Bulletin of the *Transilvania* University of Braşov • Vol. 3 (52) - 2010
Series V: Economic Sciences

ENVIRONMENT FACTORS TO ACHIEVE STRATEGIC OBJECTIVES IN COMPANIES

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Abstract: *Strategic management begins with an evaluation of the organization's mission, goals, and strategy. This is followed by situation analysis (sometimes called SWOT analysis) which examines opportunities and threats in the external environment as well as strengths and weaknesses within the organization. Situation analysis leads to the formulation of explicit strategic plans, which then must be implemented.*
This planning usually takes place in for-profit business organizations and pertains to competitive actions on the market. Although some companies hire strategic planning experts, the responsibility for strategic planning rests with line managers. Seniors executives of companies want middle and lower-level line managers to think strategically. Strategic thinking means to take the long-term view and to see the big picture, including the organization and the competitive environment and consider how they fit together. Understanding the strategy concept, the levels of strategy, and strategy formulations versus implementation is an important start towards strategic thinking.

Key words: *strategic management, corporate - level strategy, business - level strategy, functional - level strategy, situation analysis, departmentalization, innovation and change.*

1. Introduction

For the existing business to be capable of innovation, it has to create a structure that allows people to be entrepreneurial… This means, first of all, that the entrepreneurial, the new entity, has to be organized separately from the old, existing one. Whenever we have tried to make an existing entity the carrier of the entrepreneurial project, we failed. A separate entity must be created, different from the mainstream of the organization that is responsible for developing and initiating innovations. Allocation fund providing resources from which individuals and groups design and develop new ideas, products, or businesses.

2. Overview Concepts of Strategic Management

Strategic management begins with an *evaluation* of the organization's mission, goals, and strategy. This is followed by *situation analysis* (sometimes called SWOT analysis) which examines opportunities and threats in the external environment as well as strengths and weaknesses within the organization. Situation analysis leads to the *formulation of explicit strategic plans*, which then must be *implemented*.

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This planning usually takes place in profit business organizations and pertains to competitive actions in the marketplace. Although some companies hire strategic planning experts, the responsibility for strategic planning rests with line managers.

Strategic thinking means to take the long-term view and to see the big picture, including the organization and the competitive environment and how they fit to together. Understanding the strategy concept, the levels of strategy, and strategy formulations versus implementation is an important start toward strategic thinking.

Strategic management is the set of decisions and actions used to formulate and implement strategies that will provide a competitively superior fit between the organization and its environment so as to achieve organizational objectives. Strategic management is a process used to help managers answer strategic questions such as "Where is the organization now? Where wants the organization to be? What changes and trends are occurring in the competitive environment? What courses of action will help us achieve our goals?"

Trough the process of strategic management executives define an explicit strategy, which is the plan of action that describes resource allocation and activities for dealing with the environment and attaining the organization's goals.

A strategy has four components: *scope, resource deployments, distinctive competence* and *synergy*.

Scope: The number of businesses, products or services that defines the size of the domain within which the organization deals with the environment is considered its scope.

The trend of mergers, acquisitions, and divestments in North America and now spreading also into Europe, is an exercise in redefining business scope.

Resource Deployment: The level and pattern of the organization's distribution of physical, financial, and human resources for achieving its strategic goals is its resource deployment. For example research employees were let go to fit the new strategy of short-term profits instead of developing products for ten years in the future.

Distinctive Competence: An organization's distinctive competence is the unique position it develops as compared to its competitors through its decisions concerning resource deployments or scope.

Synergy: When organizational parts interact to produce a joint effect that is greater than the sum of the parts acting alone, synergy occurs. The organization may attain a special advantage with respect to cost, market power, and technology or management skills. The synergy comes from arranging package deals with advertisers for space in several magazines. Management skills and new technology can be shared among magazines, thereby increasing productivity for all magazines beyond what they could do alone.

Levels of Strategy: Strategy formulation takes place at ***three levels***: ***corporate, business and functional***.

Corporate grand strategies include growth, stability and retrenchment. Frameworks for accomplishing them include the BCG matrix and the GE business screen.

Business-level strategies include Miles and Snow's strategy topology, Porter's competitive strategies, and *the product-life cycle*. Once business strategies have been formulated, functional strategies for supporting them can be developed (exhibit 1).

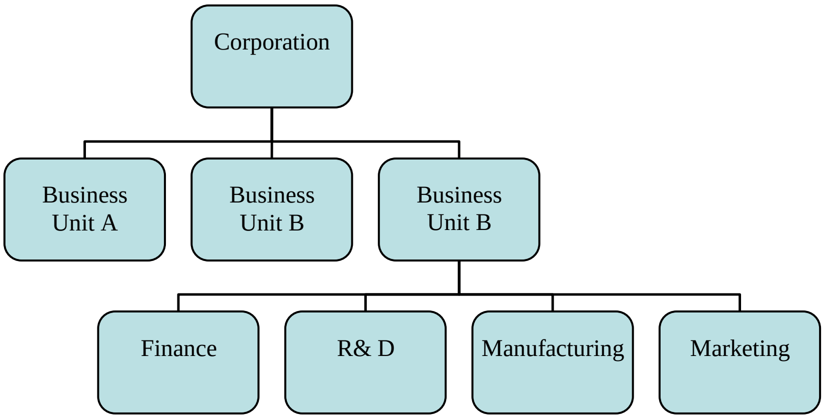

Fig. 1. *The three levels of strategy in Organizations*

Even the most creative strategies have no value if they cannot be translated into action.

Corporate- level strategy: The questions which concerns corporate- level strategy is <*What business are we in?*>

This pertains to the organization as whole and the combination of business units and product lines that make up the corporate entity. Strategic actions at this level usually relate to the acquisition of new businesses; additions or divestments of businesses units, plants, or product lines; and joint ventures with other corporation in new areas.

Business- level strategy

The question: <*How do we compete?*> concerns business- level strategy. Pertains to each business unit completes within its industry for customers. Strategic decisions at this level concern amount of advertising, direction and extent of research and development, product changes, new-product development, equipment and facilities, and expansion or contraction of products line.

Functional- level strategy: The question: *How do we support the business-level strategy?* concerns functional-level strategy**.** It pertains to the major functional departments within the business unit. Functional strategies involve all the major functions, including finance, research and development, marketing, manufacturing, and finance. To compete on the basis of new-product innovation, its research department adopted a functional; strategy for developing new products.

Many large corporations engage in acquisitions or divestments as part of a strategic plan.

All corporations are finding ways to respond to competitors, cope with difficult environmental changes, and effectively use available resources.

The Strategic Management process as illustrated in the foregoing diagram, the strategic management process begins when executives evaluate their current position with respect to mission, goals and strategies. They than scan the organization's internal and external *environments* and identify strategic factors that may require change. Internal and external events may indicate a need to redefine the *mission or goals* or to formulate a new strategy at the ***corporate, business, or functional*** level. Once a new strategy is selected, it is implemented through *changes in leadership, structure, human resources, or information and control systems.*

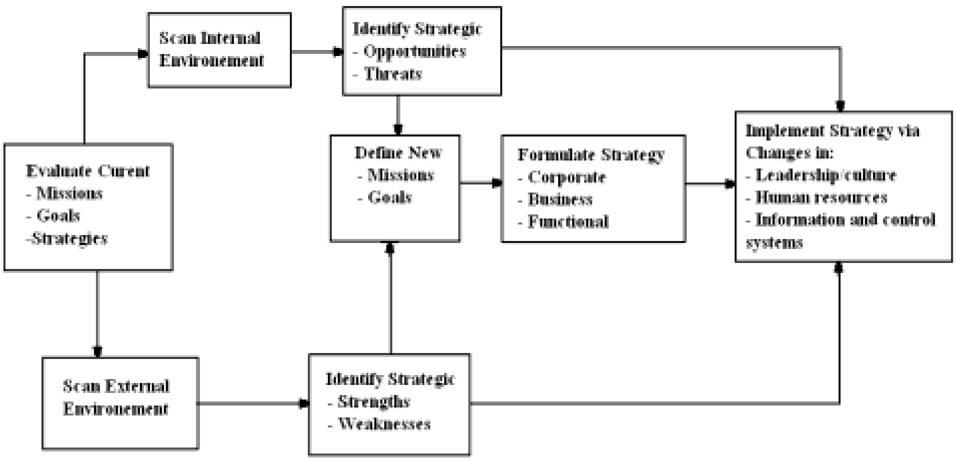

Fig. 2. *Strategy implementation*

3. Situation Analysis

Situation analysis typically includes a search for *SWOT – strengths, weaknesses, opportunities*-, and *threats* that affect organizational performance. External information about opportunities and threats may be obtained from a variety of resources, including customers, government reports, and professional journals, suppliers, bankers, friends in other organizations, consultants, or associating meetings. Many firms hire special scanning organizations to provide them with newspaper clippings and analyses of relevant trends. Some firms use more subtle techniques to learn about competitors, such as asking potential recruits about their visits to other companies, hiring people away from competitors, debriefing former employees of competitors or customers, taking plant tours posing as "innocent" visitors.

Executives acquire information about internal strengths and weaknesses from a variety of reports, including budges, financial rations, profit and loss statements, and surveys of employee attitudes and satisfaction. Managers spend 80 percent of their time giving and receiving information from others. Trough frequent face-to-face discussions and meetings with people at all levels of hierarchy, executives build an understanding of the company's internal strengths and weaknesses.

3.1. External opportunities and threats

Threats are characteristics of the external environment that may prevent the organization from achieving its strategic goals. ***Opportunities*** are characteristics of the external environment that have the potential to help the organization archive or exceed its strategic goals. The task environment sectors are the most relevant to strategic behaviour and include the behaviour of competitors, customers, suppliers, and the labour supply. The general environment contains those sectors that have an indirect influence on the organization but nevertheless most be understood and incorporated into strategic behaviour. The general environment includes technological developments, the economy, legal-political and international events, and socio- cultural changes.

Additional areas that might reveal opportunities or threats include pressure groups, interest groups, creditors, natural resources, and potentially competitive industries.

3.2. Internal Strengths and Weaknesses

Strengths are positive internal characteristics that the organization can exploit to achieve its strategic performance goals. Weaknesses are internal characteristics that may inhibit or restrict the organization's performance. Some examples of what executives evaluate to interpret strengths and weaknesses are given bellow. The information sought typically pertains to specific functions such as marketing, finance, production, and etc.

Internal analysis also examines overall organization structure, management competence, and quality and human resource characteristics. Based on their understanding of these areas, managers can determine their strengths or weaknesses vis-à-vis other companies.

4. Strategy Formulation

The final aspect of strategic management is the stage of formulation and implementation.

Strategy formulation includes the planning and decision making that lead to the establishment of the firm's goals and the development as a specific strategic plan. Strategy formulation may include assessing the external environment and internal problems and integrating the results into goals and strategy. This is a contrast to **strategy implementation** (exhibit 2.), which is the use of managerial and organizational tools to direct resources toward accomplishing strategic results. Strategy implementation is the administration and execution of the strategic plan. Manager may use persuasion, new equipment, changes in organization structures, or a reward system to ensure that employees and resources are used to make formulated strategy a reality.

5. Departamentalization

Another fundamental characteristic of organization structure is **departmentalization** which is bases for grouping positions into departments and departments into the total organization. Managers make choices about how to use the chain of command to group people together to perform their work. There are five approaches to structural design that reflect different uses of the chain of command in departmentalization. The functional, divisional and matrix are traditional approaches that rely on the chain of command to define groupings and reporting relationships. Two contemporary approaches are the use of teams and networks. These newer approaches have engaged to meet organizational needs in a highly competitive global environment. Brief illustrations of the five structural alternatives are in exhibit 3.

a. Functional approach. People are grouped together in departments by common skill and work activities, such s in an engineering department and accounting department.

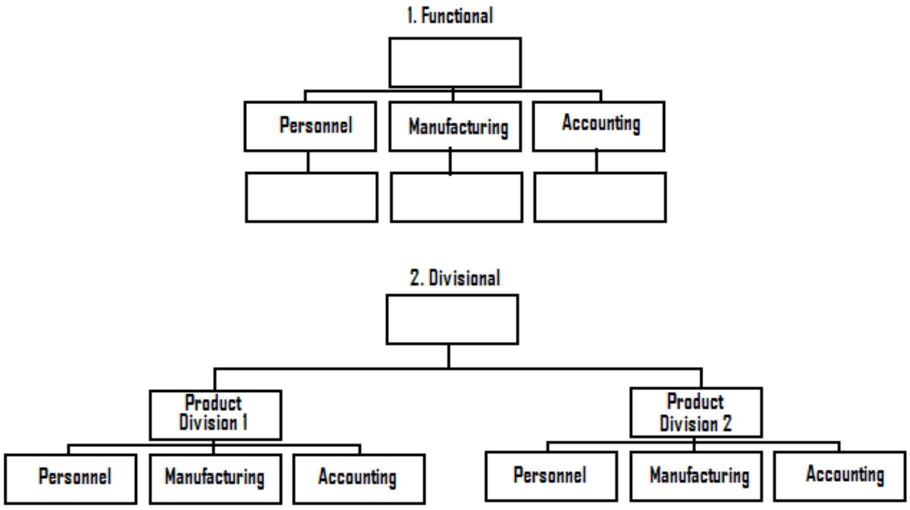

Fig. 3. *Five approaches to structural designs*

b. Divisional approach. Departments are grouped together into separate, self-contained divisions based in a common product, program or geographical region. Diverse skills rather than similar skills are the basics of departmentalization.

c. Matrix approach. Functional and divisional chains of command are implemented simultaneously and overly one another in the same department. Two chains of command exist and some employee report to two bosses.

d. Team approach. The organization creates a series of teams or task forces to accomplish specific tasks and coordinate major departments. Teams can exist from the office of the president all the way down to the shop floor.

e. Network approach. The organization becomes a small central broker electronically connected to other organizations that perform vital functions. Departments are independent contacting services to the broker for a profit. Departments can be located anywhere in the world.

Each approach to structure serves a distinct purpose for the organization and each has advantages and disadvantages. The basic differences among structures in the way in which employee are departmentalized and to whom they report. The differences in structure illustrated in exhibit 3 have major consequences for employee goals and motivation. The ability of managers to known when and how to use each form and structure, allows them to solve problems.

6. Functional Approach

Functional approach is the grouping of positions into departments based on similar skills expertise and resource use (exhibit 4). A functional structure can be thought of as departmentalization by organizational resources, because each type of functional activity – personnel, engineering, and manufacturing – represents specific resources for performing the organization's task.

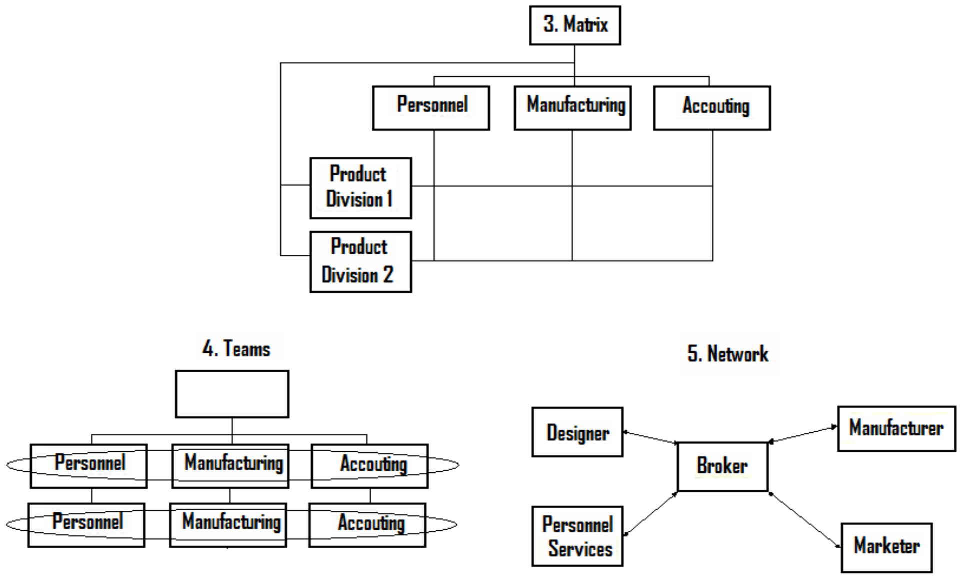

Fig. 4. *Grouping of positions into departments*

People and facilities representing a common organizational resource are grouped together into a single department.

ADVANTAGES AND DISADVANTAGES

Grouping employees into departments based on similar skills has many advantages for an organization. Employees who perform a common task are grouped together so as to permit economies of scale and efficient resource as illustrated in exhibit 3.5 all information systems people work in the same department. They have to expertise for handling almost any problem within a single large department.

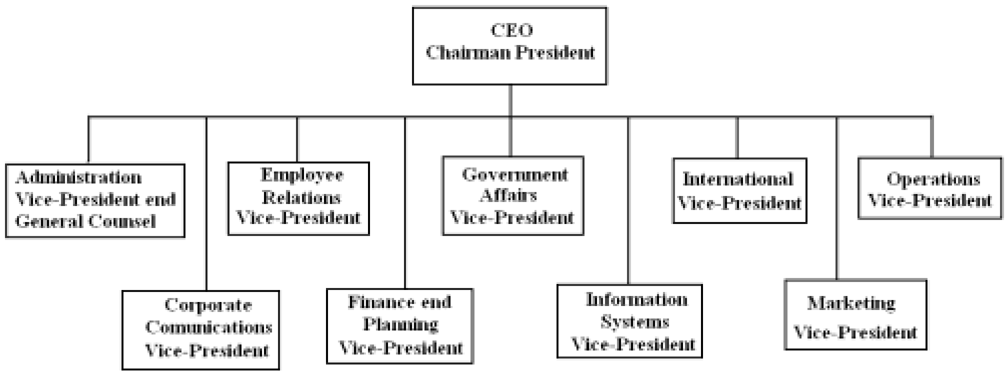

Fig. 5. *Functional structure*

The large functional departments enhance the development of in-depth skills because people work on a variety of problems and are associated with other experts. Career progress is based on functional expertise thus employees are motivated to develop their skills. Managers and employees are compatible because of similar training and expertise.

The functional structure also offers a way to centralize decision making and provide unified direction from the top because the chain of command converges at the top of organization. Sometimes the functional structure is also associates with wider spans of control because of large departments and common expertise. Communication and coordination among the employees within each department are excellent. Finally functional structure promotes high-quality technical problem solving. The pool of well-trained experts motivated towards functional expertise, gives the company an important resource especially those that work with sophisticated technology.

The disadvantages of functional structure reflect the barriers that exist across departments and show response to environmental changes. Because people are separated into distinct departments, communication and coordination across functions are often poor. Poor coordination means a slow response to environmental changes, because innovation and change require involvement of several departments. Because the chain of command are separated beneath the top of the organization, decision involving more than one department may pile up at the top of the organization and be delayed. The functional structure also stress work specialization and division of labour, which may produce routine, no motivating employee tasks (Table 1.).

The functional structure also creates management problems such as difficulty in pinpointing problems within departments. In case of an insurance company, for example each function works on all products only a part of the task for any product line.

Advantages and disadvantages of functional structure Table 1

Advantages and disadvantages of functional structure	
ADVANTAGE	***DISADVANTAGE***
- Efficient use of resources, economies of scale; - In-depth skill specialization and development; - Career progress within functional departments; - Top manager direction and control; - Excellent coordination within function; - High quality technical problem solving.	- Poor communication across functional departments; - Slow response to external changes, lagging innovation; - Decision concentrated at top of hierarchy creating delay; - Responsibility for problems difficult to pinpoint; - Limited view of organizational goals by employees; - Limited general management training for employees.

Since, in one life insurance product is not performing well, there is no specific department or group that bears responsibility. In addition, employees tend to focus on the attainment of departmental goals. They see only their respective tasks and not the big picture. Because of this narrow task specialization employees are trained to become experts in their fields and not to manage and coordinate diverse departments, thus, they fail to become groomed for top management and general management position.

DIVISION APPROACH

In contrast to the functional approach, in which people are grouped by common skills and resources, the divisional structure occurs when departments are grouped together based on organizational outputs. The difference between functional and divisional structure are illustrated in exhibit 6.

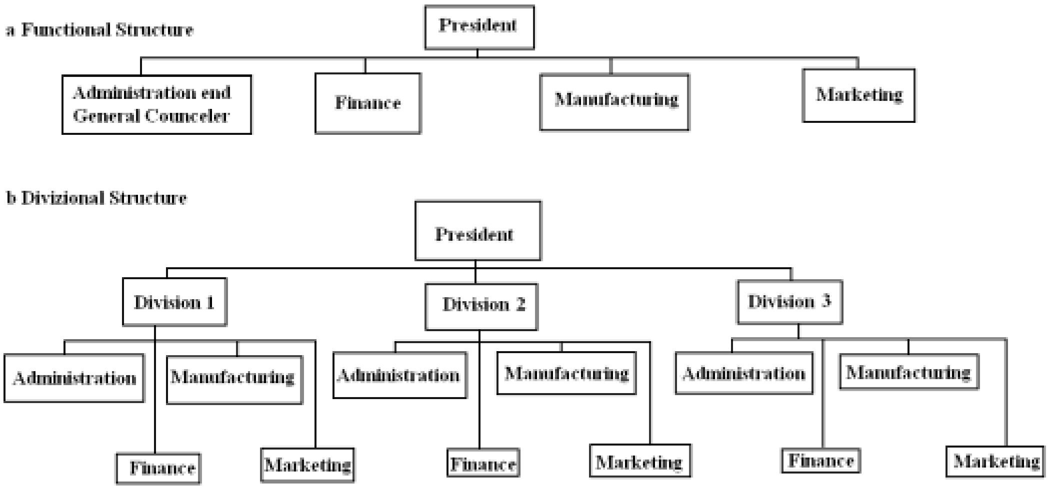

Fig. 6. *Functional versus Divisional Structure*

In the divisional structure divisions are crested as self-contained units for producing a single product. Each functional department resource needed to produce the product is assigned to one division. For example, in a functional structure all engineers are grouped together and work on all products. In a divisional structure separate engineering departments are established within each division. Each department is smaller and focuses on a single product line. Departments are duplicated across product lines.

The divisional structure is sometimes called *a product structure, program structure or self-contained unit structure.* Each of these terms means essentially the same thing: diverse departments are brought together to produce a single organizational output, whether it is a product, a program or a service to single customer.

A major difference between divisional and functional structure is that the chain of command from each function converges lower in the hierarchy. As a consequence the divisional structure encourages decentralization. Decision marking is pushed down at least one level in the hierarchy, freeing up the president and other top managers for strategic planning.

ADVANTAGES AND DISADVANTAGES

For medium-size companies, the choice between functional and divisional structure is difficult because each represents different strengths and weakness (Table 2). By dividing employees and resources along divisional lines, the organization will be flexible and responsive to chance because each unit is small.

Advantages and disadvantages of Divisional Structure Table 2

Advantages and disadvantages of Divisional Structure	
ADVANTAGE	***DISADVANTAGE***
- Fast response, flexibility in an unstable environment; - Fosters concern for customer needs; - Excellent coordination across functional departments; - Easy pinpointing of responsibility for product problem; - Emphasis on overall product and division goals; - Development of general management skills.	- Duplication of resources across divisions; - Less technical depth and specialization in divisions; - Poor coordinating across division; - Less top management control; - Competition for corporate resource.

Because top management control is somewhat weaker under divisional structure, top managers must assert themselves in order to get divisions to work together.

Many companies must carefully decide whether the divisional or functional structure better suits their needs. It is now uncommon for a company to try one structure and then switch to another as its needs change.

The functional boss is responsible for the technical and personnel issues, such as quality standards, providing technical training and assigning technical personnel projects.

The divisional boss is responsible for program wide issues, such as overall design decision, schedule deadlines, and coordinating technical specialists from several functions.

The senior engineer is called *a two-boss employee* because he or she reports to two supervisors simultaneously. Two-boss employees must resolve conflicting demands from the matrix bosses joint decisions. They need excellent human relations skills with which to confront managers and resolve conflicts.

The *matrix boss* is the product or functional boss. The matrix boss is responsible for one side of matrix. The top leader is responsible for entire matrix. The *top leader* oversees both the product and functional chains of command. His or her responsibility is to maintain a power balance between the two sides of the matrix. If the disputes arise between them, the problem will be kicked upstairs to the top leader.

Matrix bosses and two-boss employees often find it difficult to adapt to the matrix. The matrix boss has only half of each employee. Without complete control over employees, bosses must consult with their counterparts on the problems.

7. Conclusions

Change is inevitable in organizations. Mangers should think of change as hewing four elements:

- Company’s environment
- The force of change
- The perceived need for change
- The initiation of change
- Implementation of change.

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