the market (radical innovation), the logic of questioning and answering may be different. In this case, it is likely that the component associated with the activity of developing and introducing new technologies and products (T) will take the lead. However, this is a topic that may find highlighting in another research paper.

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