Approaches to Formulating Business Strategy: A Review

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Abstract

Business strategy is essential to the success of organizations. Given the importance of strategy to organizational success, attempts have been made to study and capture the best approaches to formulate and implement business strategy. Over the years, through different studies, numerous different approaches to develop business strategy have been identified and promoted in the literature. However, there is not much information on the different strategic approaches, particularly in terms of their emphasis, focus as well as scope. Based on the literature review, this paper provides insight into some of the most common approaches adopted to formulate business strategy in organizations.

Keywords: Business strategy; Organizational success; Effective business; Strategic approaches

Introduction

The success of organizations is often attributed to effective business strategy. It is therefore important for organizations to learn and understand the conditions as well as the process for developing effective business strategy. Understanding what strategy really is and adopting the ideal approach to develop strategy are as useful as learning about how to make organizations successful.

Business strategy has seen so many changes of direction, emphasis and approaches. In particular, its approaches have been characterized as developing, dynamic and applicable to all types of organizations. The various strategic approaches adopted by organizations appear to be influenced by different views concerning not only the importance of organizational as well as environmental factors in the strategy formulation process but also the extent to which these factors are involved in the development of the strategy.

With regard to the strategic approaches, there seems to be agreement among practitioners, consultants and scholars that there is neither one simple and single best approach to formulate strategy. Many also believed that there is no one size fixed all way of developing and adopting business strategy in organizations. This is because among the practitioners, consultants and scholars, each tends to have different ideas about what business strategy is really about. Their views on what the emphasis, focus and scope of business strategy are diverse. For instance, some perceive the development of business strategy as a wide and very complex process. At the same time, there are others who consider the process narrow and having limited focus and scope [1-12].

As a field of study and business practice, business strategy has attracted tremendous amount of research throughout the years. New findings and new ideas generated from the research have influence the direction, perspective as well as the emphasis in the area of business strategy. Decades of research on the subject as well as the years of practice have not only change the original nature and meaning of business strategy, but have also affected the manner in which top managers think and carry out their strategic responsibilities in their organizations [13-18].

Throughout the decades, equipped with new ideas and information, both experts from the academic and business circles have continued to propose different approaches to develop business strategy. For example, some of them have adopted approaches based on the managerial distinction between the content and process of strategic management.

Some scholars would pick on the elements that are used to define the stages in strategy formulation and implementation. Meanwhile others would use the theoretical approaches borrowed from the managerial literature such as decision theory, contingency theory, resource based view theory, agency theory, transaction theory and game theory to develop their models.

Although there have been different strategic approaches proposed in the literature, little is known about their relevance and applicability to organizations, especially in terms of their emphasis, focus and scope. Understanding these approaches is worthwhile because they may provide the insight into the most ideal process of developing effective business strategy. For this purpose, this paper reviews the most common strategic approaches as documented in the literature. More specifically, the paper is divided into four sections. The next section provides a brief background on the approaches to business strategy. Following this, the third section focuses on the specific approaches as identified in the literature and previous studies. Finally, the last section presents a short conclusion of the paper.

Approaches to Business Strategy

Since the concept of business strategy was introduced, it has attracted tremendous attention among strategic management theorists, consultants and practitioners. The literature reveals that from the 1970s to the present, theorists, consultants and practitioners have attempted to identify, capture and learn the strategic approaches adopted by organizations. Based on the findings of their works, different approaches to strategy formulation have been established, presented as well as promoted in the literature. The review of the approaches suggests that developing business strategy in organizations have evolved from a simple to much more complex process [2,4,19-28].

As far as the approaches are concerned, each claimed to be able to provide the ideal way for organizations to identify, formulate and

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Received November 16, 2018; Accepted November 17, 2016; Published November 27, 2016


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implement their strategy in order to achieve their organizational objectives. The review of the literature also reveals that the differences among the strategic approaches tend to be influenced by not only the manner in which business strategy is defined but also in terms of their strategic focus as well as the extent of their scope. Furthermore, in certain cases, some of the approaches are found to be related and interdependent of each other. Accordingly, the following section presents as well as briefly explains some of the different approaches adopted to formulate business strategy as identified in the literature.

**Process vs. content approaches**

The strategy process and strategy content approaches appear to be not only the earliest but also view as the two most commonly adopted approaches to develop business strategy in organizations. According to the process approach, business strategy can be formulated through a series of activities. The focus and scope of the strategy process approach include all the related activities leading to the identification of the strategy as well as choosing the right strategy. Simply put, this particular approach involves a specific method that consists of related steps important for identifying, selecting and implementing strategy. Originally, the strategy process approach was conceived as a rational and comprehensive decision making activity that is able to describe how strategy can be formulated based on information gathered from analyzing the strengths, weaknesses, opportunities, and threats facing the organization [29-31].

On the other hand, unlike the process approach, the strategy content approach has a narrower focus. This approach primarily emphasized only on identifying the specific strategy (the specific type of business strategy such as low cost, differentiation or niche) to be adopted by the organizations. The content approach is not concerned with the specific method or activities involved in developing a strategy. Its only focus is on selecting the best business strategy to be implemented by the organization. Put it another way, the strategy content approach underscores the specific actions taken by organizations to develop their own specific strategy.

**Economic vs. organizational approaches**

Contrary to the process and content approaches which are narrowly defined in terms of their strategic focus and scope, there are experts and scholars who view business strategy as a process that is very wide and complex. As a wide and complex process, they believe effective business strategy cannot be formulated by using simpler approaches such as the process and content approaches. These experts and scholars proposed other different approaches be used to conceptualize and formulate business strategy. According to them, the strategic focus and scope of business strategy should include:

- The whole organization;
- The industry in which it operates;
- The competitive environment in which it competes;
- Long term direction;
- Organizational resources;
- The distinctive capabilities of the organization; and
- The prospect for success.

Since the process of business strategy is more complex and having wider focus as well as scope in the economic context, experts and scholars introduced another two distinctive approaches. The two include the economic and the organizational approaches.

The economic approach primarily emphasizes on the need for organizations to develop their business strategy based on economic conditions and opportunities. More specifically, this approach advocates that the focus and scope of business strategy should include the best way to position a firm in each structure of competition and economic system. According to Rumelt et al. [32] the lack of theory building in the early works of business strategy, the increased use of knowledge in economics by strategy scholars and the ability of economists to contribute to this field have also led to the adoption of the economic approach. In addition, these scholars contended that the infusion of this approach has also been driven by at least five economic forces that have in turn shaped the connection between economic forces and business strategy. The five economic forces include:

a) The need to interpret economic performance data;

b) The experience curve;

c) The problem of persistent profit;

d) The changing nature of economics; and

e) The emphasis on economics in business schools.

On the other hand, the proponents of the organizational approach view the process of developing business strategy from the organizational perspective. According to them, organizations are not only imperfect but also problematic. This approach perceives the internal components of organizations such as structures, culture, resources as not only troublesome but also as obstacles to strategy formulation. Given this, the organizational approach emphasizes on the need for organizations to first identify and improve the internal components before developing their strategy. Based on this approach, the focus and scope of developing business strategy are based on the improved internal components. The earlier evidence of the adoption of the organizational approach among organizations can be found in the studies conducted by Burn et al. [33-36]. In addition, findings of these studies indicated positive relationships between corporate strategy, organizational structure and economic performance.

**External vs. internal approaches**

Besides the economic and organizational approaches, the literature also indicates another two similar approaches being used to formulate business strategy. The two approaches are the external and the internal approaches. Of these two approaches, the external approach has a wider focus and scope. The external approach emphasizes that firms should develop their organizational strategies based on the analysis of their external business environment that consists of various environmental factors (such as political, economic, social, cultural, technology, ecology, government, legal, etc.). However, the internal approach suggests that firms should formulate their strategy based on the analysis of their internal environment (such as resources, structure and culture).

In the 1980s, it appeared that organizations had over-emphasized on the use of external analysis to develop their organizational strategies for competing as well as coping with the external business environment. More specifically, Porter [37] proposed that organizations adopt the external approach to develop their competitive strategies. The scholar emphasized that organizational strategies be formulated based on the information gathered from analyzing the industry structure as well as
the competitive position of the organizations. According to Porter, organizational strategies formulated through the external approach can provide significant benefits to organizations.

However, there are scholars and experts who disagreed with the external approach. Advocates of the internal approach argued that the external approach may not necessarily be the best way for organizations to formulate their strategies. This is because more often than not, the adoption of the external approach has resulted in the development of wish-driven or deliberate strategies. This approach also failed to recognize the fact that the external opportunities are just illusions for organizations that do not have the internal resources and capabilities needed to capture them. Furthermore, by using the external approach, organizations may eventually see and experience the same external threats and opportunities, as well as compete in the same manner as suggested by the economic theory of perfect competition. This in turn may lead to firms sacrificing their strategic position and long term performance [37-39].

Unlike the external approach, the internal approach emphasizes on the internal resources and capabilities of organizations to develop strategy. This approach is based on two assumptions. The first assumption is that the internal resources and capabilities provide the basic direction for a firm's strategy. The second assumption suggests that resources and capabilities are the primary source of profit for the firm. By defining a business in terms of what it is capable of doing would offer the organization a more durable basis for formulating its business strategy [40].

The literature reveals that in the 1990s, faced with global competition, technological change, and threats by smaller and less hierarchical competitors, firms are driven again to look for new internal approaches to develop their business strategy. In addition, techniques such as total quality management, reengineering, core competence, competing on capabilities, and the learning organization have also been incorporated in the internal approach [41].

In short, the internal approach suggests that the organization develop its strategy based on the effective match between the external relationships of the organization and its own distinctive capabilities. In other words, the effectiveness of the business strategy formulated through the internal approach depends on how well it is able to exploit its distinctive capabilities. More importantly, according to this approach, strategy formulation should begin with an understanding of what the distinctive capabilities are.

**Prescriptive vs. descriptive approaches**

Similarly, the prescriptive (normative) and descriptive approaches represent two other different perspectives for formulating strategy. The prescriptive approach emphasizes on explicit, planned, and logical thought processes. In the approach, the process of formulating strategy is defined in advance and its specific components being decided before implementation. In other words, the prescriptive approach proposes the one “best” way to develop and implement organizational strategies for all types of organizations.

According to the guidelines and procedures used in this approach were obtained from the synthesis of case studies and organization theory research. More specifically, according to the process of the prescriptive approach involves eight related components [42-43].

The eight components include:

a. Establishing the mission of an organization
b. Setting the objectives of the organization
c. Conducting the environmental scanning
d. Identifying the organization’s internal strengths and weaknesses
e. Formulating alternative strategies
f. Choosing a strategy
g. Implementing the strategy
h. Evaluating and controlling the strategy.

Many scholars and strategists however have rejected the dispassionate prescriptive approach because they believe that different organizations in different business environments require different and not prescribed business strategies. Furthermore, according to them, the formulation of organizational strategies in the real business world is actually more complex than what have been suggested by the prescriptive approach. For instance, the prescriptive approach does not take into account the reality of managerial decision making as well as the complexity and dynamism of the true business environment. Given this, the descriptive strategists emphasize on the need for organizations to examine and learn how strategy is actually being practiced in real companies as well as in the real world of business.

Dissatisfied with the limitations found in the prescriptive approach, the descriptive approach was proposed. The descriptive approach is very much concerned with the reality and the focus on how organizational strategies in real life organizations are actually being formulated and implemented. In his earlier work, Mintzberg [42] identified ten schools of thought on strategy based on the both the prescriptive and descriptive perspectives. From the ten schools, the scholar differentiated three prescriptive approaches that include; conceptual design, formal planning, and analytical positioning. The analytical positioning school resulted from his research on the content of competitive strategies. In addition, by using the descriptive approach, the scholar developed the entrepreneurial school (concerned with strategy formation as a visionary school), the cognitive school (a mental process), the learning school (an emergent process), and the environmental school (a passive process). By combining the descriptive and the integrative approaches, the scholar then introduced the configuration school that helped to place the findings of the other schools in context by seeking to delineate the various stages and sequences of the strategy formation process.

**Competitive advantage approach**

The competitive advantage approach specifically focuses on the firm’s resources and distinctive capabilities as the basis for developing business strategy. Proponents of this approach view a successful firm as a bundle of unique resources and capabilities. According to them, if a firm’s resources and capabilities are scarce, durable, defensible or hard to imitate, they can form the basis for sustainable competitive advantage and surplus profit, provided they aligned well with the key success factors of the industry [40,44,45].

Specifically, this competitive advantage approach emphasizes on the need for organizations to develop their business strategy based on their competitive advantage. This approach suggests that organizations should first identify their sources of competitive advantage before developing any business strategy. According to the approach, firms can obtain their competitive advantage from their organizational resources and distinctive capabilities. Organizational resources and capabilities (resource, skill, activity or capability) that are distinctive to those of the competitors may become the basis for competitive advantage as
well as for developing organizational strategies if they can be matched appropriately to the environmental opportunities.

This approach views organizational resources as both tangible and intangible that include; physical assets, technology, information, human resources, financial resources, knowledge, skills, competencies, creativity, innovativeness, processes, functions, systems and intellectual properties. According to the competitive advantage approach, organizations should develop the competitive advantage that they need for developing effective strategies by using any of these resources. Through this approach, business strategy is developed based on the fit between the external relationships of the organization and its own competitive advantage.

The 3Cs approach

The 3Cs approach represents another distinct approach to develop business strategy in organizations. This approach basically emphasizes on the 3Cs (costs, customers and competition). According to this approach, organizations should emphasize and develop their business strategy based on their abilities to figure out ways to lower operational costs, attract customers and overcome competition.

In this approach, the top executives of companies need to develop business strategy based on their abilities to produce products at not only lower costs but also will satisfy the needs and wants of customers as well as priced more competitively than that of the competitors. This approach suggests that a company’s competitiveness and growth normally resulted from the price/performance attributes of its current products.

Additionally, according to this approach, a company’s success depended not only on its ability to meet customer needs but also on how well the organization’s internal processes worked to meet its external demand. The approach further emphasizes that organizations should develop business strategy through incorporating technological innovation into research and manufacturing operations, building better products and services, as well as pricing of goods or services lower than the competition.

Strategic thinking approach

Strategic thinking has been recognized as one of the important approaches to develop business strategy. The literature indicates increasing number of scholars and strategists are acknowledging strategic thinking as a requisite for formulating strategy. The increased interest in this approach resulted from the growing evidence that indicates its ability to develop more effective business strategy. This approach helps managers to make more effective decisions by keeping and making them more alert of the threats and opportunities. By doing so, the strategic thinking approach helps them to formulate more effective strategy that can enhance their organizational performance.

According to Hashim [46], the strategic thinking approach proved to be useful when various issues concerning the other strategic approaches were raised by scholars and strategists. Among the issues include the following. First, the acceptance of strategic thinking resulted from the dissatisfaction with the traditional business strategy approach that overemphasized on rationality and systematic analysis. Proponents of the strategic thinking approach disagreed with the strong emphasis on analysis and rationality used in the traditional approach.

Second, the promoters of the strategic thinking approach believed that creating effective business strategy in uncertain and dynamic business environment required less of rationality and systematic analysis, but more of critical, creative, and innovative emphasis that the previous approaches lacked. According to them, formulating business strategy in the real business world is about perceiving strengths and weaknesses, envisioning opportunities and threats, and creating the future, for which imagination, intuition and judgment are more important than analysis and logic as emphasized in the other approaches.

Third, when an organization adopts the other strategic approaches, it generally follows what has already been tried and proven in the past. However, by adopting the strategic thinking approach, organizations are able to develop new and innovative business strategy.

Fourth, the strategic thinking approach’s main appeal is the expectation that it will enhance organizational performance through the adoption of new and more innovative strategy. By adopting this approach, managers and employees can achieve a better understanding of an organization’s business, problems, priorities, and operations. This is because the approach allows organizations to be not only efficient, but also permits them to be more effective.

Fifth, although this approach may not guarantee organizational success, the process allows proactive rather than reactive formulation of strategy. For some organizations, this may mean a radical change in their business philosophy. Managers need to be trained in the strategic thinking approach to respond to critical questions and key strategic issues that their organizations often faced in uncertain and dynamic environment before formulating their organizational strategy.

Since its introduction, strategic thinking has become an important approach to business strategy. Scholars, strategists, and researchers consider the approach important because it provides various benefits to organizations. According to Masifern et al. [47], this approach offers the following benefits to organizations:

- The organization day-to-day activities become more aligned with strategy as managers shared a common framework developed from the strategic thinking process;
- The common framework allows for a better coordination among different departments and levels;
- Decision making takes place at a much faster rate as the strategic thinking process enhances speed, flexibility, and facilitates decision making;
- Strategic thinking process allows employees at every level to engage in strategic conversation that helps to foster a ‘common language’ and align mental models within the organization.
- Strategic thinking also facilitates delegation as expectations are more aligned between manager and subordinates.
- Strategic thinking encourages the company to be more innovative through the development of ambitious objectives and innovative strategies.

The strategic thinking approach can best be learned and applied by using a model as presented in Figure 1. Although this model does not guarantee success, it does present a clear and more practical approach to strategy formulation. The following section explains briefly the six major related components of the strategic thinking approach.

Understanding the organization’s present situation and desired future: The starting point for strategic thinking involves understanding the firm’s present situation. This is important because thinking
strategically involves not only in making sense of the trends, events, and problems faced by the firm, but also to figure out how to bring the conditions most advantageous to the firm in the most creative and innovative manner. In addition, as a long term expeditious thinking process, strategic thinking requires the firm to be future oriented. Simply put, this approach emphasizes on the need to understand the firm’s present situation and also its future direction.

**Diagnosing the business domain:** The second component of the approach involves diagnosing the business domain of the organization. The diagnosis helps the organization to focus on its internal components as well as external environment. More specifically, diagnosing the domain involves observing and understanding the firm’s business, its different internal components (such as its resources, skills, knowledge, technology, structure, operations, and culture), and their relationships with the stakeholders in the external environment.

The diagnosis provides the firm not only a better and clearer view of its business, but also permits the firm to have a more comprehensive business outlook. For example, an organization that views itself as part of a larger business system and belonging to more than one value chains has a broader business outlook than a firm that sees itself as only a firm in an industry. Having wider business perspective is essential to organizations competing in uncertain and dynamic business environment.

**Obtaining insight:** Besides allowing a firm to better understand itself as well as providing it with a broader business outlook, the strategic thinking approach also emphasizes on the need to obtain insight into the threats and opportunities hidden from the firm. Obtaining insight involves not only thinking critically about the threats and opportunities, but also creatively identifying the needs, wants and the key success factors of existing and new customers, markets, products and services, technologies, skills, knowledge, capabilities, resources, business models, and other future requirements, and potential competitive advantage.

**Developing foresight:** The fourth important component involves developing foresight. Foresight permits the firm to anticipate not only the patterns and trends that are taking place in and around the organization, but also to predict what the future of the firm and business would be like. Developing foresight is useful for the purpose of positioning appropriately the firm in the future. In the strategic thinking process, foresight is developed through the construction of scenarios. Scenarios represent written descriptions of some likely future postures, in terms of key variables and strategic issues. Flexibility and alternatives in scenario building exercises can help an organization to develop more creative ideas and innovative solutions that go beyond what are obvious, as well as those that have already been tried and proven.

**Mapping the future direction:** Mapping the firm’s future direction is the fifth component of the strategic thinking approach. Organizations need to consider their present as well as future success. The future success of a firm, however, depends on well it is able to survive and grow in the long run. Given this, the firm needs to map its future direction. Mapping the firm’s future direction involves applying critically and creatively the inputs obtained from the previous four components of the strategic thinking components.

In addition, the future map will assist the organization to focus on important strategic issues such as the target market to be served, technological expertise required, type and level of resources, organizational skills and knowledge needed, and future competitive advantage. In this way, the future direction map not only helps to steer the organization into the right direction, but also provides the firm a more realistic framework for formulating and implementing effective strategy.

**Maintaining focus:** The sixth component involves maintaining focus on the organization’s chosen direction. Maintaining focus on the chosen direction requires that the firm monitors its previous assumptions for selecting the specific direction and critically observing whether the strategy being pursued is based on the same assumptions. Meanwhile, the firm is also required to be cautious of the validity of the assumptions as they may change and no longer be relevant and applicable. If the assumptions are no longer applicable and relevant, the firm should be prepared to accept the facts, take corrective measures, and make the necessary changes based on the new assumptions.

As stated earlier, the strategic thinking approach does not guarantee success. However, it does present a more realistic approach for crafting strategy in organizations. By adopting the approach, organizations are able to better understand themselves, their businesses, and their roles as well as relationships with the stakeholders in the external environment. Importantly, this approach can assist firms to break out of the traditional mindsets and seize opportunities, and allows them to utilize a more creative approach to test ideas that can result in various advantages to the organizations.

**Strategic leadership approach**

All types of organizations need effective leaders. The strategic leadership approach emphasizes on the important role of leaders in developing business strategy in organizations. According to this approach, leaders have to play an important part in formulating business strategy because they are primarily responsible for the success or failure of organizations. Given this, strategic leaders are expected to inspire, guide, energize, set standards and mobilize people to make extraordinary things happen in organizations, to overcome uncertainty, turn visions into realities and to move organizations forward. Without strategic leadership, there would not be any extraordinary efforts needed to solve existing problems, capitalize on existing as well as potential opportunities and adapting to radical change [17,48-55].
More specifically, this particular approach is most relevant and applicable for organizations striving to achieve new organizational objectives with new strategies. Strategic leadership is required in such organizations because someone has to direct the way and make sure that everyone concerned gets there. Organizations that adopt the strategic leadership approach have leaders who are able to encourage and inspire individuals and teams to give their best in implementing the selected strategies. More importantly, this approach involves leading and directing people to use their abilities and skills most effectively and efficiently to accomplish organizational objectives. Strategic leadership involves:

a. Providing the management leadership and direction
b. Maintaining effective relationships within the organization.
c. Introducing action plans to put the programs in place (actions to be taken, by who, during what timeframe, and with what expected results).
d. Gaining the commitment and cooperation of his team
e. Getting the group into action to achieve the agreed objectives.
f. Make the best use of the skills, energies and talents of the team.
g. Build up morale of the employees.

In this approach, the chief executive officer (CEO) specifically leads and manages the organization by becoming and serving as the chief strategist. As the chief strategist, the CEO begins by having a clear framework of what he or she wants his or her organization to do and where she/he wants it to be in the future. The CEO systematically envisions the future of the organization and strategically plan out how to take the organization there. In this approach, the CEO will be responsible for; making the strategic decisions, allocating resources, planning and implementing the strategy implementation process, and revising the annual plan and strategy.

The other strategic approaches

In addition to the different approaches presented above, the literature also highlights other more recent relevant approaches that have been introduced and adopted by various companies in different industries. Similarly, these more recent approaches can be distinguished from each other based on their emphasis, focus and scope of the strategy developed. Table 1 summarizes the other more recent approaches as identified and promoted in the literature. Most of the strategic approaches presented in Table 1 were introduced in the early 2000s and 2010s.

Conclusion

This paper reviews some of the most common approaches used to develop business strategy in organizations. The literature and review of past studies indicates that business strategy in different organizations is developed through different strategic approaches. The evidence from the review suggests that the approaches are generally different from each other and in terms of their complexity, strategic focus and scope. In addition, the review of the literature also unveils that each approach has its own set of limitations.

The differences in the approaches to business strategy further suggest that these approaches may not be necessarily relevant and applicable to all kinds of organizations. The approaches presented in this paper may be only applicable and relevant to certain types of organizations that operate in less complex business environment.

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Table 1: Other approaches to formulate business strategy.

However, the importance of each approach to organizations will depend on how they define their business strategy, its strategic focus and scope. With regard to the concept of business strategy, various definitions have been used to describe the concept. Presently, there is no one universally accepted definition of business strategy. The definitions presented in the literature differ not only from one author to the other but also they vary with the different strategic approaches used to explain and practice business strategy. In addition, each definition has its own strategic focus and scope. The strategic focus refers to the specific areas (or arenas) that a particular business strategy wishes to target. Apart from its strategic focus, each business strategy will also have its own scope. The scope refers to what extent the business strategy will stretch its target areas or arenas.

As for the approaches reviewed and presented in this paper, it is advisable for organizations to understand their strategic focus and extent of scope before attempting to adopt them. Nonetheless, organizations would stand a better chance of formulating their own effective business strategy by developing their abilities to size up and make sense of their business activities as well as becoming more aware of the continuous changes occurring in their business environment. More importantly, for organizations to be able do all this, they need to first develop their competencies as well as seek new strategic directions and identify new strategic initiatives. With competencies, new strategic directions and initiatives, organizations are most likely to be able to identify as well as develop the most appropriate approach to formulate and implement more effective business strategy. Organizations that adopt effective business strategy will not only be able to improve their organizational performance but also sustain their success.

References