BUSINESS STRATEGY TOWARD WEALTH CREATION

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ABSTRACT

BUSINESS STRATEGY TOWARD WEALTH CREATION

(Keywords : Business Strategy, Wealth Creation, Strategy, Business Wealth)

Business strategy toward wealth creation is an important scope especially on small and medium entrepreneurs (SMEs). Researchers look at the question of whether SMEs are aware and understand the importance of business strategies toward wealth creation and how the elements such as organizational factors, environmental factors and business strategies influenced the creation of wealth. Therefore a total of 300 questionnaire respondents of SMEs from different business sectors in Melaka have been involved in this study and the results from analysis finds that there is a strong and positive relationship between business strategy and wealth creation. The results also showed a strong influence of organizational factors on business strategy, which also prompted the creation of wealth. Environmental factors also influence the business strategy towards the creation of wealth. End, it was clearly shown that the elements of organizational factors, environmental factors and business strategies have a strong influence on the creation or wealth creation. This study also opens to other researchers to continue the research by taking into account other relevant factors

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ABSTRAK

STRATEGI PERNIAGAAN KE ARAH MEWUJUDKAN KEKAYAAN

(Keywords : Business Strategy, Wealth Creation, Strategy, Business Wealth)

Strategi perniagaan ke arah mewujudkan kekayaan merupakan skop yang sangat penting di dalam sesebuah perniagaan terutamanya golongan usahawan kecil dan sederhana Penyelidik melihat kepada persoalan adakah golongan ini sedar dan faham akan kepentingan strategi perniagaan mempengaruhi pewujudan kekayaan dan bagaimana elemen seperti faktor organisasi, faktor persekitaran dan strategi perniagaan juga turut mampu mempengaruhi penciptaan kekayaan. Oleh yang demikian melalui kaedah soal selidik ini seramai 300 orang responden usahawan kecil dan sederhana dari pelbagai sektor perniagaan di Negeri Melaka telah terlibat dalam kajian ini dan hasil daripada analisa yang berkaitan mendapati bahawa terdapat hubungan yang kuat serta positif di antara strategi perniagaan dan pewujudan kekayaan. Pengaruh yang kuat juga ditunjukkan dari faktor organisasi terhadap strategi perniagaan yang turut mendorong pewujudan kekayaan. Faktor persekitatan juga turut dilihat mempengaruhi strategi perniagaan ke arah pewujudan kekayaan. Diakhirnya jelas menunjukan bahawa elemen faktor organisasi, faktor persekitaran dan strategi perniagaan mempunyai pengaruh yang kuat terhadap pewujudan atau penciptaan kekayaan. Penyelidik juga membuka ruang kepada penyelidik lain untuk meneruskan penyelidikan ini dengan mengambil kira lain-lain faktor yang relevan.

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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Business Strategy is the direction and scope of an organisation over the long-term: which achieves advantage for the organisation through its configuration of resources within a challenging environment, to meet the needs of markets and to fulfil stakeholder expectations. It is a fundamental process that all business owners must go through at some stage of their business lifespan.

Strategy, rather, is an ongoing process. Strategy is a way of thinking about a business, of assessing its strengths, of diagnosing its weaknesses, of envisioning its possibilities (Jonathan Pugh, 2011). From day one onwards, business strategy planning is crucial to the business's growth and wealth creation and without an eye to the long term, it would be impossible to increase the size and stature of the business. It is time well spent, given the long term advantages that arise from having a solid strategic plan and planning SMEs next moves in a business sense.

Strategy making is as important as the eventual strategy selected and depends heavily on the context. The construct of strategy making is explained briefly from an academic perspective and then practically explored based on feedback from industry (Maritz, 2011) The term ''strategy making'' is used (instead of alternatives such as ''creation'' or ''development'' or formulation). The term ''making'' (or ''formation'') implies not only creating a strategy but also incorporates operational it or putting it into practice (Harrington, 2004). The value of using tactical intelligence to help inform and support strategists is one of business intelligence's best-kept secrets.

Tactical intelligence can be defined as information and analysis about competitors that can support the daily operations of a company. Its purpose is to use a team's understanding of competitor operations–from product development to supply chain to sales tactics – to advance specific operational objectives. Clearly, knowing the leading practices

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and tactical plans of competitors can help managers improve a company's day-to-day operations. But it is less commonly recognized that corporate leaders can tap streams of tactical intelligence to inform strategic decision making better.

At leading companies, tactical intelligence contributes to strategic competitive intelligence, which in its turn gives strategists a better view of external factors that can affect their companies' current performance and long-term planning. Many strategists tend to minimize the value of tactical competitive intelligence (CI). Other strategists are likely to pay attention to tactical intelligence only if it supports their existing theory or strategic imperative.

However, research shows that tactical intelligence can play a key role in informing and developing strategy if it is used and filtered effectively (Culver, 2006) Very few functions seem as well-positioned to create value as the corporate strategy function. Even the name, corporate strategy, suggests access to critical information and decision-makers, as well as distinctive contributions to the organization's most important decisions. Yet many corporate strategy managers find that their contributions are limited and they are unable to have significant, tangible impact. The value of the corporate strategy function is questioned as a result, and senior executives are faced with the question ''How can I increase the impact of my corporate strategy function?'' Our research shows that companies can improve the impact of their corporate strategy function, but choosing to do so requires a significant commitment to address the organization structure, processes and people competencies that limit the function's ability to have impact (Houston, 2011)

In the article ''The second road of thought: how design offers strategy a new toolkit'' (Golsby-Smith, 2007) pointed out the limitations of only applying half of Aristotle's treatise on human thinking rather than embracing Aristotle's full, holistic approach. As Golsby-Smith points out, numbers are very ineffective at communicating what could be; rhetoric, narratives,

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and stories are needed to convey those possibilities. It is with the best of intentions that the stakeholders within the company will actively interpret these documents. But with each interpretation, resolution is lost and cohesion gives way to a strategy's constituent parts.
What if firm`s could express their strategy not as numbers or frameworks or even a rhetorical narrative, but as something concrete? What if firm`s strategy took shape as a prototype that shows your organization what success will look like when firm`s have delivered against your goals? (Holloway, 2009)

The latter part of the definition is important because the nature of emergent strategies is precisely that they are not necessarily deliberately planned (or created for that matter) but come into being somewhere along the way. It is very important from the perspective of the long term health of SMEs and toward wealth creation. Figuring out where SMEs business is going is fundamental to strategic planning and to SMEs overall success, and taking the time out to pinpoint strategic objectives is a worthwhile practice for all SMEs. With time, there's no reason SMEs can't be aiming to grow, increase the turnover and achieve wealth. The opportunity to growth into a giant in the industry might be the goal arising from a strategic planning session. If that's the case, business strategy planning are essential to achieving SMEs goal, and no business can possibly head forward over the long term without some form of business strategy planning and decision making.

Thus SME`s investment in business strategic planning is fundamental to growing and improving the way firms business operates, and without some element of strategic planning on a personal level, the business would simply stumble into problem after problem, and more than likely tread water in financial terms. The importance in business strategy planning is obvious and essential to long term success, thus it is a factor that should be considered on a frequent. To get back the richness of strategy, we must liberate it from the toolbox approach we find in so many management books and give it back the general approach it deserves – that is, helping companies to achieve and sustain competitive advantage in a constantly moving environment.

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Strategy is a combination of bold (and unexpected) moves and flawless execution. One way of broadening the way one thinks about strategy is to bridge the gap between business and other disciplines. Ideas from the world outside business can be made useful for the strategist via metaphorical associations. In today's ever faster changing global environment, business leaders should use insights from every field that is at hand – whether they derive from business or from history, philosophy, anthropology, dance, or any other academic field. Stimuli that are external to business can replenish ''strategy'' with the richness, freedom, and creativity it needs, so that managers can perceive trends the competition does not see (Buswick, 2008)

Every organization has entrepreneurs but in the absence of the right combination of incentives and rewards they may never be seen or heard of and may eventually quit. Executives at the Harvard conference recognized this reality and reiterated the need for firms to create opportunities and articulate policies that will align individual interests with organizational goals. This is critical because in global business environment organizational boundaries are dynamic and ever expanding in scale and scope as recent events suggest. Moreover, given that human capital can be sourced from anywhere on the globe, it is imperative for large corporations to create and sustain viable networks with various syndicates of stakeholders, constituencies, and interest groups both within and outside the firm as a strategy to facilitate exchange and interaction of people, ideas, information, and knowledge in order to create value and generate desirable social and economic outcomes. In essence, the environment of the firm must change in fundamental ways to nurture the socialization of entrepreneurs who will in turn drive improvements in existing as well as the development of new products, new technologies, and new business models. In a nutshell, the firm must and should become a business incubator. Some large corporations such as Intel have embraced and adopted a business incubation strategy, and survived and sustained their

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competitive advantage by investing billions of dollars in hundreds of new startups and entrepreneurial firms (Electronic Times, 1998).

Furthermore, even Google, although enjoying significant market share and growing presence in software, publishing, and advertising industries, have in response to the demands and pressures of a hypercompetitive global economy, recently assumed its ''newest role'', as a venture capitalist, by investing millions of dollars in new and emerging technology startups to support the development and commercialization of new products and technologies (Businessweek, 2007) . Unfortunately, for many large corporations, it is business as usual. Such an attitude is doomed for failure and its only matter of time before more entrepreneurial and aggressive competitors cause their demise. So far the model of business incubation as strategy that has been discussed rests on three interrelated pillars – entrepreneurship, creativity, and innovation. In conclusion, two practical examples by two large businesses illustrate the adoption of business incubation as strategy aimed at promoting entrepreneurship, stimulating creativity, and facilitating innovation.

The first is J.P. Morgan, the well-known global Wall Street investment banking firm. In 2001, the company created LabMorgan as an in-house business incubator with three fundamental objectives: 1. To serve as an in-house venture capitalist to fund new e-finance companies; 2. To incubate e-finance ideas originating internally from the bank's employees and externally from the public domain; and 3. To facilitate the integration of new and emerging internet technologies into the bank's multiple businesses (Kirsner, 2001) With the endorsement of the CEO and $1billion commitment as well as the direct involvement and oversight of several ranking executives, LabMorgan was envisioned with the strategic intent of enabling the bank's access to emerging technologies and applications with commercial and investment potential.

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The second illustration of business incubation as strategy in exemplified by Sarnoff Corporation, a Princeton, New Jersey-based research and development firm that traditionally performed contract R&D work for governments, and business and industry across the globe. Sarnoff launched nVentions, an in-house incubator in 1995. The rationale for nVentions was premised on the recognition that the cyclical nature of contract R&D adversely impacted the firm's revenues and financial projections, especially during economic downturns. As a result, nVentions was envisioned as a ''technology outlet'' – a channel and conduit – to bridge the gap between early and later development stages where proven technologies and startups are sold or taken IPO. Income from incubation activities keeps the firm afloat during economic recession and also funds investments in new technologies. By using their proprietary technologies to create new firms through licensing and commercialization as well as pooling resources from venture capitalists, business incubation has become an integral part the strategy.

In summary, the three building blocks in the model of business incubation as strategy assumes that ''idea practitioners'' are valuable asset for business firms, and emphasizes the need for top management to embrace and adopt an entrepreneurial orientation by identifying, recognizing, and encouraging these idea entrepreneurs to continuously explore, develop, and test the feasibility of novel ideas in corporate environments.

Creativity requires organizations to complement traditional left-brain planning and logic with right-brain imagination, artistry, and intuition. The final building block focuses on innovation and calls for an extension of the scale and scope of the practice and the need to leverage all types of innovations to create value for organizational stakeholders. Regardless of the rationale or social and economic logic for promoting entrepreneurship, innovation, and creativity, business incubation as strategy can provide a critical platform to connect individual interests and passions with organizational goals. Business incubation may also

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embody the concrete and well-articulated policies and programs of firms as well as formalize top management's beliefs and value of entrepreneurship, creativity, and innovation.

Finally, with the right combination of incentives and rewards a firm may transform its environment – culture, structure, and strategy – into a flourishing one that can leverage the entrepreneurial spirit, creative prowess, and innovative skills of employees and managers in pursuit of desirable social and economic outcomes (Jr, 2009).

1.1 Purpose of the Study

This study contributes to a better understanding of the relationship between business strategy and wealth creation by developing and testing a normative model, which clarifies the nature of the influences of business strategy and its environmental factors and organizational factors on wealth creation. The key objective of this study is to gain a more complete understanding of the role of business strategy in wealth creation. In order to accomplish this objective, hypotheses for a new normative model were developed and tested.

1.2 The Specific Problem to Be Investigated

On this research it will examine how the business strategy can influence the creation of SMEs wealth in Melaka.

1.3 Scope of the study

This research analyzes small to medium-sized enterprises (SMEs) in Melaka. A variety of industries will be included. It will starts with SMEs demographic (gender, age group, marital status, type of business entity and etc) and SMEs background (total outlets, loan and grant, numbers of staff and etc Than the study will look at the element of wealth creation such as growth, profitability and new wealth. The study also takes into consideration the environmental factors (demand for new products, industry growth and technological opportunities) and organizational factors (firm age, firm size and number of alliances)

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Through this approach, a better understanding of wealth creation is obtained by using business strategy as an element.

1.4 Relevance of the study

Recognized how business strategy can influence SMEs toward wealth creation is very important and by identifying and defining the elements can helps SMEs to design their strategic planning in order to achieve wealth.

1.5 Research Question

The research question emphasizing on the three elements such as business strategy, environmental factor and organizational factor that can influences the wealth creation of the SMEs for better understanding the important of the business strategy toward the wealth creation.

1.6 Problem Statement

In the managerial point of view SMEs should well understand to what extent the business strategy can influence the wealth creation. On this research it will peeling and recognized how the business strategy can influence the creation of wealth and will demonstrate that business strategy tends to be good direct independent variables of wealth creation.

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CHAPTER 2

LITERATURE REVIEW

2.0 Business Strategy

The main thoughts when it comes to the strategy, there is no shortage of definitions or terminology. A simple Google search by using Google search engine of the words 'business strategy' yields 73.3 million responses. When asked about the question, what is strategy, what is business strategy and what is the strategy most people respond with thoughts such as strategy is 'a game plan', 'how to win the game', 'a set of an objectives and actions', or 'coordination and alignment of resources' all of which are intended to help an organization achieve its long-term goals, mission and vision. In truth, each of these responses is correct, at least in part. But in reality before an organization begins developing a strategy that will be both comprehensive and actionable, a more precise definition should be identified.

The two elements of this definition are worth expanding further. The way a firm competes and leading in a direction or toward an objective. A business strategy should include both objectives to be accomplished or general direction in which the firm is heading along with the actions or events that lead toward that direction. Objectives are the discrete goals of the strategy. What the company is trying to accomplish. Ideally they are specific for instance gain market share or create new wealth. Actions or events clarify how the firm will achieve the objectives. Actions such as improve new product development process or create partnerships or strategic alliances are examples of the actions that might be taken by the firms. Often there are referred to as strategic initiatives. Industry-based business strategies address how firms compete within an industry.

A business strategy should consider questions such as what industry or industries are we competing in, how profitable is our industry and what changes are taking place within our industry that might affect us. Industries are usually well-defined and the key competitors

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within an industry are typically known to the players. The automotive industry, the commercial airline industry, the soft-drink industry or computers industry provide good illustrations. While some non-traditional competitors are blurring the nature of competition today, still the industry or industries stand as the forum within which a firm competes and thus should be considered in the basic definition of strategy (Rumelt R.P, 1994).

(Rukstad, David J. Collis and Michael G., 2008) who contributed enormously to the article, identified three critical components of a good strategy statement, objective, scope, and advantage. It rightly believed that executives should be forced to be crystal clear about them. These elements are a simple yet sufficient list for any strategy (whether business or military) that addresses competitive interaction over unbounded terrain. Any strategy statement must begin with a definition of the ends that the strategy is designed to achieve. "If you don't know where you are going, any road will get you there" is the appropriate maxim here. If a nation has an unclear sense of what it seeks to achieve from a political campaign, how can it have a hope of attaining its goal?

The definition of the objective should include not only an end point but also a time frame for reaching it. For instance a strategy to get U.S. troops out of Iraq at some distant point in the future would be very different from a strategy to bring them home within two years. Since most firms compete in a more or less unbounded landscape, it is also crucial to define the scope, or domain, of the business: the part of the landscape in which the firm will operate. What are the boundaries beyond which it will not venture? If you are planning to enter the restaurant business, will you provide sit-down or quick service? A normal or luxury? What type of food will you served Chinese or Western? What geographic area will you serve the East or the West? SMEs could go into business tomorrow with the goal of becoming the world's largest laksa stall chain within 10 years. But will anyone invest in the company if SMEs have not explained how they are going to reach your objective? SMEs

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competitive advantage is the essence of your strategy: What your business will do differently from or better than others defines the all-important means by which you will achieve your stated objective. That advantage has complementary external and internal components: a value proposition that explains why the targeted customer should buy your product above all the alternatives, and a description of how internal activities must be aligned so that only your firm can deliver that value proposition.

Defining the objective, scope, and advantage requires trade-offs, which (Josie Fisher and Ingrid Bonn, 2011) identified as fundamental to strategy. If a firm chooses to pursue growth or size, it must accept that profitability will take a back seat. If it chooses to serve institutional clients, it may ignore retail customers. If the value proposition is lower prices, the company will not be able to compete on, for example, fashion or fit. Finally, if the advantage comes from scale economies, the firm will not be able to accommodate idiosyncratic customer needs. Such trade-offs are what distinguish individual companies strategically.

The first element of a strategy statement is the one that most companies have in some form or other. Unfortunately, the form is usually wrong. Companies tend to confuse their statement of values or their mission with their strategic objective. A strategic objective is *not*, for example, the platitude of "maximizing shareholder wealth by exceeding customer expectations for and providing opportunities for our employees to lead fulfilling lives while respecting the environment and the communities in which we operate." Rather, it is the single precise objective that will drive the business over the next five years or so. Many companies do have mission or objective statements of their ultimate purpose and the ethical values under which they will operate, but neither of these is the strategic objective.

The mission statement spells out the underlying motivation for being in business in the first place the contribution to society that the firm aspires to make. An insurance

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company, for example, might define its mission as providing financial security to consumers. Such statements, however, are not useful as strategic goals to drive today's business decisions. Similarly, it is good and proper that firms be clear with employees about ethical values. But principles such as respecting individual differences and sustaining the environment are not strategic. They govern how employees should behave. For example "doing things right"; they do not guide what the firm should do for example "the right thing to do". Firms in the same business often have the same mission. They may also have the same values. They might even share a vision: an indeterminate future goal such as being the "recognized leader in the insurance field."

However, it is unlikely that even two companies in the same business will have the same strategic objective. Indeed, if the firm's strategy can be applied to any other firm, firm don't have a very good one. It is always easy to claim that maximizing shareholder value is the company's objective. In some sense all strategies are designed to do this. However, the question to ask when creating an actionable strategic statement is which objective is most likely to maximize shareholder value over the next several years: Perhaps growth? Achieving a certain market share? Becoming the market leader?

The strategic objective should be specific, measurable, and time bound. It should also be a single goal. It is not sufficient to say, "We seek to grow profitably." Which matters more growth or profitability? A salesperson needs to know the answer when she's deciding how aggressive to be on price. There could well be a host of subordinate goals that follow from the strategic objective, and these might serve as metrics on a balanced scorecard that monitors progress for which individuals will be held accountable. Yet the ultimate objective that will drive the operation of the business over the next several years should always be clear. The choice of objective has a profound impact on a firm. When Boeing shifted its primary goal from being the largest player in the aircraft industry to being the most

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profitable, it had to restructure the entire organization, from sales to manufacturing. For example, the company dropped its policy of competing with Airbus to the last cent on every deal and abandoned its commitment to maintain a manufacturing capacity that could deliver more than half a peak year's demand for planes. Another company, after years of seeking to maximize profits at the expense of growth, issued a corporate mandate to generate at least 10% organic growth per year.

The change in strategy forced the firm to switch its focus from shrinking to serve only its profitable core customers and competing on the basis of cost or efficiency to differentiating its products, which led to a host of new product features and services that appealed to a wider set of customers.

A firm's scope encompasses three dimensions: customer or offering, geographic location, and vertical integration. Clearly defined boundaries in those areas should make it obvious to managers which activities they should concentrate on and, more important, which they should not do. The three dimensions may vary in relevance. The most important is the customer. The firm is configured to meet the needs of one very specific type of client. Unlike just about every other brokerage in the business, Jones does not define its archetypal customer by net worth or income. Nor does it use demographics, profession, or spending habits. Rather, the definition is psychographic: The company customers are long-term investors who have a conservative investment philosophy and are uncomfortable making serious financial decisions without the support of a trusted adviser. In the terminology of the business, Jones targets the "delegator," not the "validator" or the "do-it-yourselfer."

The scope of an enterprise does not prescribe exactly what should be done within the specified bounds. In fact, it encourages experimentation and initiative. But to ensure that the borders are clear to all employees, the scope should specify where the firm or business will not go. That will prevent managers from spending long hours on projects that get turned

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down by higher-ups because they do not fit the strategy. For example, clarity about who the customer is and who it is not has kept company from pursuing day traders. Even at the height of the internet bubble, the company chose not to introduce online trading. Unlike the many brokerages that committed hundreds of millions of dollars and endless executive hours to debates over whether to introduce online trading (and if so, how to price and position it in a way that did not cannibalize or conflict with traditional offerings), Jones wasted no money or time on that decision because it had set clear boundaries.

How, then, should a firm go about crafting its strategy statement? Obviously, the first step is to create a great strategy, which requires careful evaluation of the industry landscape. This includes developing a detailed understanding of customer needs, segmenting customers, and then identifying unique ways of creating value for the ones the firm chooses to serve. It also calls for an analysis of competitors' current strategies and a prediction of how they might change in the future. The process must involve a rigorous, objective assessment of the firm's capabilities and resources and those of competitors, as described in (Hisrich, 2004) not just a feel-good exercise of identifying core competencies. The creative part of developing strategy is finding the sweet spot that aligns the firm's capabilities with customer needs in a way that competitors cannot match given the changing external context—factors such as technology, industry demographics, and regulation.

It's found that one of the best ways to do this is to develop two or three plausible but very different strategic options. For example, fleshing out two dramatically different alternatives becoming a cheap Red Lobster or a fish McDonald's helped SMEs understand the strategic choices that they had to make. They had been trying to do a bit of everything, and this exercise showed them that their initiatives such as offering early-evening table service and expanding drive-through service were strategically inconsistent. (Competing on

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