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EXPLORATORY RESEARCH TO CREATE A DYNAMIC FRAMEWORK FOR STRATEGIC STYLE

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ABSTRACT

Enterprises can employ various strategic styles. These include specialization, vertical integration, diversification, and internationalization. At present, there is no general dynamic framework for strategic style which could be used by entrepreneurs during a period of diversification. Different strategic styles obtained from a review of the literature enable the researcher to formulate the optimum combination of styles necessary to building a complete dynamic framework for entrepreneurs. Based on the two directions of localization and internationalization, this study established a strategic rationalized and scientific framework. In addition, to improve the reliability and stability of the enterprise, the framework has been formulated to manage and ameliorate risk during the different stages. Based on an empirical investigation, the study evaluates the results achieved by enterprises that adopted the most appropriate strategic style. Thus, the researcher intends to provide correct strategic framework through which enterprises may diversify successfully. A qualitative method is used throughout.

Contribution/Originality: This study is one of few that investigate the dynamic framework for different strategic styles. By exploring the structure of various strategic frameworks, it becomes possible for entrepreneurs to select that which is most appropriate to their circumstances when entering upon a diversification phase.

1. INTRODUCTION

The available literature on enterprises' strategies has grown in recent times. However, there remain significant gaps in the research. Entrepreneurs need to appreciate the benefits that flow from diversification. Enterprises routinely encounter to external challenges from competitors and from the fluctuations in the market, and the dynamic process of development is intended to improve growth by employing the most appropriate strategic diversification strategy. This study will construct a model for a strategic framework that is both predictable and dynamic.

Within the existing literature Boyne and Walker (2010) demonstrate that further research into various aspects of strategic management is essential. Park (2002) points out that the success and failure of a particular strategic style is dependent upon the enterprise's internal governance. Wang (2007) advocates that a reasonable strategic style should utilize the business's core knowledge and capabilities. Zhang *et al.* (2011) points out that an enterprise's use of its own qualities is a key to its success or failure. It is possible to conclude, then, that the choice of a strategic style should be dictated by the entrepreneur's evaluation of all relevant factors: capital, structure, employee skills base and environmental factures peculiar to the industry sector in which it operates.

2. LITERATURE REVIEW

Poister *et al.* (2010) observed that the formation of a strategy is an element of strategic planning, whereas strategic planning is an element of strategic management. This latter which includes management of resources, implementation of goals, and control and evaluation of organization performance. Porter (1979) considered that the essence of the strategic is where an enterprise establishes a key position by conducting one or more business activities within the broader industry sector.

Rumelt (1974) posited that there are nine strategic categories. Specifically, enterprises utilizing dominant-constrained and related-constrained strategies exhibited high performance; enterprises whose strategies were categorized as active conglomerates, related-linked and single-business were in the middle range; and those with unrelated-passive and dominant-vertical strategies were usually low level. Rumelt did not establish whether the performance of enterprises pursue dominant-linked and dominant-unrelated strategies were in the high, medium, or low ranges. Dunning (1980) argued that there are three types of strategy: ownership specification, location specification, and internalization. Caves (1982) focused his study on analyzing whether the firm's international operations were conducted on a horizontal, vertical, or diversified model. Michael *et al.* (1989) believed in a four-part typology in strategies: single business, dominant business, related business, and unrelated business. After further refinement, Neil (2001) divided the strategy style into four types: vertical integration, related diversification, unrelated diversification and internationalization. Cao (2009) wrote that a strategic style is able to be divided into specialization strategy and diversification strategy. Deng (2011) classified the strategic style as specialization, related diversification and unrelated diversification.

In summarizing the mainstream views of these scholars, it may be concluded that strategic styles can be divided into five types: specialization, vertical integration, related diversification, unrelated diversification and internationalization.

The concept of specialization means the enterprise is limited to a specific industry and a single product. By focusing on its technology and product development, the enterprise concentrates its resources to develop core competencies in the provision of specific products and services (Yu and Wu, 2005). By diversifying its areas of specialization, enterprises will create a value chain to better enable their supply of raw materials, while opening new markets for their products. Such will increase the added value of vertical supply chains and increase profits (Xiao *et al.*, 2016). Compared with the specialization strategy, vertical integration will be built up to a higher level after specialization is developed. According to Porter (1985) theory, a "value chain" is a series of actions that add value to those activities undertaken by the enterprise. From a broader industry perspective, vertical integration's main idea is to manage risk and maximize potential profits (Al-Moneef, 1998). Williamson (1985) considered that vertical integration is a result of market failure, and that it focuses on a single transaction without any sort of systematic approach. Barney (1991) stated that enterprises are able to create a competitive advantage through the vertical integration. Joskow (2005) pointed out that vertical integration is designed to eliminate contracts and market exchange. The style is able to exchange internally within the boundaries of the industry's supply chain. Vertical integration has played an important role as a growth strategy (Liu and Yan, 2018). As the same, vertical integration is able to save the cost of contracts, so operating to improve profits (Chen and Wang, 2014). On the other hand, vertical integration is able to alleviate the phenomenon of "opportunism" by incomplete contracts, and the "knockout" problem by other party (Klein *et al.*, 1978).

Diversification refers to the kinds of strategy that develop into related or unrelated products within the enterprise (Zhang *et al.*, 2011; Liu and He, 2015). Enterprises that are more diversified are generally expected to have a higher performance due to a better access to resources, superior market power, and economies of scale and scope (Geringer *et al.*, 2000; Hennart, 2007; Kumar, 2009). A similar situation has been found by studies examining the relationship between the level of productive diversification and the performance of an enterprise (Chang and Wang, 2007; Chen and Yu, 2012; Borda *et al.*, 2017). Rumelt (1982) classified diversification into related diversification and unrelated diversification. Park (2002) believed that the success of the diversification is due mainly to consideration of the relevant factors within an enterprise. Wang (2007) argued that core knowledge and competitiveness will determine whether diversification should be undertaken. Xiao *et al.* (2016) suggested that related diversification is able to achieve synergies among the different industries, so that it is possible to share resources within the business area. Unrelated diversification enables the dispersion of risk, creating hedging effectiveness to decrease diverse risk.

Compared with localization, many enterprises will choose to go down the path of internationalization. Buckley and Casson (1976) pointed out if firms maximize profit in a world of imperfect markets, some problems may still arise including high transportation costs, trade barriers, inadequate foreign market information, information asymmetries between sellers and buyers, and increasing transaction costs. In such circumstances, the enterprise could choose to internationalize. Hollensen (2004) explained that internationalization is a process which occurs when the enterprise expands its research and development (R&D), sourcing, production, sales, marketing and other activities into international markets. Internationalization is also understood to include the process of business expansion abroad with partial or full transfer of business units offshore (Meyer, 2007). Beamish (2001) defines internationalization as the activities through which the enterprise increases its direct or indirect engagement in international business operations. However, internationalization will bring uncertainty and business risk to enterprises (Fan and Liu, 2018) and whether internationalization enables productive outcomes is in large part dependent upon management (Chen, 2014). Grant (1987) and Kim *et al.* (1993) believed that internationalization has a positive correlation with an enterprise's performance. By contrast, Michel and Shaked (1986) and Collins (1990) argued that internationalization had a negative correlation. Thus, the opposite conclusion shows there is difficult to determine the correlation between the performance and internationalization.

3. METHODOLOGY

This study was conducted using a qualitative method to construct a new paradigm called "induction". Based on an empirical observations, induction can be associated with a qualitative approach to establish general propositions (Pervez and Kjell, 2005).

The qualitative method is used here to summarize the literature, analyze strategic style concepts to create different strategic frameworks, and construct a system of philosophical methodology that may assist in the transference of ontology and epistemology into methodology so as to conduct inference and verification. Popper (1961) pointed out that a qualitative method is particularly useful in exploratory environments. This means that the qualitative method tends to be exploratory and unstructured, while a quantitative approach tends to be based upon assumptions. The qualitative is focused on words, perception of attendees, proximity, the creation of theories, unstructured processes, and rich data (Bryman and Bell, 2003). Reichardt and Cook (1979) pointed out that a qualitative method includes emphasis on understanding, exploration, an over-arching view, and generalization by comparing the nature and context of a single body. Therefore, the qualitative and the paradigm of induction are suitable for use in this study.

Thus, the research design adopted for this study is exploratory and uses case studies within a qualitative methodology. Case studies contribute significantly to the understanding of individual phenomena, and organizational, social and political constructs. This is an appropriate empirical approach to investigating contemporary phenomena where the boundaries between the phenomenon and overall context are not clearly defined (Yin, 1994). According to Eisenhardt (1989) the objective of a case study may be to describe, test or develop a theory.

4. CONSTRUCTION OF STRATEGIC FRAMEWORK

Entrepreneurs will encounter a series of strategic problems such as how to:

- Choose a suitable strategic style for the different stages in their business's development;
- Maintain a positive approach and avoid the negative through their chosen strategy; and
- Improve the enterprise's reliability and strategic risk management.

This study examines localization and internationalization with a view to establishing a strategic framework that is rational and scientific for the purposes of analyzing and solving these problems. Such a framework will improve outcomes for the enterprise during the diversification phase.

4.1. Framework of Localization

A localized enterprise should first establish its own value system.

4.1.1. Specialization

An enterprise whose primary feature is specialization is similar in nature to that of a single Strategic Business Unit (SBU). Neil (2001) divided the system of specialization into four elements on a single value chain thus:

- Distribution;
- Marketing;
- Production; and
- R&D.

The basic elements reflect real and potential sources that make for a competitive advantage Figure 1.

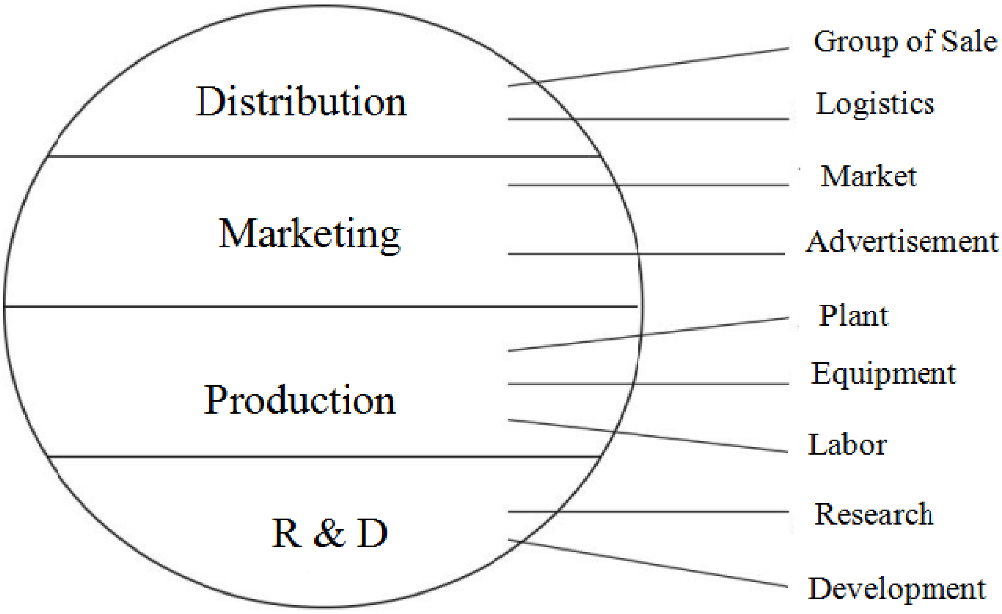

Figure-1. The framework of specialization.

Source: Neil (2001).

The characteristics of an SBU are manifested in industrial specialization. In such an enterprise, a value system combined with internal resources will help build core competencies (Neil, 2001). Within the dynamic framework of this study, an SBU may be identified with a "dot". Each dot includes the four elements in Figure 1. The enterprise is then able to concentrate all its resources into the four elements in order to obtain a competitive advantage.

4.1.2. Vertical Integration

One type of specialization has little resistance to risk. First, if anyone of the four elements is weak or uncompetitive, the enterprise's competitiveness will decline. Second, if the industry is at the end of tits life cycle, regardless of the status of the four basic elements, the business will be eliminated. Finally, if the enterprise's four basic elements are unable to mesh with industries upstream and downstream of it, disruption to its support and distribution capabilities will ensue. Therefore, it is necessary to perfect the relationship between the upstream and downstream after specialization has been implemented. Enterprises should establish a complete value chain and gradually transfer to a vertical integration framework in order to ameliorate strategic risks. Enterprises could also complete the dynamic framework from the "dot" to "line" (vertical integration). The new structure of vertical integrated is represented by Figure 2.

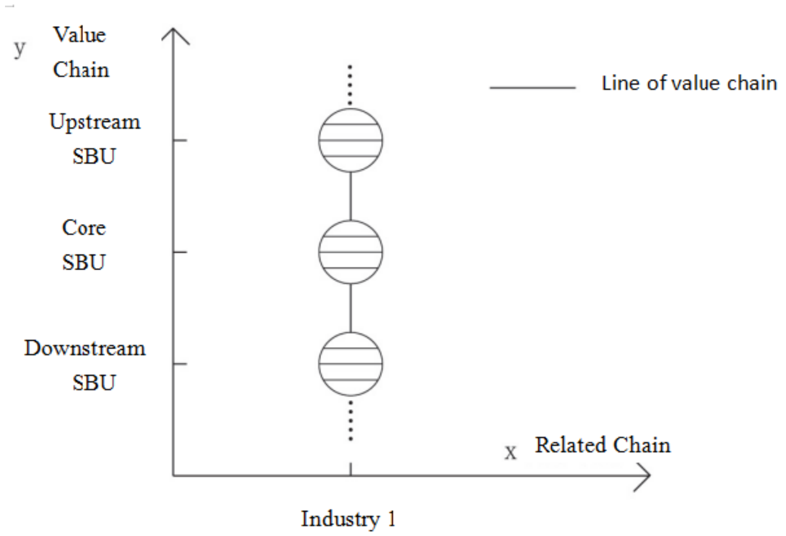

Figure-2. The framework of vertical integration.
Source: Author's desk research.

The X-axis is set as the related chain and the Y-axis the value chain. Some "dots" from the upstream to the downstream will compose a "line". The mode of "line" will form a vertical value chain and a more stable nexus with the mode of "dot". This style can explain how to ameliorate risk more efficiently than by specialization alone. The company could also establish a vertical connection with suppliers and customers, so generating more profit upstream by means of consistently reliable supply, and more trust from customers downstream. However, those enterprises developing from vertical integration will encounter some other issues. First, fluctuation of the "dot" will also cause fluctuation of the "line" throughout the chain. This will destroy the entire "line". Second, the "line" will lose diversification and flexibility around supply-side options. Third, if trading partners are only on the "line", they will lose the benefits from "economies of scale". Finally, it is possible that the vertical value chain will be reduced because the "dot" lacks competitive awareness.

4.1.3. Diversification

To manage risks inherent to vertical integration, numerous studies have shown that more enterprises prefer to adopt related diversification rather than vertical integration (Rumelt, 1974;1982; Prahalad and Bettis, 1986). If the enterprise built up its strategic style by diversifying, it may result in horizontal correlation links with many SBUs along the different vertical value chain. A new structure of "layer" will be formed with horizontal correlation and vertical value chain. The enterprise with related diversification also could build up competitive force within existing "layer". Summarizing the related diversification, the framework produces a new-dimensional structure below.

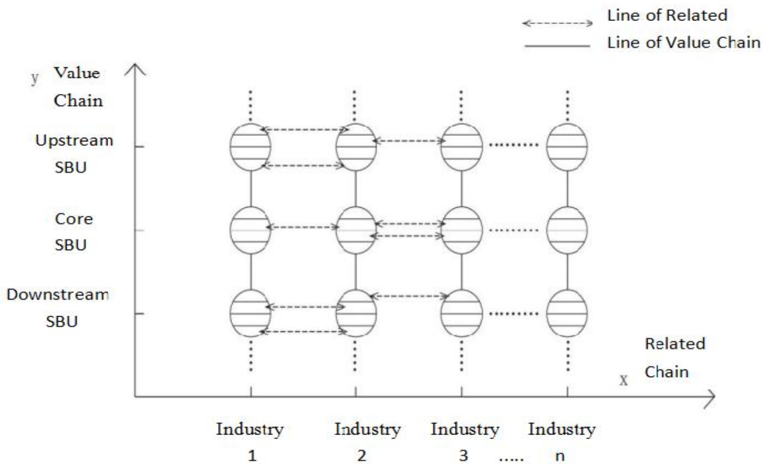

Figure-3. The framework of related diversification.

Source: Author's desk research.

In Figure 3, the related line (horizontal relation) was created based on vertical integration. Related diversification solved most shortcomings by means of vertical integration. The new "layer" is not easily disrupted, regardless of whether several "dots" or "lines" are destroyed. Therefore, the structure of the "layer" will bring the strong resistance to resist the business risk. The framework of related diversification enables the enterprise to manage the risk availably. However, some new problems might go against the "layer". For example, if enterprises encounter significant threats from multiple directions (e.g., economic recession, stock price slump, etc.). There are serious damages may occur. The "layer" will be destroyed because of these reasons.

Unrelated diversification means no correlation on diversified industries. From an idealized geometric to view, unrelated diversified "layers" or "lines" could create a new framework of unrelated diversification. Compared with current "layer", new unrelated "layer" could be complete by a new evolution from "dot" to "line" to "layer". Under a new dimension, a new "layer" which is unrelated with the current "layer" has been established. The framework takes two layers of unrelated industries as examples in the Figure 4.

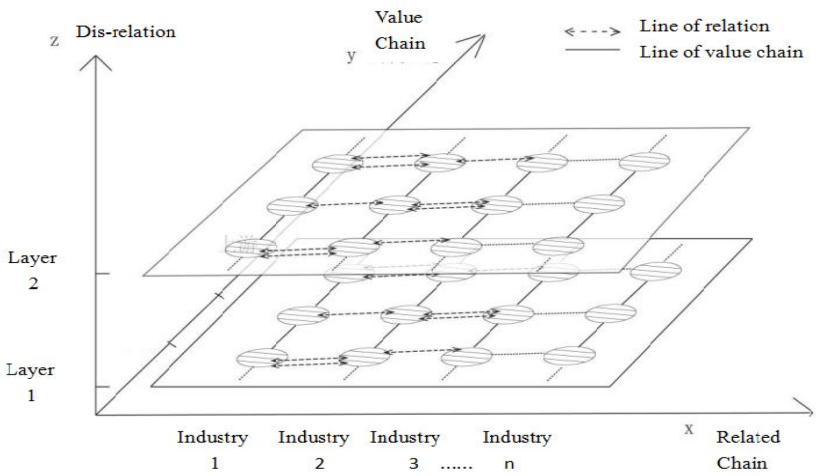

Figure-4. The framework of two unrelated diversification.

Source: Author's desk research.

In Figure 4 the Z-axis is added to the X-axis (related chain) and Y-axis (value chain). A new "cube" structure will be established by a few unrelated industries. The three dimensions represent the ideal framework of unrelated diversification. Composed of multiple layers, the "cube" has strong geometric reliability and stability. The framework also applies fully to hedging effectiveness in the performance and minimization of risk. The absence of some dots or lines or even layers within the framework of unrelated diversification does not destroy the structure of the "cube". The Framework of the "cube" is shown at Figure 5.

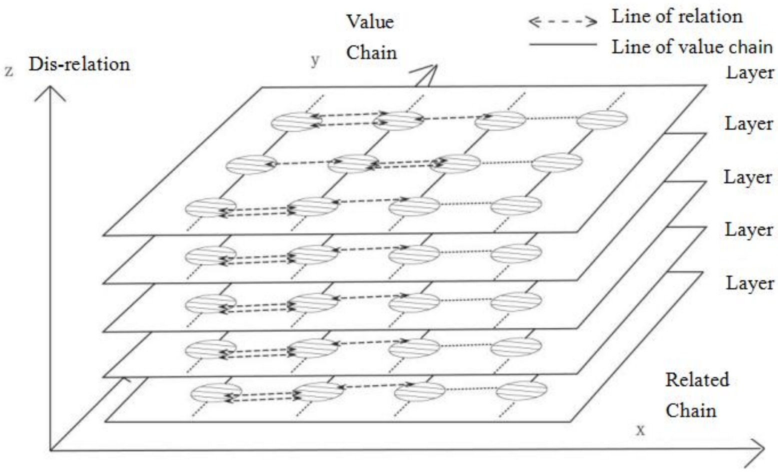

Figure-5. The framework of unrelated diversification.
Source: Author's desk research.

4.2. Framework of Internationalization

The strategic style of localization is generally evolved into internationalization. In an ideal set of circumstances, entrepreneurs can decide whether to implement internationalization as an element of their diversification phase. Thus, the internationalization could be applied during any strategic stage.

Numerous studies have explored the positive or negative influence of internationalization on the development of a business with varying results. By combining internationalization with other strategic styles, far-reaching change can be achieved. Using the strategy of localization, this study attempts to further explore the combination of internationalization and other strategic styles.

4.2.1. Internationalization under the Specialization

If an enterprise possesses specialization in the local environment, entrepreneurs will face higher strategic risks. Assuming the implementation of internationalization in this stage, an enterprise will face more variables and challenges resulting in higher risk. On the other hand, a shortfall in resources dispersed would reduce the ability to manage risk. Therefore, internationalization results in the worst outcomes under specialization due to the application of negative factors, internal and external.

4.2.2. Internationalization under the Vertical Integration

Where internationalization begins at the stage of vertical integration, establishing a certain correlation with localization will involve dealing with diversified environments. A new, three-dimensional framework will be established as a new country based on the framework of localization. If an enterprise operating in two different countries (national environment and new environment), two different coordinates of the three-dimensional framework will be established as at Figure 6.

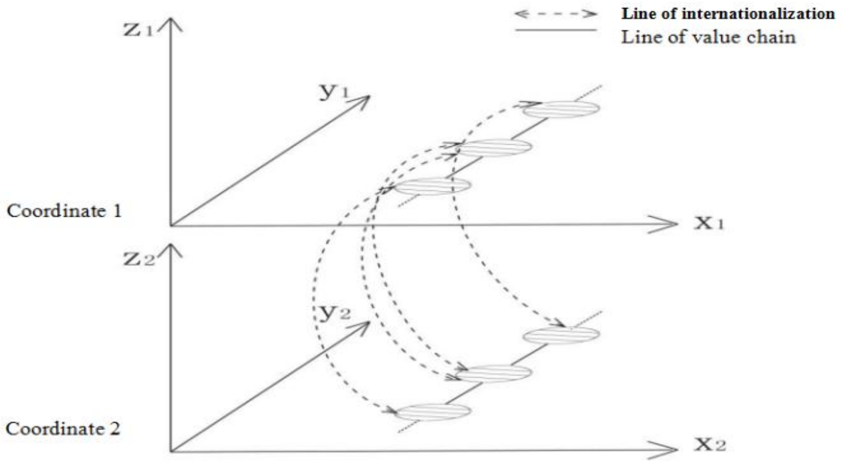

Figure-6. The framework of internationalization under vertical integration.
Source: Author's desk research.

There are some correlations among the SBU's basic elements on the different value chains. Assuming the enterprise designed the same related strength between with the international SBU and local SBU, in the actual performance, the correlation of internationalization will be weaker than localization because of trading barriers, cultural gaps, and other international factors. From above framework, internationalization related could form some fragile structure called the "line of international relation". However, increasing the lines of internationalization related would deepen the correlation of internationalization, and increase the business's capacity to manage risk in the international market.

4.2.3. Internationalization under the Diversification

Assuming the enterprise was to implement internationalization under diversification, whatever the associated diversification or unrelated diversification in the national environment, the enterprise could also continue to pursue diversification of establishment, and improvement and effectiveness in the new environment. Therefore, the enterprise would establish t more structures of "layer" or "cube". In a dynamic framework of internationalization, different structures of the "cube" could be generated by different three-dimensional coordinates. In an ideal set of circumstances, it is possible to form multiple cubes. At the same, under the influence of internationalization, the framework would form numerous lines of international relations to connect the relevant industries across several countries, as at Figure 7.

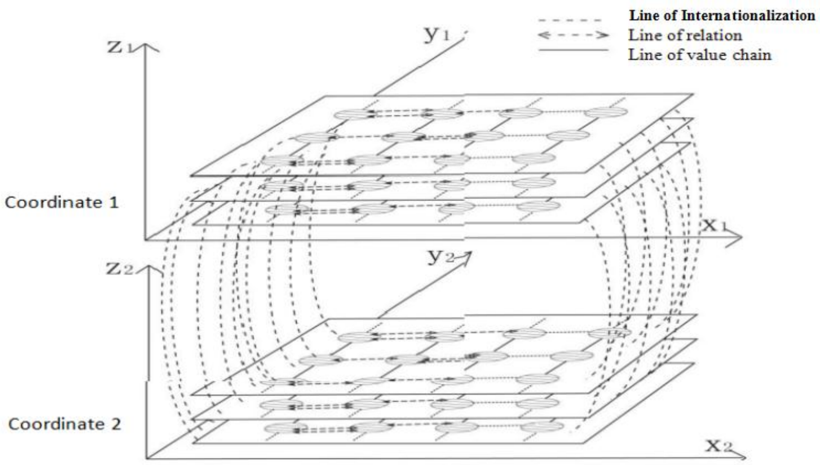

Figure-7. The framework of internationalization under diversification.
Source: Author's desk research.

The framework above shows that the enterprise has implemented diversification differently in two countries. Some internationally related lines should strengthen the correlation between the two cubes. The relationship with the international industry has become stronger. The structure of "cube" is composed of the "group" and by the different three-dimensional coordinates. The generation of this population structure will form a cross-type network structure to maximize stability and reliability for the enterprise. Therefore, it could implement diversification which will produce and promote more internationally related lines across many countries. Through hedging international risks, the lowest possible risk status may be achieved. The structure of the "group" will bring the strongest resistance to resist risk. Thus, the "group" would be one of the best of all strategic styles for enterprises after diversification.

4.3. Summary of the Framework

Based on the above results, the study summarizes the impact of the different strategic styles regarding the effectiveness and ability of anti-risk as following Table 1.

Table-1. Risk and ability of anti-risk of the different framework.

Dimension	Specialization		Vertical integration		Related diversification		Unrelated diversification	
	Risk	**Anti-risk**	**Risk**	**Anti-risk**	**Risk**	**Anti-risk**	**Risk**	**Anti-risk**
Localization	High	Very weak	Mode-rate	Weak	Low	Moderate	Low	Strong
Internationalization	Very high	Very weak	High	Moderate	Mode-rate	Strong	Very low	Very strong

Source: Author's Desk Research.

Localization and internationalization are two categories in Table 1. From the perspective of localization, and the sequence of specialization, vertical integration, related diversification and unrelated diversification for each SBU, the degree of average risk will range from high to low. In the different status of a dynamic framework, risk management capacity will be graded from weak to strong. On the other hand, from the perspective of internationalization, different strategies perform the same characteristics as with localization. The effects of internationalization are stronger than localization. These results illustrate that the complex environment of internationalization leads to higher risk for a single business. However, the complex environment of internationalization also has a good hedging effectiveness. Therefore, the best strategic style to avoid risk is by internationalization under unrelated diversification.

5. DISCUSSION OF THE RESULTS

The study established the dynamic framework of different strategic styles. Three-dimensional coordination was established from "dot" to "line", from "line" to "layer", from "layer" to "cube", and from "cube" to "group". Using suitable dynamic frameworks to improve the ability to manage risk, different strategic styles would have different effectiveness depending on the stage of development. The following viewpoints are posited:

1. Specialization often entails a high level of strategic risk because the enterprise could not be supported by the structure of "line" or "layer". Many start-ups typically employ this mode of specialization. Limited by financial, human and patent resources together with other variables, it is difficult to establish other strategic structures in the short-term. A start-up pursuing internationalization or diversification before the schedule may find its resources are dispersed resulting in a poor result.
2. Assuming it is possessed of adequate resources, the enterprise should use vertical integration as a business strategy. In order to manage risk, development from specialization and vertical integration will underpin the enterprise's primary strategy. The strategic style is able to transfer from "dot" to "line". On the other

hand, if vertical integration impinges directly on the process of internationalization, resources would be dispersed, and the risks of operating in a diversified environment increased.

3. Through the development of vertical integration, adequate resources may be obtained from the value chain. The enterprise is then able to continually implement related diversification from "line" to "layer". The stability and reliability of this process should further increase the enterprise's capacity to manage risk. On the other hand and based on related diversification, in order to hedge risks unrelated diversification may establish the structure of "cube". The stability of the "cube" would enhance strategic risk management. Because of the many layers within the "cube", hedging effectiveness is a positive in risk management.
4. Within the process of diversification, internationalization could add an "international related line" among the different "cubes". A new structure of "group" would be composed by the international related lines and several cubes. The "group" could strengthen risk-management ability across different environments. The risks of the "group" would then be dispersed around the different cubes.

In summary, the new dynamic framework of strategic style would be built, with entrepreneurs referring the process from "dot" to "group" to gauge the most suitable strategic style for diversification.

6. CASE STUDIES

Case studies are used with the aim of contributing to the theory of strategic style. This is an appropriate method of connecting with the empirical evidence.

The Tiens Group Co. Ltd was founded in 1995 in Tianjin, China. In the period of its start-up, the enterprise discovered that the business of medicine had been developing rapidly over recent years. In China, traditional medicine is widely practiced. Tiens focused on the provision of "Bone Calcium Powder", a product that claimed to increase bone density. Thus, specialization was its primary strategy during startup. Through R&D and by entrepreneurial acumen, Tiens made their single-product business a success. Soon after, the enterprise constructed additional plants to produce and distribute their product, so strengthening the value chain. Health products could be supplied to customers in timely fashion through vertical integration. But despite short-term success, Tiens believed that a single-product business involved significant risk and began to consider the new strategies.

Table-2. Strategy style of Tiens Group in diverse phase.

Strategic style	Project (Product)	Business model	Mode of framework
Specialization	Bone Calcium Powder	Single business	Dot
Vertical integration	Bone Calcium Powder	Value chain	Line
Related diversification	Great health innovative technology system Great health production logistics system Great health service system Great health education system	Multiple related business	Layer
Unrelated diversification	Retail E-commerce House hold Hotel Tourism Education Training Biotechnology	Multiple unrelated business	Cube
Internationalization	International health network International resources network International education network International tourism network International capital flow network International e-commerce	Multiple international business	Group

Source: Author's desk research.

After its successful start-up, Tiens began planning to diversify its product lines, utilizing the business's core competencies to expand into food supplements, exercise and health equipment, and beauty and personal care. This diversification has enabled the Tiens Group to increase its return on equity (ROE) while significantly reducing risk. The group retains its focus on products, systems, and channels, factors that have hitherto underpinned its success.

Tiens has since expanded beyond the health industry into retail, e-commerce, house hold services, tourism and hospitality, education, training and biotechnology. The Tiens Group is possessed of multiple core competencies across different industries and has formed a stable structure from which to expand into international markets.

It is the opinion of the author that the Tiens case study verifies the effectiveness of the dynamic framework.

7. CONCLUSION OF STUDY

In summary, entrepreneurs face different risks that require different strategies. Different strategies also encompass different risks that must be managed. If an enterprise were to pursue another strategic style under specialization, risk would increase over the short-term because of limited resources. However, after obtaining adequate resources, the enterprise could consider reducing the risk through upstream and downstream operations. The value chain could be built up and the ability to manage risk reinforced. The enterprise could then adopt vertical integration with a reasonable prospect of success. After the strategy of vertical integration, the enterprise could expand its product line through core competitiveness. Different types of product form different value chains. The enterprise is then able to establish related diversification after vertical integration. The ability to manage risk would be increased sharply if the enterprise adopted related diversification. Thereafter, unrelated diversification will be generated through a dynamic strategic framework. The enterprise could then build up different core products and form a variety of core competencies. Internationalization may be implemented during any period of development. However, effectiveness will vary over the different developmental stages. Internationalization under specialization will bring very high risks. Where poor risk management exists, an enterprise is more likely to fail. On the other hand, if internationalization is implemented under the diversified strategy, a good hedging effectiveness will be shown. Instead, hedging effectiveness will reduce average risk in the business, and the enterprise will be comprised of a variety of core competencies across global markets. From the perspective of geometry, this researcher designed and established a dynamic framework to combine the stable state of different geometry with the strategic selection. The framework could assist entrepreneurs to understand different strategies more visually. The results of the study could also help scholars to better research and analyze related topics in the future.

8. LIMITATIONS AND PERSPECTIVES

This study has some limitations that need to be improved upon.

1. The qualitative method was used in the exploratory research. Therefore, the reliability of the research could be weak and its deviations larger. Thus, it may be necessary to find a more reliable, scientific and rational approach.
2. In order to establish the structure more clearly, the idealized status should be set up around environmental factors both internal and external. The idealized status should reduce the interference of related variables and reduce complexity within the dynamic framework.
3. Scholars have employed many methods to classify and define strategic styles. This study refers to and discusses the strategic style, which is not included in all previous studies. Therefore, many aspects still need to be further explained, demonstrated and perfected in the future.

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