

SUMMARIZING THE CRUCIAL STEPS OF THE STRATEGIC MANAGEMENT PROCESS THROUGH THE EYES OF ROMANIAN MANAGERS OF SMES

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Abstract: *The paper discusses the different characteristics of the strategic management process from the perspective of Romanian SMEs managers, drawing on their understanding of the alternative theoretical approaches available on this concept and the existent correlation with performance. By using a qualitative research we do not engage in a rigid form of causality offered by the quantitative research and consider all the possible available connections.*

In the first section, we explain the conceptual assertions on strategic management process and its stages that have shaped the strategic mentality of the managers and their capacity to implement them. In the second section, we focus on researching strategic management process practices from a theory perspective, based on a qualitative research. The third section presents our findings, putting Romanian managers in a different perspective concerning the manner in which a strategy is elaborated within SMEs, as well as its impact on performance.

Key words: *strategy, strategic management process, SMEs, manager, strategic planning*

JEL Classification: *L1, M11, C41*

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1. Introduction

An important emphasis is put increasingly in the specialized literature on understanding the strategic process and each of its major steps, not as a given phenomenon in a enterprise, but rather as a result of daily activities (Rasch and Chia, 2009, p. 713). A special role plays the subjectivity of each individual, so the manner in which they know how, to interpret correctly the signals they receive from the internal and external environment. Although in the literature there is no consensus on the exact determination of the external or internal factors which determine this process, important for the enterprise remains to have sufficient financial, and human, resources (Barney Hesterly and Hesterly, 2012, p. 84, Lynch, 2012, p. 128), skills (Bogner, Thomas and McGee, 1999, p. 278), and the capacity to develop competences to evaluate and control the enterprise in order to find new efficient ways to operate.

2. Conceptual assertions on strategic management and its stages

Strategic management can be seen as a process through which any enterprise can adapt its operations with the necessity of its development and renewal (Covin and Slevin, 1991).

The main steps of strategic management process are the formulation, implementation and evaluation of the strategy (Barney, Hesterly and Hesterly, 2010, p. 6). Understood as a process, the strategic management is thus a series of steps which do not necessarily present a linear sequence but rather point out certain interdependences between steps and according to Japanese models they also overlap (Raps, 2008, p. 24). These stages start from the formulation of strategy, and then contain all the concrete actions to realize and develop the strategy until its final evaluation. Although in the case in which the outcome of this process is excellent, important remains the fact that the companies should continuously strive to improve themselves and not be always satisfied (David, 2011, p. 288).

The evaluation phase is the end of the strategic management process and at the same time it represents also the foundation for the next stages (Barney, Hesterly and Hesterly, 2010, p. 6). The distinction between them is made more in didactic and analytical aim (Raps, 2008, p. 15). The evaluation consists of a process to question all decisions at all the levels within the enterprise. It can be extremely risky to wait to the end of the year to achieve this stage (David, 2011, p. 290). The stages proposed by Barney, Hesterly and Hesterly will be discussed further on.

An alternative to this classification presented above is offered for example by Welge and Al-lea Laham 2008, p. 185-187 and by Borza et al., 2008. These authors consider that the next phases represent the basic components of the strategic management process, the planning of strategic objectives, the strategic analysis of external environment, strategy elaboration and its evaluation, the implementation of the strategy and its control.

3. Research methodology

We underwent an empirical research, using the case study as a method of research in order to be capable to underline the practical aspects of the strategic management process supported in specialized literature. A case study consists of an empirical investigation of a contemporary phenomenon. The aim is the preservation of the unitary character of this phenomenon in its environment (Goode and Hatt, 1952, p. 331). Multiple case studies offer a more profound and holistic image of our research objective getting a better idea of what should be asked in a quantitative research, although it necessitates more resources, both in time and in cost, despite offering more valid results (Baratt, Choi and Li, 2011, p. 330). We chose a limited number of case studies, in order to carefully process the information and be capable to investigate the following working hypothesis:

H: Romanian SMEs managers' believe in the positive correlation between strategic formulation and organizational performance.

Various managers expressed their opinions regarding strategic decisions according to specialized literature by answering to a number of questions which were formed according to strategic management literature and readily-made studies regarding SME strategic management, thus having the aim of testing various known theories (Chelcea, 2001, p. 285).

First and foremost, the interviewees' permission to be interviewed was sought. All parties were given a short explanation regarding the content of the research, the selection method and were told about the institution under which the interviews were held, as well as a guide with relevant information for the interview. Guaranteeing the anonymity of the research and the confidential character of the answers (Chelcea 2001, p. 290) proved absolutely necessary in certain cases. We also considered it appropriate to point out that an approximate yet honest answer is more valuable than one left blank, and that there were no right or wrong answers.

The goal of these case studies is to evaluate the knowledge, as well as the methods in which strategies are formulated, implemented and controlled in Romanian SMEs.

The qualitative research was based on a questionnaire which comprised 9 questions and investigated how the strategic management process takes place within SMEs. Therefore, we studied the following issues: a) the meaning of strategy, the way of defining it; b) the type of implemented strategies and their purpose; c) the development of the strategy and the persons involved in developing; d) reference of situations when a new strategy is developed, revised or changed; e) how the implementation process of the strategy takes place within the enterprise and the biggest strategic challenges of the enterprise. f) evaluation of the results at the enterprise level; g) importance of industry information

We selected 5 SMEs established between 1991 and 2006, namely: "Tipografia" in 1991, "Espresso" in 1991, "Jolly" in 1994, "Term" in 2006 and "Cuvântul" in 1992. All SMEs employ between 1-49 people being thus small and medium sized enterprises.

4. Findings and comments

Before starting to elaborate a strategy, “Tipografia” SRL stresses on the gathering of information, either via specific fairs, by analyzing the competition or via various visits organized by the manager through his own resources to several SMEs from the same main activity field, situated in Belgium, Denmark, Germany or the US, focusing more on the importance of identifying opportunities and threats found in the enterprise’s external environment (Barney, Hesterly and Hesterly, 2010, p. 6) than on establishing internal strong and weak points. Only the top manager participates in the actual elaboration of the strategy. The strategy of cost leadership is one which has been established as the enterprise has started its activity. It was not revised despite the changes within the environment, since they decided that remaining consistent is more important. If there are changes or revisions, they occur at the leverage points needed to maintain this leadership through cost. Elaborating a strategy within “Jolly” SRL is done by the two directors, thus again by the top managers, based on careful and continuous market analysis, on a “keeping an eye on the market” system. To make this scanning of the external environment more efficient, the SME uses high-performance software. Doing so allows them to keep track of the most recent legislative changers or with introduction of new taxes which might affect the enterprise’s activity. Still, the most relevant pieces of information for the top manager are linked to the suppliers and the clients, and to their level of debt respectively, to name one of the factors which can be calculated. Just by having these internal pieces of information, the manager can establish whether or not collaboration with a certain supplier is worth continuing or not. If we refer to a client, then the decision is based on supplying a certain quantity of merchandise to each customer. Thus the strategies take shape based on exact data, being revised or even changed whenever the market asks for this. This flexibility represents a form of diminishing risk. Important is the fact that though this SME is strongly oriented towards the market, with the formulation being careful thought and done by only two people, the understanding of the

strategy by each and every employee, has been top priority. Understanding and, we could say, making a strategy one's own can have a strong motivational effect, even leading to identifying with the enterprise, thus leading to a more efficient implementation of strategy even though some consider that undertaking a "bottom up" method is flawed (Kotler, Berger and Bickhoff, 2010, p. 18). Within "Term" SRL, the manager elaborates the strategy. When the enterprise had associates, they were also consulted. However, within this SME with a low number of employees, the manager truly holds the general image of the enterprise, making it possible to characterize the manager as an authoritarian; everything is done by this strong manager, the employees being mere executors. Efficient control is assured by a simple organizational structure (Brown, 2004, p. 213). In the 90's, when "Cuvântul" SRL was founded, it was considered "fashionable" to begin elaborating a strategy by defining the mission and vision of the enterprise. The founder of the "Cuvântul" SRL publishing house tried to take this exercise seriously after being convinced by the consultants, as well as throughout the visits to reputable publishing houses from Europe, who said that philosophy and vision, as well as an enterprise's mission, if implemented systematically into a enterprise instead of being "paragraphs on a poster in an office", can make a great difference, in time. Consequently, the founders of this enterprise spent a year clarifying the mission and the fundamental strategy of "Cuvântul" SRL, consulting a great number of people, known members of the church, management and marketing consultants, foreign publishing houses leaders, peers from formerly communist countries (Hungary, The Czech Republic, Bulgaria, Serbia). They aimed to permanently adjust their activity according to their vision and initial values, but any modification in strategy was undergone with a comprehensive discussion on their vision and its validity at the time of discussion. Thus, for the publishing house, any strategy is only elaborated by starting from the vision and mission of the enterprise, consulted with specialists with repeated debates, and with a final approval within the board of directors, and only then implementing and periodically evaluating it. After the initial strategy, was elaborated, as we previously

stated, the general manager of “Cuvântul” SRL is responsible for the elaboration as well as for adjusting future strategies; he also answers to the board of directors, who holds the supreme power of decision. The steps are the same, going back to the vision, consulting specialist, repeated debates, approbation, implementation and evaluation. A new strategy is elaborated depending on the significant changes external or internal of the enterprise. Such changes involve major modifications of the market conditions (structure, clients, preferences, competition) or of the human or financial resources (more available financial capital, the finding of new editors and translators for more complex theological studies). For example, the publishing house’s manager mentions that externally, following the year 2000, the number of both confessional and non-confessional religious publishing houses rose. Moreover, the editors which he defines “major and secular” (Humanitas, Polirom) significantly developed their religious books segment, as a result of the rising appetite for this type of literature. Consequently, following a period of debates and specialist consultation, as well as an exchange of experiences with American publishing houses, where imprints (the equivalent of commercial marks in a publishing house) are extremely common, 2003-2005 saw a strategy of transforming the “Cuvântul” SRL publishing house into an editorial group, with 3 publishing houses (imprints) which were aimed at different markets, with different price policies, distribution channels, websites, coordinating editors, etc. This general strategy started being implemented in 2006 when the imprints were launched. The main idea was to adapt to higher competition which had changed since the 90s, by specializing, transforming into brands (imprint), in publishing houses specialized in academic theological books with the objective to become a major bibliography supplier for the theological institutes and seminars. This new branding and niche strategy was facilitated by internal factors as well, as higher financial resources from their associate, more internal specialized editors as well the availability on the market of many highly-qualified translators, who were able to translate academic papers. Simultaneously with their new transformation strategy, they underwent a modification of their initial strategy of targeting Christian

leaders – priests and pastors. The strategic focus moved to them, in the formation period, during their student lives, with the market of priests and pastors who have already begun their career, becoming of secondary strategic importance. At the same time, this new strategy of transforming into a commercial brand, of creating more brands at the same time and the revision of the initial strategy, changing the main target audience from priests and pastors to students, seminars and institutes, while at the same time increasing the academic level of the publications, was possible thanks to another external factor, the increase in superior theological institutes as well as the quality of education there. Many young and ambitious teachers returned to the country wishing to offer new students a better bibliography, having potential needs which made room for a specialized niche brand of theological books as well as a trust-worthy partner to superior theological education institutes regardless of confession. More modifications were made over the years, mainly when it came to marketing strategy, thus at the level of functional strategies. For example, initially on-location sales and church distributions represented the bulk of total sales. Eventually a database with all interested clients was made, who regularly got catalogues with talons attached containing the newest releases and ordered from them in a mail-order form which didn't need to be stamped since transport costs was paid at the destination. After telephone conversations became cheaper, a green line was offered and the clients didn't use the previously printed coupons, which considerably lowered the costs and the processing times of an order for both parties. Later on, selling on location was discouraged by cutting off discounts for such acquisitions as well as by having lower prices on their websites. At the same time they stimulated library sales by offering discounts and higher credits than the norm. Recently the website become a new channel of distribution; regular visits to superior theological education institutes coordinated with their personnel and special offers, which target the recommended or mandatory bibliography.

Also implicated in the elaboration of strategy within “Expresso” SRL were the members of the family. Though they lacked education

in management, they started the elaboration process by rigorously analyzing the external environment, particularly the fact that many Hungarian tourists had expressed their desire to have a place to eat and feel good, maybe even spend the night, while visiting the area. Thus, along with the founding of the SME this “oriented” strategy was established, oriented strictly upon the need of this specific market and its potential clients. A revision never took place since it was unnecessary; however, if the market situation ever demands one the SME will conform.

We also investigated the factors which determined the revision of a strategy. Within “Tipografia” SRL they attempted, as we previously mentioned, to keep the strategy of leadership through cost despite changes in the external environment. Most often mentioned is the dependence on foreign suppliers for paper or ink, which can unjustifiably raise the price, reduce quality or modify shipping conditions. All these are serious risks, which can determine the search for a new supplier, a process which is not usually cheap. “Jolly” SRL, as previously mentioned, revises any time the market or client asks for it. The SME prefers to not risk than lose because of an unjustified rigidity, though of course this is mostly concerning functional strategies. Despite the skepticism shown regarding the role of a strategy in times of crisis “Term” SRL has yet to revise its strategy, but it will change from its differentiation strategy if the dry spell in the construction field continues. A similar approach is taken upon by “Expresso” SRL, they show reticence when it comes to revising their strategy.

By using the third question we wished to discover what the temporal horizon of strategic formulation is within the selected SMEs. “Term” SRL realizes this strategic formulation within the enterprise for a year, which is typical financial planning (Wheelen and Hunger, 2010, p. 5), with “Expresso” SRL doing the same. Of note is the fact that the manager of “Tipografia” SRL considers that a strategy needs to be formed for “a minimum” of one year. When it comes to “Cuvântul” SRL the temporal horizon is normally of at least 2-3 years, lasting up to 10. Also with a greater temporal horizon of strategic formulation is “Jolly” SRL who aims for 5 years.

Interesting was also the manner in which the implementation process is developed for a strategy within the interviewed SMEs. The strategy is formed and then transmitted from the top manager to the lower levels of the enterprise, which confirms in our opinion the existence of a control and central coordination. “Tipografia” SRL’s manager mentions those procedures from within an enterprise which are formalized. Thus each step that needs to be followed in production or in the signing of a contract is precisely described, easing the activity of each department, similar to the characteristics of strategic management as presented in the Gluck, Kaufman and Walleck model (Istocescu, 2005, p. 65). Thanks to this detailed description any dysfunction is easily noticeable since it provokes a chain reaction. The advantage is that a reaction can be prompt. Although it is only a SME, “Jolly” SRL developed a culture and organizational system which are capable of sustaining this strategy. The marketing efforts, preparation of budgets, development and utilization of informatics systems as well as the correlation between the compensating system and the organizational (Barney, Hesterly and Hesterly, 2010, p. 6), they all aim to follow efficient implementation of strategy within the enterprise. “Cuvântul” SRL’s manager begins by empathizing the existing differences between implementing a general strategy, which calls for a far more laborious implementation process, and a functional marketing strategy or a component of it. The rule stays the same, however, whatever strategy is approved by the board of directors, becomes clear tasks for the members of the enterprise’s team. The employees debate the strategy, start to believe in it and then bring concrete suggestions towards its implementation, thus feeling motivated and valuable instead of mere executors. Moreover, their contribution has always generated valuable ideas and good solutions. Each time the link between the enterprise’s vision and the new strategy or the change in current strategy is discussed. With the participation and accord of the employees, the strategy becomes concrete team tasks (departments, editorial, production, marketing-sales, administrative) and individual ones. The key element in describing this process within “Expresso” SRL is communication. They believe that in both business

and in life, communication is one of the most important abilities that a manager should possess. Thus they basically focus on the soft component of implementation, the people or those who execute the strategy. We must mention the fact that within family SMEs, such as “Expresso” SRL, the need for a more sophisticated system of implementation becomes superfluous.

We would like to specify that most SMEs apply the cultural model within the strategy implementation process, which answers the manager’s following strategic questions and analyzes the way in which the whole enterprise can be involved in implementing the strategy.

Due to the impact caused by the alarming news and statistics regarding the number of SMEs which have gone bankrupt, we tried to see what the greatest strategic challenges the managers of these enterprises are facing at the moment. Without a doubt, the greatest challenge that “Cuvântul” SRL has faced is the economic crisis, which lead to a drastic drop in purchase power, a major threat to the enterprise’s activity. The books are produced with a long cycle of fabrication (2 years on average, from the idea to the published and readily to be distributed book, with more time than that when it comes to great reference books such as dictionaries, systematic theologies, etc.). The crisis caught the SME with numerous normal projects and a few big projects signed and in development; the drop in sales inevitably lead to a negative cash flow and thus problems. To “Expresso”SRL, the real and constant challenge is the fact that the enterprise needs to be capable of bringing a new product to the market and always offer better service than the competition, in other words, always have the competitive advantage.

The answer given by “Jolly” SRL is a surprising one, since the SME mentioned its wish to develop; it denotes the existence of an entrepreneurial orientation (Eggers, College, and Kraus, 2011, p. 101) and is a sign of success, thus a possible indicator of their managerial performance (Franczak, Weinzimmer, Bradley, 2009, p. 69).“Tipografia” SRL reveals through its interview the focus on their employees, declaring that the hardest thing to do was not firing people, while keeping the business floating, being the second hardest task. For

“Term” SRL however, survival remains the greatest challenge, justifying in this manner the 9 people who were laid off by the enterprise.

For our analysis it was extremely important to test the utility of formulating a strategy within the enterprise, by having the interviewees mention a few notable results which they had obtained within the enterprise by following a certain strategy.

All the managers consider that formulating a strategy within the enterprise was useful, if not absolutely necessary, thus confirming the positive effects that this process has over the performance of an enterprise (David, 2011, p. 16). “Tipografia” SRL notes the importance of expressing through words, in a precise form strategy, as an advantage; by using this strategy, “Tipografia” SRL managed to not lay off a single person whilst lasting in a market in which 5 important competitors had gone bankrupt, an aspect which is perceived as being the result of the constancy with which their leadership through cost strategy has been applied. When it comes to notable results especially after the financial crisis, “Jolly” SRL, deserves to be mentioned, for the development of the enterprise itself, the rise in profit, not laying off a single employee whilst maintaining the salaries at the same level as before the crisis, and also for its winning over new suppliers. By applying the leadership through cost strategy, “Term” SRL was capable of winning multiple public auctions, offering the best price/quality relationship and seeking continuous growth despite the financial crisis. The crisis did have a say in making them question their need for formulating a strategy. “Cuvântul” SRL’s manager starts out by answering this question with a quote from Alice in Wonderland, “Then any road will take you there”. Strategic formulation requires a conscious desire to go somewhere, to do something. Evidently, first one must define that “somewhere” and that “something” which is desired. Without objectives and strategy, an enterprise’s operation becomes chaotic, having random results, whilst the employee’s capacity of motivation, attracting and chances of keeping qualified personnel or achieving work satisfaction all lower drastically. A similar approach is had by the manager of “Expresso” SRL, for whom a well-defined strategy is extremely important since without a goal or strategy no enterprise could possibly develop. The

rising number of new clients and the good reputation his enterprise has both on the internal and external market are good proof.

Up to now we focused on showing how and when a strategy is formulated, but the following question had the role of showing us what the managers base their decisions on when it comes to keeping or revising a strategy, and on the method of *evaluating* it respectively. Before the crisis “Term” SRL used to hold in January-February, an annual strategy evaluation. Based on which they would decide whether or not to keep their current strategy. The evaluation was based on various factors such as the resulting profit, and the fitting within discussed terms with the enterprise’s customers and their satisfaction. We believe that this enterprise did an excellent job by giving maximum importance to keeping with their desired terms. As a result of this, not only did the enterprise get the chance to calculate their required human and material resources, but their partners and clients could do so as well. Any delays in the enterprise’s activities could irremediably affect its reputation, as well as the sustainability of its strategy. “Expresso” SRL does not revise strategy in a formal manner since its managerial team is reduced (Jassy et. al., 1998, p. 6), and the most important aspect up to now has proven to be the most appropriate strategy for a restaurant. The manner of evaluation that “Cuvântul” SRL undergoes is a formal one. The results are checked at 3 main levels, financial results (the number of sold books), client reaction and the opinion of trustworthy people which are more or less specialists in the field. Internal evaluation of their performance takes place monthly and quarterly, whilst the managing department faces a yearly evaluation. When it came to turning into an editorial group and branding, for example, the initial evaluation took place right after its implementation started in 2006. The imprints were launched gradually, with the last one being launched in 2008. After a few years, at the end of 2010, a general evaluation of this strategy took place with a new evaluation waiting to happen in 2012, when it will be decided if all 3 brands will be kept or if any of them should be dropped. Initially, the intention was to launch 4 brands, but market changes and experience demonstrated to the manager that it would be too expensive and thus inefficient on a

cost/impact relationship and they gave up the 4th imprint which had been decided on in the 2003-2005 strategy.

“Jolly” SRL is a flexible enterprise, especially when it comes to a functional level, and has the capacity to anticipate and react to even daily changes of the environment (Murphy, Celuch and Callaway, 2007, p. 60) with record speed. The manager sets the strategy according to the client, their debt level, their turnover, their relationship with the state or the bank, taking on a lower or higher loss. The conclusion is that a strategy is evaluated on a daily basis. Doing as “*Tipografia*” SRL’s manager confessed, managing by objectives, a strategy is evaluated after its capacity to lead to its goals’ fulfillment.

5. Conclusions

All the analyzed SMEs apply a strategy which they formulate implement and evaluate, depending on the knowledge in the strategic management field accumulated by the managers. Four of the five SMEs stated on the need of strategic understanding of all stakeholders, which allows the employers to apply strategy within an enterprise much more efficiently. Consequently, we can affirm that the strategic management process is in the first place the responsibility of the managers and only then of the employees, since they are the ones who in reality represent the foundation of an enterprise.

Though different methods of evaluating strategy are not used, an important role is played by the continuous adaptation to the market’s needs, having the goal to stay competitive. The interviewed enterprises consider that there is a strong, positive link between strategic formulation and organizational performance validating the working hypothesis. When it comes to the opinion of the SMEs regarding the way of defining the applied strategy/strategies, varies; a fact which is reflected in specialized literature. In conclusion, we can landscape the fact that in the climate of the current economic crisis formulating, implementing and evaluating strategies are more relevant than ever, since they influence the efficiency of SMEs in a positive manner. However, as we’ve seen, there is always the danger of an unstable business environment, and an enterprise that is rigid in its strategic actions, may go bankrupt.

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Appendix

Interview questions regarding the strategic management process within SMEs from the North Vest Development Region of Romania

1. To begin, please tell us about your view on your strategy, what means your strategy for the enterprise, how do you define it?

2. Please tell us about the strategies that are implemented by your enterprise and what is their purpose?

3. Can you describe how the strategy in your enterprise is developed? Who is involved in developing the strategy? When, in what situations is a new strategy developed? In what situations is the strategy revised or changed? Can you give examples of factors determining the revision of the strategy you use (changes in the business environment, changes in the external environment)?

4. What is the temporal horizon of strategy formulation in the enterprise?

5. Please indicate how the implementation process of the strategy takes place within the enterprise.

6. In your opinion, which are currently the biggest strategic challenges of the enterprise?

7. How do you evaluate the usefulness in formulating a business strategy? Can you give some examples of good results which were obtained at the enterprise level, the use of a particular strategy?

8. Please tell us about how you evaluate business strategies, those that are applied by the enterprise.

9. How would you rate the importance of information about the industry you belong to, or about customers and competitors in developing a strategy? How do you manage to have access to information about the industry you belong to, or about customers, competitors?

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