Definition of Strategy

Although strategy is commonly associated with the business world, it is actually a term borrowed from the military. Originating back to the 18th century, strategy is derived from the Greek strategia referring to the art of arranging military troops when going to battle (Matloff, 1996). While military strategy thus pertains to the planning and coordination of troops to deceive the enemy and fulfill the intended policy, a firm's strategy similarly entails planning and coordination of its business activities in lieu of competition to reach its end goal of higher performance.

The definition of strategy has evolved over the years. In his well-renowned book Strategy and Structure (1962), Alfred Chandler defines strategy as “the determination of the long-run goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals.” Michael Porter (1996) stresses the fact that strategy is distinctly different from operational effectiveness and rests upon being different or unique.

Levels of Strategy

There are two basic levels of strategy that together help define the way in which a firm will achieve its goals. A business strategy is essentially how the firm competes while the corporate strategy defines where the firm competes. Also referred to as competitive strategy, a firm's business strategy details how it will develop a competitive advantage over its rivals. The firm’s corporate strategy is somewhat broader and determines what industries and markets to enter, and more specifically, through what methods to do so, such as the choice of acquisitions, diversification, new ventures, and so forth.

External Environment

Strategy is critical because it links the firm with its environment and therefore, determines the ultimate survival and success of the firm. When planning which strategic direction a firm should go, it is first necessary to obtain an in-depth understanding of its external environment. This requires researching and analyzing not only the competition, but other factors within its industry relating to the interaction of buyers, suppliers, substitutes, and barriers to entry. The external environment is very dynamic and constantly changing as new firms enter into the industry while others exit. Other macrolevel factors also impact the nature of the industry and must be
understood. The external environment is important because it is the context in which a firm will implement its strategy.

**Internal Strengths and Weaknesses**

Second, in addition to its external environment, a firm must attain a good understanding of its internal strengths and weaknesses. To do so, the firm must assess its resources and capabilities including its best strategic tools for leveraging itself against the competition. These key resources and capabilities may include size and buying power, reputation, network relationships, and innovation capabilities. It is the unique combination or set of firm resources and capabilities that matters most.

Third, a firm must determine its goals and where it wants to be. Many times, this involves setting specific financial performance goals to compensate its owners and be able to continue in business; however, in addition to its owners, a firm has many different stakeholders, including its employees, lenders, suppliers, community, and the government. A firm can also simultaneously set other goals to meet its stakeholder needs. For instance, a firm might set environmental goals to satisfy its community or quality goals to ensure that government requirements are easily met.

In summary, strategy is important because it links the firm to its environment. Detailed analyses of both the external environment along with the internal resources and capabilities of the firm allow development of a strategy that is a good fit and thus has a greater likelihood of success. Any strategy will also need performance diagnostic tools set up to monitor how effective the strategy truly is and if the goals are being met.

**References**

