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TESTING THE EFFECT OF OPERATIONS STRATEGY ON BUSINESS STRATEGY

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ABSTRACT

Strategies are designed to analysis and regulate the company's factors in an orderly and appropriate method, which contributes to maintaining the application of management in the best route. The purpose of this research is to examine the relationship between operation strategies and business strategies. IKEA home Furniture company used as a case study for the current research to identify the types of operations strategies that is being used and the effect of using such a strategy on the firm business strategy in order to minimize the cost and improve planning. This research applied the qualitative and quantitative methodologies in research by intensive literature review, in addition to collecting the data through questionnaire survey among the Staff in IKEA –Saudi Arabia. The results of the statistical analysis of the collected data support the acceptance of the study hypotheses which shows there is a positive effect for the operations strategies on the firm business strategy.

INTRODUCTION

Strategic management is important for any company to succeed which enhances the ability of managers to response and be aware of internal and external influences. In addition, it helps improving future ideas for the company, helps to accurately forecast strategic results, seeks to improve the long-term financial performance of the company, coordinates and unifies all managerial efforts and departments to reach the desired goals, and finally it is a carful method to identify opportunities in the future and expect problems that are affecting job performance.

According to Sohrab et al. [1], the study highlighted the importance of strategy in the company. It provides an operational model to link relationships between strategies in the company in terms of linking business strategy with business strategy [1]. Operational strategy comprises of low cost, quality, delivery, and flexibility. On the other hand, business strategies consist of cost, leadership, and differentiation.

The research done by Salas and Huxley [2], focused on Developing an organizational, business, or corporate strategy is a vital process which sets the route and the scope for the business. There is an open possibility for any business that create their own strategy, some of the strategies are not properly implemented and is followed by the business success. The requirement is a process that delivers a complete knowledge of the strategy of a business, and proper connections in between the fundamentals of the strategy and the business processes that will be essential to its implementation.

According to the research done by Ramanathan [3], business relationships must be managed in the operations concerning retail. The connections lying in between the business relationships with primary stakeholders, operations strategy, and performance are studied [3]. Ramanathan [3] claims rightful relationships with consumer and supplier has the possibility to allow and influence retailers to be more effective in planning good quality and easily understood and accomplishing strategies, and that cost less in turn, inspire business actions and objectives [3].

Information from a sensibly planned and conducted survey of SMEs of Malaysia industrialization were examined using structural equation modeling approach by Aghajari and Senin [4], which found the strategic invention is powerfully related with both kinds of innovative operation strategies and they display various operational and market performance results for the business [4]. The strategic orientation is a vital precursor of innovation in operation strategies and specifically, it creates an impact on both present and future associated innovative initiatives. This specifies that administrators of manufacturing businesses must line up their innovative moves with their strategic mind-set to attain their wanted results both operationally and financially.

According to the research done by Boyer and Lewis [5], strong discussion take place over the wanting for trade-offs in operations strategy. Some researchers opt for plants to concentrate on a one manufacturing ability and dedicate their inadequate resources accordingly, while some other researchers argued that advanced manufacturing technology (AMT) allows simultaneous developments in quality, cost, flexibility, and delivery. But less empirical proof is present for or against the trade-off model. In this research the question: “To what extent do manufacturing plants understand competitive significances as trade-offs?” [5]. It was found that trade-offs continue. Nevertheless, perceived differences in competitive significances are subtle and may differ across levels of the plant hierarchy.

Improving operations and business strategies has become increasingly important in today's business world. The organization strives to enhance the operations strategy as it will help the company to improve planning, gain competitive advantages, and maximize the profit, which will affect the organization positively. Therefore, this study examines the relationship between operation strategies and business strategies to help the company to gain competitive advantages and profit and IKEA home Furniture Company is considered in this study.

METHODOLOGY

Mixed methods were used in this study, which includes both qualitative and quantitative data. Both primary and secondary data were used in this research. This study used questionnaires survey to gather the primary data. The secondary data is based on literature review through academic journals, websites and dissertations.

Data Collection Tools

A questionnaire survey is used to gather the primary data among the staff of Ikea- Saudi Arabia.

Primary Data

The primary research data is referring to the research which has been collected and used for first time for specific data research [6]. The questionnaires are required to answer by the staff of Ikea- Saudi Arabia. The data collected from this questionnaire will be analyzed using SPSS software then a model will be suggested that explain the relationship between the two variables; Operations strategy and business strategy.

Secondary Data

Secondary data refers to the information that has been chose by previous research. The secondary data for this study are book, peer reviewed journals and published article.

Sample Size

Sampling is a subset of selecting the set of people from the population to observe and investigate in order to help the researcher to have a view about people's perspectives. Population sampling is a small group of selected people by random to answer relevant questions for the research. The sample size of this study is 55 staffs from one company “IKEA”.

Data Collection

The first-hand information has been collected by distributing a questionnaire for 55 personnel in Ikea- Saudi Arabia.

RESULT AND DISCUSSION

The data were collected from a questionnaire after that processed in response to the problem discussed previously. The main objectives from collecting the data are to measure the cost, quality, delivery, flexibility, cost leadership and differentiation to implement/select an appropriate strategy in order to minimize the cost.

Reliability Analysis

Reliability involves measuring the consistency of each variable. Cronbach's alpha is utilized through internal consistency to test the reliability of the study [7]. Internal consistency reliability involves correlating responses to each question to the others in the questionnaire [8].

Cronbach's Alpha

Coefficient ranges from the value of 0 to 1. Alpha can take on any value less than or equal to 1 but higher values of alpha are more desirable [9, 10]. Table 1 tabulates the overall value of Cronbach's alpha as per checking Reliability for the variables under this study. Table 1 shows all variables have the value of a Cronbach alpha above 0.65, this means that the reliability of the questionnaire is higher.

Table 1: Reliability Test for Variables (Cost Strategy, Quality Strategy, Delivery Strategies, Flexibly Strategy, Cost Leadership and Differentiation Strategies)

Variable		Cronbach's Alpha
Independent variable	Cost strategy	0.836
	Quality Strategy	0.739
	Delivery strategies	0.919
	Flexibly Strategy	0.791
Dependent variable	Cost leadership	0.866
	Differentiation strategies	0.771

HYPOTHESIS TESTING

Correlation Matrix:

The main objective for correlation matrix is to find a relationship between the variables in this study (Cost Strategy, Quality strategy, Delivery strategy, Flexibility Strategy) and (Differentiation Strategy, cost leadership strategy). Correlation matrix is an instrument that provides the correlations between the variables of a study. Correlation Matrix provides the Pearson's Correlation Coefficient between the variables in order to evaluate the relationship among these two variables, to assist in evaluating the relationship between these variables. Moreover, the value for Pearson's correlation can be ranged from 0 (No correlation) and 1 (Perfect correlation). The aim of applying Pearson correlation analysis and descriptive statistics is to provide analysis and test the direct relationship between the independent and dependent variables. Table 2

shows the Correlation Matrix between the study variables, the value of Pearson Correlation represents the relationship between each two variables in this study.

Table 2: Correlation Matrix for The Variables (N=55)

		AVECO	AVEQUT	AVEDEL	AVEFEX	AVEC	AVEDE
AVECO	Pearson Correlation	1	.526**	.575**	.367**	.672**	.264
	Sig. (2-tailed)		.000	.000	.006	.000	.051
AVEQUT	Pearson Correlation	.526**	1	.387**	.667**	.329*	.666**
	Sig. (2-tailed)	.000		.003	.000	.014	.000
AVEDEL	Pearson Correlation	.575**	.387**	1	.230	.622**	.228
	Sig. (2-tailed)	.000	.003		.091	.000	.094
AVEFEX	Pearson Correlation	.367**	.667**	.230	1	.371**	.686**
	Sig. (2-tailed)	.006	.000	.091		.005	.000
AVEC	Pearson Correlation	.672**	.329*	.622**	.371**	1	.309*
	Sig. (2-tailed)	.000	.014	.000	.005		.022
AVEDE	Pearson Correlation	.264	.666**	.228	.686**	.309*	1
	Sig. (2-tailed)	.051	.000	.094	.000	.022	
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

The flagged variables represent the significant correlation. The variable “Cost Strategy” on “Cost leadership Strategy” is .264. “Cost Strategy” on “Differentiation Strategy” is .672**. The cost strategy has lower effect on cost leadership. However, it has a positive effect on Differentiation. The variable “Quality Strategy” on “Cost leadership” is. .329. “Quality Strategy” on “Differentiation Strategy” is .666**. The Quality strategy has lower effect on cost leadership. But it has a positive effect on Differentiation. The variable “Delivery Strategy” on “Cost leadership Strategy” is. 622**. “Delivery Strategy” on “Differentiation Strategy” is .228. The Delivery strategy has positive effect on cost leadership. Though, it has a lower effect on Differentiation. The variable “Flexibility Strategy” on “Cost leadership Strategy” is .371**. “Flexibility Strategy” on “Differentiation Strategy” is .686**. These values refer to positive, significant effect between all the above variables.

Regression Analysis

Regression analysis is a numerical process for estimating the relationships among variables. It assists in analyzing and modeling many variables [11]. It includes some techniques for modeling and analyzing many variables, specifically between a dependent variable and one or more independent variables. Figure 1 shows the hypothesis relationship of the research model. The Model summary of Linear Regression Analysis is tabulated in Table 3.

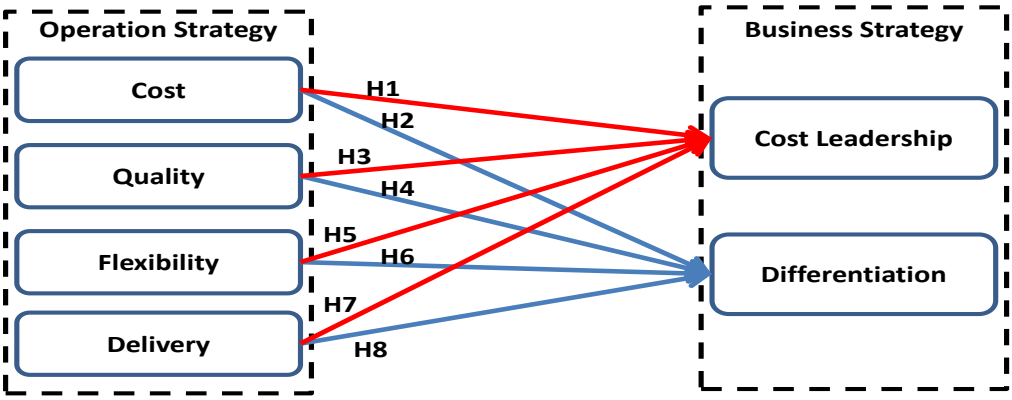

Figure 1. Research Model for Relationship of Hypothesis

Table 3: Model Summary of Linear Regression Analysis

Variable	Dependent variable	R square
Cost strategy	Cost leadership	.452
	Differentiation strategies	.070
Quality Strategy	Cost leadership	.108
	Differentiation strategies	.444
Flexibly Strategy	Cost leadership	.138
	Differentiation strategies	.471
Delivery strategies	Cost leadership	.387
	Differentiation strategies	.052

Simple Linear Regression Analysis for Cost Strategy And Cost Leadership Strategy:

Hypothesis 1: There is a positive effect of cost strategy with cost leadership strategy. A simple linear model is fitted between cost strategy as an independent variable, and cost leadership strategy as a dependent variable. The results were shown in Table 3. It was found that the model coefficient of determination (R Square) equals 45%. This means that the model explains 45% of the variance in cost leadership strategy, or that 45% of the variation in the latter variable can be explained due to the variation in cost strategy. Also,

the overall statistical significance of the model reveals that the model is significant with p-value=0.000 (P-Value < 0.05).

Simple Linear Regression Analysis For Cost Strategy And Differentiation Strategy:

Hypothesis2: There is a positive effect of cost strategy with differentiation strategy. It was found that the model coefficient of determination (R square) equals 7%, which means that the model explains 7% of the variance in differentiation strategy, or that 7% of the variation in the latter variable can be explained due to the variation in cost strategy. Also, the overall statistical significance of the model reveals that the model is significant with P-value 0.000 (P-value <0.05).

Simple Linear Regression Analysis for quality strategy and cost leadership strategy:

Hypothesis3: There is a positive effect of quality strategy with cost leadership strategy. Found that the model coefficient of determination (R Square) 10%, which means that the model explains 10% of the variance in cost leadership strategy, or that 10% of the variation in the latter variable can be explained due to the variation in quality strategy. Also, the overall statistical significance of the model reveals that the model is significant with P-Value=0.000 (P-value < 0.05).

Simple Linear Regression Analysis For Quality Strategy And Differentiation Strategy:

Hypothesis4: There is a positive effect of quality strategy with differentiation strategy. It was found that the model coefficient of determination (R square) equals 44%, which means that the model explains 44% of the variance in differentiation strategy, or that 44% of the variation in the latter variable can be explained due to the variation in quality strategy. Also, the overall statistical significance of the model reveals that the model is significant with P-value 0.000 (P-value <0.05).

Simple Linear Regression Analysis For Flexibility Strategy And Cost Leadership Strategy:

Hypothesis5: There is a positive effect of flexibility strategy with cost leadership strategy. Found that the model coefficient of determination (R square) equals 13%, which means that the model explains 13% of the variance in cost leadership strategy or that 13% of the variation in the latter variable can be explained due to the variation in flexibility strategy. Also, the overall statistical significance of the model reveals that the model is significant with P-value 0.000 (P-value <0.05).

Simple Linear Regression Analysis For Flexibility Strategy And Differentiation Strategy:

Hypothesis6: There is a positive effect of flexibility strategy with differentiation strategy. It was found that the model coefficient of determination (R square) equals 47%, which means that the model explains 47% of the variance in differentiation strategy, or that 47% of the variation in the latter variable can be explained due to the variation in flexibility strategy. Also, the overall statistical significance of the model reveals that the model is significant with P-value 0.000 (P-value <0.05).

Simple Linear Regression Analysis For Delivery Strategy And Cost Leadership Strategy:

Hypothesis7: There is a positive effect of delivery strategy with cost leadership strategy. Found that the model coefficient of determination (R square) equals 38%, which means that the model explains 38% of the variance in cost leadership strategy or that 38% of the variation in the latter variable can be explained due to the variation in delivery strategy. Also, the overall statistical significance of the model reveals that the model is significant with P-value 0.000 (P-value <0.05).

Simple Linear Regression Analysis For Delivery Strategy And Differentiation Strategy:

Hypothesis 8: There is a positive effect of delivery strategy with differentiation strategy. It was found that the model coefficient of determination (R square) equals 5%, which means that the model explains 5% of the variance in differentiation strategy, or that 5% of the variation in the latter variable can be explained due to the variation in delivery strategy. Also, the overall statistical significance of the model reveals that the model is significant with P-value 0.000 (P-value <0.05).

CONCLUSION

The purpose of this study is to determine the effect of operation strategy on business strategy then select the best strategy/ strategies it will help the company to improve planning, gain competitive advantages and maximize the profit, which will affect the organization positively. The results of this study support the hypotheses that operation Strategy (cost, quality, delivery, flexibility) has a positive relationship with the business strategy (cost leadership, differentiation).

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