

## A NORMATIVE MODEL FOR ASSESSING COMPETITIVE STRATEGY

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### ABSTRACT

The hyper-competitive nature of e-business has raised the need for a generic way to appraise the merit of a developed business strategy. Although progress has been made in the domain of strategy evaluation, the established literature differs over the 'tests' that a strategy must pass to be considered well-constructed. This paper therefore investigates the existing strategy-evaluation literature to propose a more integrated and comprehensive normative strategic assessment that can be used to evaluate and refine a business's competitive strategy, adding to its robustness and survivability.

### OPSOMMING

Die hiper-mededingende aard van e-besigheid het bygedra tot 'n groter behoefte vir 'n generiese manier om die meriete van 'n ontwikkelde besigheidstrategie te evalueer. Alhoewel daar alreeds vordering gemaak is in die strategie evaluering domein, wissel die bestaande literatuur beduidend in verband met die verskeie 'toetse' wat 'n strategie moet slaag om as 'goed' beskou te word. Hierdie artikel het daarom die bestaande strategie evaluering literatuur ondersoek en stel 'n meer geïntegreerde en omvattende normatiewe strategiese evaluering voor. Dié evaluering kan gebruik word om die kompeteerende strategieë van besighede te evalueer en te verfyn, en dra daardeur by tot die besigheid se robuustheid en oorlewing.

### 1 INTRODUCTION

The need for a generic way to appraise the merit of a developed business strategy has never been greater. Continuing global economic pressures, high unemployment rates, and unsatisfactory government and corporate job creation all contribute to people pursuing the entrepreneurial route of starting their own business [23, 66, 77]. Many entrepreneurs are also choosing the Internet as the platform from which to launch their businesses. The paradox is that, although the Internet and advances in software architecture and development tools have made it easier to start a business of one's own [53], being successful remains difficult [18].

Between 30 and 80 per cent of e-business start-ups fail within the first five years of operation [22, 24, 26, 35, 64], and some sources even quote failure rates of up to 85 per cent within 10 years [40]. These failures are partly due to the Internet's enhanced reach that promotes hyper-competitiveness - a term that refers to intense rivalry as a result of globalisation or competitive moves that incite retaliation [14]. It therefore becomes easy to imagine that a business whose strategy is unsound will struggle against the myriad of global competitors.

No amount of self-belief and entrepreneurial passion can overcome the imminent demise of a business when its strategy is fundamentally flawed. However, many first-time entrepreneurs lack the ability to appraise the quality of their developed strategy independently. A strategic assessment that could aid to identify, and possibly remedy, the most obvious strategic problems before significant investments are made could therefore be useful. Although the development of such an assessment is by no means new, the established literature differs over the different 'tests' that a strategy should be able to pass to be considered well-constructed (see Table 2). In response to this

need, this paper explores the existing strategy-evaluation literature to develop a more integrated and comprehensive strategic assessment.

## 2 A BRIEF OVERVIEW OF STRATEGY EVALUATION AND ITS APPROACHES

The principal task in strategy is to provide structure to an ill-structured situation<sup>1</sup> by looking beyond the obvious facts and identifying the critical factors that underlie long-term success in a specific domain. Strategy evaluation therefore refers to the appraisal of a business's strategy versus the identified critical factors, in order to establish the strategy's utility, truth, or efficacy, and resulting in its rejection, modification, or ratification [57, 58, 59].

In the domain of strategy evaluation, four approaches are commonly employed: goal-centred, comparative, improvement, and normative. The goal-centred approach retrospectively assesses the degree to which pre-determined strategic goals were achieved. The comparative approach benchmarks the company and its performance against similar companies. The improvement approach assesses how the strategy has evolved and improved over time; and the normative approach compares the developed strategy against theoretically ideal strategies [1, 61].

Concerning this last type, various authors [43, 52, 59, 69] agree that the notion of a single defined ideal strategy or a strategy that is 'good' in any absolute, objective sense is a fallacy. In every industry, a company can occupy several viable positions. There is no single, 'best' strategy [43]. If there were, everybody would follow it, and there would be no need for strategy [52]. Every strategy is unique, and is neither 'wrong' nor 'right' in any absolute sense, although it may be 'wrong' or 'right' for the firm in question [59]. Strategy evaluation should therefore allow the idiosyncrasies of each firm to establish whether a particular strategy suits it, which is as much as can be asked for [69].

The normative approach to strategy evaluation, therefore, does not compare the developed strategy against a single, defined, theoretically ideal strategy. Instead, it evaluates whether the developed strategy has the characteristics that are commonly associated with successful, well-performing strategies. This merely gives an indication of the common factors associated with success in the chosen domain of activity, and does not yet explain performance differences between firms [58]. A competitive advantage is obtained only through differentiation [41, 52, 58, 76], typically across the critical factors that most severely influence the situation.

From the four strategy evaluation approaches described, only the normative approach is suitable for evaluating the long-term merit of a strategy. The normative approach focuses on the critical factors that influence the situation, whereas the goal-centred, comparative, and improvement approaches focus more on directly observable business performance measurements that are important for operational reasons.

The normative approach also provides benefits that the others do not. The normative approach relies on a type of rational logic for doing evaluations. This approach is more conceptual, and not as concerned with obtaining perfect data through rigorous performance measurements. This means that this type of evaluation can be less time-consuming and less expensive to perform. Normative evaluations can also often be performed before launching the business, whereas the other types can only be used retrospectively. An *a priori* assessment is valuable, as it allows the business idea to be tested before significant financial investments are made. It also provides entrepreneurs with greater confidence that their strategic choices will lead to successful results [1]. For these reasons, this perspective was embraced to develop this study's strategic assessment.

## 3 RESEARCH DESIGN

The construction of the strategic assessment forms part of a larger study that seeks to develop a framework aimed at assisting with the formulation of a competitive strategy for e-business start-ups<sup>2</sup>. The strategic assessment naturally adopts the same research design as the larger study. The

<sup>1</sup> Ill-structured situations are characterised by difficulty, ambiguity, and the lack of established methods for moving towards clarification [58].

<sup>2</sup> Competitive strategy refers to the strategic aspects that deal with how a business intends to compete in the market and defend its chosen competitive position [51].

basic premise on which the larger study is founded is that the insights and tools that e-business start-ups need to better formulate (and in this case, evaluate) their strategies largely exist. However, these insights and tools are fragmented and disjointed in the literature. Given the large amount of strategy literature available, and the sometimes paradoxical nature of strategy, it becomes almost impossible for non-strategy experts to sift through it and make sense of it [6]. The opportunity for integration and strategic ‘sense-making’ therefore exists, in order to make relevant insights and tools more accessible while deepening our understanding of the domain (in this case, strategy evaluation).

The nature of the research was exploratory. It made use of inductive reasoning to expand and refine existing theories; and it can be classified as a theory- and model-building study [46]. The research made use of a mixed-methods approach that incorporated both textual and numerical data to construct the theoretical model. In conducting the research, the study drew on the principles of systems engineering, an interdisciplinary field that uses a systematic, iterative, and holistic approach to designing high quality technical systems [19, 28, 47, 60]. Its principles, however, are broadly applicable to non-technical systems, and were deemed suitable for this study, as it sought to produce a strategic assessment that functions as an integrated, coherent whole. The model-building process (similar to a typical systems engineering process) involved: (1) identifying requirements from the literature that the assessment had to fulfil; (2) developing the theoretical model at increasing levels of detail; and (3) verifying and validating the model at each of its levels. This latter phase also initiated two iterative cycles of improvement, where insights gained during each round of validation were employed to refine the model.

Considering the requirements of the strategic assessment, several characteristics of good theoretical models were identified from a review of the theoretical model-building literature. These requirements are shown in Table 1 below.

**Table 1: Strategic assessment requirements**

Model requirement	Reason for inclusion	References
1. Purpose	The purpose of the strategic assessment needed to be stated.	[7, 16, 46, 75]
2. Constructs	The elements of the strategic assessment needed to be defined.	[16, 33, 46, 70, 75]
3. Relationships	The relationships between the elements of the strategic assessment needed to be defined.	[16, 33, 46, 70, 75]
4. Assumptions	The assumptions of the strategic assessment needed to be stated.	[7, 46, 75]
5. Relevance	The elements of the strategic assessment needed to be relevant, commonly cited, normative strategy evaluation elements.	[7, 36, 46, 73, 75]
6. Utility	The strategic assessment needed to fulfil its objective, be fit for use, and possess predictive power. The elements of the strategic assessment also needed to have individual and collective merit and usefulness.	[21, 33, 36, 38, 42, 46, 48, 70]
7. Plausible, credible and comparable with presumed realities	The strategic assessment and its elements needed to concur with current normative strategy evaluation thinking.	[7, 16, 42, 46, 73]
8. Conceptually coherent, internally consistent, and unambiguous	The strategic assessments needed to be high in narrative rationality and logical order.	[17, 21, 20, 42, 46, 73]
9. Comprehensiveness	The assessment needed to be as inclusive and complete as possible with respect to the existing literature, and to be more sophisticated than previous conceptualisations.	[20, 25, 42, 75]
10. Simplicity and understandability	The strategic assessment and its elements needed to be understandable to promote its ease of use.	[16, 20, 42, 46]
11. Parsimoniousness	The strategic assessment needed to fulfil its objective by using the minimum number of elements, and to be as elegant as possible.	[17, 21, 75]

These requirements were deemed to be suitable and comprehensive criteria for evaluating the quality of the developed strategic assessment from a constructivist<sup>3</sup> philosophical perspective. Although subjective judgment was used to assess whether the developed strategic assessment fulfils the above requirements, confidence in its academic rigour was provided, given that it is grounded in, and was developed directly from, the literature (see Table 2 on the next page).

It must be noted that the goal was never to be exhaustive in the extent of the strategy literature covered. Not only is exhaustiveness impossible: it would also violate the parsimony and utility requirements. The intent, however, was to study the literature in sufficient detail to be able to present a more integrated, and thus sophisticated, perspective on normative strategy evaluation. And, as previously stated, a chief problem with the existing knowledge and tools is that they are obscured. Many authors who make valuable contributions to the subject of strategy evaluation sometimes do so unknowingly. Some authors simply list various virtuous attributes of ‘good’ strategies, and do not use the terms ‘strategy evaluation’, ‘strategy assessment’, or ‘strategic tests’ to describe what they are presenting. These papers therefore do not appear in traditional strategy evaluation search results, and locating them is a matter of chance. The likelihood of missing valuable contributions to the field was thus relatively high, although this impediment was offset by the iterative validation process that followed, aimed at constantly refining the model. The model’s construction from the literature sources is shown in Table 2 (on the next page).

Table 2 shows, in the horizontal rows, the various strategic assessment tests proposed by individual authors. The similarities between these author’s perspectives were used to construct the integrated strategic assessment shown in the header row.

Validation involved two rounds of one-on-one, semi-structured interviews initially with eight South African and then with seven British and two American experts. Criterion-based sampling was used to identify founders, CEOs, managers, professors, lecturers, or specialists who have a sound history of participating in fields relating to the study: e-business, business models, strategy, innovation, technology, entrepreneurship, and variants in between. The interviews were used to obtain feedback on the developed strategic assessment and to establish its overall validity. Interviewees were required to rate the extent to which they agreed with the developed strategic assessment on a five-point Likert scale ranging from four (strongly agree) to zero (strongly disagree), and to provide additional critique. The results of the validation process are shown in Table 3 below.

The developed assessment was also used as one of 18 tools during four workshops involving a total of 37 participants. Of the participants, 59.5 per cent indicated that they had learned a lot from the assessment, 24.3 per cent indicated that they had learned quite a bit, 8.1 per cent indicated that they had learned a little, and 8.1 per cent said that they had learned nothing. However, 70.3 per cent of the participants said that they would use the assessment in future to evaluate their business strategies.

<sup>3</sup> Constructivism embraces multiple truths and realities, and advocates ontological (what constitutes the nature of being or reality) and epistemological (what constitutes truth or knowledge) relativism rather than realism. Progress from this perspective is contingent on whether the developed construction is more informed and sophisticated than its predecessors [25].

**Table 2: Development of the strategic assessment**

Integrated strategic assessment	1. Internally consistent	2. Present an adaptive response to the competitive environment	3. Based on valid assumptions	4. Compelling value proposition (cost and/or differentiation advantage)	5. Solve the customer problem in the most efficient way	6. Defensible against the five forces	7. Self-reinforcing	8. Resources sufficient to execute	9. Costs and revenues enable a profit	10. Acceptable in terms of adoption and risk
Tilles [69]	Internal consistency; Any strategy, once made explicit, can quickly be evaluated and improved	Consistency with the environment						Appropriate w.r.t. available resources; Appropriate time horizon	Workability: Adequacy of results achieved	Satisfactory degree of risk
Rumelt [58]	Goal consistency test	Frame test: Focus on the critical aspects of the situation		Create a competitive advantage				Competence test: The strategy creates solvable sub-problems that fit organizational resources, skills and competence	Workability test: Does it/ will it work?	
Porter [51]	Internal consistency; Communication and implementation	Environmental fit	Accurate assumptions	Differentiation or cost advantage				Resource fit		
Porter [52]	Competitive advantage arises from fit across activities; Trade-offs vis-à-vis competitors			Unique competitive position; Activities tailored to strategy	Use the best set of activities; Operational effectiveness as a given	Sustainability from the activity system, not the parts				
Rumelt [59]	Goal consistency test: Are the objectives/ major policies of the business appropriate?	Consonance test: Adaptive response to external environment and changes occurring within it	Do the results obtained to date confirm or refute critical assumptions on which the strategy rests?	Advantage test: Create and maintain a competitive advantage in the selected area of activity		Protecting the incumbent's customer base from attack	Positive feedback	Feasibility test: Neither overtax resources, nor create unsolvable sub-problems	Returns enough value to warrant its continued maintenance	Acceptable to those who must lend their support
Hamel [27]	Fit			Uniqueness	Efficiency	Profit boosters (Increasing returns, competitor lock-out, strategic economies, strategic flexibility)				
Linder & Cantrell [39]			Grounded in reality: Based on accurate assumptions	Provide unique value		Hard to imitate: Build barriers to entry that protect their profit streams				
Van der Heijden [71]						Protect the business: Put barriers in place to lock in the situation	Positive feedback loops; Increasing returns			
Magretta [41]	Narrative test: Does the story of the business make sense?	Narrative test: Does the story of the business make sense?						Numbers test: Costs and revenues enable a profit?		
Sumanjeet [67]		Does the offering's nature and appeal suit the Internet?				What value added services and technologies can be used to encourage lock-in?				
Kim & Mauborgne [34]				Exceptional buyer utility; differentiated strategy canvas				Price accessible to the mass of buyers; Attains cost target to deliver profit at strategic price	Addresses organisational hurdles to adoption	
Johnson, Scholes, & Whittington[31]		Suitability						Feasibility		Acceptability

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Casadesus-Masanell & Ricart [9]	Alignment to goal; Reinforcement: Internal consistency					Robustness: Ability to sustain business model effectiveness over time	Virtuousness: Dynamic reinforcement			
Johnson, Christensen, & Kagermann [32]				Nail the job with a focused, compelling value proposition (Precision)	Get the job done in the most efficient and way possible					
Teece [68]		Adaption to competitive environment		Compelling value proposition; Differentiation	Effective and efficient	Robust: Difficult to imitate; Significant value capture	Complementary (Cospecialized)		Advantageous cost structures; Super normal profits	Advantageous risk structures
Casadesus-Masanell & Ricart [10]	Business model aligned with company goals	Business model evaluation w.r.t. competitors				Robust	Self-reinforcing			
Zook & Allen [76]	Simple enough to be understood throughout organisation	Robust learning systems; Continuous learning and improvement		Core differentiators						
Cusumano [13]		An attractive market; Flexibility in strategy and technology		A compelling new product or service; Strong evidence of customer interest				A strong management team	Potential for a large investor payoff; Demonstrating early growth and profit potential	Overcoming "credibility gap"
Miscellaneous	Fit between activities; continuity of direction; trade-offs in deciding what not to do [53]; fit and alignment [74]; simple, relevant and intuitively understandable [49]	Demand-capacity relationship in the area being considered [3]	Assumptions about environment, mission and core competencies must fit reality and fit one another [15]; processes that challenge assumptions [44]		Barriers to entry [3]; customer stickiness/loyalty [44]	Potential synergy [3]	Available funds; available level of general management skills [3]			

**Table 3: Validation results**

To what extent do you agree with the developed strategic assessment model?	Validators' responses				
	Strongly agree	Agree	Unsure	Disagree	Strongly disagree
South African validator #1		3			
South African validator #2			2		
South African validator #3			2		
South African validator #4		3			
South African validator #5		3			
South African validator #6	4				
South African validator #7		3			
South African validator #8	4				
Average rating validation, round 1			3 = 75%		
British validator #1	4				
British validator #2		3.5			
British validator #3		3			
British validator #4			2		
British validator #5	4				
British validator #6			2		
British validator #7			2		
American validator #1			2		
American validator #2		3			
Average rating validation, round 2			2.83 = 70.83%		
Grand average			72.8%		

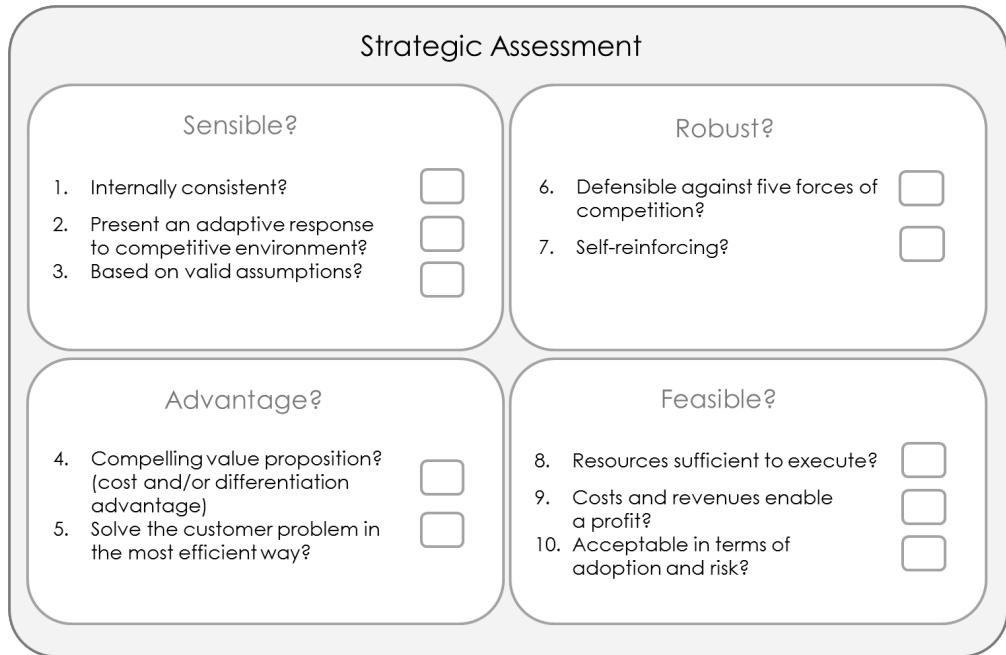
These interviews acted as checkpoints where the author could be made aware of additional literature that needed to be explored. The responses and insights of the interviewees were then incorporated (between and after the two rounds) to increase the quality of the strategic assessment. This iterative cycle was temporarily halted after these interviews to present the latest strategic assessment described in the next section. However, it is likely that this assessment will be refined over time as a result of newly-gained practical and theoretical insights.

#### 4 A NORMATIVE STRATEGIC ASSESSMENT

The research identified several virtuous and generic characteristics associated with good, high-performing, or theoretically ideal strategies. These characteristics can be reformulated as tests and used as a normative benchmark to evaluate whether a developed business strategy exhibits similar traits. A strategic assessment to perform this type of evaluation is proposed in Figure 1 below. This model was developed as an integration of the existing literature (refer to Table 2).

Four underlying traits of good strategies emerged: that they are logically sensible, create a competitive advantage, are robust in order to sustain the business's competitive advantages, and are feasible to execute. Three tests relate primarily to the logical sensibility of the strategy: that it should (1) be internally consistent; (2) present an adaptive response to the competitive environment; and (3) be based on valid assumptions. Two tests relate primarily to the strategy's advantage creation ability: (4) the strategy involves a compelling value proposition that creates a cost and/or a differentiation advantage; and (5) it solves the customer problem in the most efficient way possible. Two tests relate primarily to the strategy's robustness: (6) the strategy is defensible against the five forces of competition; and (7) it is self-reinforcing. Lastly, three tests relate primarily to the feasibility of the strategy: (8) the available resources are sufficient to execute the strategy; (9) the costs and revenues associated with the strategy enable a profit; and (10) the strategy is acceptable in terms of adoption and risk.

Although the elements of the assessment are numbered from one to ten, the assessment can occur in any order. Furthermore, the assessment assumes that its users possess sufficient knowledge of their internal and external environment, and are competent to assess their developed strategy. Multiple assessments may also be required during the lifetime of the business, as the competitive environment in which a strategy is executed is dynamic, and changes may necessitate re-evaluation.



**Figure 1: The strategic assessment**

#### 4.1 Internally consistent?

Theoretically ideal strategies are internally consistent [9, 10, 27, 41, 51, 52, 58, 59, 69, 74]. They possess mutually consistent goals and policies [59, 69] that fit seamlessly together to create an integrated, aligned pattern that delivers optimal results. Optimal results are possible because consistent strategies do not have any discontinuities that hinder their cumulative efficacy.

Although gross inconsistencies within a strategy may seem unlikely, strategies are often not developed by individuals using a formal strategy formulation process, but are the result of strategic evolution that occurred in an *ad hoc* fashion, involving many participants with diverse political agendas [31, 58, 59]. Achieving internal consistency therefore depends on having absolute clarity about what the strategy intends to accomplish and what actions will or will not be taken [53]. Trade-offs or compromises are therefore necessary. The test for internal consistency is particularly important, as inconsistent elements signify areas where strategic choices will eventually have to be made when the situation escalates [69]. When this happens, it is best to be prepared by having a set of implementable and attractive alternatives ready.

Another characteristic of internally consistent strategies is that they are intuitively understandable and easier to communicate to all levels of the firm [49, 76]. This, in turn, creates firm-wide clarity, focused efforts, tacit coordination [59], and coherent actions that result in more agile day-to-day and long-term decision-making.

#### 4.2 Present an adaptive response to the competitive environment?

Theoretically ideal strategies present an appropriate and adaptive response to the competitive environment in which they are executed. This test has been described as the test for environmental consistency or environmental fit [51, 69], as a suitability test [31], a frame test [58], or a test for consonance [59]. These signify that there must be harmony between the strategy and its competitive environment; if a strategy does not represent an appropriate and adaptive response to its environment, then its business story is flawed [41] and is more likely to result in failure.

This test also resonates with the principal task in strategy discussed earlier: identifying the critical success factors of a given domain [58]. Without a clear understanding of the critical success factors, there is no way of evaluating whether the strategy presents an adaptive response to the environment, exploits available industry opportunities [51], and achieves an environmental fit [59].

As a starting point for evaluating environmental fit, a strategy should reflect an appropriate response to the situations' PESTEL conditions<sup>4</sup>, industry structure, and industry forces [53, 54].

Lastly, this test consists of both a static and a dynamic element. The static case involves judging whether the strategy is suitable for the environment as it currently exists, while the dynamic case involves judging whether the strategy will be appropriate in future, based on current trends and on how the environment appears to be changing [31, 68, 69].

#### 4.3 Strategy based on valid assumptions?

Theoretically ideal strategies are grounded in reality, meaning that they are based on valid assumptions [15, 39, 44, 51, 59]. It does not matter how many of the other tests a strategy passes or how well constructed it may appear to be; if the strategy is based on flawed assumptions then it has lost touch with reality and, depending on the seriousness of the assumption, could lead to the business's demise.

Drucker [15] proposed that there are three parts to evaluating the assumptions of an organisation, which he collectively called 'the theory of the business'. These include assumptions about the organisation's (1) mission, (2) environment, and (3) core competencies, which must fit reality and fit one another. The assumptions about the mission of the business involve assumptions about the goals of the organisation and what it considers to be meaningful results. The assumptions about the environment include assumptions about customers, their needs and behaviour [39]; assumptions about competitors and industry dynamics and trends; assumptions about society, markets, and technology; assumptions about the costs of running the business and revenues that will be generated [39]; and assumptions about the organisation's structure, its strengths and weaknesses [51]. Lastly, assumptions about core competencies involve assumptions about the skills and/or resources needed to accomplish the organisation's mission.

When a strategy is initially formulated, essentially a set of untested hypotheses are developed - a set of good guesses based on some fundamental assumptions [6]. However, none of these hypotheses can be confirmed or refuted without adequate data. A methodology called the lean start-up [56] addresses exactly this issue, and has popularised the idea of early, iterative, small-scale hypothesis testing. This approach is also advocated by Collins and Hansen [12], who proposed that one must first "fire bullets then cannonballs". This means that, when faced with high uncertainty (such as at the start of a business venture), one should first perform low-cost, low-risk experiments to validate the strategy empirically. If the fundamental hypotheses have been confirmed by tests in the market, then larger-scale efforts can be launched. However, if refuted, then the business can 'pivot' its strategy - that is, the strategy is reformulated, based on the newfound evidence. After reformulation, the strategy must be re-tested, which creates an iterative cycle<sup>5</sup>.

The iterative nature of the lean start-up approach resonates with the newer emergent strategy literature [11, 45], and with the practices of many start-ups where a strategy is developed, not deliberately, but from learning in the market space. As noted previously, one of the goals of strategy is to assure the long-term success of a business [59]. Due to the constantly changing and dynamic nature of the competitive environment, continuous evaluation, learning, and adaption are required to ensure that the strategy is, and remains, suitable [15, 44, 69, 76]. This applies not only to the assumption test, but to all of the tests described here.

#### 4.4 Compelling value proposition (cost and/or differentiation advantage)?

Theoretically ideal strategies provide compelling value propositions [13, 27, 30, 32, 34, 39, 68, 76]. The logic is straightforward: if a compelling value proposition is not offered, then customers have no reason to notice, let alone choose, the business's offerings above those of competitors. Strategies that fail this test should immediately be reformulated.

The creation of a sustainable competitive advantage that results in supernormal profits is the fundamental goal of competitive strategy [58, 59, 68]. Under conditions of pure rivalry, it is impossible to predict the winner between two identical opposing armies. Only when asymmetries or advantages are introduced can a winner be determined. The winning strategy is therefore always

<sup>4</sup> Political, economic, social, technological, environmental (ecological focus) and legislative conditions

<sup>5</sup> It is unlikely that any strategy will pass the assumption test during its first iteration. Only after various iterations will hypotheses be solidified into truths.

the same: one wins by exploiting asymmetries that create the biggest competitive advantage [58]. This returns us to the principal task in strategy: to identify the critical aspects that influence the situation, and to exploit them favourably.

There are two primary competitive advantages that a business can pursue: a cost or a differentiation advantage [51]. A cost advantage allows a business to provide offerings at or below market price while still allowing it to profit, whereas a differentiation advantage involves providing some other type of unique value for which customers are often prepared to pay a premium price [71]. Blue ocean strategy [34] suggests that a business can also pursue cost and differentiation advantages simultaneously.

The blue ocean strategy paradigm argues that competing in overcrowded market spaces ('red oceans'), where rivals compete for the same customers, is not the way to sustain high performance [34]. Instead, businesses should create new, uncontested market spaces ('blue oceans') that create new demand and make the competition irrelevant. This is achieved by offering customers exceptional buyer utility, created through a process of value innovation that pursues both cost and differentiation advantages. A compelling value proposition therefore lies at the heart of a blue ocean strategy.

#### **4.5 Solve the customer problem in the most efficient way?**

Theoretically ideal strategies solve customer problems in the most efficient way possible [32, 52, 68] and represent the epitome of perfection - the apex of excellence. Therefore, although a strategy may create a differentiation and/or a cost advantage, it does not necessarily mean that it is the best possible strategy or that it provides the best possible solution. Customer needs and problems are the lifeblood of a business's existence. The optimality of a strategy can therefore be evaluated with respect to how perfectly it solves the customer problem.

Johnson *et al.* [32] argued that a value proposition's "precision" is its most important attribute, which refers to "how perfectly it (a business) nails the customer job to be done - and nothing else". When a strategy solves a customer problem in the most efficient way possible, then it is almost impossible for competitors to make inroads on those customers. However, as soon as a strategy loses its precision and becomes slightly unfocused, it creates an opportunity for competitors to solve the customer problem better. By having a narrower focus, competitors are able to 'out-focus' the initial 'focuser' [51, 72]. This fortifies the thinking that, when businesses attempt to do a lot of things simultaneously, they diminish their distinctiveness and do nothing really well [32, 52, 55].

#### **4.6 Defensible against five forces of competition?**

Theoretically ideal strategies are defensible against the five forces of competition: customer and supplier bargaining power, and the threats presented by existing rivals, new entrants, and substitutes [51, 54]. Ideal strategies not only create a competitive advantage, but also possess ways of sustaining their competitive advantages and themselves over time [9, 10, 27, 30, 39, 52, 57, 59, 68, 71]. This test endeavours to make the strategy robust by building barriers around the business's income streams, fending off competitive threats, and consequently ensuring its longevity [10, 39].

Mechanisms that contribute to robustness include entry barriers, switching costs, control points, and loyalty antecedents. Entry barriers refer to anything that prevents the instantaneous creation of a new firm in a market [8]. Switching costs refer to the costs and effort that deter customers from switching from their current supplier to a new supplier or substitute offering [29]. Control points [62] refer to mechanisms that companies can specifically control and leverage to prevent imitation, and to lock competitive advantages in for themselves [71]. Examples include patents, design rights, copy rights, first mover advantages, favourable geographic locations, and learning effects [50, 62, 63, 71, 72]. Loyalty antecedents refer to drivers that encourage a customer's favourable attitude toward the business that results in repeat buying behaviour [65]. In most cases, this involves enhancements to the value proposition that result in an increase in perceived value and customer satisfaction.

Considering the five forces, the business has to be defensible against customer buying power. A compelling value proposition is a business's first defence in this regard. The second is carving out a position (often through forward integration) where the business is the only one able to offer uniquely valuable offerings to price insensitive buyers [51]. For supplier bargaining power the inverse is true

and, theoretically ideal businesses obtain positions (often through backward integration) where they require only marginally valuable inputs, acquirable from a range of qualified suppliers.

Customers also have to be retained by protecting them from the attacks of rivals, new entrants, and substitutes [29, 59]. Customers can be protected from rivals and new entrants through cost and differentiation competitive advantages (fourth test) and the mechanisms described above. Substitutes are trickier, as they refer to businesses in industries other than the focal firm that produce offerings that have the same broad function or solve the same customer problem [34, 51]. In making purchasing decisions, customers implicitly consider all their available options [34]. However, because substitutes compete in a different industry, entry barriers and many of the control points become irrelevant. Joint industry efforts from all its players may be required to strengthen the entire industry's competitive position vis-à-vis the substitute industry - for instance, by raising the industry's overall product quality, image, and availability [51]. These can change customer perceptions in the focal industry's favour, protecting the business from substitutes.

#### 4.7 Self-reinforcing?

Theoretically ideal strategies are self-reinforcing [9, 10, 27, 59, 68, 71]. Self-reinforcement can be thought of as dynamic and virtuous internal consistency, and refers to a business's ability to build on its strengths over time [9]. Porter [52] described self-reinforcement as second tier fit that has internal consistency as a prerequisite (first tier fit; our first test), and optimisation as its superior (third tier fit; our fifth test).

Self-reinforcement involves the creation of 'virtuous cycles' or positive feedback loops that sustain the business's competitive advantages and allow it to create and capture *increased* value over time [9, 10]. Self-reinforcement is therefore closely related to, and often involves, network effects. Network effects refer to the phenomenon where a value proposition becomes more valuable to individual customers as the total number of customers using it increases [2, 37, 53]. The accumulation of the offerings' value assists the business to gain momentum, leading to economies of scale and scope, and increasing returns. Arthur [4] described the latter as "the tendency for that which is ahead to get further ahead, and for that which loses advantage to lose further advantage". This is exactly what virtuous cycles enable. Casadesus-Masanell and Ricart [10] similarly noted: "Just as a fast-moving body is hard to stop because of kinetic energy, it's tough to halt well-functioning virtuous cycles".

At its core, self-reinforcement is about making complementary choices that create synergies that increase the entire strategy's effectiveness [3, 10, 52, 68]. The idea that certain arrangements of a business's resources can enhance their combined effectiveness, and perhaps even put competitors in a state of disarray, is central to the traditional notion of strategy [61].

#### 4.8 Resources sufficient to execute?

Theoretically ideal strategies have sufficient resources at their disposal to execute [3, 32, 51, 58, 59, 69]. Resources refer to assets that assist companies to achieve their corporate goals. These could include financial resources (money, shares, etc.), physical resources (facilities, machinery, etc.), human resources (competencies, skills, and knowledge), intangible resources (intellectual property, brand, trust, etc.), and time [59, 69]. If any of the above are insufficient, unavailable, or not easily obtainable, or if the strategy creates unsolvable sub-problems [58], then the strategy is impractical and unfeasible.

Financial resources are often assumed to be the largest obstacle; however, there are various financial support structures and mechanisms that can usually alleviate this bottleneck. Generally, more severe resource limitations include an organisation's problem-solving abilities, coordinative and integrative skill, and special competencies required by the strategy [59].

Businesses survive because they possess the competencies needed to excel in a given domain [69]. This lies at the heart of the resource-based view of strategy - that resources create a business's competitive advantages [5]. A business therefore needs to acquire, cultivate, and nurture those critical resources needed to compete effectively [32, 71]. Critical resources refer to those that limit the business from achieving corporate goals (what a business has the least of), as well as those that they wish to exploit as the basis for their strategy (what a business has the most of). Resources therefore represent a business's action potential - its capacity to respond to threats and exploit opportunities in the environment [69]. Without adequate resources, a business is paralysed. A

strategy whose resource demands exceed those that are available or acquirable is unfeasible, and should be rejected.

#### 4.9 Costs and revenues enable a profit?

Theoretically ideal strategies deliver supernormal profits in a given industry [13, 34, 41, 59, 68]. High profitability is one of the key features of good strategies, and one of the easiest to measure. This test relates to Magretta's [41] 'numbers test', which states that the costs and revenues of the business must enable it to profit. When the basic 'math' of a strategy is flawed, then it is impossible for the business to sustain itself. This test is similar to Tilles's [69] workability test, which evaluates the adequacy of the results achieved (including financial results) in relation to predetermined organisational goals (goal-centred approach). When the returns of a strategy do not warrant its continued maintenance [59], then the strategy should be rejected.

Costs and revenues cannot be considered irrespective of the scale that will be needed to sustain the business. For this reason, a compelling value proposition is needed to enable the required demand. Kim and Mauborgne [34] and Johnson *et al.* [32] propose that, in developing a strategy, the strategic price of the value proposition be set first. This ensures that the value proposition is attractive to the largest mass of buyers. Subsequently, the profit margin can be deducted from the strategic price, to deliver the cost target that must be met to realise the strategy. If this cost target cannot be met, then the strategy should be reformulated.

#### 4.10 Acceptable in terms of adoption and risk?

Theoretically ideal strategies are acceptable in terms of adoption and risk [31, 34, 59, 68, 69]. Adoption refers to stakeholders' willingness to embrace and follow the strategy, whereas risk can be defined as the possibility of a negative consequence occurring, such as business failure.

Considering adoption, a strategy must be acceptable to its stakeholders and key personnel, who must lend their support [32, 59]. Irrespective of how many of the preceding tests the strategy may have passed, if there are some conflicting values [59], moral dilemmas, or other trade-offs that stakeholders are not willing to make, then the strategy is unfeasible and should be reformulated. Kim and Mauborgne [34] describe this stakeholder acceptability requirement as hurdles to adoption that need to be overcome. These hurdles include cognitive barriers (stressing the need for the new strategic route); resource barriers (gathering sufficient resources); motivational barriers (motivating key personnel urgently to execute the strategy, and motivating customers to buy the offering); and political barriers (manoeuvring past political power games in the organisation).

Theoretically ideal strategies exhibit an acceptable degree of risk for stakeholders [69]. All the aforementioned tests essentially build up to the ultimate evaluation of whether the sum of the strategy's risk is acceptable. The more of the preceding nine tests that are failed, the higher the strategy's risk. Tilles [69] proposed three qualitative factors that influence the degree of risk of a strategy: (1) the amount of resources required by the strategy whose continued existence or value is not assured; (2) the length of time that resources are committed; and (3) the proportion of resources committed to a single venture. The greater each of these factors, the greater the risk involved.

Lastly, an important aspect of judging the riskiness of a strategy is that the total, cumulative risk must be judged, and not just individual aspects, as this could lead to faulty judgements. Radical strategies may, for instance, simplistically and incorrectly be judged as high-risk, 'bad' strategies, yet many radical strategies deliver great rewards. Similarly, conservative strategies may simplistically and incorrectly be judged as low-risk, 'good' strategies, although many conservative strategies end up being disrupted. From this perspective, Tilles [69] noted that failing to exploit a business's resources fully may in fact be the riskiest strategy of all.

### 5 DISCUSSION

The developed strategic assessment serves as a quality assurance mechanism that evaluates whether the conceived strategy possesses the characteristics that are often observable in good strategies. Appraising a strategy as passing these tests does not assure the business's success. It only indicates that the strategy is more robust than strategies that do not pass these tests [59]. Reformulation is therefore proposed when some of these tests are failed. If it is not possible to reformulate the

strategy in such a way that it passes all ten tests, then it merely indicates that the strategy involves a higher degree of risk than if it were to pass these tests. If these risks are acceptable, then the strategy is ‘right’ for the business.

A business’s strategy, and the environment in which it is executed, remains dynamic. This implies that, although a business may consider itself as passing all of the tests today, this does not render the strategy ideal or insurmountable. Perfection, ideality, or optimality remain elusive and practically unobtainable. There should, however, always be a progression toward that goal. In fact, there is always room for improvement relating to any of the aspects of the strategic assessment, and adapting the strategy to changing circumstances remains vital.

Following on from this, a critique of the strategic assessment could be that it is impossible to pass all of the tests. Passing the tests and obtaining a perfect score isn’t an end in itself. Rather, learning from the assessment and refining the business’s strategy is of primary importance.

A related critique is that the assessment does not include any metrics or guidelines for appraising the developed strategy. Users can therefore easily appraise their strategy incorrectly. Honing the ability to think critically about one’s business is crucial to a business’s success [59]. Thus users who are set on a path of self-delusion about the quality of their developed strategy will derive little value from their positive assessments. On the other hand, users who judge their developed strategies more critically are those who will benefit and learn the most.

A concluding critique of the developed strategic assessment is that it is very generic. Though more specific theories are usually sought, the benefit that a generic theory provides is that it is context-free, applies to every case, and is always valid [58, 59].

Avenues of future work might include: (1) the development of more concrete metrics, guidelines, or tools for appraising each of the ten elements of the developed strategy; (2) refining the assessment by including more strategy evaluation perspectives; (3) refining the assessment based on insights gained through practical application; (4) investigating the interrelationships between the different strategic tests and the proposal of a more specifically sequenced and hierarchical assessment; and (5) reformulating and customising the strategic assessment for different environmental contexts.

## 6 CONCLUSION

Vanishing spatial barriers to business, spurred by the Internet, put immense pressure on start-ups, as they compete in a global market space from day one. This increased competitive environment necessitates a better way of strategic self-appraisal to provide confidence in the business’s strategy before significant investments are made.

This paper has explored the extant strategy evaluation literature to propose a competitive strategy assessment model consisting of ten normative tests. These tests were derived from the characteristics of theoretically ideal strategies. They include evaluating whether a strategy: (1) is internally consistent; (2) presents an adaptive response to the competitive environment; (3) is based on valid assumptions; (4) possesses a compelling value proposition; (5) solves the customer problem in the most efficient way possible; (6) is defensible against the five forces; (7) is self-reinforcing; (8) possesses sufficient resources to execute; (9) enables a profit; and (10) is acceptable in terms of adoption and risk.

It is recognised that appraising a strategy as one that passed these ten normative tests does not guarantee that the business will be successful. Strategies that do pass these tests are in a better starting position than strategies that do not pass them. Businesses should therefore try to align their strategies as closely as possible with this normative ideal.

This paper contributes to strategy evaluation theory, as it provides a more integrated and comprehensive perspective on normative strategy evaluation. The value that this provides is that it allows start-ups to evaluate their competitive strategies in greater detail, and thereby to highlight specific areas that need refinement. These refinements add to the strategy’s overall robustness and the business’s survivability.

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