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Wrocław University of Technology

Business Information Systems

Adam Świda

STRATEGIC MANAGEMENT

Wrocław 2011

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Preface

Modern business is still challenging for managers. The management literature should supply various techniques and instruments that can help to provide business activities. One of the most important areas of modern management is the strategic management.

The literature of strategic management is big and versatile. That's why this new position should present a short canon of the concept. During many the years of strategic management progress, there were some unquestionable elements:

- Developing a mission statement and objectives
- Strategic assessment
- Strategic alternatives and choice
- Strategy implementation

The book will try to present and explain these main areas of strategic management. The layout of the book is established according to the items. The main purpose of the text is to provide students with an integrative concept of strategic management. It should help them to understand and develop strategic management knowledge and skills

This book is dedicated to students specializing in "Business Information Systems" at the Wroclaw University of Technology.

1. Introduction to strategic management

Presently business and economic activities are playing on many stages. The picture of the modern economy is evolving. We can state that one fact - is stable - changes. The changes can be observed on many levels - economical, cultural, technological, demographical etc. For example in the technological area we can observe the process of shortening the products life cycle. The main reason for this is dynamic invention activity. The result of the process is shortening time from scientific invention to market utilization (Figure 1.1).

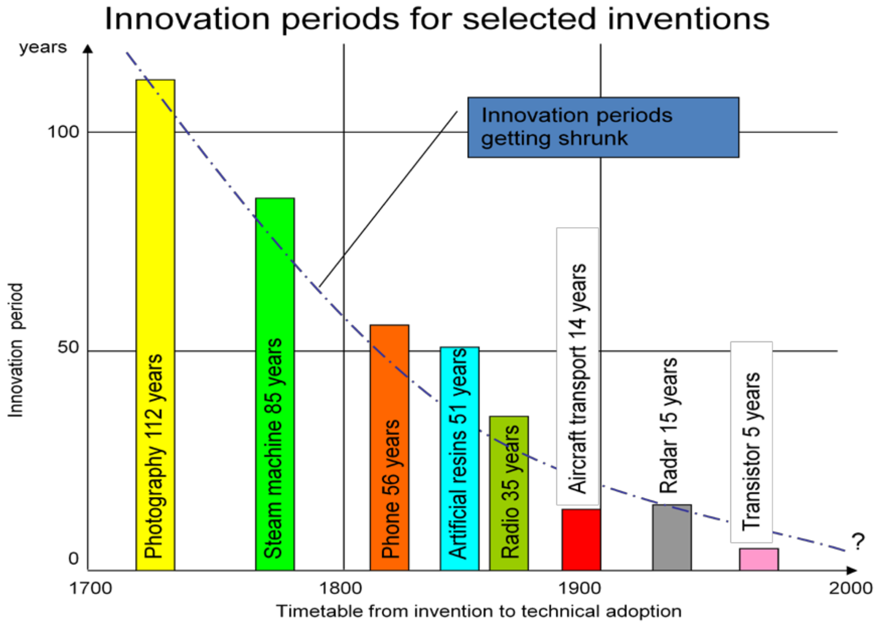

Figure 1.1. Innovation periods for selected inventions.
Source: [F. Kramer, 1978, p. 13]

As we can see, the dynamic time from invention to technical and market adoption is accelerating. The same dynamic changes take places in the aforementioned fields. Due to modern business needs, these methods and instruments can help organizations and firms survive in a dynamic and turbulent environment.

As noted by management scholar Peter Drucker, formal organization may be defined as a group of individuals working together in coordinated effort for the purpose of accomplishing one or more objectives. In the world of business, entrepreneurs and managers seek opportunities to meet the needs of customers by producing desired goods and services. [Bartlett, 1988, p.4]

In the history of the modern economy, many concepts were on top in manager's hierarchy (Figure 1.2).

Development phases of strategic management

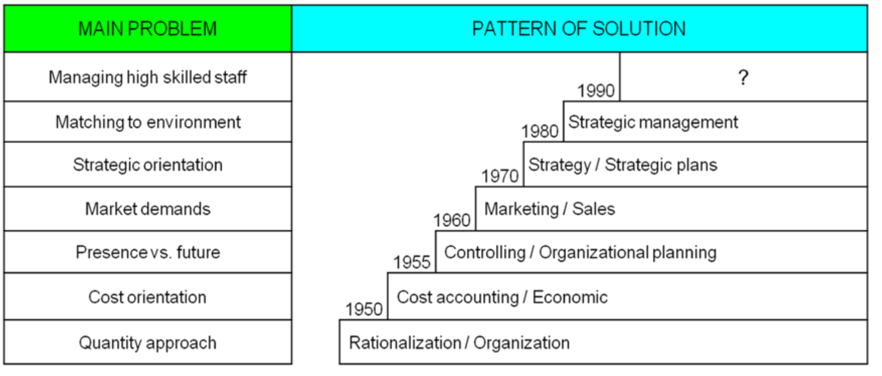

Figure 1.2. Development phases of strategic management.
Source: [M. Moszkowicz, 2000, p. 27]

Any economical epoch has its own - most effective concepts and methods that provide the best results.

Strategic management is modern and one of the most efficient methods. Good strategic management becomes the key element in determining the long term performance of a business or other organization.

Definitions of strategic management

Table 1.1. Selected definitions of strategy and strategic management

Nr	Author	Definition
1.	A. D. Chandler Source: [Moszkowicz 2005, p.47]	Strategy – defines long-range enterprise aims and tasks, finds directions for development and configuration resources for realization these selected aims.
2.	K. Obłój Source: [Moszkowicz 2005, p.47]	Strategy – an invented general activity concept that realization enables an organization to achieve a market advantage.
3.	J.B. Quinn	A strategy is a pattern or plan that integrates an

	Source: [Bartlett, 1988, p.5]	organization's major goals, polices and action sequences into a cohesive whole. A well-formulated strategy helps to marshal and allocate an organization's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents.
4.	J. Jeżak Source: [Moszkowicz 2005, p.47]	Strategic management – a concept of management process as one integrated unit that we can call a total system of defense against outside hostile trends.
5.	M. Moszkowicz Source: [Moszkowicz, 2005]	Strategic management is a total management concept, which in the face of a turbulent environment is capable of creative adaptation. This concept defends negative outside trends and creates effective competitive advantages, which enable the realization of the enterprise's aims.
6.	M. Moszkowicz Source: [Moszkowicz, 2005]	Enterprise' strategy – evolved from selected business concept (mission statement) activity pattern, that enables the organization to achieve a solid position on environment.

The last definition seems to be the most useful. The main elements of the definition:

- Business concept (mission statement).
- Selected criteria, which are the basics for the directional enterprise's activities.
- Stability on the environment, positive condition of balance at the angle of the selected survival criteria
- Environment in which the enterprise is functioning

The definition especially underlined the role of the mission statement for proper strategy and also the stability of the firm position in an environment.

Another important problem is understanding the idea of **strategy levels.** Many modern firms are enormous. The problem is: could one strategy cover the whole firm's activities? It depends. The theory of strategic management creates the idea of Strategic Business Units (SBU). The idea of SBU enables the formulation of proper strategies for every firm's departments. The main criteria for selecting SBU are [Moszkowicz, 2005]:

- SBU has its own clients
- SBU has its own competitors
- Decision independence

- Separated finance - SBU can be calculated as the centre of incomes or costs
- Sometimes- investments independence

The graphical reflections (fig 1.3) present the three main strategy levels:

1. Whole corporate strategy,
2. Strategic Business Units (SBU) strategy
3. Functional strategy

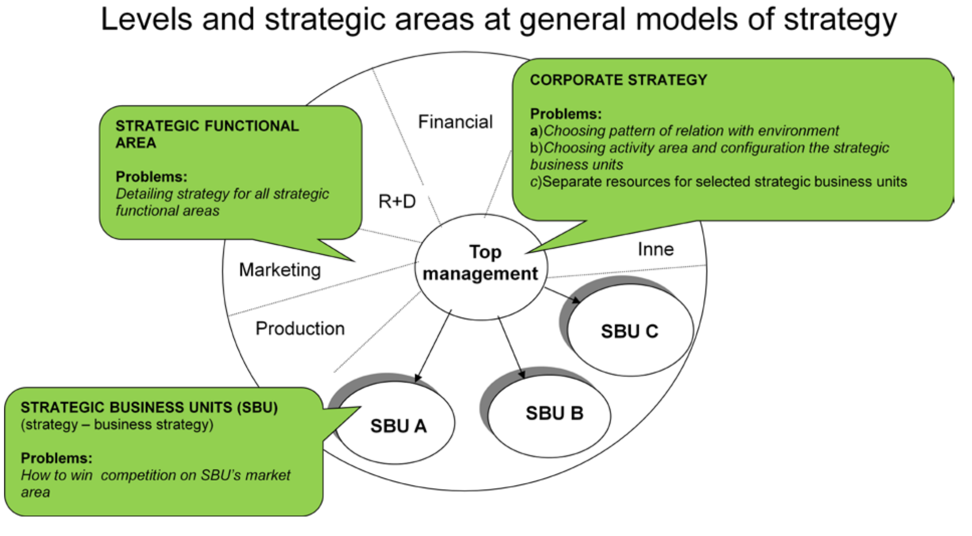

Figure 1.3. Levels and areas at corporate strategy model.
Source: [M. Moszkowicz 2005]

Another Figure is the empirical example of dividing the corporation into groups of SBU.

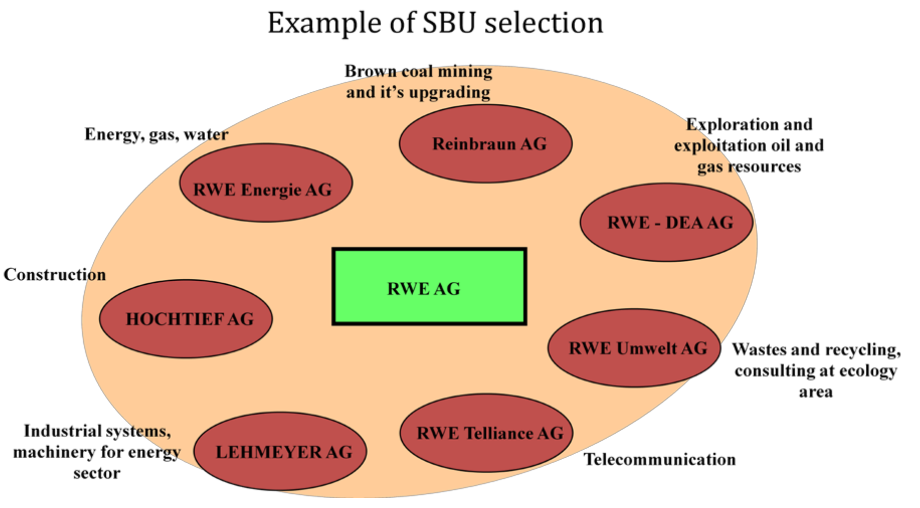

Figure 1.4. Strategic Business Unit selection
Source: [P. Kubiński, 2005]

This is an example of a German energy company. For each SBU, the company should prepare the selected strategy. The strategy may be independent from other SBU's, but must fit the whole corporate strategy. The problem explains another Figure.

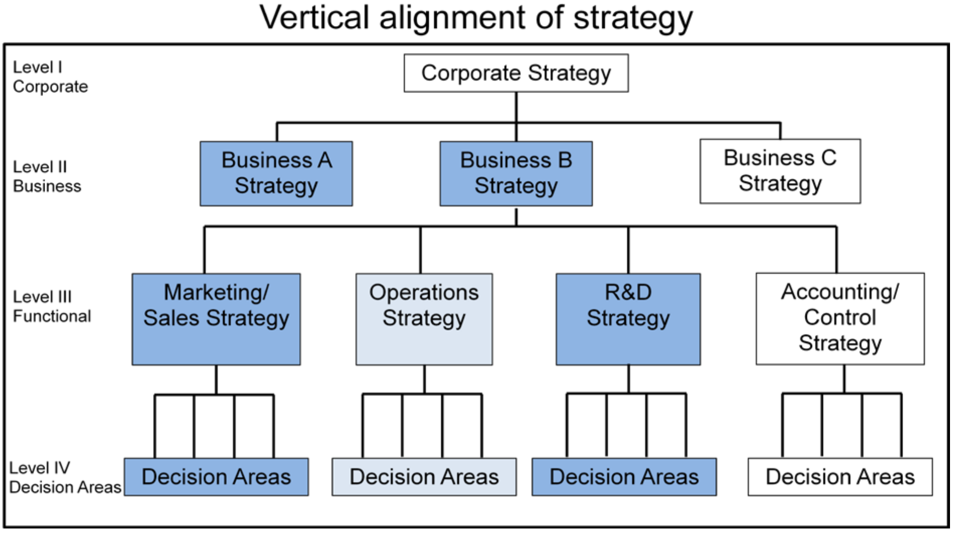

Figure 1.5. Vertical alignment of strategy.
Source: [S. J. Porth 2003 p. 213]

In the picture we can notice the fourth strategy level - decision areas level. Nevertheless, the first three levels are enough to understand the idea of selecting business strategies.

Type of strategies

The essence of strategic management is the process of creating strategies for business. The other problem is: what kind of strategy should be generated? Up to now we know that there are corporate strategies, SBU strategies and functioning strategies. But the science of strategic management mention many more types of strategies.

Table 1.2. Types of strategies

Types of strategies

Type	Strategy	Example
Expansion	Market Penetration	Campbell Soup's s $95 million advertising campaign designed to increase sales and share of its flagship soup line.
	Market Development	The expansion of Comcast Corporation, a U. S. cable company, into European markets.
	Product Development	The ongoing commitment of Merck Pharmaceuticals in the research and discovery of new medicines and product development.
Diversification	Related Diversification	Nike; s expansion from athletic shoes intro sports apparel and equipment.
	Unrelated Diversification	The success of GE in different industries, including appliances, broadcasting, aircraft engines, and financial services.
Alliances and Integration	Vertical Integration	Chevron' s involvement in every aspect of the petroleum industry, from exploration and production to transportation, refining, and retailing to the final consumer.
	Horizontal Integration	The consolidation of accounting firms Price Waterhouse and Coopers & Lybrand.
	Strategic Alliance	The alliance formed by Starbucks and Kraft allowing Starbucks to distribute coffee in supermarkets and Kraft to pick up a gourmet coffee line.
	Joint Venture	Coke and P&G formed a jointly owned company to develop and market juices and snacks.
Retrenchment	Cost Cutting	Firestone' s 10% workforce layoff in the aftermath of its defective tire crisis.
	Divestment	Pepsi' s spinning off of its food services businesses (KFC, Taco Bell, and Pizza Hut) in order to concentrate on the beverage and snacks food industries with Pepsi and Frito Lay products.
	Liquidation	Bradlees ceased operations, closing all of its 105 stores and selling off its inventory.

Source: [S. J. Porth, 2003]

Of course strategic management theory specifies more categories, but this example is enough for our work here.

At the end of this chapter, we should give some remarks about the **methodology of strategic management.** Modern strategic management according to the definitions (tab.1.1.) is a process that enables the organization to achieve a stable position in an environment. The process has its own phases. The authors presented versatile strategic management processes[1]. The first example of strategic the management process (Fig 1.6) shows typical elements (phases or steps) of strategic management. This is a general model, applicable to a wide variety of organizations. For business organizations, this model directly portrays the strategic management process for single product firms, or for business units (SBU) in a diversified company.

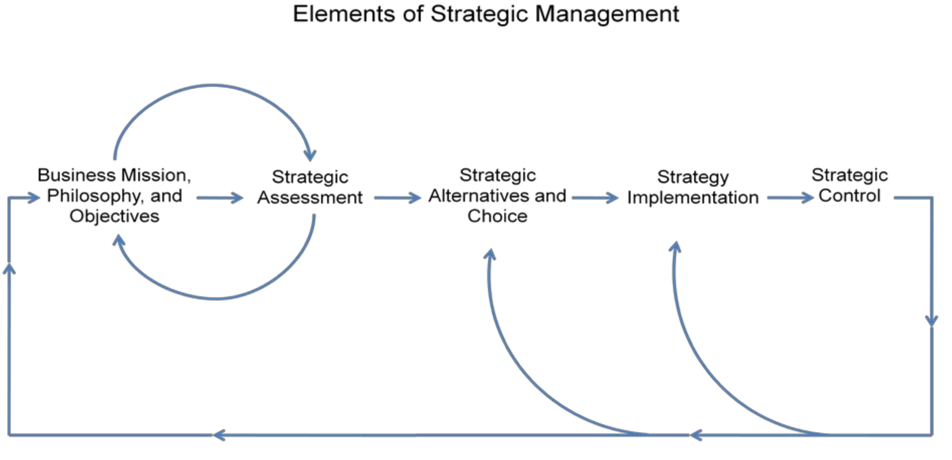

Figure 1.6. Main elements of strategic management.
Source: [H.C.Bartlett,1988 p. 7]

Hence, the model is relevant at the business level of strategy formulation in complex organizations and also for corporate level strategic management [Bartlett, 1988, p.7].

Another model (fig 1.7) is similar to the first but is more useful because it tries to explain for whom the strategic management process is performed for.

[1] More about: [Krupski, 2003, p. 86-89]

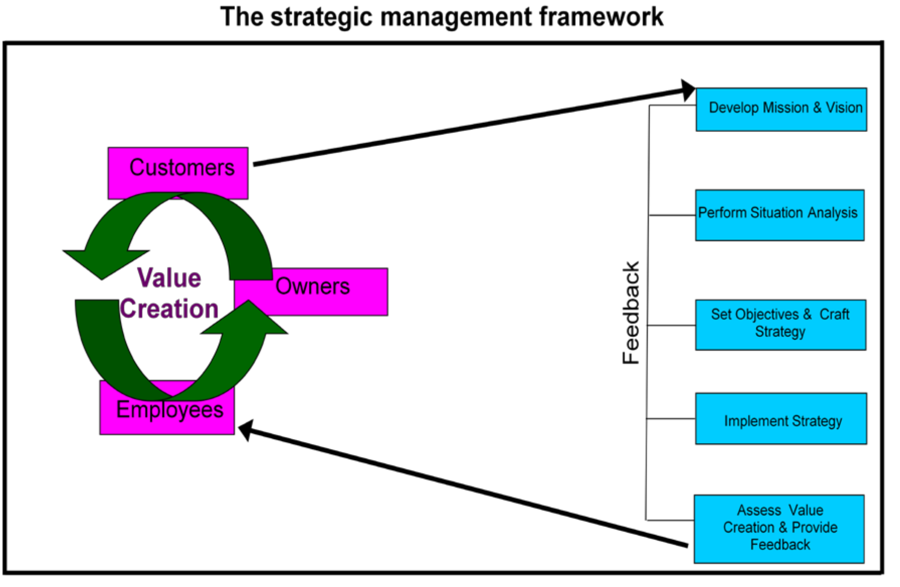

Figure 1.7. Framework of strategic management.
Source: [S. J. Porth, 2003]

Analyzing the models we could state that - most importantly - the process must be sustainable and must have dynamic feedback in all phases.

The main selected phases from the model will be the backbone for the book and will be analyzed in detail in the next chapters.

Every selected phase plays an important role in the strategic management process and is indeed crucial to the long-term survival and sustainable growth for enterprises and organizations.

2. Mission statement

The mission statement is very often a starting phase for many strategic management processes[2]. The definition of a business mission becomes an important element in the early phase of the strategic management process. It provides the conceptual foundation upon which the strategic thinking and planning of the

[2] R. Krupski, 2003 p.

organization is conducted. Peter Drucker noted[3] that every great business builder had a definite idea or clear theory of the business that guided his action and decisions. Developing this theory of business required a clear definition of the business' purpose and mission. It required developing answers to the three basic questions [Bartlett, 1988, p.13]:

1. What is our business?
2. What will it be?
3. What should it be?

Answering the first question, what is our business?, requires a clear understanding of who the customer is, where the customer is, and what need is being satisfied when the customer is purchasing the firm's product or service.

Developing answers to the second question we must know that the present organization can adapt successfully to changes in the economy, to changes in consumer demand, and to the moves of its competitors. If not, the firm needs modifications and internal changes which enable successful business activities.

Answering the last question, what should our business be?, may result in a dramatic change because our business should be totally rebuilt. With this knowledge, the business can position itself for long-term survival and growth, possibly in a significantly different form. This involves thinking through what lines of business to keep and what lines of business to drop or de-emphasize. These activities need, of course, the reconfiguration of the organizational resources which should be used in the new business lines of activity.

In general the questions can help to understand our business role and position. The role of the mission statement is to clear our business idea for the others connected with our business (firm's staff, clients etc).

Table 2.1. Selected definitions of business mission and mission statements

Nr	Author	Definition
1.	Peter Drucker Source: [Bartlett, 1988, p.14]	Only a clear definition of the mission and purpose of the business makes possible clear and realistic business objectives. It is the foundation of priorities, strategies, plans and work assignments. It is the starting point for the design of

[3] H. C. Bartlett, 1988, p.13

		managerial jobs and, above all, for the design of managerial structures. Structure follows strategy. Strategy determines what the key activities are in a given business. And, strategy requires knowing what our business is and what it should be.
2.	M. Moszkowicz Source: [Moszkowicz 2005]	Mission statement is a synthesis – in an environment reality – a business concept
3.	Dereck Abell Source: [Bartlett, 1988, p.14]	In reality, the product should be considered as a physical manifestation of the application of a particular technology to the satisfaction of a particular function for a particular customer group. The choice is one technologies, functions, and customers to serve, not products to offer. The product is the result of such choices, not an independent decision that results in such choices.

The Dereck Abell definition seems to be useful because we can separate the three dimensions of a mission. For a better understanding see Figure 2.1.

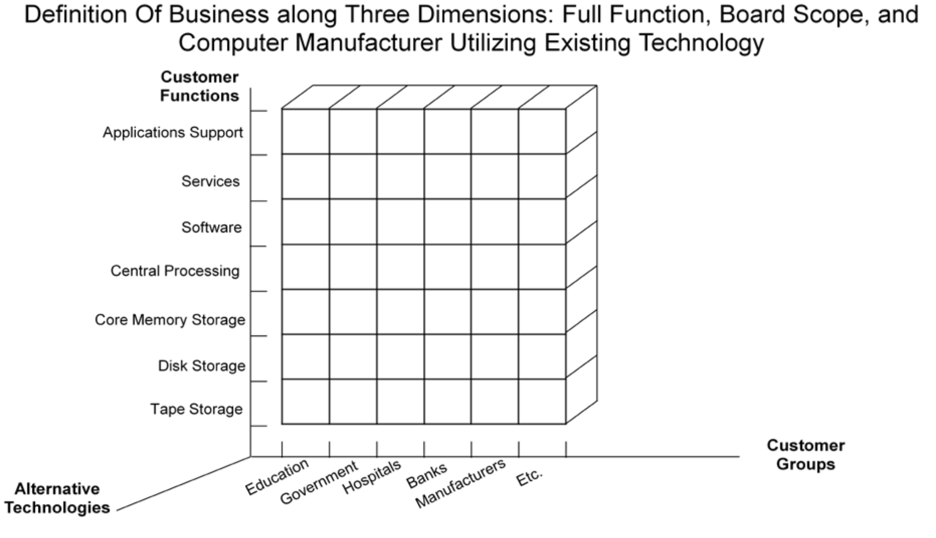

Figure 2.1. Definition of business along three dimensions.
Source: [H.C.Bartlett,1988 p. 15]

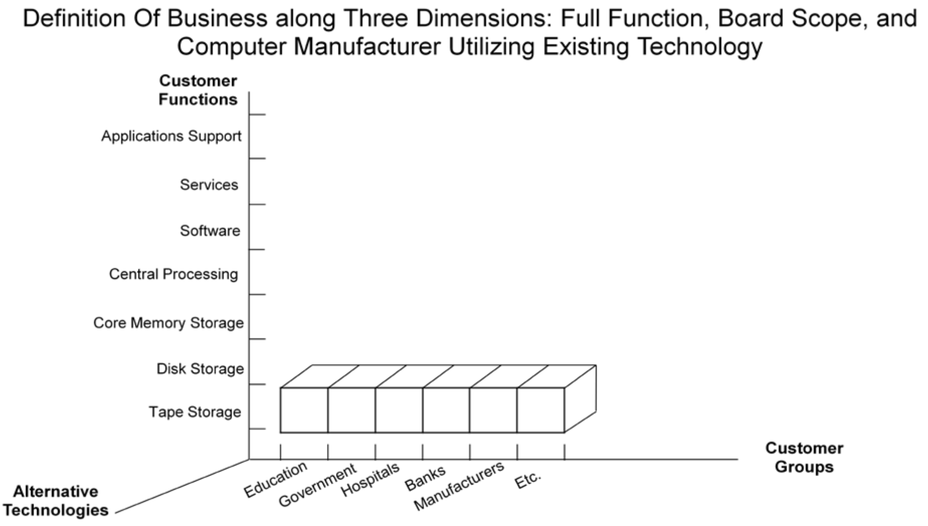

Figure 2.2. Definition of business along three dimensions
Source: [H.C.Bartlett,1988 p. 16]

The advantages of this approach to the business definition are numerous[4]. First, if properly developed, these three axes will identify the array of alternatives available to the firm. Second, a firm's business definition can be presented very clearly, once the scope of functions, customer groups and technologies has been determined. Third, the present and future expected positions can be shown. Finally, management is alerted to be mindful of emerging technologies, possible new customer groups, and potential new customer functions.

Another important case connected with the firm's mission is realizing: what is r the mission for? What is the role and function of the mission? An effective mission statement may serve several purposes, some of them within the firm and others for the external environment. Table 2.2. presents examples of mission statement functions. In general - the most critical function is to help build a sense of shared purpose in the organization, and to communicate that direction and purpose internally and to the public. A clear mission statement is needed to guide and set the parameters for the strategic management process. It helps managers to set objectives, make strategic choices and is the basis for allocating resources [S. J.Porth, 2003, p.53]. If the present mission doesn't cover its main functions, it should

[4] H.C. Bartlett, 1988, p. 15

be reconstituted. A firm's mission, while enduring, is not stagnant. It may evolve over time [S. J.Porth, 2003, p.53].

Table 2.2. Examples of mission statement function

Nr	Author	Mission Statement Function
1.	M. Moszkowicz Source: [Moszkowicz 2005]	1. Structured and innovative function. 2. Anticipatory function. 3. Norm creative function 4. Integrative and motivational function
2.	S. J. Porth Source: [Porth, 2003, p.53]	1. To establish a sense of direction within the firm and to guide the strategic management process by providing a basis for objectives and strategies 2. To influence decisions about resource allocation 3. To help build and communicate among employees a sense of shared purpose 4. To communicate an attractive and compelling image to external stakeholders 5. To support the core values of organization

The next problem is the capacity of the mission statement. If the mission statements are too general they provide no direction and are worthless as decision making and communication tools. Below (Table 2.3) are examples of the short forms of the mission statements:

Table 2.3. Short mission statements

1. Democratize the computer – APPLE
2. Speed and cheap – McDonald's
3. Comfortable attendance of clients - Mariott
4. Fulfill the customers' needs of electricity and heat energy – energy sector firm
5. We supply heat energy to customers' houses – energy sector firm

Source: [M. Moszkowicz, 2005]

The advantage of short mission statements are that: they are clear and easy to remember and understand for the firm's staff and customers. But the question is: does the short form cover all the selected functions?

As a counterpart, Table 2.4 demonstrates extended mission statements. They are more difficult to remember but they fulfill the selected functions. The author personally supports this type of mission statements, because they can be a real base for understand the business and firm's internal and external role.

Table 2.4. Extended mission statements

Business Mission Statements

Humana, Inc.

The mission of Humana is to achieve an unequalled level of measurable quality and productivity in the delivery of health services that are responsive to the needs and values of patients, physicians, employers, and employees. Our strategy is twofold: We insist upon excellence and productivity, and we are creating an integrated health care system while exploring new services that address the needs and values of our customers.

General Electric Company

General Electric has identified 15 major businesses that are leaders in their markets today and that represent GE's best opportunities to remain a world leader in the 1990s. We have grouped these businesses into three circles – core, high technology, and services – and surrounded them with three support operations that are helping our 15 major businesses in their drive for consulting world leadership.

McDonald's Corporation

MacDonald's Corporation is the largest foodservice organization in the world. The Company, its franchisees and affiliates operate more than 7,200 McDonald's restaurants, each serving a limited menu of high-quality moderately price food. The restaurants are located in all 50 of the United States, the District of Columbia, and internationally in 30 other countries and territories. In its 28-year history, the Company has pioneered foodservice technology, marketing techniques, and operational systems that are now the standards of industry.

The McDonald's motto of Q.S.C.&V. translates into *Quality* food products; efficient, friendly *Service*; and restaurants renowned for the *Cleanliness* and *Value* they provide.

Q.S.C.&V. . . . McDonald's promise to people around the world.

Source: [H.C.Bartlett,1988 p. 20]

If the organizational mission statement is clear and precise the managers can establish **strategic objectives.** Strategic objectives evolve naturally from an organization's mission. The objectives define the long-term competitive position the firm wishes to achieve. It is appropriate to review some guidelines for establishing strategic objectives in an organization. These are outlined below [Bartlett, 1988, p. 23]:

1. Strategic objectives should strongly correlate with and facilitate the attainment of the business mission.

2. Strategic objectives should be compatible with the philosophy and culture of the business.

3. Strategic objectives should be aggressive but attainable over a period of time. Objectives or goals that are either too high or too low will not motivate individuals. Ideally, strategic objective should require work and imagination to attain them.

4. Strategic objectives should be determined through discussion and negotiation among individuals at various levels of the organization.

5. Strategic objectives should be understood by all members of the organization, especially those who have to lead the organization toward the attainment of those objectives.

6. Strategic objectives should become more specific as they are developed into operational objectives and goals at the operating levels of the organization. They should be measurable and quantifiable wherever possible. Target dates for attainment should be specified.

7. Strategic objectives should conform to ethical and social codes accepted by society and the business.

For a better understanding, let's look at some empirical examples of organizational strategic objectives.

As may be seen from the examples shown in Table 2.5, statements of strategic objectives define the character and scope of the business, specify both general and quantified performance goals for the firm, and reveal desired relationships with employees, customers, stakeholders [Bartlett, 1988, p. 23]. The attainment of the strategic objectives requires that objectives be developed for several levels of an organization and for several different time periods.

Table 2.5. Examples of strategic objectives

Strategic Objectives

General Motors Corporation

- Retain leadership in the worldwide automobile industry by producing high-quality, high-value products in the variety that customers demand.
- Remain a significant force in related key industries.
- Continue as a high-technology enterprise sustaining a competitive edge into the 21st century.
- Assure stockholders an attractive return as a basis of their continuing support of GM's progress and objectives.

Kemper Group

- To provide insurance and financial services and products that are responsive to the needs of present and prospective customers and are competitive in price.
- Over any five-year period, to achieve an increase in after-tax earnings greater than the average of our principal competitors, while at the same time increasing our share of market.
- To invest assets at the highest net return consistent with maintaining financial resources sufficient to meet our obligations under all foreseeable circumstances.
- To conduct all of our activities in an ethical, lawful and responsible manner.

Source: [H.C.Bartlett,1988 p. 22]

3. Strategic analysis

3.1 Macro environment

Strategic analysis of an environment means a consideration of the external force a firm must recognize in formulating its basic objectives, strategies and policies. And the firm must also recognize and estimate the internal capabilities that the firm will need when it attempts to attain its strategic objectives[5]. But the first phase of the strategic analysis process is to structure the firm's environment.

[5] H.C. Bartlett, 1988, p. 25

Figure 3.1. Structure of environment.
Source: [S. J. Porth, 2003]

As we see on the Figure 3.1. the firm's environment is divided into two main parts: macro environment and task environment.

Macro environment contains clusters:

- Political and legal
- Technological
- Economic
- Demographic and sociocultural

Other authors present very similar environment structures. Figure 3.2 shows a similar macro environment structure.

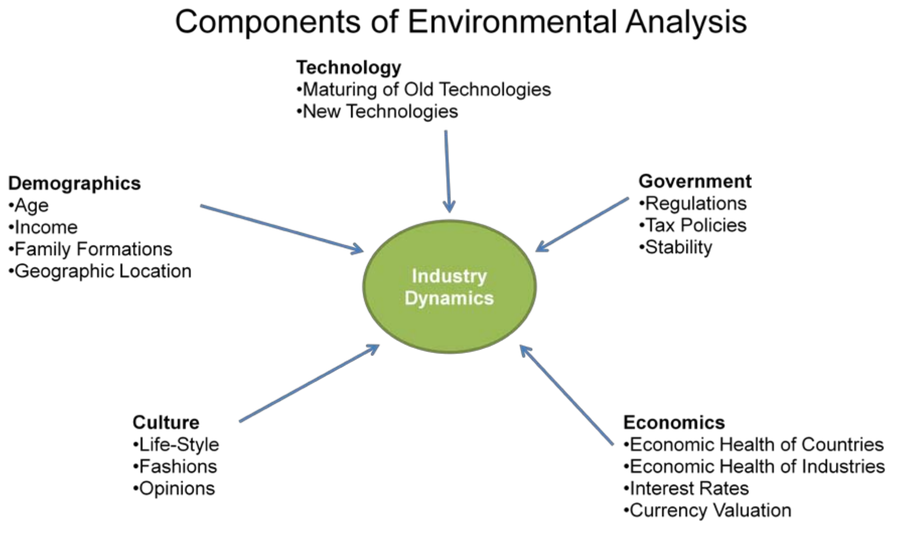

Figure 3.2. Components of environmental analysis.
Source: [H.C.Bartlett,1988 p. 26]

The presented macro environment clusters include both **opportunities** the firm may wish to pursue and **threads** with which it must be conscious. The external environment is a source of uncertainty, that's why firms must examine the environment and its changes carefully. For a better understanding let's discuss these clusters in detail.

Political and legal (government). Firms and organizations must keep abreast of legislative thinking and developments. They must have a means of presenting their own positions and views in legislative stages. This cluster also represent power relationships, national stability, constraining and protective laws and administrative, regulatory and judicial institutions. Table 3.1 presents the most important variables of the cluster

Table 3.1. Government area

Government

Even in a competitive, free-enterprise economic system such as ours, governmental actions can and do affect the opportunities and threats of business firms. Several examples are cited:

1. Regulated entry of new pharmaceuticals.
2. U.S. Department of Agriculture inspection of meat and other food products.
3. Banning of unsafe food and drug products by the Food and Drug Administration and unsafe materials or products by the Consumer Product Safety Commission
4. Deregulation of banking and transportation industries.
5. Regulation of the automobile industry with respect to safety and fuel economy.
6. Formulation of trade policy with respect to import barriers, tariffs, and trade agreements to liberalize trade.
7. Actions by foreign governments that affect the stability of their countries and influence the acceptability of U.S. trade and investment.
8. Tax policy and legislation.

Source: [H.C.Bartlett,1988 p. 27]

Economics. Economic forces[6] consist of a set of variables that measure the levels and patterns of economic activity in areas such as industrial output, consumption, income and savings, investment and productivity. The most important element of this cluster is GDP - Gross Domestic Product. GDP is a measure of all production located in a specific country and is calculated by adding the contributions to the final output of every firm in the economy. Often GDP is reported as the percentage increases from year to year, as well as on a **per capita** basis (derived by dividing the total value of GDP by the population). GDP is often used to indicate the size of the national market, while GDP per capita is a measure of living standards. Another important economic variable is **purchasing power,** measured as **disposable income** per capita. Disposable income is the amount of current personal income minus personal income tax that households have to spend divided by the population [Porth,2003, p101]. Table 3.2 presents economic variables that are often assessed for evidence of opportunities and threats.

[6] S. J. Porth, Strategic management, 2003, p. 101

Table 3.2. Economic variables

Key economic variables

Availability of credit	Disposable personal income
Consumer debet levels	Money market rates
Consumer Price Index	Monetary policies
Currency values/ exchange rates	Per capita income
Government budget deficit	Price fluctuations
Gross Domestic Product (GDP)	Savings rates
Gross National Product (GNP)	Stock market trends
Housing starts	Trade balances
Industrial investments	Tax rates
Inflation rates	Unemployment rates
Interest rates	Workforce productivity

Source: [S. J. Porth 2003 p. 102]

Culture (sociocultural variables). It is difficult to predict the impact of cultural changes in our society. The cluster reflects societal traditions, values, attitudes, beliefs, tastes and patterns of behaviors in a nation or region[7]. Some of these forces are relevant to a firm and the environment in which it operates. Table 3.3. indentifies key sociocultural variables.

[7] S. J. Porth, Strategic management, 2003, p. 103

Table 3.3. Sociocultural variables

Key sociocultural variables

Attitudes toward saving and investing	Importance of social responsibility
Attitudes toward material goods	Importance of technology
Attitudes toward business	Lifestyles
Attitudes toward women and minorities	Quality-of-life issues
Attitudes toward work and careers	Regional tastes and preferences
Attitudes toward product/ service quality	Value placed on short term versus long term
Attitudes toward leisure time	Value of education
Gender roles	Value of individual freedom
Importance of environmental issues	Willingness to accept change
Importance of family and religion	

Source: [S. J. Porth 2003 p. 103]

The variables may be a source of opportunities and threats. Both opportunities and threats must be taken into consideration when formulating strategic objectives and especially marketing strategies.

Demographics. With demographics, we generally are working with something that is known. Demographic forces relate to national population, including size, growth, racial and ethnic composition and educational levels. Table 3.4. presents the projection of racial composition in the United States. To take advantages of this demographic trend, food companies in the United States have introduced an increasing variety of ethnic products based on the belief that demographic groups exhibit consistent buying habits (sociocultural trends). McDonald's has a year-long program for Hispanic consumers, including national advertising on Spanish-language outlets, a new bilingual internet site, several promotional events, etc. [Porth,2003, p. 102]

Table 3.4. Example of demographic variables

Projections of racial composition in the United States (%)

GROUP	1991	2005	2015
White	71.7	68.7	64.7
Black	12.7	13.2	13.7
American Indian	0.9	0.9	0.9
Asian	3.8	4.6	5.6
Hispanic	10.9	12.6	15.1

Source: [S. J. Porth 2003 p. 104]

Others key demographic variables are selected on Table 3.5.

Table 3.5. Demographic variables

Key demographic variables

VARIABLE	TYPICAL CATEGORIES
Age distributions	Under 6, 6-11, 12-19, 20-34, 35-49, 50-64, 65-75, 76+
Gender	Female, Male
Family size	1-2, 3-4, 5+
Family life cycle	Young, single; young, married, no children; young married, youngest child under 6; young, married, youngest child over 6; older, married, with children; older, married, with no children under 18; older, single; other
Income ($)	Under 10,000; 10,001-15,000; 15,001-20,000; 20,001-30,000; 30,001-50,000; 50,001-70,000; 70,001-100,000; over 100,000
Occupation	Professional and technical; managers, officials, proprietors; clerical, sales; craftsmen, foremen; operatives; farmers; retired; students; unemployed; other
Education	Grade school or less; some high school; high school graduate; some college; college graduate; post- college education
Religion	Catholic; Protestant; Jewish; Muslim; Hindu; None; other
Race	White; Asian; Hispanic; African American; Native American; other

Source: [S. J. Porth 2003 p. 102]

Technology

Technologies and techniques influence the industries throughout the world. With respect to technology, firms clearly need to be aware of emerging technological change in their industry. Technology may have a valid impact on products and services. A firm may be able to capitalize upon technological change by introducing new higher technology products to its manufacturing and distribution processes [Bartlett, 1988, p.25].

Table 3.6. Technological variables

Key technological variables

Biotechnology	Superconductivity
Consumer electronics	High-definition graphics
Robotics and artificial intelligence	Number of patents
Handling industrial/ chemical waste	Lasers
Food additives	Biogenetics
Satellite and satellite imaging	Wireless technology
Total federal spending for R&D	Changes in telecommunications
Changes in infomation technology	

Source: [S. J. Porth 2003 p. 105]

The technology cluster relates to the development and application of knowledge. Technology have an enormous impact on products, such as it has in healthcare, pharmaceuticals, sports products like ski equipment, consumer electronics, and personal computers.

In general, a firm must be on constant watch tor new technology, new markets and new forms of organization that may undermine the very basis of its present existence.

Other factor closely connected with technology is country innovation performance. Regional innovation performance is shown on Figure 3.3. Countries are ranked according to their performance as measured by their Revealed Regional Summary Innovation Index (RRSII). For each country Figure 3.3 shows the best and the worst performing region.

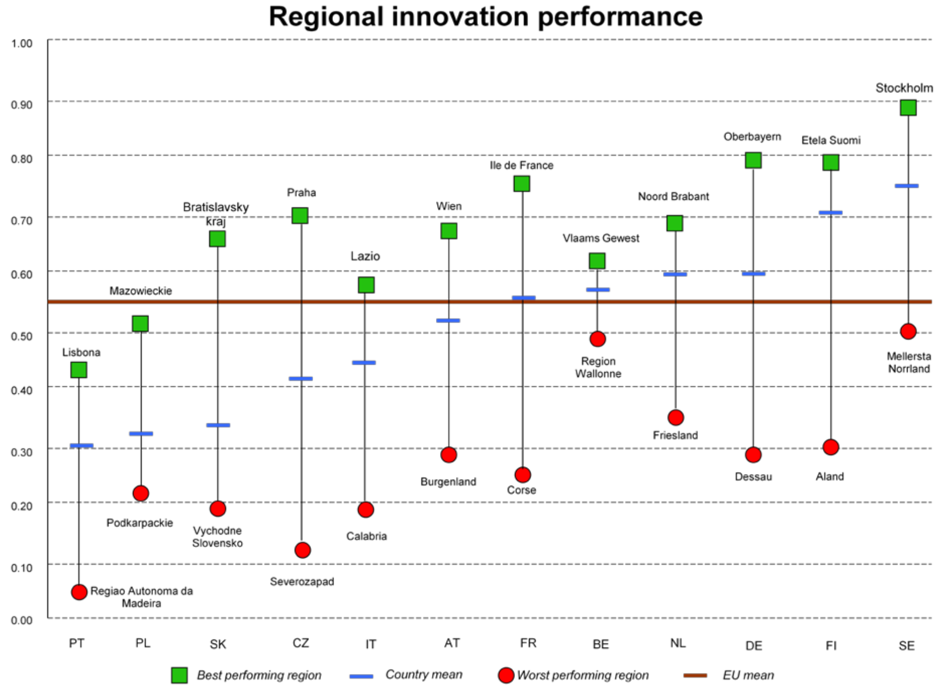

Fig 3.3. Regional innovation activity differences among selected EU countries
Source: [European Regional Innovation Scoreboard, Hollanders H., 2006, p. 8]

Other interesting examples of complex macro-environment comparison are shown in Figure 3.4. On the picture we can see country differences in a basic infrastructure represented by country highways per 100 square kilometers. The second part of the chart represents the percentage of Gross Domestic Product generated by the black economy in selected countries in comparison to EU average.

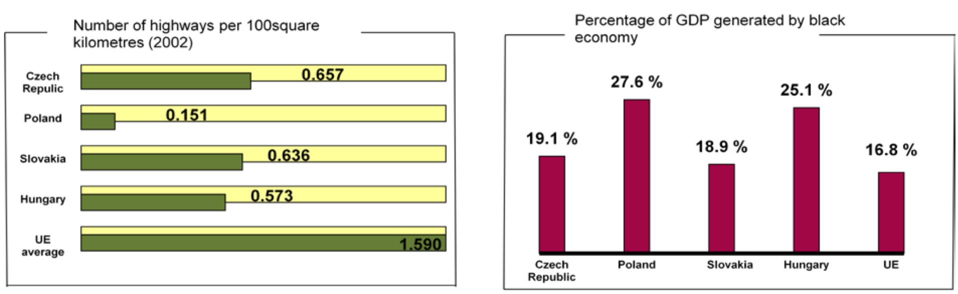

Figure 3.4. Basic infrastructure and black economy activity at selected EU countries
Source: [Harvard Business Riview, Raport s. VII, IX, XI. 08.2004]

Another curious factor of macro-environment is a country investment attractiveness. Figure 3.5 displays investment attractiveness, with ranking prepared by Harvard Business Review in 2004. The research was conducted among new European Union Countries.

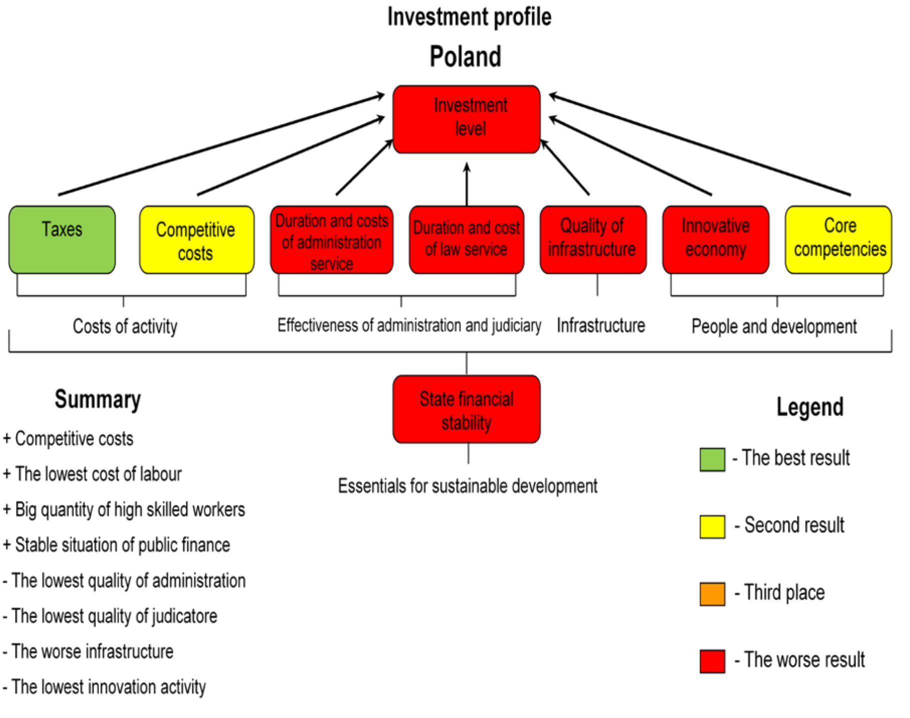

Fig 3.5. Polish investment profile in 2004
Source: [Harvard Business Riview, Raport s. XI. 08.2004]

The conclusion is not optimistic. Poland's innovation profile in 2004 was the worst among the examined countries. The other countries are: Czech, Hungary, and Slovakia. The author of this book states that the situation is currently the same.

Method of analyzing macro environment

If we have identified and recognized the firm's macro environment, we should analyze it. In strategic literature there are many described methods of macro environment analysis. The most popular methods are selected at Table 3.7.

Expert opinion – the idea of the methods is a logical problem analysis by collecting experts' opinions. The opinions create a base to form the firm's decisions. The main disadvantages of the method are: may be expensive and may take a long time for gathering experts and collecting the opinions.

Table 3.7 Method of macro environment analysis

Popular methods of macro environment analysis

Method	Percentage of enterprises which use the method	Dynamics of Environment		
		low	middle	high
Expert opinion	86	YES	YES	YES
Alternative scenarios	68	YES	YES	YES
Simulation models	55	YES		
Brainstorm	45		YES	YES

Source: [Thomas 1999 p.87]

Scenarios – scenarios are very useful and helpful. This technique stimulates the firm's management to forecast different macro environment events and their influences on the organization. Royal Dutch/Shell pioneered scenario planning before the oil crisis of the early 1970s. This technique is a tool to generate strategic alternatives based on varying assumptions about the future. One advantage of scenario planning is that it helps organizations prepare for different contingences, including the unexpected [Porth, 2003, p.140].

Scenarios can be divided into four main types:

- Scenarios of probably events – creating a list of possible future events which could be important for the organization.
- Simulation scenarios – estimation of the potential strategic choices and their future relation with the environment. In these types of scenarios we can apply computer support to study the effects of possible futures and decisions.

- Scenarios of environment conditions – estimation of the potential influence of separated environment elements on enterprise and its probability to happen.
- Scenarios of environment tendencies (processes) – focused on the most important tendencies which can strongly impact an enterprise

The example of environment tendencies scenario - Figure 3.6.

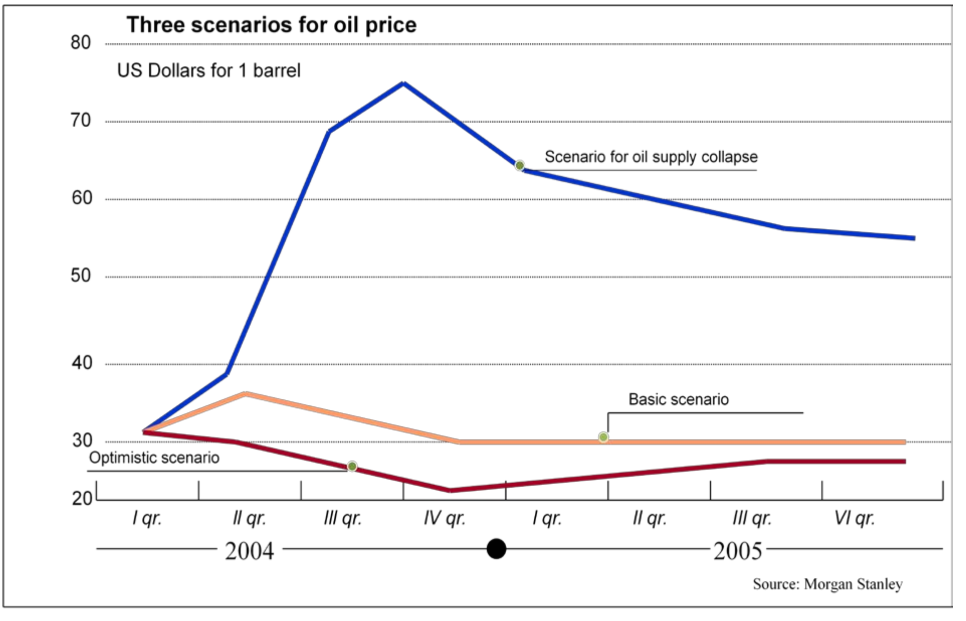

Figure 3.6. Scenarios for oil price - established after USA intervention at Iraq.
Source: [Gazeta Wyborcza nr 109 16.05.2004]

It is a very interesting example of a tendencies scenario. Nowadays we know that the pessimistic scenario came into existence, but with no oil supply collapse. Preparing for these kind of scenarios, managers need a special sequence of scenario steps (phases).

Steps for developing a scenario [Porth, 2003, p.140]:

1. Identify the variables in the macro environment that have the greatest potential impact on the firm's strategy.
2. Analyze the variables and develop assumptions about future trends and possible shifts in these variables.

3. Combine assumptions about individual trends or shifts into plausible and internally consistent scenarios.
4. Forecast the likelihood of each scenario.
5. Devise strategies for each scenario.
6. Monitor the environment to assess the likelihood of each scenario materializing, and have contingency plans in place in the event that the predicted scenario does not occur

This pattern for preparing scenarios may produce a possible set of environmental circumstances that are, what the environment may look like in the future.

Simulation models – models or representation of a course of events in business, macro environment science by computer calculation to study the effects of possible future changes and decisions. Nowadays this technique is getting more effective due to the rising calculation power of modern computers

Brainstorm – method of finding the answers to problems (especially: business, economy, environment) in which all the members of a team think very quickly of as many ideas as they can. The main rules of the method: Don't criticize, quantity means quality.

The set of methods should be in constant usage, because the macro environment evaluate and any firm must be aware of the environment changes.

3.2 Task environment

Another major element to consider in conducting a strategic assessment is task environment analysis. The analysis must recognize the specific forces and trends operating in an industry.

Tusk environment in practice means industrial sector environment. According to S. J. Porth – an industry is a collection of firms offering similar products and services, thereby sharing customers. Industry size, growth rates and concentration, identification and analyses of competitors, and market shares analyses are important variables in the task environment [Porth, 2003, p107]

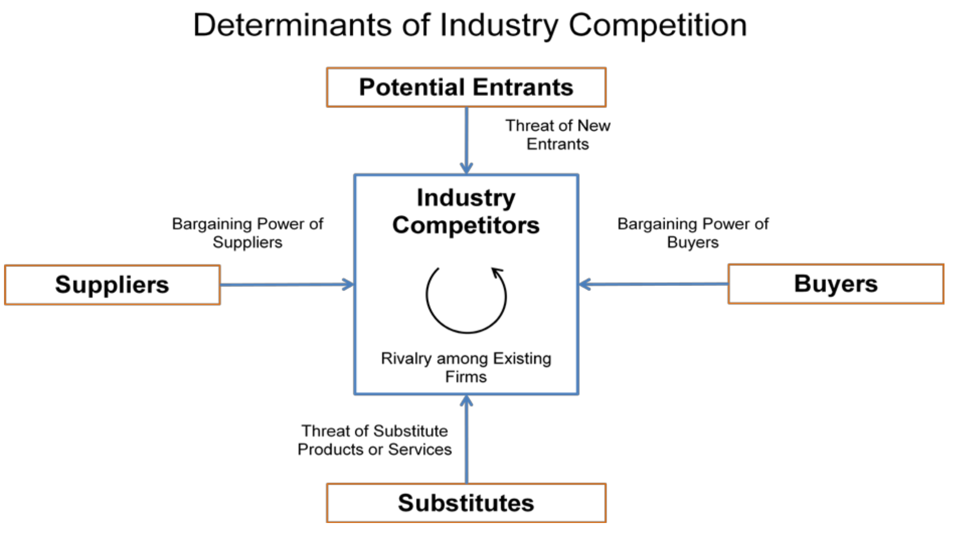

Fig. 3.8 Forces driving industry competitiveness
Source: [H.C.Bartlett,1988 p. 30]

The industrial environment of an organization includes the set of forces that directly interact with the organization. A main objective of task environment analysis is to estimate the attractiveness of that environment to its actual participants. The boundaries of an industry or industry segment can be defined by considering several factors [Bartlett, 1988, p.29]:

- What market are we attempting to serve and what products are you using to serve those markets? Who are the major customers groups you and your competitor are trying to serve?
- Are they readily substitutable products that may be used to serve these same markets? If the threat of substitution is a potential one, how strong is the threat?
- Who are our relevant competitors and what are their products?

In general, the industry in which we are attempting to compete is determined by the customers we are attempting to serve, the products being used to provide this service, and the other businesses that are in direct competition with us.

Typical elements of the industrial environment identified by Michael Porter are competitors, suppliers, customers, substitute products and new entrants.

Lets explain in detail these main elements of industry competition.

Potential entrants – new competitors can bring new production capacity, new rivalry for market share and possibly substantial resources. The threat of new entrants depends on **entry barriers** that existing enterprises build to protect their position in the industry. Table 3.8 presents and describes the main entry barriers.

Table 3.8. Entry barriers

Entry barriers

BARRIERS TO ENTRY	EXPLANTATION
Economies of scale	Cost advantage due to large size of production, resarch, marketing
Product differentiation	Customer loyalty to the brand
Capital requirements	Requirements to do business in the industry, not only for fixed facilities but also for R&D or marketing
Disadvantages other than size	Familiarity with the industry (learning and experience curve); relationships with suppliers, favorable locations
Distribution channels	Access to wholesale or retail channels
Regulation and/ or licensing requirements	Special approvals needed before being permitted to compete in an industry

Source: [S. J. Porth 2003 p. 114]

Economics of production scale is often the main entry barrier to the industrial sector. At many sectors, a new competitor must be able to manufacture and supply enough production scale to large amounts of customers. Table 3.9 indicates typical production scales for industries in the European Union.

Table3.9. Economics of scale at European industry

Established economics of scale at European industry

Industry	Minimal effective scale of production	Effective minimal scale of production. Percentage of total European union production
Steel	9,6-12 million tons	9,8
Bricks	25 millions	0,2
Cement	1,3 million tons	1,0
Petrochemicals	500 thousand tons	2,8
Titanium oxides	130 thousand tons	50,0
Generators	6 thousand Mega Watts	10,0
Beer	4,5 million barrels	3,0
Cigarettes	36 billion	6,0
Tires	16500 per/ day	3,0
Cars	2 million	20,0

Source: [Gierszewska, 2000, p. 133]

As we see in many industries the minimal effective production scale must be, at once, very big. The relation is especially obliging for mature industries.

Bargaining power of suppliers. The power of suppliers can be seen when firms supplying raw materials to or services to an industry affect the profitability of the buying industry by either raising prices or reducing the quality or quantity of goods or services [Porth, 2003, p.113]. In other words the existence of strong suppliers in an industry is simply another force of competition. A potential of this bargaining power relates to one or more of the following factors [Bartlett, 1988, p.32]:

- A few large suppliers are selling to a larger number of smaller customers.
- The supplier’s product is an important raw material for the buyer.
- There are no substitutes for the supplier’s product.
- The customer’s industry does not represent a significant fraction of the suppliers sales.
- The supplier’s product is differentiated.
- Switching cost would be incurred if customers were to switch suppliers.
- The supplier has a good opportunity to pursue forward integration, thereby creating an outlet that bypasses existing customers.

When suppliers are powerful relative to their customers, they may exert pressure upon their customers to pay higher prices. Another important thing is the idea of forward and backward integration. Figure 3.9 explains the concept.

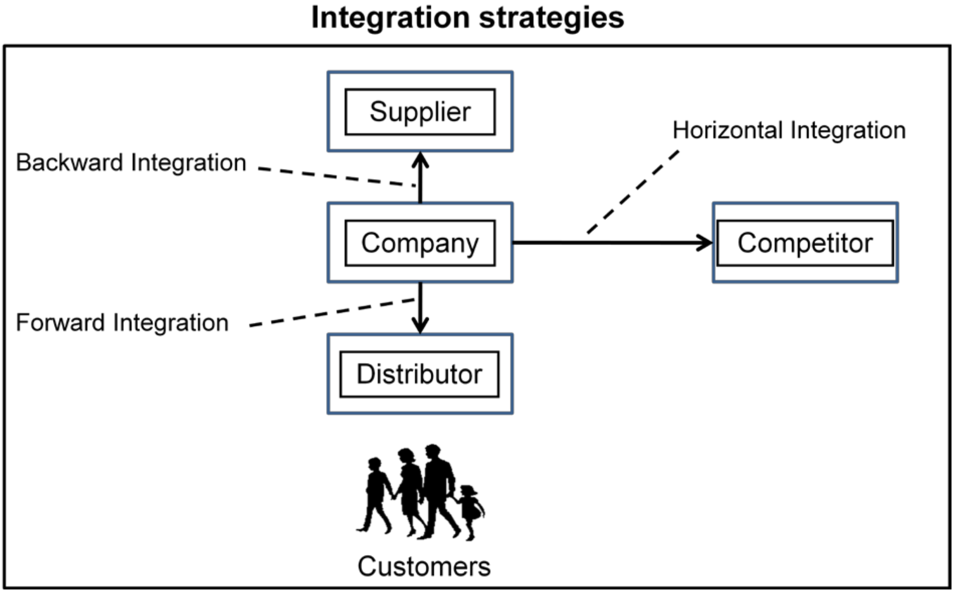

Figure 3.9 The idea of sector integration
Source: [S. J. Porth 2003 p. 62]

Bargaining power of customers. The power of customers influence the terms and conditions of sale. Buyers and customers can under selected circumstances be a powerful source of competitive pressure within an industry. When the balance of power favors buyers, they can capture more of the value created in an industry by bargaining for lower prices, better quality at the same prices and /or additional services [Porth, 2003, p. 113]. A customer or buyer may gain power when [Bartlett, 1988, p.33]:

- The number of buyers is small and the volumes purchased are large relative to the sales of the seller.
- The products purchased by the buyer represent a significant portion of the buyer total costs.
- The products purchased are undifferentiated and hence are readily available from alternate suppliers.

- Switching costs are low.
- Buyers earn low profits and hence are seeking lower purchasing costs.
- Buyers can engage in backward integration if they desire to do so.

In general - strong customers can be a threat to the supplying industries.

Threat of substitute products or services. Substitutes are other industry's products that can complete the same function as the products of the industry in which a firm operates. A popular and true opinion about substitute products is that: they put an upper price limit on an industry's products or services because consumers will switch to other less expensive substitutes if they satisfy the same need [Porth,2003, p.114]. The existence of close substitutes similar to an enterprise's product created a significant competitive force.

Rivalry among existing firms. The most direct source of competition in an industry is head to head competition between existing competitors. The rivalry can take the form of price reductions, promotional campaigns, new product introductions, improved customer service, quality improvements, and increased warranties [Bartlett, 1988, p.30]. According to Porter, the intensity of the rivalry among the enterprises is related to the presence of factors such as those listed in Table 3. 10

Table 3.10 Factors involved in firm rivalry

Rivalry factors	Rivalry intensifiers
Concentration and balance of competitors	Competitors are numerous or roughly equal in size.
Industry growth	Slow growth, market share battles.
Products or services characteristics	Products or service is very similar no matter which firm sells. Customers can switch easily.
Fixed or storage costs	High fixed costs and perishable products encourage price-cutting to either cover the fixed costs or salvage sales before spoilage.
Capacity	New plants often lead to overcapacity that leads to price-cutting.
Exit barriers	High costs to leave the industry for example specialized assets and management loyalty.

Source: [Porth, 2003, p.113]

All the forces that drive industrial competition create the sector attractiveness.

3.3 Additional methods of industrial sector analyses

One of the most useful methods for industry analysis is the sector life cycle. Figure 3.10 presents the concept of the industry life cycle.

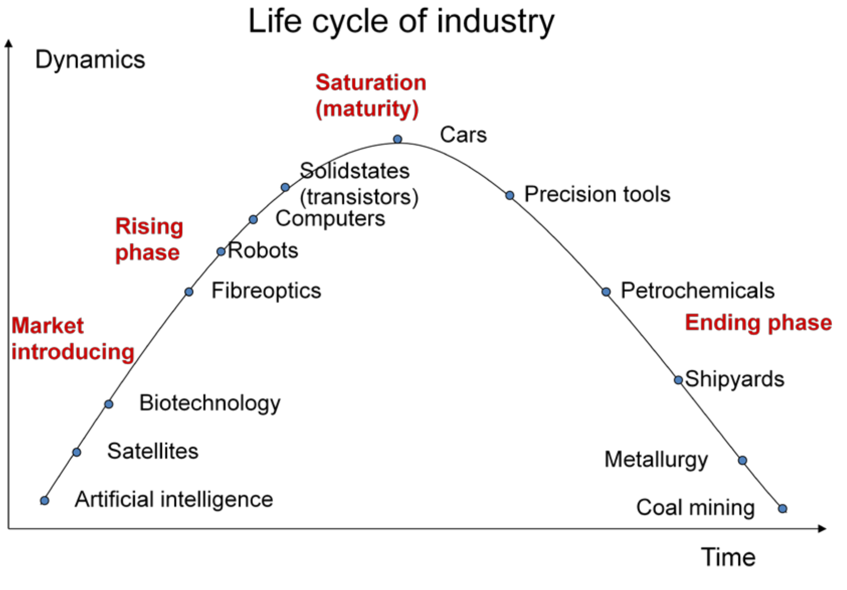

Figure 3.10 Life cycle of industry.
Source: [M. Moszkowicz, 2005]

The dimension of dynamics represents a sector's total turnovers. Typical features of sectors in different life stages are [Moszkowicz, 2005]:

New industries features

- High expenditures on science and technique.
- Large share of knowledge.
- High profitable production.

Ending industries features

- Significant share of raw materials.
- Harmfulness for natural environment.
- Low production profitability.

New industries should carefully investigate new technologies and techniques opportunities. Table 3.11 represents the main science sources that can support the firm's research activities.

Table 3.11 Invention, innovations and diffusions.

Technology development and application process

TYPE OF ADVANCEMENT	DESCRIPTION	SPECIFIC EXAMPLE
Inventions	Basic research into principles and relationships	Studying a sugar molecule in an interstellar cloud in the middle of the Milky Way galaxy to increase understanding about how life began on earth.
Innovations	Transforming knowledge into a prototype from	Memory designer, Rambus, Inc. Unveiled a new memory bus- the expressway leading from a computer processor to the memory chips- for speeds more than 30 times faster than today's typical PC. Likely use: video games and digital televisions.
Diffusions	Putting knowledge into a form that can be adopted by others	Optical networks convert information into bits of light (photons) that are sent over fiber- optic cables made of glass. These networks are starting to take hold in local phone markets because costs are dropping and demand for capacity is rising.

Source: [S. J. Porth 2003 p. 106]

An industrial sector life cycle may be different for selected geographical regions or countries.

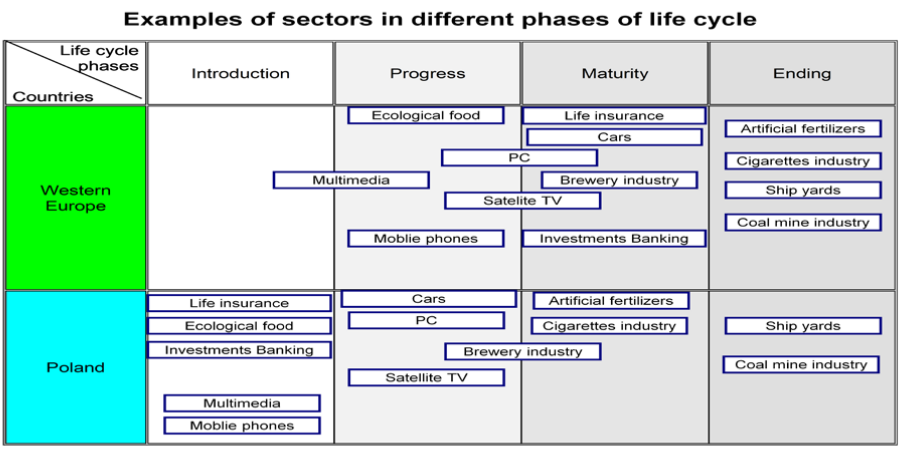

Figure 3.11 Sector In different phases of life cycle.
Source: [G. Gierszewska,2000, p.99]

Figure 3.11 presents a delay of the sector life cycle between Poland and Western European countries in the nineties.

The next significant method for sector analysis is **strategic group map.** Strategic groups within an industry are a set of firms competing in similar ways for similar customers and interacting more directly within each group than with competitors drawn from other strategic groups in the industry [Porth, 2003, p.111]

It is important that we should find the proper and precise dimensions to distinguish industrial strategic groups. Table 3.12 represents the set of typical variables for strategic groups in an industry.

Table 3.12 Criteria of sector strategies differentiation.

Criteria of sector strategies differentiation

CRITERIA	FEATURES		
Product quality	Standard	Average, high	Highest
Technologies	Standard	Modern	High tech
Assortment specialization	Narrow	Average	Diversification product portfolio
Product price	Low	Medium, Affordable	Very high
Production costs	Low economist scale	typical	High
Market scope	Small	Medium	Large
Type of clients	Poor	Rich	Upper class
Distribution	Lack	General distribution partly own stores	Specialized
Vertical integration	Low	Medium	High
Horizontal integration	Low	Medium	High

Source: [G. Gierszewska, 2000, p. 121]

American author S. J. Porth[8] established an interesting example of a strategic group map Figure 3.13 illustrates a strategic group map for a chain restaurant in the USA based on price and product-line breadth dimensions. We can notice which competitors group together because they are similar in price and product-line

[8] [Porth, 2003, p.111]

breadth. These kinds of charts communicate a lot useful information about an industry structure, dynamics, competitiveness and strategic opportunities.

Strategic group map of U.S. chain restaurant industry

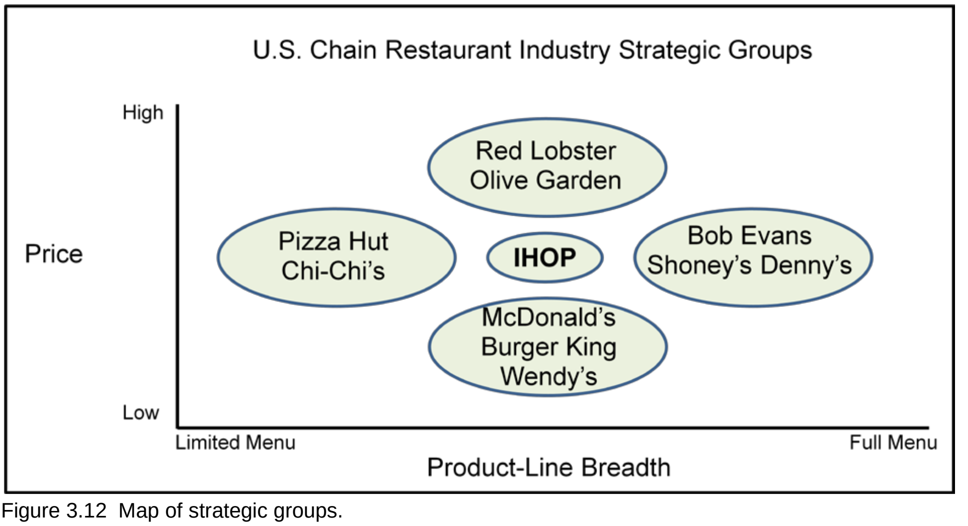

Figure 3.12 Map of strategic groups.
Source: [S. J. Porth 2003 p. 111]

Strategic management literature proposes many more methods for sector analysis but these discussed method are the most effective and creative. Proper usage of the method provides great knowledge about industrial sector performance and activities.

3.3. Stakeholders analysis

Another method of scanning a firm's environment is a stakeholders analysis. Stakeholders analysis is a rather new concept of environment analysis. The concept is different towards traditional methods like macro-environment and task environment analysis. The main rule of stakeholders analysis is finding close and real relations among firms and its environment. A typical division of stakeholders is [Porth, 2003, p. 112]:

- Communities
- Creditors
- Labour unions
- Special interests group

Stakeholders can strongly impact the nature of competition in an industry by limiting strategic options or increasing compliance costs. The intensity of the effects varies widely across industries [Porth, 2003, p.115].

An example of the stakeholders power is the case study of Royal Dutch Shell. The example concerns the problem of utilizing the used sea oil platform. There are two ways of utilizing: typical way is to sink the platform in the deep ocean. The second way is: draw the platform to land and cut it into pieces by using welding techniques. At the first view, the second way seemed to be more ecological, However the first way is actually more friendlier to nature. Let's look at Figure 3.14

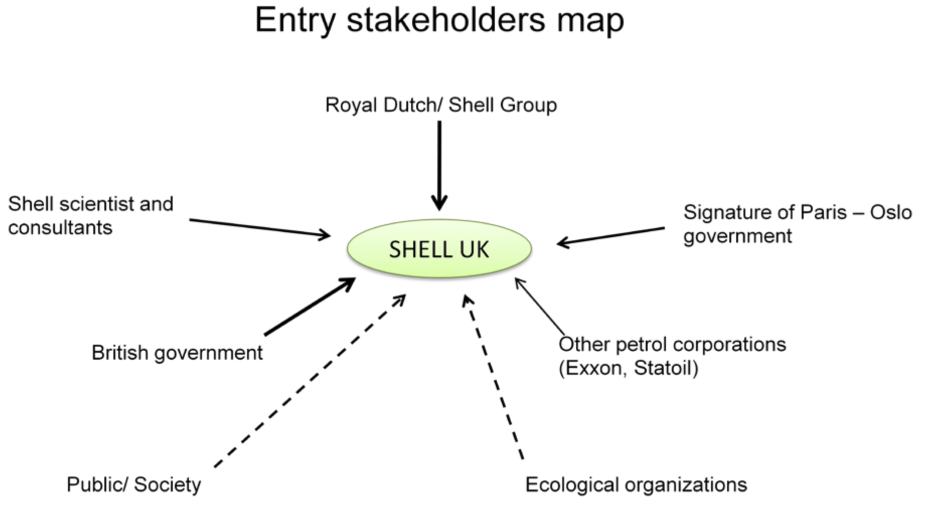

Figure 3.13 Entry stakeholders map for Shell UK.
Source: [K. Obłój, 1999]

The Shell group at the beginning tried to sink the used platform of the ocean. But the strong action of Greenpeace caused [Obłój,1999]:

- Protests and demonstrations in all of western Europe.
- Boycott of Shell stations
- Controversies among governments of the G7 group.
- European governments pressure (except British) for changing Shell's decision.
- Giving support for Greenpeace by German Lutheran Church and huge German Labour Union "IG Metal"

These results caused Shell to draw the platform to land and cut it into pieces. Figure 3.15 shows the real stakeholders group that were interested in Shell's activities.

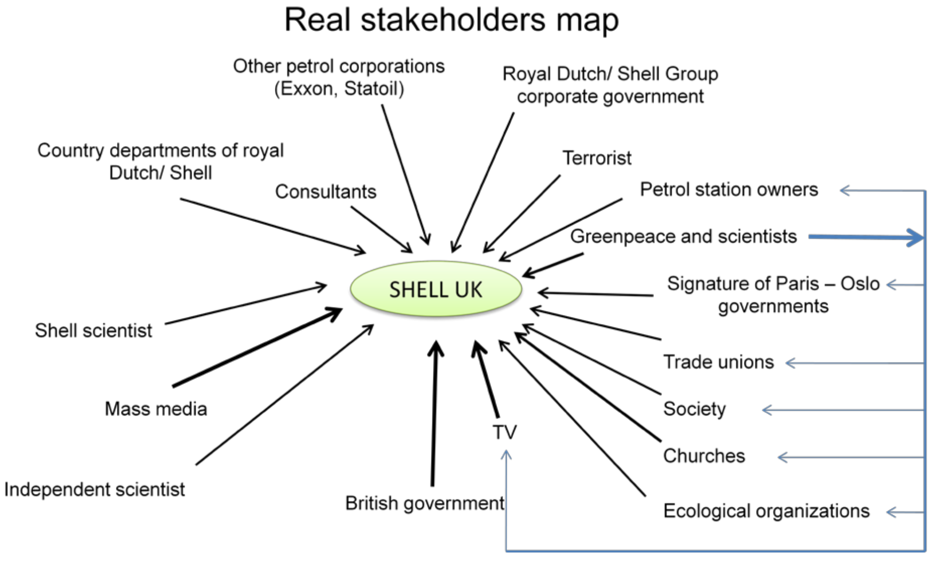

Figure 3.14 Real stakeholders map for Shell UK
Source: [K. Obłój, 1999]

According to S. J. Porth [Porth, 2003] we can notice that:

- The influence of local communities is differentially exerted on industries depending on nature. For example, in industries such as chemicals, petrochemicals, paper and forest products, metals, mining, and utilities and power, communities may exert pressure on organizations to respect the natural environment.
- The power of creditors to influence profitability in an industry is contingent upon the need for debt financing. Debt financing is most often significant in capital intensive industries, such as power generation and airlines.
- Labour Unions may limit management options and increase the cost structure of companies. The power of labour unions influence the competitive environment within industries depending on the number and variety of unionized firms in an industry and the size of the unions. US airways, for example, must negotiate

with several strong unions including Airline Pilots Association (ALPA), the Associations of Machinists, and the Associations of Flight Attendants (AFA).

- Special Interests Groups lack the official power of government agencies and exert impact by using the media to call attention to their positions. Prominent interest groups include Mothers Against Drunk Drivers (MADD),and the National Rifle Association (NRA).
- Trade and Professional Associations are voluntary organizations. They often have power over how a business is transacted in an industry by setting performance output and quality standards. OPEC is an example of a powerful trade association. Polish examples of such an organization: Business Centre Club (BCC), and Polish Private Employers Association (Lewiatan).

4. Strategic internal analysis

The main idea of internal analysis is understanding that a firm is a collection of selected resources groups. An internal analysis always begins on dividing the firm into selected resources. Resources analysis – the division of resources into small segments according to various criteria and the estimation of capacity, structure, etc. The most important element of the analysis is establishing the usefulness of the selected resources group (material, non material, skills) in an enterprise development concept

A very helpful method is establishing firm's functional areas. Table 4.1 presents a typical set of a firm's functional areas

Table 4.1 Functional analysis of enterprise.

Functional analysis of enterprise

MARKETING FUNCTION	-Market share -Product concept -Set (combination) of product -Products quality -Price of product
PERSONAL FUNCTION	-Staff fluctuation -Staff recruitment -Motivation system
FINACIAL FUNCTION	-Net profits -Level of debets -Level of investment capitals
PRODUCTION AND LOGISTIC FUNCTION	-Production capacity -Limitations of production -Production costs -Automatisation
INNOVATIVE FUNCTION	-Type and scope of leading researches -Technology (modern or not modern) -Capacity for leading research
MANAGMENT QUALITY CONTROL	-Efficiency of strategic management -Efficiency of information system -Efficiency of cost analysis

Source: [J. Skonieczny, 2005]

A classical internal strategic analysis starts by dividing firms' into specialized resource groups. German authors H. Steinman and G. Schreyogg created a pattern of a firm's resources. They divided resources into five groups [Steinman, Schreyogg, 2001, p.142]:

- Financial resources (cash flows, credits, etc)
- Physical resources (grounds, buildings, machineries, etc)
- Personal resources (skilled staff, management staff, engineers, etc)
- Organizational resources (organizational structure, information systems, integration systems, etc)
- Technological resources (quality standards, trade mark, innovations, patents, know-how, etc)

This kind of resource division and its analysis can help us indentify the firm's strengths and weaknesses. Let's explain the resource group in more detail.

Financial resources should be treated as dominators, because in modern economy they are based for driving other resources. Table 4.2 presents the main financial ratios that can reflect the financial state of any firm.

Tab. 4.2 Financial ratios.

Selected financial ratios

Ratio	Formula	What It Measure
Liquidity Ratios Current Ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	The extent to which a firm can meet its short- term obligations
Quick Ratio	$\frac{\text{Current Assets Minus Inventory}}{\text{Current Liabilities}}$	The extent to which a firm can meet its short-term obligations without relying on the sale of its inventories
Leverage Ratios Debt-to-Eguity Ratio	$\frac{\text{Total Debt}}{\text{Total Stockholders' Equity}}$	The percentage of total funds provided by creditors versus by owners
Times-Interest-Earned Ratio	$\frac{\text{Profits Before Interest and Taxes}}{\text{Total Interest Charges}}$	The extent to which earnings can decline without the firm becoming unable to meet its annual interest costs
Activity Ratios Inventory Turnover	$\frac{\text{Sales}}{\text{Inventory of Finished Goods}}$	An indication of how efficiently a firm is managing its inventories
Total Assets Turnover	$\frac{\text{Sales}}{\text{Total Assets}}$	Whether a firm is generating a sufficient sales volume on its asset base
Accounts Receivable Turnover	$\frac{\text{Annual Credit Sales}}{\text{Accounts Receivable}}$	The average length of time it takes a firm to collect credit sales (in percentage terms)
Profitability Ratios Gross Profit Margin	$\frac{\text{Sales Minus Cost of Goods Sold}}{\text{Sales}}$	The total margin available to cover operating expenses and yield a profit
Operating Profit Margin	$\frac{\text{Earnings Before Intrest \& Taxes (EBIT)}}{\text{Sales}}$	Profitability without concern for taxes and interest
Net Profit Margin	$\frac{\text{Net Income}}{\text{Sale}}$	After-tax profits per dollar of sales
Return on Total Assets (ROA)	$\frac{\text{Net Income}}{\text{Total Assets}}$	After-tax profits per dollar of assets; this ratio is also called return on investment (ROI)
Return on Equity (ROE)	$\frac{\text{Net Income}}{\text{Total Stockholders' Equity}}$	After-tax profits per dollar of stockholders' investment in the firm

Source: [S. J. Porth 2003 p. 78]

Tab 4.3 Common assessment tools.

Common assessment tools for Stage 1

Name of Tool	Definition/ Description
Analysis of revenues	Growth rates of sales for the firm Sources of revenues (geographic markets, divisions, product lines)
Analysis of earnings	Growth rate of profits (could include gross, operating, net profit) for the firm Sources of earnings (geographic markets, divisions, product lines)
Analysis of return on equity (using DuPont formula)	After-tax profit for each dollar of investment by stockholders
Stock price performance	Change in the value of the firm's stock
Changes in market share	Changes in the firm's share of all purchases in the market
Employee turnover reports	Ability of the firm to retain its employees
Results of employee and customer surveys or interviews	May indicate degree of satisfaction, commitment loyalty to firm

Source: [S. J. Porth 2003 p. 76]

Physical resources. These resources include, property (grounds), building, machineries, and other equipment. The physical resources analysis should focus on its age, technical sophistication and state of repair (excepts property). Enterprise's property very often becomes more valuable. Sometimes an enterprise can replace its activity to a new location and sell the valuable property.

Personal resources. An analysis of these resources should consider factors of a firm's staff as quality over quantity. Very important variables of an enterprise's personnel are:

- Abilities and skills
- Values and ethics backgrounds
- Motivations
- Flexibility and adaptability
- Loyalty

We may divide an enterprise's personnel into:

- Top management
- Middle management

- Other staff, workers, etc

In modern economies the personal resource gets more and more significant because it is very difficult to replace motivated and highly skilled workers. We must know about the effects of experience. Without experienced workers and managers, many firms could lose competition advantage. Due to this organizational motivation systems are important to a firm's operations and progress.

Organizational resources. The first picture of these resources is an organizational structure. The questions are: How effective is structure?, How the structure supports strategy and other activities? There are many types organizational structure. Typical structures are [Bartlett, 1988, p.56]:

- Entrepreneurial structure
- Functional structure
- Divisional structure
- Strategic business unit structure
- Matrix structure

Any kind of the listed structures has its own weaknesses and advantages. For small firms, the best is the entrepreneurial structure (Figure 4.1). In the same manner for a big corporation the suitable organizational structures are divisional structure or the strategic business unit structure(Figure 4.2).

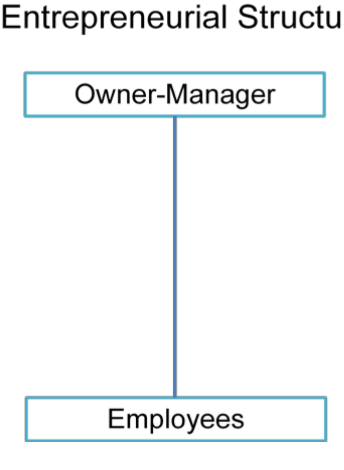

Figure 4.1 Entrepreneurial structure.
Source: [H.C.Bartlett,1988 p. 56]

According to H. C. Bartlett [Bartlett,1988, p.56] - entrepreneurial structure is appropriate for a business that is owned and operated by one person. Typically the firm is a single-product business serving a local or regional market. This form of organization is best suited to the start-up phase of the business, in which the firm is small enough to permit the owner-manager to make all major decisions.

Strategic business units structure is suitable for large, diversified organizations that are able to separate its main business and market areas. The criteria of selecting strategic business units is in – Table 4.4.

Table 4.4 Criteria of selecting strategic business units

	Criteria of selecting strategic business units
1.	SBU has its own clients
2.	SBU has its own competitors
3.	Decisions independence
4.	Separated finance - can be calculated as centre of incomes and costs
5.	Sometimes → Investment independence

Source: [M. Moszkowicz, 2005]

This kind of structure is very popular among corporations which operate on many international markets. Examples of these types corporations: General Electric Company, German energy firm – RWE and motor sector companies like Renault , Volvo, and Man.

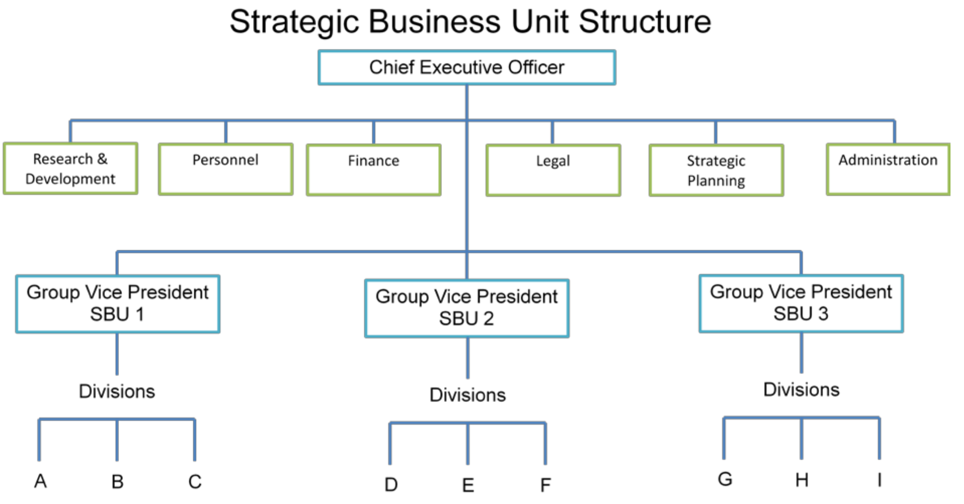

Figure 4.3 SBU structure.
Source: [H.C.Bartlett,1988 p. 60]

The main advantage of the SBU (Strategic Business Units) organization structure is that it improves the strategic planning process for divisions with similar strategic concerns and products-market environment.

The primary disadvantage of the SBU form of the organization structure is that often there are too many SBU's to effectively handle. Corporate-level strategic planning and portfolio analysis become difficult because too many SBU's have been aggregated into a smaller, more manageable number [Bartlett, 1988, p.59]

Other organizational structures are investigated in detail in many positions of strategic business literature[9].

Technological resources.

For the enterprise' technological resources we can include:

- Quality standards (ISO series)
- Trade marks
- Innovations and patents
- Know-how

[9] For ex ample: Chandler A. D. *Strategy and structure* Cambridge-london 1962, Steinman H., Shreyogg G., *Zarządzanie,* Oficyna Wydawnicza PWr. 2001

- Degree of technical sophistication
- Service efficiency.

These resources play an important role, some of them may be a basis for building the firm's **core competencies strategy.**

In general the division whole organization into the selected resource groups help identify the firm's strengths and weaknesses. Another way of internal analysis is the concept of **value chain,** invented by Michael Porter (Figure 4.4)

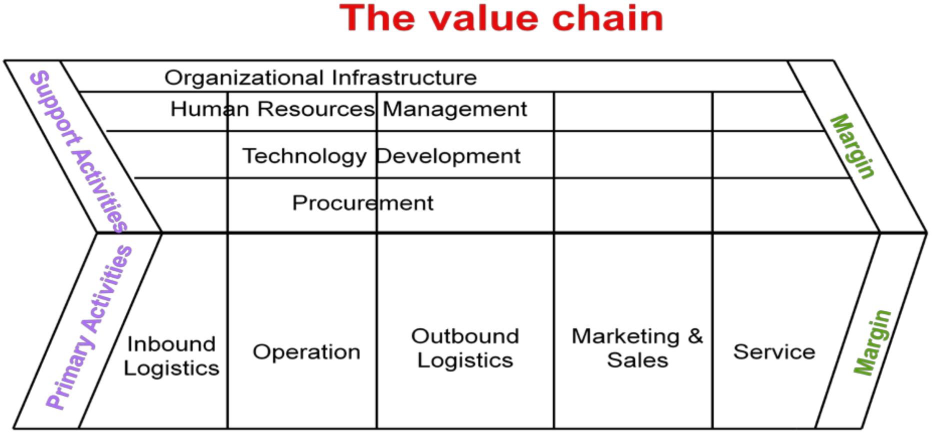

Figure 4.4 The concept of value chain.
Source: [Steinman, Schreyogg, 2001, p.143]

The value chain is a tool to help managers visualize and analyze their organizations' value creating activities. The value chain emphasizes the fact that multiple and varied activities, performed in a coordinated and efficient manner, are necessary to create value for the enterprise's customers [Porth, 2003, p. 81]

According to M. Porter[10] the layout of the value chain consist of two main types of activities – primary activities and support activities.

Primary activities. Firms' primary activities are strictly related with production, distribution, sale and service. The list of these activities:

- Inbound logistic - all activities connected with entry and storage, raw materials, etc

[10] Source; [Porth, 2003, p81]

- Operations - all production activities like material transforming, quality control, product packing, etc
- Outbound logistic - all activities connected with the expedition of products, transport, etc
- Marketing and sales – activities like advertisement, sale promotion, price establishing, finding and choosing distribution channels, etc
- Service – all relations with clients after the act of sale

Support activities. Support activities enable the performance of the primary activities. The activities cover:

- Organizational infrastructure – all activities that relate to enterprise management (financing and accounting, planning, information systems)
- Human resources management – all activities that focused on labour (motivate systems, payment systems, labour estimation systems, etc)
- Technology development – activities that support productive capacity (upgrading product quality, technology improvement, research and development activities, etc)
- Procurement – activities connected with purchases.

Any enterprise or organization has its own value chain. The first phase of the value chain analysis is identifying and defining all activities that create value for customers. Proper construction and analysis of firm's value chain could identify competitive its competitive advantage.

5. Core competences strategy

If we completed an internal audit process, we can go to a more sophisticated technique of establishing strategic capacity of our enterprise. This technique identifies an enterprise's core competencies. American scientists Hamel and Prahalad[11] define **core competencies** as the collective learning, skills and capabilities of the firm, especially relating to the coordination of diverse skills and

[11] Source: [Porth, 2003, p. 85]

integration of multiple streams of technology. Other authors distinguish between competencies and core competencies. The example of that is a hierarchy scheme of resource skills and competencies – Figure 5.1.

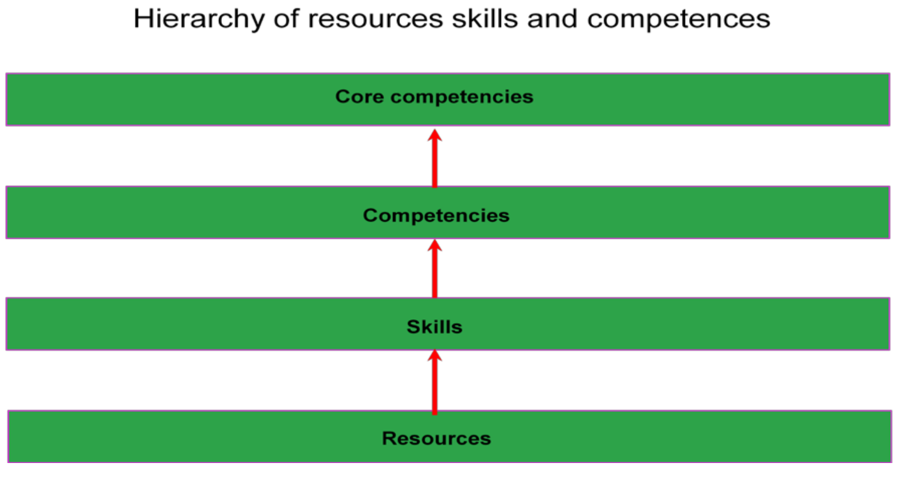

Figure 5.1 Hierarchy of resources skill and competences.
Source: [Lichtarski, 2003 p.39]

The main foundations of core competencies are [Moszkowicz, 2005]:

- Unique configuration of resources and skills
- These resources and skills should be extremely valuable
- Dynamic fit (stretch) among resources and strategic directions

To be considered a core competence, a skill must pass three tests according to Hamel and Prahalad [Porth, 2003, p. 86]:

- The first test is *customer value*. A core competence must make a significant contribution to the perceived customer benefits of the end product. It is a part of the reason why customers choose the product or service. For example, Honda's competence in engines provides customers with benefits such as superior fuel economy, fast acceleration, and less noise and vibration.
- Second, to qualify as a core competence, a capacity must provide *competitor differentiation*. This means that the skills are not held equally by competitors in

the industry. By extension, this also means that the core competences are not easily replicated by others firms.

- The third test is *extendibility*. This means that the competence provides potential access to a wide variety of markets. A competence may be used to leverage new opportunities in other markets. For example, Honda has used its competence in motors to enter automobile, truck, and lawnmower markets.

According to S. J. Porth[12] - companies exhibit many different types of core competencies and world class companies build and exploit several competencies that could be performed in many Strategic Business Units. Figure 5.2 shows the company's possibilities to adopt internal core competencies among different SBU's. The result is manufacturing selected products that could be sold in many markets because the products are better than other company products.

Figure 5.2

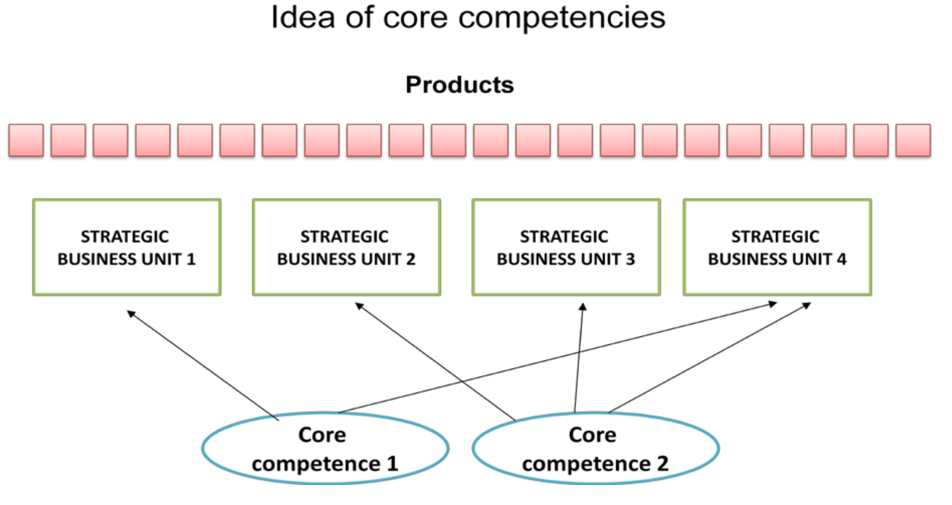

Figure 5.2 Idea of core competencies
Source: [P. Kubiński, 2005]

The importance of core competencies for strategic management is a function of the potential competitive advantage they may provide for the firm. The features of

[12] Source: [Porth, 2003, p.86]

core competencies that are the base of competitive advantage are indentified by M. Moszkowicz[13]. The main features of core competencies:

- Sourced from knowledge.
- Limited possibility to buy or sale.
- Specific for the enterprise.
- Give the additional advantage (beneficial for clients).
- Difficult to imitate (benchmarking).
- Difficult to substitute (outsourcing).
- Can create new products and new market entrances.

The creators of the core competence concept – Hamel and Prahalad - established a core competence agenda (Figure 5.3)

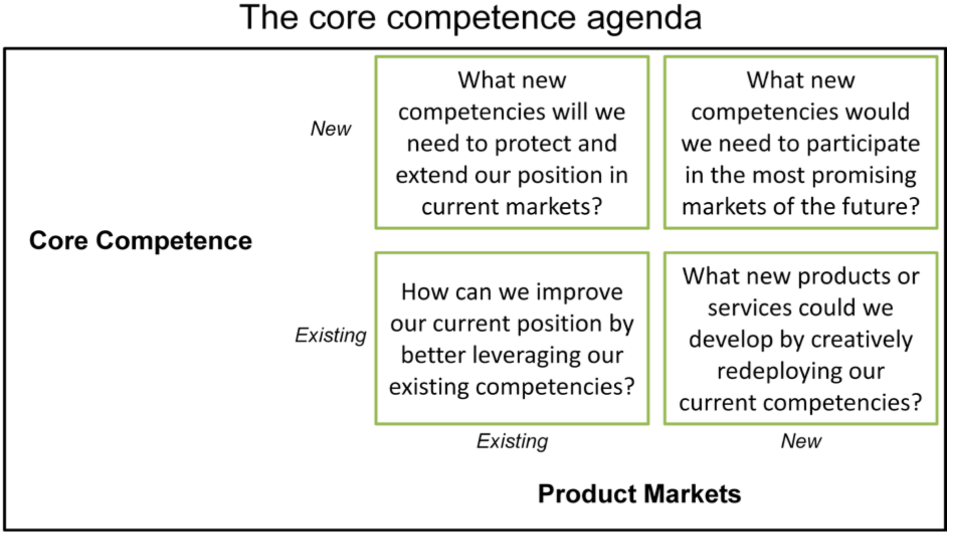

Figure 5.3 The core competence agenda.
Source: [S. J. Porth 2003 p. 88]

The framework distinguished between existing and new core competencies, and between existing and new product markets. Each cell in the matrix raises questions about growth opportunities relying on core competencies. The message

[13] Source: [Moszkowicz, 2005]

inherent in the framework is to find new ways to exploit current competencies and to seek new competences for competing in the future [Porth, 2003, p. 87].

The example of a firm that may be considered as a firm with core competencies is the famous optic manufacturer - Carl Zeiss AG. Carl Zeiss has a reputation of being a producer of quality optic equipment. This equipment is offered in many markets like: photographic market, military market, laboratory market, etc. In general, Carl Zeiss is the producer of consistently high-quality, dependable optics.

The main disadvantage of the core competencies concept is a lack of methodology. In other words, what should we do to achieve the competencies. The examples of a firm, that incorporates core competencies, respecting only successful and well known firms.

6. Strategic options

In that phase of the strategic management process we must answer some questions – which of our activities should be developed and which activities could discontinued. The best method to find the resolution for these questions is to apply **portfolio models.**

Portfolio analysis is an analytical tool in the strategic management process that is used to help improve the management of diversified business organizations. The ultimate objective of portfolio analysis is identification [Bartlett, 1988, p. 44]:

- An internal generated resource of the firm that provide continued growth of the firm.
- Mature elements of the business that are the primary source of cash flow.
- New business units that are candidates for future growth of the firm.
- Declining business units that are candidates to harvesting and liquidating.

The first and most popular portfolio model is **The Boston Consulting Group (BCG) Matrix** (Figure 6.1).

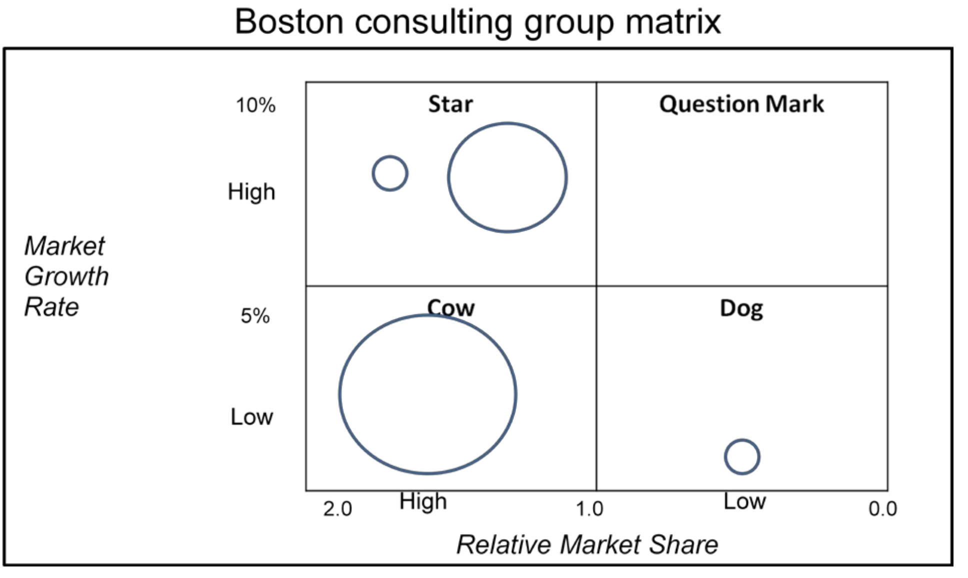

Figure 6.1 BCG matrix
Source: [S. J. Porth 2003 p. 133]

The BCG Matrix uses single-criterion dimensions of market growth rate and market share. *Market growth rate*[14] is defined as the growth rate of an industry (not company). Market growth rate is a surrogate indicator of the attractiveness of an industry. The second dimension of the BCG Matrix, *relative market share,* defined as the ratio of the firm's share of market to that of its largest competitor in the industry. This is another surrogate indicator of the strength of the business. If the relative market share of business exceeds 1.0, that business is considered to be a high-growth business.

By revivinge of each quadrant in this four-cell matrix, we observe how SBUs are positioned in the matrix [Bartlett, 1988, p.46]:

- Stars – high growth, high market share business units, These are industry leaders and represent sources of growth for the firm. In general, they are considered to be financially self-sustaining.
- Question Marks – high grow markets but with relatively lower market shares are found. These business units represent future industry leaders for the firm, if they survive and prosper. If not they will exit the portfolio by falling into a

[14] Source: [Porth, 2003, p.132]

lower cell (Cash Cows), experience continued loss of market share and ultimate divestiture or liquidation.

- Cash Cows – cash-generating, mature business units of the firm. These are the leading firms in their industries and the industries are mature. In general these units are core businesses and will remain in the portfolio for a long time. Cash from these units is directed mainly to the emerging business units (Question Marks).
- Dogs – the lower-performance SBUs. These are low-market share businesses in slow growth industries. They may be former mature business units whose products are in the declining phase of the product life cycle. They may be former high-potential business units that did not succeed. They may represent smaller business units that are considered desirable and needed in order to provide a full product line. Finally, for whatever reason, Dogs represent line of business that are no longer attractive to the firm and hence are candidates for divestiture or liquidation.

The BCG Matrix is a relatively simple one, easy to quantify and quite easy to develop. Many users of portfolio analysis have felt the need for more elaborate portfolios. Once the more widely known of these alternatives is the business position-industry attractiveness developed by the General Electric Company and McKinsey Consulting Firm, shown in Figure 6.2. This is a nine-cell matrix, which is also known as the *market attractiveness-business strength* matrix. This model is similar to the BCG Matrix in theory but uses composite dimensions and a three-by-three matrix for more comprehensive analysis of both internal and external factors. According to S. J. Porth[15] m**arket attractiveness** dimension of the model consist of:

- Market size
- Market growth rate
- Profit margin
- Competitive intensity
- Cyclicality
- Seasonality
- Scale economics

[15] Source: [Porth, 2003, p. 134]

The second dimension of the matrix, **business strength,** evaluates the ability to compete in a market and is a function of:

- Relative market share
- Price competitiveness
- Product quality
- Knowledge of customer/ market
- Sales effectiveness
- Geography

The GE-McKinsey business screen

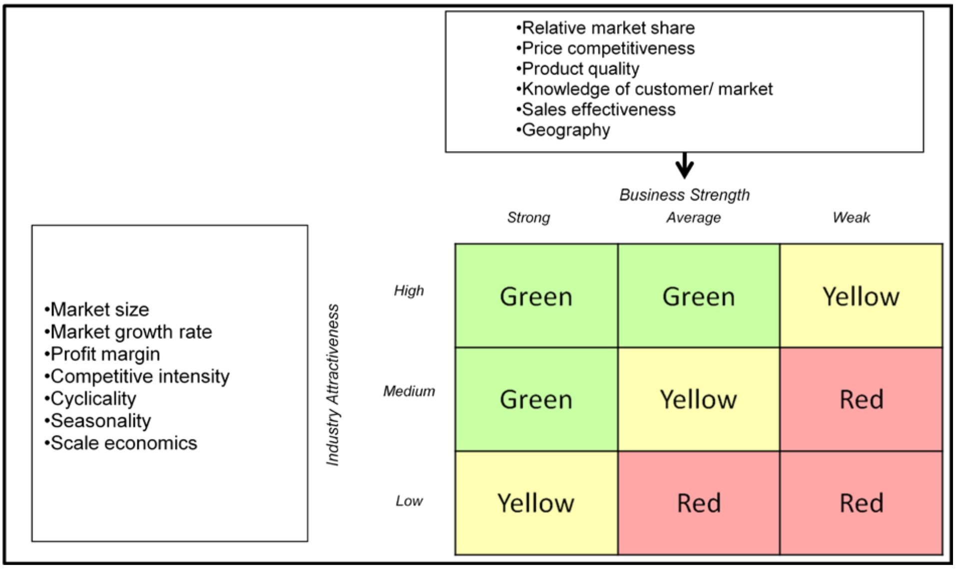

Figure 6.2 McKinsey matrix
Source: [S. J. Porth 2003 p. 135]

The two dimensions are used to plot each business units in the matrix. This approach provides more flexibility in choosing variables deemed important in defining industry attractiveness and the business units position. However, the positioning of SBUs in the matrix is more objective. The cells of the matrix can be color-coded as in Figure 6.3 to signify go (growth strategies), caution (stability or maintenance strategies) and stop (retrenchment, turnaround or exit strategies) as a way of making the model more illustrative of appropriate strategies. Each cell of the GE-McKinsey model suggest a different investment strategy for the business [Porth, 2003, p.134]

Strategy options using GE-McKinsey model

Industry Attractiveness \ Business Strength	Strong	Average	Weak
High	Premium-Invest for Growth: •Provide maximum investment •Diversity worldwide •Consolidate position •Accept Moderate near-term profits •Seek to dominate	Selective-Invest for Growth: •Invest heavily in selected segments •Share ceiling •Seek attractive new segments to apply strengths	Protect/Refocus- Selectively Invest for Earnings: •Defend strengths •Refocus to attractive segments •Evaluate industry revitalization •Monitor for harvest or divestment timing •Consider acquisitions
Medium	Challenge- Invest for Growth: •Build selectively on strengths •Define implications of leadership challenge •Avoid vulnerability- fill weaknesses	Prime-Selectively Invest for Earnings: •Segment market •Make contingency plans for vulnerability	Restructure-Harvest or Divest: •Provide no unessential commitment •Position for divestment or •Shift to more attractive segment
Low	Opportunistic-Selectively Invest for Earnings: •Ride market and maintain overall position •Seek niches, specialization •Seek opportunity (for example through acquisition) •Invest at maintenance levels	Opportunistic-Preserve for Harvest: •Act to preserve or boost cash flow •Seek opportunistic sale or •Seek opportunistic rationalization to increase strengths •Prune product lines •Minimize investment	Harvest or Divest: •Exit from market or prune product line •Determine timing so as to maximize present value •Concentrate on competitor's cash generators

Figure 6.3 Strategy options in McKinsey matrix
Source: [S. J. Porth 2003 p. 136]

The portfolio models have advantages and limitations [Porth, 2003, p. 137].

Advantages:

- Encourages top management to evaluate each business individually and to set objectives and consider resources
- Helps managers to recognize the inherent financial relationship between different business units
- Requires the use of external data to supplement managerial judgment
- Graphic representation makes interpretation and communication straightforward

Limitations:

- The analysis is static in that it is based on a view of internal and external factors at a point in the time

- Market definitions can be somewhat arbitrary and therefore misleading
- Understanding the success requirements for and industry is not always easy
- Using standardized strategies or a cookie-cutter approach to strategic choice is overly rigid and may lead to both missed opportunities and impractical or even dangerous strategies
- Portfolio analysis may give strategists an illusion of scientific rigor and objective analysis, when in fact much intuition and qualitative assessment is necessary to use portfolio models
- Some of the posited relationships that drive portfolio models have questionable validity given changes in production technology

Another very popular method to establish and estimating strategic options is the SWOT Matrix.

The SWOT matrix

	STRENGTHS - S List strengths	**WEAKNESSES - W** List weaknesses
OPPORTUNITIES - O List opportunities	**SO STRATEGIES** Use strengths to take advantage of opportunities	**WO STRATEGIES** Overcome weaknesses by taking advantage of opportunities
THREATS - T List threats	ST STRATEGIES Use strengths to avoid threats	WT STRATEGIES Minimize weaknesses and avoid threats

Figure 6.4 The SWOT matrix.
Source: [S. J. Porth 2003 p. 138]

SWOT Matrix is a useful tool for identifying alternative business level strategies. The first phase of SWOT analysis is finding the firm’s strengths and weaknesses. The listed strengths and weaknesses are one dimension of the SWOT Matrix. The second phase of the process is environment analysis that results in a list of key opportunities and threats. The dimensions create a four-cell matrix. Our task is: find the relation among strengths and weaknesses with opportunities and threats. As we see in Figure 6.4 there are four main strategic options:

- SO strategies - the best situation.
- ST strategies - how to use our strength to avoid threats?
- WO strategies – opportunities may change the firm's weaknesses into strengths or make them worse.
- WT strategies - the worst situation – harvest or divest.

A proper and careful investigation of a firm's situation with the SWOT Matrix creates a solid base for the firm's strategy choice.

7. Models of strategic choice

7.1 Porter generic strategies

A discussion of strategic directions should begin with the understanding of the essence of strategic choice on the SBU level: The problem is clear - how to win the competition in the SBU market? M. Porter[16] created a universal model of **generic strategies** (Figure 7.1).

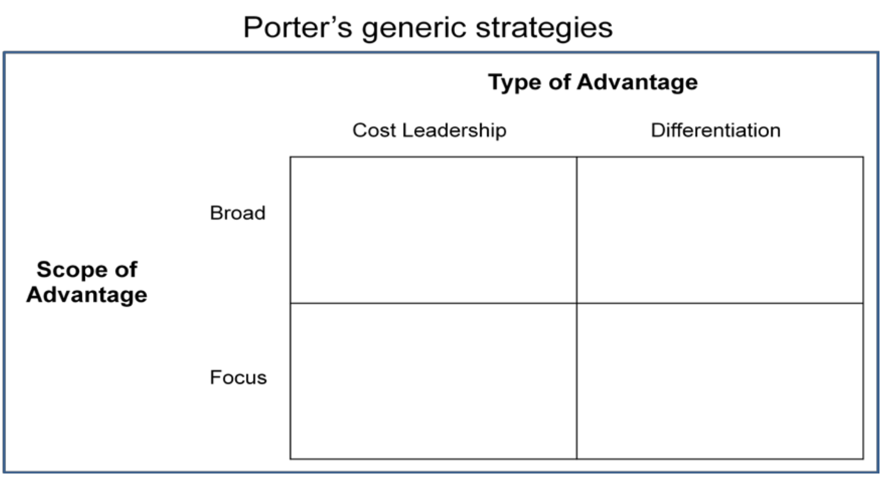

Figure 7.1 Porter's generic strategies
Source: [S. J. Porth 2003 p. 67]

[16] Source: [Moszkowicz, 2005, p.147]

Porter strategy classification relates to two dimensions:

- Type of advantage – source of competitive advantage (cost leadership or differentiation)
- Scope of advantage – strategic objective (board market or focus market)

This layout allows a firm to understand their position in the industrial sector and its effective competition. According to Bartlett[17] the general characterization of the three generic strategies:

1. Overall cost leadership: Becoming the low-cost producer in the industry and competing on an industry wide basis.

2. Differentiation: Developing attributes of a product or service that distinguish that product or service from those of the competitors and competing on an industry wide basis.

3. Focus: Serving a segment of the market either by cost leadership or differentiation, rather than attempting to compete in most or all segments of a market.

In Table 7.1. there are more characteristic of Porter's strategies

Table 7.1. Features of generic strategies

Type of strategy	Main features
Cost leadership	• Classical enterprise strategy. • Success factor - low cost (price). • The strategy needs an absorptive market. • Typical requirements – big scale of production standard products, specialized technology. • Doesn't "work" in a "saturated" market • Existence of a large market, actual or potential. A high-volume sales potential is required to allow scale economies. • Ability to enter the market early, preferably at the beginning of the product life cycle; or in the case of an established market, with a significantly improved product. • Market is a growth market, either due to the product being new or being significantly changed so the present model becomes obsolesced. • Opportunity to benefit from the experience curve exists. • Ability to price competitively and still earn an adequate return on the investment. • Existence of significant barriers to an entry to permit recouping of the initial investment at a satisfactory return on the investment. • Desire to be the market leader, and willingness to price low and wait

[17] Source: [Bartlett, 1988, p.39]

	for profitability.
Differentiation	• Totally opposite to cost strategy. • In general - to achieve features which differentiate products from others. • Typical factors of differentiation - color, shape, trade mark, distributions. • The strategy ”works” at saturated markets. • The differentiation features should be highly-estimated by clients. • Opportunity to develop and capitalize upon some unique features of a product or service. • The market willing to pay higher price for this differentiation feature. • A cost leader is already established in the market. • The firm is willing to accept a smaller market share due to higher price. • The firm is smaller; does not have the resources to be an industry cost leader. • The firm stresses research and development.
Focus (concentration)	• The firm has the skills and resources to serve one or only a few segments. • The firm is not a full-line manufacturer. • The firm is not national in scope and does not wish to become so. • The firm is highly specialized and competent in terms of human resources, the level of technology, manufacturing operations, and/or research and development. • The firm is small and entrepreneurial in nature.

Source: [Moszkowicz, 2005, p.147] , [Bartlett, 1988, p.39-41]

All of those strategies protect any firm from the five competitive pressures (Porter’s task environment model). According to M. Porter[18] **cost leadership strategy** protects from competitive pressures in many ways. Cost leadership strategy protects the firm from competitors – low cost enable profits longer. Less efficient firms will feel the impact of price competition first. The low-cost producer may still earn profits after the less-efficient firms have experienced declines or a loss of profitability. The threat of entry by other competitors may be limited due to the need for large-scale production facilities. Industry overcapacity may result with the entry of another competitor, leading to low profitability for both existing firms and the new entrants Low-cost producers are usually in a favorable position with respect to the threat of substitutes. And finally cost-leadership strategy protects firms from both suppliers and customers.

The strategy is still popular among enterprises that operate on traditional mature markets like: energy sector, mining sector, iron smelting etc.

[18] Source: [Porter, 1992, p.51] and [Bartlett, 1988, p.40]

The second Porter's[19] generic strategy - differentiation - consists of creating unique features of a product (service) that are superior or unique in comparison to other competitors products. This strategy enables an enterprise to earn more than others because the strategy builds **customer loyalty** to the enterprise's trademarks**.** If customers believe the differentiation elements are worth the price, the firm will be able to cover the costs of providing differentiation. Differentiation strategy builds and raises entry barriers. Potential newcomers will have to overcome existing customer loyalty. The consumer loyalty based on differentiation, also reduces the threat of potential substitutes.

The main disadvantage of that strategy is that the loyalty is limited. If the spread between the differentiated product and other standard products becomes too great, the consumers may switch to undifferentiated standard products.

The differentiation strategy are getting popular on new or "saturated" markets like: motor car industry, electronics, computers, fashion.

The last generic strategy –focus – is dedicated to the narrow market segment, the firm can obtain a competitive advantage either through the pursuit of cost leadership or differentiation and also a combination of both. The main activity of the strategy is specialization and due to the best service a **select small market segment**. The specialization enables the firm's to perform with better products or services than large competitors which operate on big sectors and market segments.

The Porter strategies couldn't be leading in a firm simultaneously because they need different organizational needs and skills (Table 7.2).

[19] Source; [Porter, 1992, p.53] and [Bartlett, 1988, p.41]

Tab 7.2 Requirements connected with Porte's strategies.

Requirements connected with Porter's strategies

TYPE OF STRATEGY	DEMANDS IN SKILLS AND RESOURCES	OGRANIZATIONAL NEEDS
COST LEADER	Sustainable investment and Access to capitals. Ability to upgrading technologies. Detailed controls focused on labour and costs.	Detailed cost control. Frequent and particular reports. Structurised organization and responsibility scopes. Motivation connected with quantity.
DIFFERENTIATION	Outstanding marketing abilities. Creative skills In products development. Activity in leading science research. High position and reputation in technical sphere. Ability to gather creative people and teams.	Coordinating research and development functions with product project and marketing. Subjective motivation system. Attractive conditions for high skilled workers, scientists and creative people.
CONCENTRATION	Combining the mentioned rules focused on a selected narrow sector.	Combining the mentioned rules focused on a selected narrow sector.

Source: [M. Porter, 1992, p.56]

To sum up, we must state that these generic strategies are valid foundations for developing a strategy for any enterprise or organization. One of these strategies may be the source for sustaining the firm's competitive advantage.

7.2 Ansoff' strategy model

Another popular and useful model of strategic choice is a model created by I. Ansoff[20]. The model is often named the growth matrix. The strategies may be characterized as market expansion or growth strategies. The idea of this model is – firms can pursue several ways to achieve growth or expansion, each involving the basic strategic elements of products and markets (Figure 7.2). The main dimensions of the model are:

[20] Source; [Porth, 2003, p.58-59]

- Products – present or new
- Markets – present and new

Ansoff model

Markets / Products or services	Present	New
Present	**Market penetration:** • Occupy the market • "Push ahead" on the market	**Market extension:** • Internationalization • Market segmentation
New	**Product development:** • Innovations • Differentiations	**Diversification:** • Vertical • Horizontal • Lateral

Figure 7.2 Ansoff model.
Source: [M. Moszkowicz, 2005]

This layout creates a four cells matrix. Every cell relates to the selected strategy. The strategies are [Porth, 2003, p.59]:

- Market penetration – achieving growth by selling more of our existing products in existing markets. Typical activities: advertising and promotion, price reductions
- Market development (or market extension) – achieving growth by taking existing products into new markets or market segments. Typical activities: internationalization or finding new market segment
- Product development – the creation of new products for markets we currently serve. Activities: leading and incorporating innovations into products, projecting new more functional products
- Diversification – branching out into new products for new markets; diversification suggests an expansion outside the firms current core business. The diversification may direct vertically, horizontally or laterally.

The Ansoff strategies may be lead simultaneously.

7.3 Advanced models of strategic choice

The previously presented models of strategic choice were two dimensional. Now we will investigate advanced three dimensional models. The models often are modified traditional models created by M. Porter or I. Ansoff.

A first interesting three dimensional model is the model created by German professors H. G. Steinman and G. Schreyogg. As we see this is a modified version of the M. Porter model. The first dimension **- Main direction of competition –** relates to M. Porter's cost leadership or differentiation. The second dimension – **Competition area –** is inspired by M. Porter: focus on the market segment or operating the whole market. The original dimension is – **Competition rules.** We can adopt our activities to binding competition rules or at the opposite, we may enforce our rules. In practice the second situation is very challenging for any firm.

Strategies of SBU level. Model created by H.G. Steinmann and G. Schreyogg

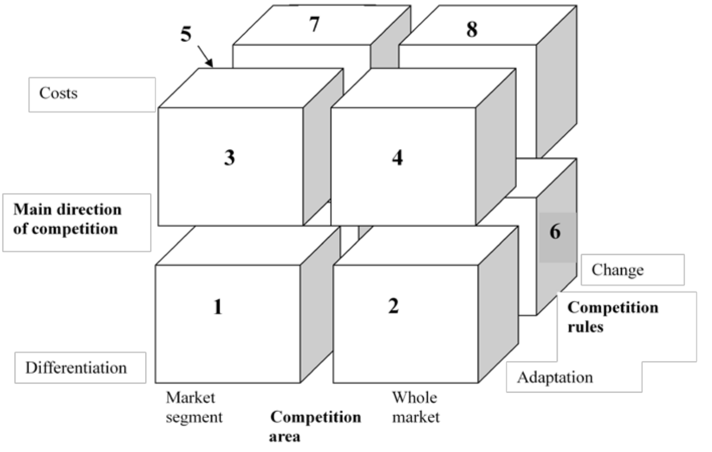

Figure 7.3 Strategy model created by H.G Steinmann and G. Schreyogg.
Source: [H.G. Steinmann, G. Schreyoegg, 2001]

As the example of a firm that broke the existing competition rules the German professors use Rainair (Irish Airline Corporation). The firm strategy is:

- Operating on the whole market
- Cost leadership

- New rules

The core competitive advantage of the firm was the new rules for treating the airline passengers. What is their main need? Rainair identified that the main need of its customers is **efficient traveling throughout Europe,** not traditional plane onboard services like sophisticated meals, drinks, etc.

The model is very useful to indentify directions for enterprise strategies.

Two other models were created by Polish professor M. Moszkowicz.

The first model shows possible strategic choices on Strategic Business Unit levels.

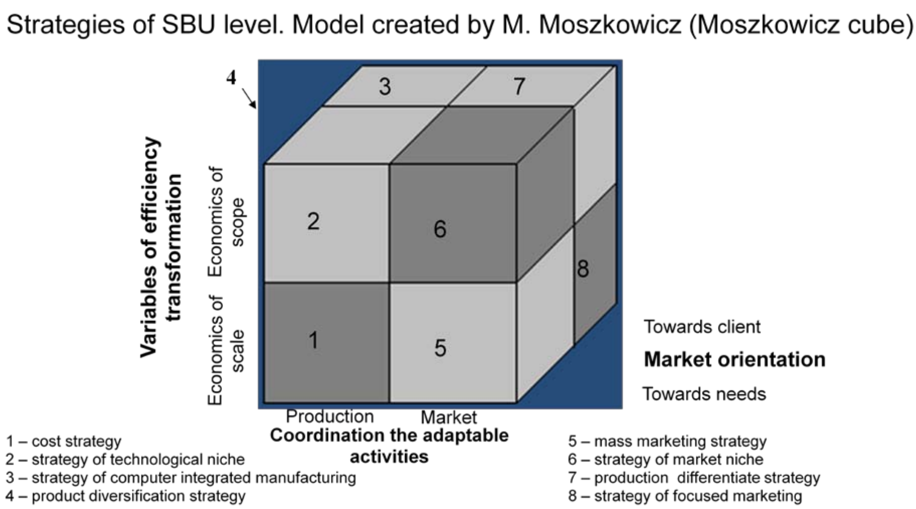

Figure 7.4 SBU strategies. Model created by M. Moszkowicz.
Source: [M. Moszkowicz, 2005]

The first dimension of that model – variables of transformation efficiency – shows that the enterprise can establish its development on the economics of scale or economics of scope. Economics of scale relates to big production quantity (still popular in traditional sectors like: energy, mining, etc). Economics of scope relates to production assortment (versatile models of product)

The second dimension - coordination adaptable activities – explains that the enterprise can set up your main activities into a productive area or into market style (for example: electric power plant vs. producers of cosmetics).

The last dimension – market orientation – demonstrates the firm's orientation towards the client or the client's needs. Orientation towards the clients means that the firm is specialized into service selected clients or selected groups of clients. Orientation towards needs means that the firm fulfills the selected needs (for example: firms that produce shaving equipment)

This dimensional layout enables us to distinguish eight strategies:

- Cost strategy
- Strategy of technological niche
- Strategy of Computer Integrated Manufacturing (CIM)
- Product diversification strategy
- Mass marketing strategy
- Strategy of market niche
- Production differentiate strategy
- Strategy of focused marketing

These strategies show how many strategic possibilities an enterprise has. The main disadvantage of the model is that it better fits traditional production firms.

The second Moszkowicz model shows strategic choices on Corporate Strategy Level. The dimension of the model are explained on Figure 7.5

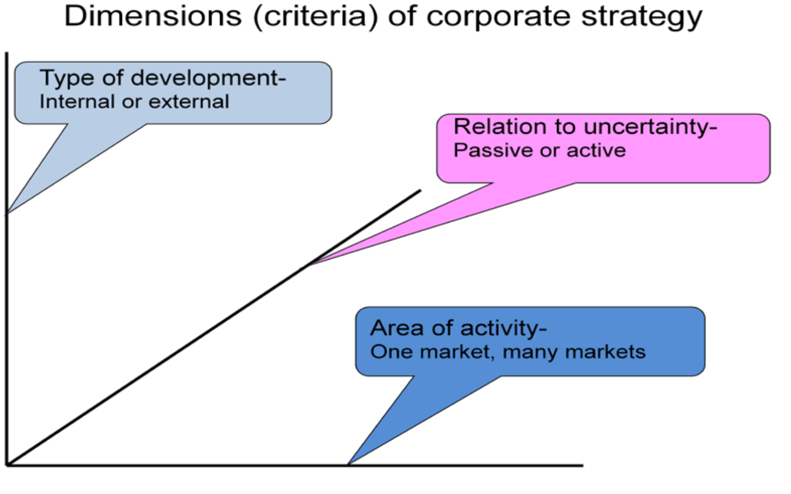

Figure 7.5 Dimensions of corporate strategy
Source: [M. Moszkowicz, 2005]

This layout enables us to distinguish eight strategies (Figure 7.6):

- Penetration strategy
- Internationalization strategy
- Integration strategy
- Enterprising strategy
- Monopolization strategy
- Diversification strategy
- Acquisition strategy
- Globalization strategy

Some of these strategies relate to strategies taken from traditional models of strategic choice. For example: penetration strategy and diversification and integration strategy are similar to Ansoff's strategies. Other strategies like internationalization, globalization and acquisition reflect modern strategies that are getting more popular among big corporations that operate throughout the world.

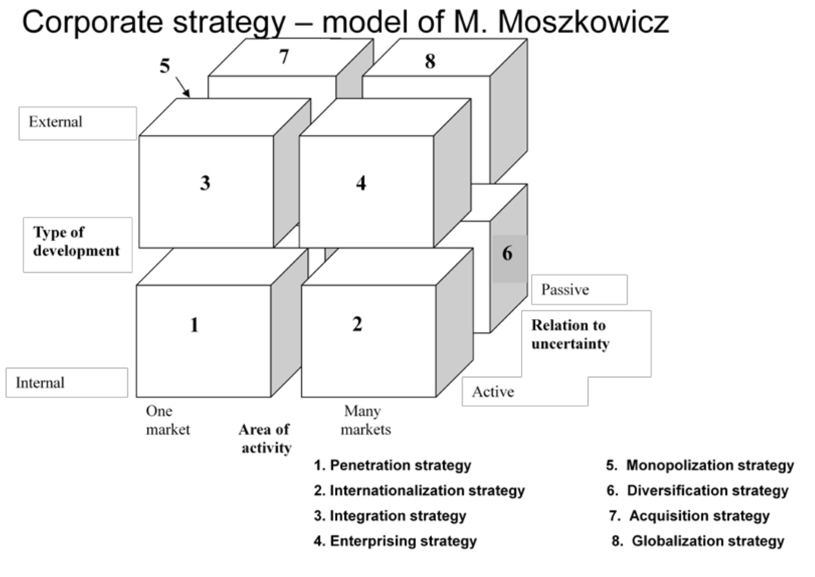

Figure 7.6 Model of corporate strategy.
Source: [M. Moszkowicz, 2005]

The last model of strategic choice is well known as the Risk Cube. The model was established by English professors D. Faulkner and C. Bowman. They successfully modified the well known Ansoff's model of strategic choice (Figure 7.7).

The modification shows that an enterprise can realize all four of Ansoff's strategies but on different foundations (bases). The green arrow indicates the rising risk.

The first base for realizing Ansoff' strategies is internal progress. Internal progress means that a firm performs market activities by investing and developing its own resources.

The second foundation for realizing all four strategies is strategic alliance. Strategic alliances are a multi-form of cooperative relations among two or more competitors. The fact of competitors is important because in other circumstances it would be normal cooperation. Strategic alliance is attractive in industries such as computers, motor car industries, pharmaceuticals and electronics.

The third situation is the act of purchasing another firm. This may be effective when the firm is trying to obtain a new market in a new geographical region.

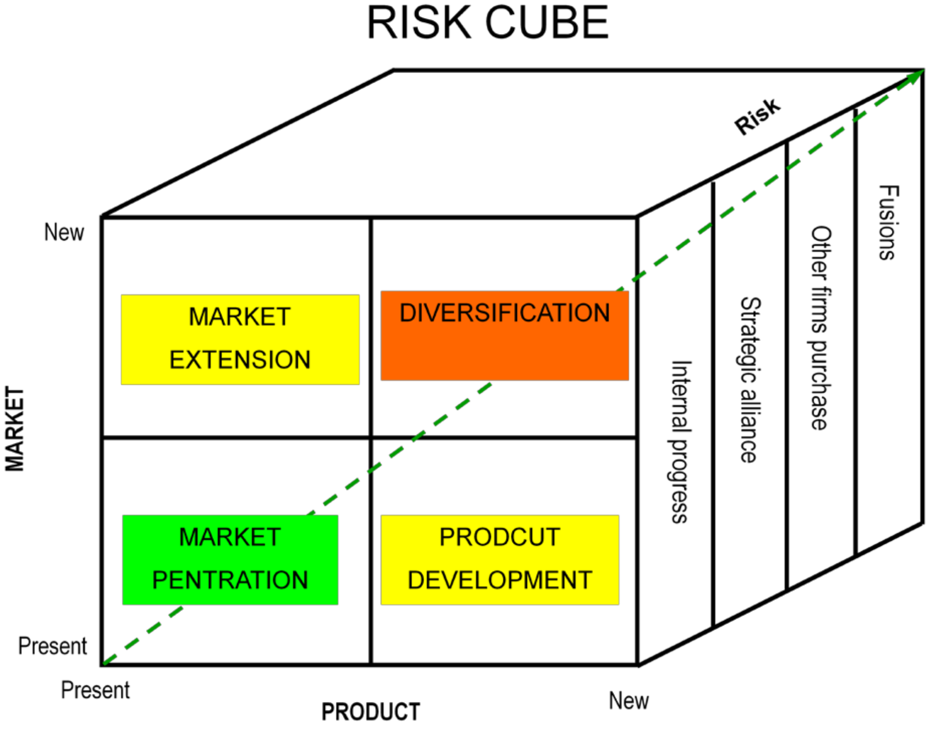

Figure 7.7 Risk cube – modified Ansoff model
Source: [Faulkner, 1996, p. 100]

The last level is fusion. It may be effective, especially when each of the firms have a completely different value chain. In that case, synergy effect may occur. But it is the riskiest situation, and the economical stability of many fusions were not sustainable.

8. Strategy implementation.

The last phase of the strategic management process is strategy implementation. At the beginning we should explain what it is. German scientist J.M. Lehner[21] states that strategy implementation means: finding the resources which, when used properly (accurate to circumstances) result in obtaining the strategic target by an organization.

The strategy implementation is one of the most important phased of the strategic management process. According to S.C. Certo and J.P. Peter, success of organizations depends on the effective implementation of strategies. In order for an organization to achieve its strategic objectives, it must not only formulate but also implement its strategy effectively. Figure 8.1 represents the importance of both tasks in matrix form and suggests the probable outcomes. The outcomes reflect possible combinations [Certo, Peter, 1988, p.119]:

- **Success** is the most likely outcome when an organization has a good strategy and implements it well.
- **Roulette** involves a situation where a poorly formulated strategy is implemented well. Two basic situations may occur. The good execution may overcome the poor strategy or it at least gives management an early warning of the impeding failure. Alternatively, the same good execution can accelerate the failure of the poor strategy. For example, rapid production and effective marketing of a faulty new product causes the strategy to fail sooner. Thus, it is impossible to predict exactly what will happen to strategies in the roulette cell.
- The **trouble** cell is characterized by a situation where a well-formulated strategy is poorly implemented. Because managers are more accustomed to focusing on strategy formulation, the real problem with the strategy – faulty implementation – is often not diagnosed. When things go wrong, managers are likely to reformulate the strategy rather than question whether the implementation was effective.

[21] Source: [Kubiński 2005]

- **Failure** is most likely to occur when a poorly formulated strategy is poorly implemented. In this situation, management has a strong difficulty getting back on track. If the same strategy is retained and implemented in a different way, it is still likely to fail. If the strategy is reformulated and implemented the same way, failure remains the probable result. In general, strategic problems in this cell are very difficult to diagnose and remedy.

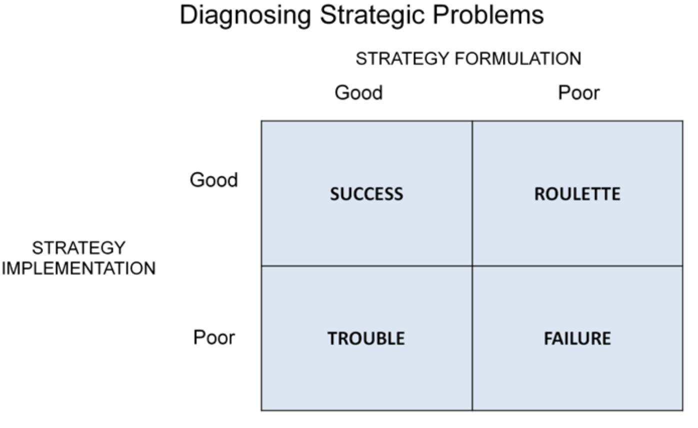

Figure 8.1 Diagnosing strategy implementation problems.
Source: [S. C. Certo, J. P. Peter, 1988 p. 119]

Good advice on how to avoid failure in strategy implementation was established by S. J. Porth[22]:

1) Establish a sense of urgency: Analyze and explain the need for change. If the situation is urgent, let people know. Identify and discuss crises, potential crises, or major opportunities. If it is not urgent, however, don’t attempt to create a false sense of urgency.
2) Communicate early, often, and in person: Whenever possible, communicate openly. Full disclosure may not always be possible but it is the ideal.
3) Involve people in the process: From a guiding coalition with enough power to lead the change effort. Encourage the group to work together as a team. Give employees a personal stake in the outcome of the change and provide

[22]Source: [Porth, 2003, p.199]

employees with the training they need. Consider using a high-involvement planning process.

4) Create and communicate a shared vision of the future: Develop a statement of strategic direction that articulates the links between the organization's competitive environment, its new strategies, and the organizational changes needed to realize the goals of the strategies. Use every vehicle possible to communicate the new vision and strategies.
5) Develop an implementation plan: Define roles, responsibilities, deadlines, and resource requirements for change. Work with employees to establish the plan and to develop a sense of partnership.
6) Anticipate and remove barriers to change: Encourage new ideas and behaviors and change system, policies, and structures that undermine the new strategies. Hire, promote, and develop employees who can implement the new strategies.
7) Reinforce and institutionalize new approaches: Articulate the connections between the new behaviors and corporate success. Plan for and create short-term wins. Recognize and reward the employees involved in the improvements.

The main problem of strategy implementation is the lack of methods that could effectively support that phase of strategic management. Of course, there are some methods that are useful for the implementing process. The one that is worth explaining is **The Balance Scorecard.** The concept of the balanced scorecard was created by professors of Harvard Business School – R. Kaplan and D. Norton. The idea of the card is - how could we measure the result of our strategy?

The card construction is supported by four pillars - perspectives [Porth, 2003, p242]:

- Financial perspective (how do we look to owners and shareholders?) – reflects value creation for owners by using popular financial techniques.
- Internal perspective (how do employees see us? What must we do operationally?) - focuses on employees and operation that emphasized the organization's success at developing and keeping qualified and motivated employees.

- Customer Perspective (how do customers see us?) – puts the spotlight on the organization's relationship with its customers and its ability to build and retain satisfied customers.
- Future perspective (can we continue to improve and create value?) - emphasizes the firm's ability to innovate and improve its main activities for creating value.

Figure 8.2

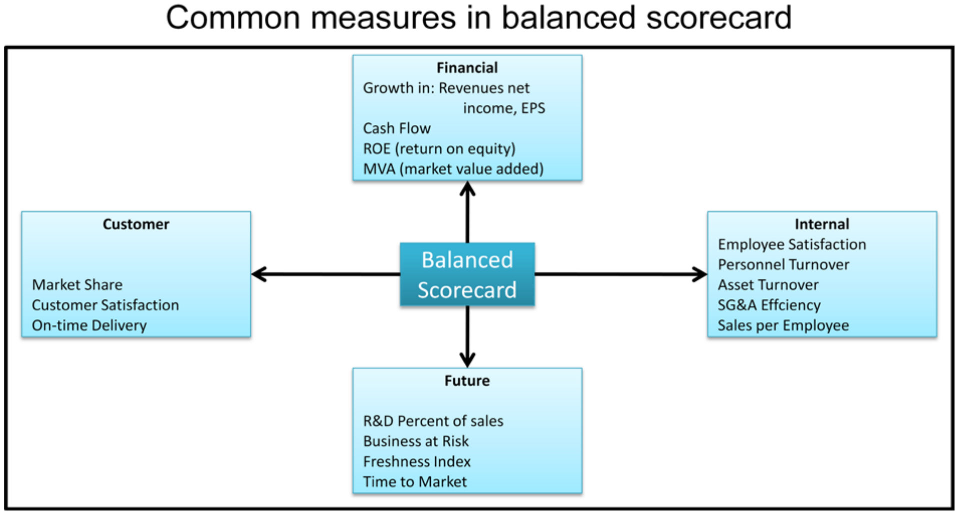

Figure 8.2 Balanced Score Card.
Source: [S. J. Porth 2003 p. 243]

The example of the scorecard suggests that managers have many options in establishing measures for estimating the firm's strategy performance. But in practice, the biggest problem is to find the real measures that really reflect the results of the strategy.

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