Elitsa Petrova

Genesis of strategic management

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ELITSA PETROVA

GENESIS OF STRATEGIC MANAGEMENT

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Peer review by:
Prof. Dimitrova, S., D.Sc.
Prof. Banabakova, V., PhD
Prof. Stoikov, S., PhD, Retired Colonel
Colonel, Assoc. Prof. Nichev, N., PhD
Lieutenant Colonel, Assoc. Prof. Filipov, S., PhD

Translation Elitsa Petrova
Proofreading Desislava Ivanova

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TO TEDDY AND STOYAN
MY BELOVED

INTRODUCTION

In the global context, strategy is the art and science for development and use of political, economic, socio-psychological and information resources to create effects that protect national and international interests in cooperation between all stakeholders – governments, businesses, and society. At national level, it is a set of specific instruments of power to achieve the political goals of the state.

At organizational level, strategy provides the establishment of a coherent plan to bridge the gap between the realities of today and the desired future, to represent disciplined construction of common objectives and to create more favourable future results than could exist in the organizational development.

In general terms, the main purpose of strategic management may be defined as the decisions that will lead to an increase in the value of the company, taking into account the interests of all stakeholders, which is achieved by using different mechanisms for creating competitive advantage that will ensure the realization of economic benefits not available to other companies in the industry.

Nowadays, the environment is characterized by instability, uncertainty, complexity and ambiguity. It is always in a state of dynamic instability and the role of strategy is to exert influence on volatility, to manage uncertainty, simplify complexity and to resolve ambiguity, so that the system is able to survive and develop itself in the ease of chaos. Therefore, the strategy suggests, predicts, examines and assesses the strategic environment in varying degrees, to manipulate it according to certain goals.

In the ’80s of the 20th century business strategists realize that there is a huge knowledge base that extends thousands of years back in time and turning to military strategies. Today, the main business strategies are significantly closer to military strategies. Some examples are offensive marketing strategies; defensive marketing strategies; accompanying marketing strategies, strategies of guerrilla warfare, etc.

A variety of existing theoretical knowledge and practical experience was examined. Contacts with world’s leading authors in the field of strategic management were initiated during the preparation of the book. One of them is Professor Bruce Ahlstrand. Professor Ahlstrand kindly helped to refine the content of the seminars which the author leads and to enrich them. The author is grateful and highly appreciates the provided scientific guidelines.

GENESIS OF STRATEGIC MANAGEMENT THEORIES

The chapter presents the origin of strategy and focuses on the historical development of theories of strategy and strategic management. It presents the fundamental theories of strategy; ancient Greek and Byzantine treatises on strategy; the most famous works of Niccolo Machiavelli in strategic management; works, thoughts and practices of European military strategists of the 18th and 19th centuries, as well as the American influence on strategic thought.

1 HISTORY OF MILITARY STRATEGIC THOUGHT

1.1 ANCIENT THEORIES OF STRATEGY

"Art of War" is a Chinese military treatise written by Sun Tzu, military strategist in the state of Wu in the late 6th century BC or at the beginning of the 5th century BC. The work examines the strategies that need to be followed for the implementation of basic management goals. Today this treatise underlies the strategic SWOT analysis which shows the relationship between the strengths and the weaknesses of the organisation on one hand, and the opportunities and threats arising from the external environment on the other. The book was translated for the first time in French in 1772 and in English in 1905. Leaders as different as Mao Zedong, Antoine-Henri Jomini, Napoleon and even Nazi's commanders drew inspiration from the work. "Art of War" has an impact not only on military thinking, but also on economics, business and management.

Sun Tzu believed that the strategy should not be a plan in the form of pre-established list, but rather required prompt and appropriate actions in response to changing conditions.

"Art of War" is divided into 13 chapters. The first chapter focuses on planning military operations. The second chapter explains that success requires rapid termination of the hostilities in order to reduce the cost of military conflicts and achievement of the required economic impact. The third chapter points that the source of strength and victory is unity, and not the size of the army. The fourth chapter explains the importance of protecting existing positions. The fifth chapter suggests that the power over a large force is at the same principle as power over some people: it is only a matter of split. The sixth chapter points that it is good to know our strengths and weaknesses as well as the strengths and weaknesses of our opponent. The seventh chapter focuses on movement of the army and the factors which commanders must comply with. The eighth chapter focuses on the need for flexibility in the actions of the army. According to Sun Tzu, "There are roads that should not be followed; troops that should not be attacked; cities that should not be surrounded and orders of the ruler which should not be implemented." The ninth chapter describes situations in the movement of the army in new territories. The tenth chapter examines six main types of terrains with hostilities. The eleventh chapter offers ideas: "Conquer something that is dear to your opponent. Then he would be willing to submit to your will.", and "Speed is the essence of war: take advantage of the unpreparedness of the enemy, move in unpredictable ways and attack unprotected places." The twelfth chapter examines five ways to assault with fire. The chapter gives advice: "Do not act if you do not see the benefit. Do not lead an army if there is nothing to win." The last thirteenth chapter, which is called "Use of Spies", focuses on the importance of pre-awareness and use of spies for war purposes. (Sun-Tzu 2003)

In many East Asian countries, “Art of War” has been part of the curriculum of potential candidates for military service. During the Vietnam War, some Vietnamese officers studied “Art of War”, so that they could recite whole passages by heart. After the successful implementation of the tactics described in the book during the Battle of Dien Bien Phu in Indochina (implemented by the Vietnamese General Vo in his victory over the US military), America looked at the ideas of Sun Tzu more than ever and pushed these ideas in US military theory. Today the US Army supports libraries for lifelong learning through the “Art of War”. The book is in the list of professional training programme for the Marine Corps, recommended reading for the US intelligence and required reading for all CIA officials. Today the work of Sun Tzu has captured the world of business. It gives advice on how to outwit the enemy, so that battle is not necessary.

“Arthashastra” is an ancient Indian treatise on government, economic policy and military strategy which is traditionally associated with the names of Kautiliya, Vishnugupta or Chanakya. It is believed that the author lived in 350–283 BC, taught in Takshashila, and later was the Prime Minister of the Mauro Empire. (Mabbett 1964)

“Arthashastra” justifies an autocratic rule of an effective and stable economy and describes a strategy for state management. The scope of the work is far wider than the government and provides a description of the entire legal and bureaucratic framework for management of a state, enriched with topics like mineralogy, mining, extraction of metals, agriculture, animal husbandry, medicine, and wildlife utilization. It focuses on the problems of welfare, redistribution of wealth during times of famine, and collective ethics. The main idea in the treatise is the active participation of the ruler in the management of the state economy. The root of wealth is considered to be embedded in economic activity and the lack of such leads to decline of the state. In the absence of economic activities, the current prosperity and future growth will be destroyed.

“Arthashastra” answers the following questions: in what cases should a ruler spy on his own people; how should the king check the loyalty of ministers and members of his own family; when should a ruler kill the prince, his son, who is heir to the throne; how to protect the ruler from poisoning and what precautions should be taken to prevent his murder by his own wife or others.

"Arthashastra" offers qualities that a master must possess and the discipline that a wise and virtuous ruler must have. According to this work, the happiness of the ruler lies in the happiness of the people, and his welfare – in their welfare. A real leader is one who has self-control and resists the temptations of the senses, is always active in promoting the safety and welfare of the people, shows power and an example, and improves his discipline by training in all fields of knowledge. The ideal ruler should:

- be trained in all the arts and be able to lead the army;
- be fair in awarding and sanctioning;
- be forward-looking and take advantage of the opportunities at the right time and the right place;
- know how to manage in times of crisis;
- know when to fight, when to settle and when to hit the enemy;
- preserve his dignity at all times;
- avoid lust, anger, greed, stubbornness, fickleness and backbiting.

Miyamoto Musashi (1584–1645) was a Japanese swordsman turned into a legend. Musashi came from an old Samurai family. At the age of seven, he remained an orphan and was sheltered by his uncle – a priest in a Buddhist monastery. He mastered the basics of the strategy to combat with a sword. Watching the movements of the drummer in a Buddhist monastery, Musashi developed the technique to fight with two swords, making his defence impenetrable. Only thirteen, armed with a stick, he defeated a well-skilled swordsman in his first fight. In Japan he is known as "sensei" – the warrior-saint. (S9.com 2013)

Miyamoto Musashi wrote "The Book of Five Rings" in 1643. It has been considered as a classic treatise on military strategy. The five "books" in the book are related to the idea that there are different elements of the battle, just as there are different physical elements in life.

The first book is "Earth", which refers explicitly to the strategy of fighting. The second is the book of "Water". The author speaks of the spiritual attitude towards strategy and warfare, including ways of holding the sword, approaches to fighting, martial arts, ways of protection, principles of the fight and others. (Musashi ed. and trans. Thomas Cleary 2005) In the book of "Fire" hostilities are likened to fire, and decisions are taken instantaneously. Typical elements of the strategy that are mentioned are: to imagine that you are your enemy; to upset the enemy; to scare the opponent; to get the enemy to fall into indecision; to divert the enemy; to crush and eradicate deep. The author advises: "in every respect take the initiative." The fourth is the book of "Wind." An important part of understanding your own course of action is to understand the mode of action of the opponent. The fifth is the book of "Emptiness". It is connected with what cannot be understood. According to the author, strategy becomes free and undistorted and is the result of natural and spontaneous reaction.

1.2 ANCIENT GREEK AND BYZANTINE TREATISES ON STRATEGY

“Strategikon” is a handbook dedicated to strategic actions in war, written at the end of the 6th century by the Byzantine Emperor Maurice. Printed version of the treatise appeared in 1981, and the first English translation was carried out in 1984.

Effectiveness of the Byzantine military system was laid through the reforms of Emperor Maurice (582–602) reflected in “Strategikon.” The text consists of 12 chapters on various aspects of the strategy and tactics used by the Byzantine army in the sixth and seventh centuries, focusing mainly on cavalry, infantry, and various military formations, types of tactics, training, surprise attacks, ways of siege, drilling and others. The seventh and the eighth chapters contain practical advice in the form of instructions and maxims on the strategy. Chapter 11 characterizes the main Byzantine enemies, including Franks, Lombards, Avars and Slavs. Its purpose is to introduce the various methods of warfare of the enemy. The book also contains a list of military offenses and appropriate penalties for them. (Dennis 1984) The book is very similar to “The Art of War” by Sun Tzu’s in some advice which it gives:

"A ship cannot cross the sea without a pilot or an army cannot defeat the enemy without tactics and strategy." "To conquer the enemy army is better than to destroy it.", and in addition "It is necessary to know the opponent in order to avoid his strengths and strike at his weaknesses." (Maurice ed. and trans. George T. Dennis 1984)

"Strategikon" promotes the use of spies and deserters from the enemy's army and misleading the enemy with disinformation. The enemy must be deceived by false reports and plans submitted to him by deserters wrote Emperor Maurice and offering a wide range of tricks of which the commander to choose the most appropriate for the situation.

"Strategikon" (Cecaumeni Strategicon) of the Byzantine commander Cecaumenus (Kekaumenos), written at the end of the 11th century, is a handbook offering advice on waging a war and internal state affairs. The book was composed between 1075 and 1078 and is divided into six parts. Part I refers to obligations and services of the ruler. Part II contains general strategic advice. Part III contains advice for inland questions, like growing children, managing house and family and social relations. Part IV contains tips for proper implementation of actions in cases of rebellion against the Emperor. Part V contains advice to the Emperor about management and defence of the state. Part Six contains advice to autonomous local rulers about their relations with the Emperor.

Leo VI the Wise (866–912) was a Byzantine emperor who strengthened absolutism, limited the role of the Senate and removed urban governance. The work "Tactics" (Táctica) is a military treatise written by or on behalf of the Byzantine Emperor Leo VI about 895–908. The treatise is one of the largest works on Byzantine military tactics. It consists of 20 chapters, an epilogue and 12 additional chapters. It considers a wide range of issues, such as nature and content of tactics, general qualities, ways of decision-making, officers' health, cavalry and infantry equipment, military sanctions, camping, military training, preparation before the battle, sieges, actions after completion of the battle and after the war, surprise attacks, study of enemy military units.

Leo VI updated and expanded Emperor Maurice's work "Strategikon" and emphasized the use of prayer before battle. He believed that having the "divine help" his fighters would fight in "high spirits" and postulated:

"All who are struggling through Christ, our Lord, and on behalf of their families and friends and country, and for the entire Christianity will easily overcome grief, thirst, lack of food, cold, heat, pain…" (Leo VI ed. G. Dennis 2010), and those who died in battle were considered blessed.

1.3 ITALIAN RENAISSANCE AND STRATEGY

"The Book of Cortina" (The Book of the Courtier) is different from the reviewed works and worth mentioning in view of this. It is aimed at building targeted strategic behaviour of the individual. It is a treatise on civility and due conduct written by Baldassare Castillo. The author began his work in 1508, and it was published in 1528 just before his death. The book is written in the form of a series of fictitious conversations between the courtiers of the Duke of Urbino in 1507. It aims at building the perfect courtier who is expected to have a warrior spirit, be athletic and have a good knowledge of humanities, literature and art. Like the classic Roman orator Cicero, Castillo also emphasizes the importance of speech, manner and style of written and oral expression. (Courtier ed. and trans. Leonard Opdycke 1903)

The most famous works of Niccolo Machiavelli are "The Prince", "Discourses on Livy", and "The Art of War".

Machiavelli dedicated his treatise "The Prince" to the ruler of Florence, Lorenzo de Medici. His work remains in history as the first detailed analysis of the art of power. Regarding the qualities required of the Prince Machiavelli wrote that he should be merciful, lenient, humane, honest and religious, but most important of all was to look as if he possessed all these qualities. Further, the author adds that it is good to prevent disrepute, but still it is sometimes necessary to have it. If the Prince is mainly generous to his subjects, he will lose their respect and will only fuel their greed more.

Machiavelli stated that if two countries fought, it was prudent and wise to take sides instead of taking a neutral position. (Machiavelli 1515)

The true political views of Machiavelli were revealed in his less famous work "Discourses on Livy". In "Discourses" Machiavelli presented himself as a supporter of the Republic, and used the word "country" (from the Italian "stato" which could be translated as "state") to give the definition that it is any form of organisation of a supreme political power. (Guarini 1999)

"The Art of War" by Machiavelli is a treatise written between 1519 and 1520 and published in 1521. (Mansfield 1996) It describes how an army should be trained and organized. Machiavelli was one of the first writers who talked about size, composition, used weapons, moral and logistical capabilities of the army. The work is focused on the following elements: (Machiavelli 1560)

- Selection of soldiers;
- Preparation of the army;
- Ways to maintain order;
- Leading battles;
- Clothing during the war;
- Troops strength;
- Qualities and actions of the Commander;
- Leadership of the army;
- Halting siege fort;
- Provisions;
- Possible penalties;
- Secrecy in writing and transmission of letters and others.

On military strategy Machiavelli said that if diplomacy failed, war was a natural extension of the policy. "The Art of War" also stresses the need for state militia and promotes the concept of an armed citizenry. Machiavelli believed that the whole society, religion, science, and art were based on security.

1.4 EUROPEAN MILITARY STRATEGISTS OF 18–19TH CENTURY

Frederick the Great (1712–1786), the King of Prussia, is considered as a brilliant military leader. He skilfully held off the armies of Russia, France and Austria during the Seven Years' War from 1756 to 1763. After his accession to the throne, he indicated qualities of a decisive leader. His tactical and strategic views aroused the admiration of Napoleon Bonaparte and since then have had a significant influence on military science. Friedrich relied on an alliance with Russia, whose army almost beat him in the Seven Years' War, but his rivalry with Austria and Germany continued. In the area of domestic policy, his primary objectives were the creation of order and discipline in the army, carrying out a number of important legislative reforms, the establishment of new industrial enterprises, and support for education and improving the infrastructure of Prussia.

He wrote his work "Anti-Machiavelli" which was a refutation of the theories of that author. His are the sayings:

> **"Every art has its rules and maxims. One must study them: theory makes practice easily. The life of one person is not long enough to let him acquire perfect knowledge and experience." and "To have a break it is necessary the enemy to be busy." (Air war gateway College 2013)**

Napoleon Bonaparte (1769–1821) was the first French Emperor. In the course of a little more than a decade he established control by conquest or concluded unions on almost all-continental western and central Europe to his defeat in the Battle of Nations in 1813. At the Battle of the Nations near Leipzig, Napoleon fought against Russians, Swedes, Austrians, Saxons, and Prussians. Napoleon was defeated and after the entry of the allies in Paris he demised. He got in possession of the island of Elba in the Mediterranean and was headed into exile by decision of the allied monarchs. In the spring of 1815 he left the island and returned to France. It was a period of "100 days" of his rule. On June 18, he lost the battle of Waterloo. Napoleon was exiled to the island of Saint Helena where he died in 1821. His works "Memoirs of Saint Helena Island" and "Memoirs" were published after his death. (Soviet historical encyclopedia 2013)

Napoleon significantly altered the state structure of the country. He strengthened his personal power, held an administrative reform, established a National French bank to store gold stocks and paper money, and centralized the system for collecting taxes. His economic policy was aimed at ensuring the leading role of the French industry and finance in the European markets. During his campaigns, Bonaparte won more than 60 battles and carried out reforms in the army which turned the French Army into the most efficient force on the continent.

In terms of strategy, he considered:

"The personalization of a general is absolutely necessary, he is the commander, and he is the whole army. Gauls were not conquered by the Roman legions but by Caesar. Rome trembles not before the Carthaginian troops but before Hannibal. The Macedonians did not penetrate into India but Alexander. Prussia was not protected for seven years against the three most formidable European powers by the Prussian soldiers but by Frederick the Great." and "Nothing is more important in times of war than the unity of the command." (Air war gateway College 2013)

"On War" was written by the Prussian General Carl von Clausewitz (1780–1831) after Napoleonic wars between 1816 and 1830 and published posthumously by his wife in 1832. It is one of the most important military treatises and has a significant impact on strategic thinking. The book contains a range of historical examples in which Frederick the Great and Napoleon are central figures. Clausewitz played a direct role in the reform of the Prussian army, which led to the victory over Napoleon.

According to Clausewitz, war should never be seen as an end in itself but as an instrument of politics: "War is not merely a political act, but also a real political instrument, a continuation of politics by other means." (Clausewitz 1874)

He associated "strategy" with art and "tactics" with science.

Clausewitz argued that the main task of an army is to engage in battle and destroy the main forces of the enemy in a decisive battle. Thus, the overall strategy must be focused on the destruction of the enemy army. Over the years, various thinkers and leaders in the military sphere and the economy as Karl Marx, Friedrich Engels, Vladimir Lenin, Mao Zedong and Dwight Eisenhower used his ideas.

Antoine-Henri Jomini (1779–1869) was a Swiss officer, an infantry general who served in the armies of France and Russia. One of the famous military theorists and historians of the 19th century, he is the founder of modern strategy. He is the author of "The Art of War" published in 1855.

The work consists of six parts:

1. State military policy.
2. Strategy or the art of properly directing the masses in the development of military action of defence and attack.
3. Basic tactics.
4. Logistics or the art to move armies.
5. Engineering – attack and defence of fortifications.
6. Small tactics.

A memorable thought of the author is:

> **"Of all theories on the art of war, the only reasonable one is that which, founded upon the study of military history, admits a certain number of regulating principles, but leaves to natural genius the greatest part in the general conduct of a war without trammelling it with exclusive rules." (Air war gateway College 2013)**

Basil Henry Liddell Hart (1895–1970) was a captain in the British Army. He was a military theorist and historian, author of several books such as "The Future of War" (1925) and "Strategy" (1954). His theories of armed attack laid the foundation of the German Blitzkrieg. (Liddell Hart 1939)

The main idea of Liddell Hart is to bring the set of principles of warfare to the enemy in an indirect approach. According to him, using the longest way is usually the most correct choice from a strategic perspective. The direct approach to the object exhausts the attacker and increases the resistance on the other side, while the indirect approach misleads the enemy and violates its balance. Hart explained that one should not use a solid strategy and direct attacks or long term defensive positions. Instead, he recommended a flexible defence and room to manoeuver. (Danchev1998)

His well-known thoughts are:

> **"Only short-sighted soldiers underestimate the importance of psychological factors in time of war.", "Originality is the most important from all military virtues.", and "The principles of war could shortly be condensed in a single word: concentration." (Air war gateway College 2013)**

1.5 AMERICAN INFLUENCE ON STRATEGIC THOUGHT

Dennis Hart Mahan (1802–1871), a professor at "West Point" trained military leaders for many years. His textbook written in 1847 "Elementary Treatise on Advance-Guard, Out-Post, and Detachment Service of Troops" (National Museum of American History 2013) is the first comprehensive scientific work on tactics and strategy that appeared in America. The advantages of the speed of movement, the invasion of enemy territory and the application of a final blow are the principles that shape his strategic vision.

Dennis Mahan advised:

> "Attack the enemy suddenly when he is not ready to resist." and "To do the greatest damage to our enemy with the least exposure to ourselves is a military axiom lost sight of only by ignorance of the true ends of victory." (Air war gateway College 2013)

Admiral Alfred Thayer Mahan (1840–1914), a son of Dennis Hart Mahan, a naval historian and theorist is the author of "The Influence of Sea Power upon History: 1660–1783", written in 1890.

"The Influence of Sea Power…" is the story of economic and military rivalry between nations and reveals the strong influence of maritime trade on the formation of wealth and politics of countries, their economic and military growth and prosperity. His ideas are caused by the conflict between Holland, England, France and Spain in the 17th century and naval wars between France and Britain in the 19th century, where the British naval superiority is the basis of victory over France.

The introduction presents the importance of naval strategic combinations and scope of naval strategy. The first chapter focuses on the elements of sea power; advantages of moving and transport of goods by water; the use of naval forces to protect trade; use and development of the colonies and the conditions affecting the establishment of sea power including geographical location, scope of territory, population size, characteristics of nations, a policy of individual governments. From Chapter Two to Chapter 13 sea wars between the 17th and 19th centuries are presented. Chapter Fourteen presents elements essential to active naval war, the importance of bases abroad, the importance of the supply of resources, the increased importance of communications, difficulties in sending and receiving information in the sea, and others. (Mahan 1890)

The mission of the fleet, according to Mahan, is to provide naval power, while preserving the trade between Members and neutralizing the enemy fleet. Mahan argued that a transnational consortium that acted to protect multinational system of free trade might exercise naval superiority. As a result of his ideas the United States began a major program of shipbuilding, which put them in third place among the world sea forces in the '90s of the 20th century.

Mahan emphasised on the importance of the individual in shaping world history, extolling the traditional values of "loyalty" and "courage" and declared:

> **"The strategist is he who always keeps the objective of the war in sight and the objective of the war is never military and is always political." (Air war gateway College 2013)**

The concept of Colonel John Warden III – Warden's Five Rings is a strategy for establishment of political, military and economic superiority. According to him:

> **"If we think strategically, we must think of the enemy as a system composed from multiple subsystems. We cannot think strategically if we focus on a particular element of the enemy. Instead, it is necessary to focus on the totality of our enemy." and "…As strategists we must free ourselves from the idea that the main feature of the war is clash of military forces. In strategic war, a clash may be carried out, but this is not always necessary." (Air war gateway College 2013)**

Each system consists of five circles, comprising: (Warden III 1995)

1) Leadership
2) Basic system
3) Infrastructure
4) Population
5) Armed Forces.

Each level of the system, circle or "ring" is considered one of the centres of the enemy. Warden's idea is to attack each of the rings in order to paralyze the enemy's forces. To optimize the attack, the attacker must attack as many rings as possible with a special focus on the centre ring, which is the enemy's leadership. This would lead to paralysis of the enemy as a whole.

1.6 ORIGIN OF THE "GUERRILLA WARFARE"

The "guerrilla war" strategy is a type of unconventional warfare in which small and mobile battle groups fight against a larger and less mobile army. The guerrillas ambush and use agility to attack vulnerable targets in enemy territory. The partisans are considerably more numerous than the opponent. They do not attack the main forces of the enemy, but carry out sabotage, bombings and sabotage against strategic sites in order to destroy provisions and reserves, disrupt communications, and make the enemy non-battleworthy.

Thomas Edward Lawrence (1888–1935), known as Lawrence of Arabia was a British officer during the First World War. After the war, Lawrence participated in the British delegation to the Paris Peace Conference, where he supported the cause of Arab independence. Despite his efforts, Syria, Palestine and Iraq were allocated under a mandate to France and Britain. Between 1922 and 1927 Lawrence prepares "Seven Pillars of Wisdom" and abbreviated editions of the book "Revolt in the Desert" for publication. (Lawrence 2001)

Argentine revolutionary Che Guevara wrote extensively on guerrilla warfare, emphasizing the enormous potential of this strategy. Ernesto Rafael Guevara de la Serna (1928–1967) is one of the leaders of the Cuban Revolution. He won the trust of Fidel Castro with his own competence and diplomatic qualities. Che Guevara built factories, ovens for bakery, schools and health clinics. (Sandison 1996) In a speech on January 27, 1959, he defined social justice and the redistribution of land as the main tasks of the revolution. Along with agrarian reform, he carried out educational reform and improved literacy. 1961 was declared as the Year of Education marked with the creation of training programs for instructors and teachers who were sent to teach people to read and write in rural areas. After this initiative the literacy rate increased to 96%. (Kellner 1989)

In 1960 Che Guevara finished his book La Guerra de guerrillas (Guerrilla Warfare). Historians consider he had special contribution to the victory over the Americans in the Bay of Pigs. He conducted military training of 200 000 men and women, which proved so successful that his enemies suffered a complete defeat. Che Guevara travelled to New York in December 1964 to deliver a speech before the General Assembly of the United Nations. He criticized the UN for the failure of the organisation to stop apartheid in South Africa. (CheGuevara 1964) In 1967 in the area Kebrada, Bolivia he was captured and subsequently executed. (Anderson 1997)

Mao Zedong (1893–1976), (Mao Tse-Tung Zedong), is head strategist and leader of the Chinese revolution and the founding of the People's Republic of China (PRC). His theoretical contribution to Marxism-Leninism and military strategies are known as Maoism.

According to Maoism the strategy "guerrilla war" consists of three phases. In the first phase, the guerrillas win the support of the population by spreading propaganda and attack the government. In the second phase, attacks against military forces of the Government and other vital institutions escalate. In the third phase, conventional war is used to overthrow the government and take control over the country. (Zedong 1937)

Zedong led some land reforms, promoted population growth, increased school attendance, reduced unemployment and inflation, increased access of the population to health care as a result of which life expectancy dramatically increased. (Ebrey 2010)

In 1959, the implementation of various unproven and unscientific new agricultural techniques, coupled with natural disasters, led to approximately 15% decline in grain production. The famine that followed caused the death of about 30 million Chinese peasants between 1959 and 1962. Some historians claim that Mao Zedong was one of the greatest tyrants of the twentieth century and a dictator comparable only with Adolf Hitler and Joseph Stalin. (MacFarquhar 2006)

2 HISTORY OF BUSINESS STRATEGIC THOUGHT

Strategy Safari, subtitled "A Guided Tour Through the Wilds of Strategic Management" by Henry Mintzberg, BruceAhlstrand and Joseph Lampel is a comprehensive review of an academic and business approach on strategy. The book presents the diversity of trends in strategic management. The authors identify ten existing schools divided into three groups: 1) prescriptive schools, which examine the nature of strategies (here come the first three schools), 2) descriptive schools, describing formation strategies (here come the following six schools) and 3) a configurable school, which shows the development of strategic management and is a kind of hybrid between other schools (here comes a single school – the school of the configuration). (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998)

The Design School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998) has its origins in the research of two scientists from the University of California (Berkeley) and Massachusetts Institute of Technology – Philip Selznick and Alfred Chandler, but its real development began in Harvard with the publication of "Business Policy" by Christensen, Andrews and Guth in 1965. According to the school, the strategy is perceived as a unique and pre-conceived perspective, and the main stages of strategic management are: analysis of internal and external environment, SWOT analysis, creation, selection and evaluation of strategic alternatives, the choice of strategic alternatives and implementation of strategy in art. Formation of this strategy should be considered a process.

The founder of The Planning School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998) is considered to be Igor Ansoff according to whom building a strategy is based on: goal setting, analysis of the external environment, analysing the internal environment, forming a strategy in several versions, decomposition strategy in time, space, management and programming processes. The followers of the school believe that strategy is a plan that includes specific goals, and formation of strategies is the result of a controlled and deliberate process to create a formal plan for an organisation.

According to The Positioning School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998) and its representatives, the formation of strategy is an analytical process. It is a plan that generates economic and competitive advantages. The school does not deviate radically from the school of planning or the school of design with one exception. According to other schools, there are specific types of strategies that can be taken. According to this school, on the contrary, there are a few key strategies of economy that are desirable. The choice of strategy is choosing one of these common positions.

In "Competitive Strategy" published in 1980, Michael Porter argued that there were only two types of competitive advantages that the organisation can possess: low cost or differentiation. They give rise to three types of existing market strategies: 1. Leadership in costs, 2. Differentiation and 3A. Focus on costs and 3B. Focus on differentiation. Porter also used the term "strategic group" or "cluster" to describe a collection of companies in an industry that pursue similar goals and have similar strategies to achieve them.

The Entrepreneurial School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998) is associated with the names of Joseph Schumpeter and Cole. Schumpeter believes that entrepreneurship is an engine that drives business forward. The entrepreneur is the person who owns the business ideas that are subtle, and in the hands of entrepreneurs these ideas become real. According to Schumpeter, entrepreneurs use existing means of production more effectively and invent new combinations. Strategy is seen as an imaginary, illusory, utopian process. It exists in the minds of strategists and provides a perspective. It is formed by the leader of the organisation based on his intuition, judgment, wisdom, and experience. The entrepreneurial strategy is characterized by orientation towards seeking new opportunities, flexibility and dynamism, taking risk, individuality and uniqueness.

According to Herbert Simon, who received the Nobel Prize for Economics in 1978, due to the complexity of the world and low abilities of the human brain, decision-making is not a rational process, but futile efforts for the manifestation of rationality. Since organisation is embedded in the environment, and because of the fact that our thinking and decision-making have limited rationality, our perception of the surrounding world is also limited and imperfect. According to The Cognitive School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998), the formation of a strategy is a cognitive process that flows in the minds of strategists and emerges as concepts which are formed depending on the perception of the environment. Environmental strategies can be modelled to be formulated and constructed. Since the formation of the strategy is a cognitive process, it is necessary to take account of individual cognitive biases in this process. Here are some of them:

- Search of supporting evidence
- Inconsistency
- Conservatism
- Domination of initial information received
- Availability of illusory perception
- Selective perception
- Optimism, acceptance of the desired reality
- Desire to gather facts that lead to a particular conclusion
- Latest events dominate
- People tend to make decisions based on their own experience
- Excessive optimism and underestimation of future uncertainty.

Representatives of The Learning (or emergent) School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998) are Lindblom, Ardzhiris, Quinn, Prahalad and Hamel. According to Lindblom, government policy is not organized and controlled but a chaotic process, and politicians cannot control the world. He applied these statements to an organisation. Taking into account the complex and unpredictable nature of external environment, a strategy should receive the form of a learning process for the head of the organisation and the team. According to the chaos theory, strategic management (Levi, 1994) stability was a short-lived state. In chaotic systems long-term planning is very difficult. These types of systems do not achieve a stable equilibrium and they can never cross the same state more than once. So a change can occur unexpectedly. The entry of a new competitor or the development of seemingly insignificant technology can have a significant impact in a given sector. Strategies appear as models of the past, and later develop into plans for the future and prospects for overall organisational behaviour.

According to this school, it is necessary to go beyond the old way of thinking that knowledge can be acquired only through manuals, books or lectures. Instead, more attention should be paid to subjective insights, intuition, and knowledge through experience and passing it from one person to another. The improved organisational capabilities provided by organisational learning affect the increasing of the organisation's ability to take advantage of the rapidly changing external conditions.

The Power School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998) considers formulating a strategy concerning the existence of two types of power: micro-power that stems from the fact that the organisation is a coalition of various groups and individuals that unite on the basis of common interest, and macro power, which concerns the relationships between the organisation and the external environment. Therefore, the strategy is formed by power and politics, whether as a process within the organisation or conduct of the organisation in the external environment. Micro power considered strategy as interaction through persuasion, negotiation and sometimes direct confrontation in the form of political games and changing coalitions, as no single stakeholder dominates for a significant period of time. Macro power referred to strategy as built by an organisation, using strategic manoeuvers and collective strategies in different types of networks and alliances.

Representatives of the school are Alison, Ferrer, and Salansik.

Strategy is seen as a process of settlement of negotiation. According to the school, strategies reflect the interests of the most influential groups in the system and do not reflect what is optimal for it and its people. Organisations can look for ways to reduce its dependence on the elements of the exterior in different ways: lobbying for favourable action of government, acquisitions, joint ventures, and alliances in cluster networks, building strategic alliances, development of a collective strategy for cooperation and use of common key advantages.

The Cultural School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998) argues that the formation of a strategy is a process of social interaction based on common members' beliefs and understandings. Strategy is seen as a unique collective perspective. Representatives of the school are Renman and Norman. Emphasis is placed on management from the bottom, preparation of plans for any action (no spontaneous decisions), on the elements of organisational culture (norms, rituals and practices, symbols, stories, myths and legends; power structures, organisational structures and control of the system). According to this school, formation of the strategy is a process of social interaction, based on the values and beliefs shared by the members of the organisation. The individual acquires these beliefs in the process of socialization and the strategies are formed as a result of the work done by a large number of employees and as a collective process. The organisational culture is a key competitive advantage. The danger is that when the organisational culture is very strong, it will be difficult for the organisation to change the existing strategy in the future.

While most of schools take into account the conditions and factors from the external environment in developing the strategy, according to The Environmental School (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998), the environment dictates the strategy and that largely deprives the organisation of strategic choices. Representatives of the school are Hannan and Freeman. The surrounding environment is characterized by dynamism, complexity, variety of markets and industries and hostility on the part of the competing companies, trade unions, government and other outside groups. The formation of the strategy is a reactive process that depends on environmental factors, and the organisation must adapt. Management and organisation are subject to the external environment, and leadership becomes only a passive element for the analysis of the environment and ensures the proper adjustment of the organisation.

Representatives of The Configuration (or transformation) School are Chandler (Mintzberg, H., Bruce's Ahlstrand, Joseph Lampel 1998), Mintzberg, Miller, Miles, and others. In a time every organisation can be described as a kind of stable configuration, i.e. for a period of time, it assumes a certain shape, structure, and has a set of strategies. The periods of stability are occasionally interrupted by a process of transformation of the organisation, which is a jump to another configuration. The sequence of periods of stable configurations and periods of transformation describes the life cycle of organisations. The strategy is a "shaking" of the existing scheme to enable the organisation to move into a new state. The key to strategic management is to maintain stability in the organisation, but from time to time to recognize the need for transformation which can be managed without destroying the organisation. The school offers the possibility of integrating all the other schools. The process of realization of the strategy can be a conceptual design or formal planning, systematic analysis or management, cooperative learning or competitive politicking, focusing on in individual cognition, collective socialization, or simply reactions to environmental factors.

The Blue Ocean Strategy is a book about successful business strategy written by Kim and Mauborgne and published in 2005. The authors believe that an organisation can generate growth and profits by creating new consumer demands in a new market space defined as "Blue Ocean" rather than competing with other organisations for existing customers in an existing industry. Based on a study of 150 strategic moves in more than 30 industries for over 100 years (1880–2000), Kim and Mauborgne argued that future leading companies might not succeed in the traditional rivalry, but would be able to create a new market space through value innovation. The authors examined the experiences of companies in different areas of the production and non-production sphere to answer the question of how to create an innovative value, new needs and new market niches or how it is possible to meet existing needs in new ways.

The used metaphor of "red oceans" and "blue oceans" describes the market as a whole.

"Red oceans" represent all industries in the world, i.e. already known market space. Industrial boundaries are defined and accepted, and the competitive rules are known in the red oceans. The companies try to outdo their rivals, and seize a larger share of demand for a product or service. Greater market share is seen as a zero-sum game in which when a company achieves profit, it is for the loss of another company. "Blue oceans" are defined as all industries that do not exist, i.e. unknown market space, where there is no competition. The participants establish the demand themselves and there are sufficient opportunities for growth and profit for all. The term "Blue Ocean" describes the broader potential of market space that has not yet been studied. Using such a strategy allows companies to play a zero-sum game with profit opportunities for all participants. (Kim and Mauborgne 2005) The strategy consists in offering innovation that creates value for both the buyer and the company.

The authors bring in proof some examples of leading companies as: (Kim and Mauborgne 2005)

- Barnes & Noble Borders in USA redefine the scope of the services they offer. They transformed the product they sell from book to pleasure on reading and added to their outlets lounges, chairs and cafes to create a friendly environment for reading and learning.
- In just over a decade Bloomberg became one of the largest and most profitable providers of business information in the world. Bloomberg embedded in their system analytical capability for analysis of financial information which works with the touch of a button. Consequently, users can quickly calculate the return on alternative investments and to carry out an analysis of historical data.

- Created in 1984 by a group of street performers "Cirque du Soleil" (Cirque Du Soleil) today is visited by nearly 40 million people worldwide. What makes this rapid growth all the more remarkable is that it has not been achieved in an attractive industry, but in a dying industry. "Cirque du Soleil" is directed not only to children and creates a whole new group of customers including adults and corporate clients prepared to pay a price several times higher than traditional circuses required.
- In 1908 Henry Ford introduced the "Ford Model T" (English. "Ford Model T"), as a vehicle for the crowd made of the best materials. "Model T" is reliable, durable and inexpensive. In 1908 "Model T" was worth $850, equivalent to half the price of the vehicles existing on the market. In 1909, its price was reduced to $609, and in 1924 year it reached $240.
- The Dutch company for electronics "Phillips" (Philips Electronics) dealt with the problem of limescale in the water, which accumulates in conventional kettles and thus passes into the cooked tea. "Philips" created a jug with a filter to effectively keep limescale away, and consumers began to mass replace old kettles with new filtered teapots.

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STRATEGY AND STRATEGIC MANAGEMENT

The chapter presents the concept of Management and its relationship with strategy and Strategic Management. In broad terms, management can be defined as a human activity aimed at facilitating the achievement of positive results in an organisation. In any form, it involves bringing people together and leading them towards achieving common goals and objectives effectively and efficiently.

1 THE CONCEPT OF MANAGEMENT

The verb "manage" is etymologically connected with the Italian language, in which the concept of "maneggiare", meaning "hold", derives from the Latin word "manus" and means "hand, arm". In the 17th and 18th centuries the French word "mesnagement" (later "ménagement") influenced the English word "management" to get the meaning we know today. (oxforddictionaries.com)

According to the most popular definitions of management, it is the organisation and coordination of the entity in accordance with specific policies to achieve clearly defined objectives and a set of authority and responsibility to make decisions about organisational activities. As a scientific discipline and practice, management is the process of planning, forecasting, organising, directing, coordinating, controlling and regulating all components and resources of the organisation.

According to Peter Drucker, management is a specific type of activity that turns a disorganised crowd into an effective and productive group. Therefore, management can be defined as a structured way of influence on the organisation's behaviour to achieve predetermined goals.

In general, management is a process of intervention by authorities to subjects and different objects in order to drive them to achieve pre-defined objectives, and thereby align the joint activities of people. In particular, it represents a conscious impact of control from the managing subject (a person) over the managed objects (people, resources, nature, etc.) in connection with the directing and coordinating of the ongoing processes in order to achieve the predicted and planned results as soon as it is possible, with the least deviations and with minimum resources. (Penchev 2002)

The main management function is to meet the wide range of interests of different stakeholders. It is usually associated with making a profit for the shareholders, creating valued products at a reasonable cost for customers and providing remuneration to employees. If we need to define the term "stakeholders", we should bear in mind that it does not only include the shareholders, customers and employees. It includes all individuals and legal entities that are related to an organisation and are interested in its prosperous development and in receiving any benefits (value, price, service, quality, revenue, profit, care, social empathy, and social responsibility).

Management begins with planning and forecasting activities as they suggest future trends for the development of the system, and continues with organising, which represents the activities associated with establishing the structure of the company. Authority and responsibility are essentially manifested in leadership, which ensures the implementation of taken decisions. Motivation is directly related to leadership. It includes the development of effective methods and tools to promote human resources in order to achieve optimal functional outcomes in the organisational system. Control as a function of management generally covers designing, implementing and using a system for compliance or inconsistency between the pre-announced plans, standards, and the actual performance and results. Regulating is the last management function, which can be defined as single or as part of the function control. It consists of the removal and eliminating of the negatives which are found in the phase of control.

Modern management incorporates numerous functional areas. Traditionally, it is considered that these are management of material resources, management of human resources and management of financial resources. Without claiming their comprehensive examination, some of them relating to the functioning of the business organisation have been added.

Functional areas of business management

Brand Management
Business Process Management
Change Management
Customer Relationships Management
Information Management
Knowledge Management
Project Management
Quality Management
Time Management
Risk Management

Brand management represents the application of marketing techniques to a specific product or product line with the aim of promoting consumption.

Business process management is a holistic management approach, focusing attention on the synchronisation of all aspects of an organisation with the wants and needs of customers.

Change management is a structured approach for making changes in individuals, groups and organisations and leading them from their current state to a desired future state.

Customer Relationship Management is a widespread approach to sales management. Its main goals are to find, attract, win and retain new customers and to attract back customers that the organisation has lost due to various reasons.

Information management aims at organising, retrieving, acquiring and maintaining databases with the necessary for the organisation valuable information.

Knowledge management consists of a set of strategies and practices used in an organisation to identify, create, represent, distribute and adopt new knowledge, ideas and experience.

Project management includes planning, organising, securing and managing resources to contribute to the successful completion of the general and specific objectives of the project, with limitations in scope, time and budget.

Quality management. In economically developed countries, customers choose products that meet high quality standards. Therefore, all businesses strive to meet international standards for quality products and services they offer.

Time management is a process of planning and exercising conscious control over time spent in specific activities, used for the implementation of specific tasks, projects and goals within a specified period, in order to increase the effectiveness, efficiency or productivity of labour.

Risk management can be defined as identification, evaluation and ranking risks according to their priority, followed by a coordinated activity on the application of economic tools and approaches to minimize the likelihood of the occurrence of events with dysfunctional impacts for the organisation and to maximize opportunities for the occurrence of events with functional consequences. (ISO/DIS 31000, 2009)

Perception Management is a type of formal or informal provision of information with the purpose of influencing the emotions, motives and follow-up behaviour of individuals in a way that is favourable for the author of the information. Its main purpose is to provoke the other side to engage in behaviours and actions that are desired by the author of the information, i.e. there is the design of this "truth" that is desirable and necessary for one's goals. (USA Department of Defence, 2003) The business uses perception management to get the desired behaviour by users, to model the behaviour of trading partners, and to receive profits from interested institutions and organisations.

The level of use of perception management continues to grow, not only in connection with the defence functions of a state, but also in business and public administration for misleading the "enemy". Business organisations also conduct perception management, which they directed to their suppliers and customers. Businesses use perception management to get the desired behaviour in users, to model the behaviour of their partners and to obtain benefits from the institutions and organisations.

The existence of the world is impossible without management. Everywhere and in all areas of life it is associated with making decisions about planning, organising, leading, motivating, monitoring and control of financial, physical, information and human resources.

2 STRATEGY AND STRATEGIC MANAGEMENT

The word "strategy" comes from the Greek word "στρατηγία" ("strategia"), which means "headquarters, command, military art" and derives from "στρατηγός" ("strategists") translated as a leader or commander of the army and the combination between "στρατός" ("stratos") – "army, host" and "γός" ("agos") – "head, chief", derived in turn from "γω" ("ago"), "will, lead, leader". The word was firstly used in German as "strategie" in 1777, soon after that in French as "stratégie" and for the first time in English in 1810 as "strategy". (Nag, R., Hambrick, C., 2007)

Initially, strategy is defined as the science and art of placement of troops in war. How we should lead a battle is a matter of tactics, and whether to start it is a matter of strategy. In the field of martial arts the Russian school talks about "strategy", "operational art" and "tactics" while the Western school – about "strategy" and "tactics", and the actions highlighted by the Russian school as "operational", are defined by the Western school as "small strategies".

The term "strategy" and its perception change with the change and complexity of the business environment. There are different definitions for the term. Organisational strategy can be defined as:

1) Method for establishing long-term goals of the organisation and programming of its activities in priority areas proportionately to resources;
2) Plan to determine the long-term basic tasks of the organisation, the adoption of courses of action, and ensure allocation of resources necessary for the implementation of the objectives;
3) Trend that the organisation chooses while pursuing its goals and taking into account the opportunities and threats of the external environment, as well as with its own capabilities and potential;
4) Way to respond to changes in external and internal environment of the organisation;
5) Method for establishing goals – corporate, business and functional;
6) Way to develop/Method for developing a key competitive advantage for the organisation, etc.;
7) Evaluation of alternative ways to reach the already selected goals and objectives and selection of one of the options for implementation;
8) Course which the organisation chooses while pursuing its goals and taking into account the opportunities and threats in the external environment, as well as with its own capabilities and potential.

In the beginning of the 21st century, strategic management summarized all these definitions and perceived strategy mainly as a tool for defining the economic and non-economic key competitive advantages of the organisation, and also as being bound by the organisational philosophy and culture.

The founders of strategic management as a science are considered to be Alfred D. Chandler, Philip Selznick, Igor Ansoff and Peter Drucker.

In 1957, Philip Selznick introduced the idea of combining internal organisational factors with the external conditions of the environment. (Selznick 1957) This idea lies at the heart of what is known as SWOT analysis.

Alfred Chandler recognized the importance of coordinating the various aspects of management. In his work "Strategy and Structure", published in 1962, he pointed that long-term strategies needed to be coordinated, which would give structure, direction and focus to the business unit. (Chandler 1962)

Igor Ansof built on the work of Chandler by inventing a comprehensive conceptual apparatus of the science Strategic Management. He developed the strategies for product development, market development strategies, strategies of horizontal and vertical integration, and a strategy of diversification. (Ansoff 1965) In 1965, he laid the foundations of the Gap analysis that was used to establish the difference between where the organisation is at present and where it would like to be in its future development. Peter Drucker is the author of many works on management of organisations, but his major contribution to the strategic management emerged in two directions. Firstly, he stressed the importance of the objectives set by the business. According to him, an organisation without clear objectives is "like a ship without a rudder". Back in 1954 he developed a theory based on management by objectives. (Drucker 1954) His other major contribution in this area is in predicting the importance of what today we call intellectual capital. The operating activities should be carried out in teams of knowledgeable and capable people who must be led by an expert in the field.

One of the most important concepts in strategic management is the so-called "portfolio theory" developed by Harry Markowitz and other financial theorists. It argues that the wide range of held assets can reduce specific risk that the organisation is facing.

Perhaps the most influential strategist is Michael Porter. He introduced many new concepts, including the analysis of 5 forces, the value chain, the terms "strategic group", "cluster", etc. According to him, the business unit will be successful only to the extent to which it contributes to add value in a sector. His conclusions force leaders to look at their actions through the mind of the user.

In 1970, Alvin Toffler showed that social and technological standards are getting shorter lifespan with each succeeding generation and questioned the ability of society to cope with constant change. In the past, the periods of change were interrupted by periods of stability, which allowed the public to accept the change and deal with it, but these periods of stability became increasingly shorter and disappeared in the late 20th century. (Toffler 1970)

In 1978, Derek Abell stressed the importance of time for preparation and implementation of the strategy. (Abell 1978) This led to the principle of planned obsolescence of technologies, processes, products and services.

In 1979, Al Ries and Jack Trout published "Positioning: The Battle for Your Mind". According to them, the creation of strategy should not take into account only the factors which are internal to the organisation but also the way users accept the organisation and how they compare it with other competitors.

Some scholars pay attention to the fact that the business spends more to acquire new customers than to retain the current ones and believe that the strategy of the organisation should be focused on customer retention and ensuring that the customers will return repeatedly, known as the effect of loyalty.

In the ’80s of the 20th century, business strategists realized that there was a great base of knowledge, which spread thousands of years back in time, so they began to pay attention on military strategies. Today, the main business strategies are significantly close to them. Some examples are offensive marketing strategies, defensive marketing strategies, accompanying marketing strategies and strategies of guerrilla warfare.

In 1990, Richard Pascale wrote that relentless change required businesses to rethink continually. A famous phrase of his is “nothing fails like success” with which he stresses that what was our strength yesterday became the root of our weakness today. (Reichheld 1996)

In 1993, John Kay developed the idea of the value chain of Porter at financial level, considering that added value should be the primary goal of any business. He defined added value as the difference between the market value of final products and the production costs made by an organisation.

Arie de Geus studied the longevity and success of business units and identified four key characteristics of organisations that had thrived for 50 years or more. These characteristics are:

- sensitivity to the business environment – the ability of a business unit to learn and adjust according to the lessons learnt;
- cohesion and identity – the ability to build common purpose among individuals working in the organisation and the organisation itself;
- tolerance and decentralisation – the ability to build relationships of solidarity and cooperation;
- conservative financing.

He called an organisation with these key features a “live” organisation because it is able to exist and prosper for long. If an organisation focuses on knowledge and regards itself as a community of human beings, it has the potential to remain in business for decades. Such an organisation is an organic entity capable of life.

Henry Mintzberg differs from many authors who have written on strategic management features. According to him, strategy can be considered as: (Mintzberg 1987)

- Plan, direction, course of action, intention
- Manoeuver intended to outwit a competitor
- Consistent pattern of behaviour
- Position, localisation of brands, products or business units
- Perspective – a guide for future work.

In 1998, Mintzberg presented management strategies in ten schools, grouped into three categories. (Mintzberg, Ahlstrand, Lampel 1998)

In 2000, Gary Hamel talked about how the value of any strategy, no matter how brilliant it is, decreased over time. (Hamel 2002)

All organisations strive to realize their goals. The objectives are desired end states which may include survival, increasing economic prosperity, increasing labour productivity, establishing certain values, etc. The role of strategy is to ensure the protection of these objectives, to create favourable conditions for achieving them in a consistent and optimal way. Therefore, the strategy predicts, examines and assesses the strategic environment in varying degrees, so that the organisation is able to manipulate it according to its goals.

According to the latest research in strategic management in business there is a theory that it is possible to create an unknown market niche where there is no competition. The strategy consists in offering innovation that creates value for both the buyer and the company. Using such a strategy allows companies to play a game with profit opportunities for all participants. Here comes the idea that the organisation can generate growth and profits by creating new consumer demands in new market space, rather than to compete with other organisations for existing customers in an existing industry.

Finally, it can be concluded that strategic management is a continuous process involving business units. This is the process of developing and implementing strategies based on continuous analysis, monitoring and evaluation of changes in the organisation in order to maintain its survival and effective functioning in a constantly changing environment. Strategic management is directed towards analysing, collating and overcoming the problems faced by the organisation due to changes in the environment. It examines the strategy as a set of rules for decision-making from which the organisation is guided in its activities.

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BUSINESS ENVIRONMENT OF AN ORGANISATION

The chapter presents the origin of organisations, different types of organisations, forms of business units, analysis of the business environment of organisations as an important stage in strategic management, and competition and competitive advantages.

1 ESSENCE OF ORGANISATIONS

In management theory, an organisation is presented as a complex social system. It operates and develops experiencing the impact of its environment and in turn affects it. Its main objectives are to go beyond making a profit and cover operating costs, it moves its focus further to the social sphere, ecology, culture and education.

The word "organisation" comes from the Greek word "organon", which is derived from "ergon" and means "work", "action". The organisation is a structure that occurs as a result of a deliberate arrangement for bringing together a range of people who will work for the achievement of certain collective purpose, controls its own results and has boundaries separating it from the surrounding environment. (Petrova 2015)

In the literature on this issue, "organisation" is commonly understood as:

- Order and orderliness of something material or spiritual
- Something that is opposite of chaos, disorganisation, clutter
- Activity creating orderliness
- Any association, institution
- Complex social system made up of various elements among which there are links and interdependencies.

An organisation is a single entity which consists of interrelated parts. Each organisation interacts with its environment through its "entry" and "exit". Through the entry the system gets impact from the environment, and through the exit it affects the environment. The organisation receives resources from the external environment at its entry, processes these resources within the system and returns them through its exit back to the external environment in a modified form and with added value.

The organisations can be mainly two types: created as for-profit or as non-profit organisations.

For-profit organisations

The term "business" refers to a state of employment in which individuals or the society as a whole perform cost-effective and profitable activity. The term has at least three uses. Firstly, it means a single organisation (company), the second is used to summarize the overall market, and the third, and the broadest meaning includes all activities concerning the production and delivery of goods and services to the market.

The company is a form of business organisation. It is a collection of individuals and physical assets with a common purpose – essentially a profit, i.e. a profit organisation. The English word "company" has its origins in an old French military term "compaignie" (first mentioned in 1150) with meaning "a body of soldiers", derived from the Latin word "companion" meaning man who eats bread with you, the German "gahlaibo" literally translated as "bread", and Gothic's – "gahlaiba" – "commensal". (www.etymonline.com) By 1303 the word was used by commercial guilds. The use of the term "company" with the meaning of "business association" dates from 1553, and the abbreviation "Co" in the English language dates back to 1769.

The main objective of business organisations is the least expenditure of resources (labour, land, capital, entrepreneurship, information, etc.) to achieve the best results (based on the highest levels of profit) for the shortest period of time.

Non-profit organisations

A non-profit organisation is not established to provide a profit to its owners or members. Non-profit organisations are formed on a voluntary basis. Their members do not expect compensation (monetary or other) from the operation of the organisation. They gather to achieve goals in education, science, art, health, and social activities. The main reasons for the establishment of non-profit organisations can be pointed as: (Petrova 2015)

- ✓ acquisition of technical equipment, capacity and technical knowledge;
- ✓ carrying out repairs and maintenance of property of the organisation;
- ✓ receiving funds by members of the organisation for works and services;
- ✓ training their own staff, developing knowledge, skills, experience;
- ✓ occupying a market niche;
- ✓ obtaining information;
- ✓ increasing the level of lobbying;
- ✓ increasing acceptance levels of the organisation by society.

The government and public organisations are particular types of organisations not belonging to the above mentioned types. The government is an organisation created by the society and through which a political unit exercises its authority, controls and administers public policy, directs and controls the actions of members of the society. The main purpose of the government is the preservation of national security and public order. The government conducts its policy with the help of public organisations and public administration. Public organisations are state and municipal institutions that manage public property, implement taxation, produce and supply public goods and services for use by members of the public and provide them for different social groups and the society as a whole.

Historically known forms of management of the state or the society include anarchism, authoritarian regimes, monarchy, republic, constitutional monarchy, constitutional republic, democracy, dictatorship, oligarchy, plutocracy, theocracy, totalitarian rule, etc.

The legislation of different countries forms their own unique businesses. All of them try to avoid some costs associated with the operation of the business, most business forms are designed to provide limited liability for the members of the organisation and external investors. The form of business units depends on the laws of the state in which they are established. The most common in the world are: (Petrova 2015)

- Sole Proprietor
- Partnership
- Unlimited Companies and their forms
- Limited Companies and their forms
- Cooperation.

Sole proprietor is any natural or legal person who is engaged in trade in the sense of business. The sole proprietorship is a business unit owned and managed by an individual and in which there is no legal distinction between the owner and his business.

Partnership or business partnership is an agreement between individuals for cooperation for the realisation of their interests. Partners work together to achieve profits, and reduce losses and risk. The partnership may take the form of a general partnership, limited liability partnership, limited company and a company with a secret partner.

General partnership (GP) is created by two or more individuals under an agreement. The partners are personally responsible for the functioning of the company and share equal responsibilities and obligations.

Limited liability partnership (LLP) is a company in which one or all partners (depending on the jurisdiction in which it falls) bear limited liability.

Limited partnership is a form of partnership in which there are one or more partners with unlimited liability (General Partners, GPs) and one or more limited partners (Limited Partners, LPs).

A company with a secret partner is a company in which one person called hidden or secret partner (associate) makes contributions and participates in the profits or losses of the business which another partner called open or obvious partner runs in his own name and as his own company.

In **Unlimited Liability Companies** all members or shareholders have unlimited obligation to meet any deficiencies in the company's assets in case of liquidation of the company or formal termination of the company.

In companies with limited liability (**Limited Company**) liability of the members of the company is limited to what they have invested or guaranteed to the company. This includes limited liability companies, joint-stock companies, companies with a special investment purpose and companies with limited shares.

A Limited Liability Company can be formed by one or more individuals responsible for the obligations of a company with share contribution to the capital. (Commercial Code, Bulgaria 1991)

A Joint-stock company is a company whose capital is divided into shares. The company is liable to the creditors with all its possessions. A Joint-stock Company (JSC) may be formed by one or more individuals or legal entities. It is an organisational form for big businesses whose capital is divided into parts in the form of shares. By purchasing shares many individuals and legal entities can invest and become co-owners of the corporate capital.

A limited liability company and a joint-stock company may be organised as a private company whose shares belong to only one person.

A company with a special investment purpose usually performs securitization, i.e. conversion of illiquid material or financial assets in securities. This kind of companies can be divided in: companies investing in real estate (Real Estate Investment Trusts) and companies investing in other financial assets – consumer loans, credit cards, loans for the purchase of cars, etc.

Limited partnership with shares is a hybrid capital company. It brings the greatest security to lenders because their claims are on one side of the capital, the other – the property of the general partner.

In the broadest sense, each business unit which is not a sole trader or partnership is defined as a "corporation". In a narrow sense, a corporation is a legal entity distinct and separated from those who create it. Corporations are organisations that have been established under the laws of the state as a separate legal entity which has assets and liabilities different from those of its members. Corporations can be formed as a private limited company or a joint-stock company with local jurisdiction.

Cooperatives are defined by the International Cooperative Union as autonomous associations of individuals who are voluntarily united to meet their common economic, social and cultural needs and interests through a jointly owned and democratically controlled enterprise.

When choosing a business form, one should take into account factors like: the importance that the founders attach to the limited liability; the scale of investment needed to create and manage the respective business; the desire of the founders to share the control; their business readiness to publish and provide official information about business activities, etc.

2 ANALYSIS OF THE BUSINESS ENVIRONMENT OF AN ORGANISATION

The business environment of an organisation can be generally divided into microenvironment and macro-environment. Microenvironment includes individuals or organisations from the nearest environment of the business unit, i.e. all those with whom the organisation has frequent contacts and interactions and on whom its functioning and development depends (staff, customers, suppliers, and competitors). Macro-environment consists of factors that characterize the political, economic and social processes, the development of technology and ecology.

The analysis of business environment is an important stage in strategic management. The most commonly observed and evaluated micro factors in organisations are: supplying of the organisation with material, information, financial and human resources; management style and competence; experience of the organisation and offered specific services and achievements; presence of successfully implemented projects; international experience, partnerships, communications, PR practices and their efficiency; image of the organisation in society.

The analysis of macro factors generally includes: identification of all stakeholders of the organisation, analysis of national and local policies, analysis of competitors and potential partners, analysis of external sources of financing, analysis of target groups interested in the services or products the organisation offers; presence of lobbies, etc.

A specific area of organisational analysis is the analysis of the market where the business unit is operating. It is a documented study that aims to support management decisions on expansion or contraction of production; purchase or sale of production equipment and facilities; hiring and firing workers; expansion or contraction of marketing activities; shrinkage or acquisition of market segments, etc. The full market analysis includes:

1. analysis of macroeconomic environment, including economy, legislation, government, management, technology, ecology and environmental norms and standards, socio-cultural and demographic factors;
2. analysis of a specific market – market size, cost of entering and remaining on the market, market segmentation, sectorial structure and existing strategic alliances, competition and market share, analysis of the competitive advantages and disadvantages of organisation, supply chain;
3. analysis of consumers – participants, socio-demographic structure, expectations of consumer intentions to purchase, loyalty, outflow of customers, complaints and claims;
4. analysis of the marketing mix – product, price, promotion and distribution, life-cycle analysis of the product, analysis of the brand and the market value, analysis of distribution channels, etc.

Different types of analysis are used in the study of business environment of an organisation. The most popular among them are Content Analysis, Gap Analysis, SWOT analysis, PEST analysis and its forms: PESTEL (Political, Economic, Social, Technological, Ecological and Legal factors); LoNGPESTEL – that takes place on three levels – local, national and global level; STEER (Socio-cultural, Technological, Economic, Ecological, and Regulatory factors); EPISTEL (Environment, Political, Information, Social, Technological, Economic and Legal factors), which includes analysis of environmental, political, informational, social, technological, economic, legal factors, etc.

GAP Analysis is a tool that helps an organisation to compare its actual performance with the potential that it holds. It answers to two main questions: “Where are we?” and “Where do we want to be?” The process of gap analysis involves determining, documenting and identifying measures to overcome the existing differences between the requirements and the current potential of business organisations.

Gap analysis can be oriented to the organisation as a whole or to its elements as: business strategy, mission and vision of the organisation, and to the organisation’s policy. As a result of measuring the cost of time, money and human resources needed to achieve a certain outcome, this analysis provides the grounds for economically sound investments. With this type of analysis one should recognize the common use of all products or services on a given market, which is the difference between the total market potential and the actual current use by all market users.

SWOT-analysis combines analysis of the external and internal environment of the organisation. The internal environment characterizes the strengths and weaknesses of an organisation, while the external environment characterizes the impacts on an organisation – the opportunities and threats arising from outside. It is used in business planning, competitive assessment, product and services development, conducting research. In carrying out the analysis it is necessary to consider the following categories and questions:

1. Product (What will we sell?)
2. Process (How will it be produced and sold?)
3. Customer (To whom will it be sold?)
4. Distribution (How will it work?)
5. Finance (What are the costs and the necessary investments?)
6. Administration (How shall we manage all this?)
7. Distribution of the activities within the team (Who will do what?).

The founder of SWOT analysis is Albert Humphrey, an American consultant in business management. In a series of studies conducted in the '60s–70s of the 20th century the scientist was involved in creating the predecessor of the current SWOT analysis. Early authors called it SOFT, an acronym of "Satisfactory" (meeting the present needs), "Opportunity" (future opportunities for the organisation), "Fault" (error at present) and "Threat" (future threats to the functioning of the organisation). In 1964 at a seminar on long-term planning in Zurich, Switzerland, "the W" ("Weaknesses") replaced "F" in the abbreviation and the analysis started to be referred as SWOT analysis.

SWOT analysis is a subjective evaluation of data and the matrix of SWOT analysis is presented as a matrix consisting of four quadrants:

- "Strengths" (S) are determined as organisational capabilities, competitive advantages or available resources that can be used;
- "Weaknesses" (W) are defined as the absence of skills, low on levels of competence, weaknesses, shortcomings or lack of resources;
- "Opportunities" (O) are represented as situations in which external benefits are absolutely clear and there is a great opportunity to realise if an organisation take certain actions;
- "Threats" (T) are represented as situations that lead to potentially harmful to the organisation external events and results if appropriate actions are not taken.

Strengths	Weaknesses
• presence of competitive advantages • presence of necessary resources • good reputation • sufficient experience, knowledge, information, skills and competencies • good marketing • innovative aspects • good market positioning • reasonable price, reliability and quality of the offered product or service • ethics and commitment to society and protecting the environment • usage of reliable IT • strong organisational culture • good management and continuity	• lack of competitive advantages • lack of resources • disrepute • gaps in skills and competencies • insufficient marketing • insufficient innovation • poor market positioning • price unacceptable for the consumers, reliability and quality of the offered product or service • insufficient demonstration of commitment to society and environment protection • usage of unreliable IT • weak organisational culture • inadequate management and lack of continuity
Opportunities	**Threats**
• favourable political effects and legislation • vulnerability of competitors • new technologies and innovations • creating new markets • high market demand • presence of contracts and partnerships • access to information and research • sustainable needs and tastes of customers; • favourable demographic, economic, and social trends.	• adverse political effects and legislation • good positions of competitors • new technologies and innovations • markets not allowing new entrants • weak market demand • lack of contracts and partnerships • lack of access to information and research • constantly changing needs and tastes of customers; • adverse demographic, economic, and social trends.

Table 1 SWOT analysis

Another version of the matrix indicates the intersection of those areas, thereby revealing four possible fields.

	Opportunities (O_1, ..., O_n)	Threats (T_1, ..., T_n)
Strengths (S_1, ..., S_n)	The organisation should use factors and trends in this field to grow up.	The organisation should use its strengths to overcome the threats of the environment.
Weaknesses (W_1, ..., W_n)	The organisation should look for ways to turn the weaknesses to strengths.	The organisation cannot overcome the threats without having to make changes.

Table 2 SWOT Matrix

Due to its conceptual simplicity SWOT analysis is easy to apply and because of this is often incorrectly used. It is appropriate to use the analysis in the following cases:

- when performing factor analysis of the environment;
- when preparing alternatives of strategies;
- when performing factor analysis of competition and competitive intelligence.

To avoid mistakes when using the analysis and to derive maximum benefit from it, certain rules should be observed.

Rule 1. The scope of any SWOT analysis should be carefully defined. Companies often conduct joint analysis covering their entire business. Most likely, this analysis will be too general and useless if a company is interested in the condition of specific markets and segments. The analysis should be focused on a specific market niche, customer, and competitor.

Rule 2. The strengths and weaknesses of an organisation can be regarded as such only if they are perceived in this way by the market and the customers.

Rule 3. Usage of fair and diverse information.

Currently, the popularity of 3D SWOT analysis that shows different managerial situations by visualising the positive or negative factors that can affect the organisation's work is growing. Its authors are considered to be Kitts, Edvinsson and Bedding. (Kitts, Edvinsson, Bedding 2000) 3D SWOT analysis can be helpful when:

- setting goals for the organisation;
- scanning the environment;
- performing internal assessment of an organisation;

- carrying out analysis of existing strategies;
- developing new or revised strategies;
- establishing critical success factors;
- monitoring results and performing corrective action.

PEST Analysis (Political, Economic, Social, and Technological Analysis) describes the key macro-environmental factors of business organisations. Some analyses add “L”, i.e. legislation and so PEST Analysis becomes SLEPT analysis. In other types of analysis “E” is added, i.e. environmental factors, and thus the analysis is transformed into PESTEL or PESTLE. (Oxford University Press 2007)

The model can be extended to STEEPLE and STEEPLED, adding education and demographic factors. Whatever its form is, the analysis is a useful strategic tool for the study of environmental factors, the market, the competition, the position of business, the potential and trends of organisation development.

The main political factors that this analysis examines are:

- political situation in the country;
- loyalty to the authorities;
- protectionism in the sector;
- presence of administrative barriers;
- property rights;
- government procurement;
- decisions to grant subsidies;
- priorities in terms of business, etc.

The Economic factors are:

- market dynamics;
- inflation and unemployment;
- interest rate and foreign exchange rates;
- investment and tax policies;
- policy on wages and prices;
- economic situation in the region;
- levels of income;
- economic growth of the country and industry;
- barriers to foreign trade;
- customs policy.

Social and demographic factors include a number of factors that affect the company as:

- sex and age structure of the population;
- average income and cost of living;
- cultural environment and moral values;
- religion;
- level of education;
- attitudes to career;
- groups in risk.

Technological factors include the following components:

- new production technologies;
- new information technologies;
- new standards for equipment;
- new products;
- scientific and technical achievements.

Environmental factors include different environmental issues such as climate change, water quality, soil, air, flora and fauna, usage of minerals, etc. The increasing desire of society and business to protect the environment influences many industries, and aims at transition to production and consumption of environmentally friendly products.

The legislation includes tax policy, labour law, environmental law, trade restrictions, tariffs, various national and international laws and regulations relating to the operation of businesses. Different categories of law include: consumer laws designed to protect consumers against unfair practices employed by the manufacturer; competition laws that are aimed at protecting small business units; employment laws that exist for the protection of employees against managers' abuse of power; legislation aimed at ensuring health and safety at the workplace, etc.

Table 3 PEST Matrix

Political factors	Economic factors
• national legislation • international law • regulatory bodies and processes • government policy • trade policies • financing, subsidies and initiatives • lobbying and pressure groups • international pressure groups • wars and conflicts	• economic situation • taxation • market and trade cycles • specific factors of the industry • consumers • interest and exchange rates • inflation • international commerce • monetary affairs
Social factors	**Technological factors**
• lifestyle • demographic trends • consumer attitudes and opinions • media • fashion and role models • important events and influences • ethnic and religious factors • advertising and promotion • ethical issues	• technological development • research funding • associated and dependent technologies • production capacity • information and communications • innovation potential • intellectual property • global communications

The analyses of business environment can be combined in the so-called Content Analysis**.** This is a method of environment analysis which includes: defining the market (specific description of the market in which an organisation operates), an analysis of the external environment, and analysis of the internal environment of the organisation. On this basis, a strategic plan of the organisation can be prepared in order to facilitate a decision on the selection of an action strategy.

3 COMPETITION AND COMPETITIVE ADVANTAGES

The term “competition” comes from the Latin word “competitio”, meaning rivalry, competition, racing and running to the goal. In a broad sense, as competition is understood as rivalry between market players in which each participant seeks to realise its interests, regardless of the other participants. A perfect competition is a market structure which is characterized by a large number of participants who cannot influence the prices on their own; free market entry and exit; all participants in the market have information about prices and products. It actually does not exist.

Competitiveness is associated with certain characteristics of business units which allow them to compete effectively with other business units. It shows their ability to meet the needs of the population more effectively than competing products or services. The product is considered more competitive, the higher the consumer value expressed as the quality of a product, and the more needs it satisfies, and the lower the cost of production is.

A useful technique for analysing competitors is building a rival array, in which the scope and nature of industry, as well as the market segment are defined, and on that basis the number and main characteristics of the competitors are determined.

Another technique for analysing the competition is to create profiles of leading, or possibly all, competitors in a given market. Profiling can reveal weaknesses in strategic rivals, which the company can use. Profiles can include:

- general information on location, branches and online presence; history – key figures, dates, events and trends; ownership and management; organisational structure.
- financial information on financial performance, dividend policy, profitability, liquidity, cash flows.
- products, including offered products and services; depth and breadth of product line; balance of product portfolio; existing and developed new products; owned patents and licenses.
- marketing and logistics, including market shares, customer base, brand loyalty and brand awareness, promotions, advertising, distribution channels, price concessions.
- facilities and capacity, including owned buildings, machinery and equipment; depreciation of facilities; production capacity.
- staff policy, including number of employees; key employees; basic skills and qualifications; leadership and management style; payment and additional financial incentives, ethics and organisational culture.
- corporate strategies, including declaration of goals, mission, vision, growth plans; investments; compliance with environmental standards and conducting socially responsible policies.

The competitive advantages of the organisation are defined as a significant advantage of the company compared to other competitors. As part of the most typical innovations which provide competitive advantage, Michael Porter points out new technologies, new or changed needs, consumer tastes and emergence of a new market segment. Three strategies of competitive advantages can be found according to him. The first strategy is called "leadership in costs" when the organisation aims to achieve the lowest production cost, which should lead to price advantages over other competitors in the market. The main sources of price advantages are:

- sustainable development of the company based on experience;
- implementation of economies of scale;
- reducing the unit cost of production and increase in labour productivity;
- integrating distribution networks and supply chains;
- geographical location of the company which allows reducing costs.

The second strategy for realising the competitive advantages is called by the author "differentiation strategy", when the company is trying to make the product something distinctive and unusual, for which the buyer is willing to pay even higher prices.

The third strategy that the company can use to create a competitive advantage is to focus on the specific interests of consumers, i.e. to seize a market niche. In this case, the company creates products designed for specific customers with a focus on meeting the specific needs of certain individuals or groups.

In an analysis of competition the model of Porter's five forces, established in 1979, is often used. According to the model, competition is a function of five competitive forces: intensity of the rivalry, threat of new competitors, power of suppliers, power of customers, and potential substitutes of products and services. (Porter 2008) Companies can regulate the ratio of these five forces to adapt their strengths and weaknesses to the market and to create a dominant position.

The intensity of the rivalry is great when there are numerous competitors in an industry or a market; production costs of competitors is low; losses of leaving businesses are larger than remaining in it; there is a great variety in goods and services.

Threats from new competitors in the business can be represented indirectly by barriers to enter a market. These barriers can be shown by a curve of experience (i.e. new organisations cannot produce as efficiently as already established organisations); loyalty of the consumer to a producer; requirements to the amount of capital entering the industry; high production costs; possession of access to distribution channels, government actions and policies aimed at restricting market access.

Providers have a strong position when the resources that they supply are important for business organisations; when the resources are unique; there are no substitutes for the competitive product or service; customers are numerous; the cost of transferring customers to a new supplier are high.

Consumers have a strong position when they are fewer; their purchases represent a significant percentage of total sales for that business unit; the industry is represented by multiple vendors; users can find other sellers and turn to them at no additional cost; the product is inessential for consumers; it is economically feasible for consumers to buy from different vendors instead of one; there are plenty of possible substitutes for the product.

Substitutes are goods or services that have the same customer value and satisfy the same needs. The threat of them depends on indicators related to price, the cost of transferring customers to other products and the need for users to use substitutes. The threat of substitute products is high when:

- there are plenty of substitute products;
- the cost of switching to substitute products is low;
- the quality of the substitute is better;
- the substitute product is cheaper;
- there is a tendency in the market and among consumers to use substitutes;
- accessibility of substitutes is higher.

In 1985 in "Competitive Advantage" Michael Porter describes the so-called "value chain" or "chain of added value" which presents itself as consisting of two types of production activities – main and additional. The main production activities in the business unit include internal and external logistics, processing, marketing and sales support. Additional activities are directed to support primary lines of business and cover management, technological development, research and development, human resource management and corporate infrastructure. The differences between the value chains of the various business units and creation of products whose value to the consumer exceed production costs are a source of competitive advantage. Referred to a particular industry, the "value chain" links organisations and describes the synergistic effect of joint activities between them by offering added value of all actions that they take together.

The concept of National Diamond, which is used to analyse the competitiveness of enterprises in a national market, as well as analysis of the very national markets and the ability of individual national companies to compete in the international market also belongs to Michael Porter. Initially, it examines four elements which are a prerequisite for competitiveness. These factors are conditions (e.g. ownership of local resources and raw materials and skilled labour), related and supporting industries (e.g. clusters), domestic demand and competition. Competition plays an important role in promoting innovation and building competitive advantages. To these elements Porter added the role of the government, which according to him is a catalyst for the possibility of business units to move to higher levels of competitiveness and stimulate local rivalry.

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BASIC GOALS, MISSION AND VISION OF AN ORGANISATION. ETHICAL STANDARDS

Every organisation is created with a goal, which is a specific, conscious, expected result in terms of what, how and when the organisation is to achieve in fulfilling its mission and vision. The chapter presents basic goals, mission and vision of an organisation, the concept of social responsibility and business ethical standards.

1 BASIC GOALS, MISSION AND VISION

Every organisation is created with a goal, which is a specific, conscious, expected result in terms of what, how and when the organisation is to achieve in fulfilling its mission and vision. The most popular classification of goals divides them into: strategic goals (they provide the existence, development and prosperity of the organisation and have a long-lasting effect consistent with the organisational mission and vision), tactical goals (provide achievement of individual targets of the relevant strategic goal) and operational goals (which provide specific current results and contribute to the achievement of the tactical goals). (Dimitrova, Petrova 2016)

There are several key areas in which a company defines its long-term goals:

1. Position in the market.
2. Science, technology and innovations.
3. Marketing.
4. Production.
5. Finances.
6. Management of human resources and social policy.
7. Management, influence and lobbying.
8. Ecology and corporate social responsibility.

The table below shows the matrix of the goals of an organisation.

Direction of goals	Areas
Goals oriented to the external environment of the organisation	Consumers
	Suppliers
	Competitors
	Creditors
	Local community
	Authorities
Goals oriented to the internal environment of the organisation	Managers
	Owners
	Workers

Table 1 Basic goals and their connection with the possible areas

The globalisation of business forces organisations to take into account not only national, but also international interests. The universal approach to the formulation of objectives provides the principle of creation in accordance with the level of strategic decision-making, namely the placement of: 1) general corporate objectives, respectively strategies, 2) business objectives and strategies, and 3) functional objectives and strategies that are targeted to different elements of the business. The general corporate goal indicates the main direction of activity of the organisation. Business objectives are aimed at improving the competitive position of goods and services, and functional objectives specify the actions of departments (production, marketing, finance, human resources, R&D). The corporate, business and functional strategies are prepared according to these objectives. (Dimitrova, Petrova 2016)

The formulation of strategic objectives in the form of a *mission statement* aims to inform the public about the main goal, values and trends in the actions of the organisation and allows people who work for it to become involved with its values. The mission statement should reflect what distinguishes the organisation from many other organisations which operate in a business environment. It consists of general statements of intent, philosophy and objectives of the organisation. The mission can be defined as a fundamental goal which outlines the meaning of existence of the organisation, identifies the scope of its activities in respect of the products, and the markets in which the organisation operates. The mission is the reason why the organisation exists.

The mission statement should be short, within one to a maximum of two sentences, highlighting the importance and the basic obligations of the organisation. It should convey the intentions of the organisation which relate to the social impacts of its activities. It should contain only positive emotions and information, and in this way make people willing to act. It should be attractive to consumers, staff, competitors and the whole society, and must be oriented towards satisfying consumer needs. (Dimitrova, Petrova 2016)

The mission is often a combination of the image of an organisation and its credo. The image is directed to the external environment of an organisation and is based on the current reputation of the business organisation on the market, as well as on the future image which it seeks to secure in the outer world. The credo is directed to the internal environment of an organisation and expresses its strategic orientation and the basic beliefs and organisational values that are reflected in organisational culture.

The mission may contain the following elements: (Dimitrova, Petrova 2016)

- name and status of the organisation;
- description of the goods and services offered by the organisation;
- target audience;
- main features of the product;
- markets and market segments;
- real benefits to the consumer;
- competitiveness of the organisation;
- used technologies and scientific achievements;
- organisational beliefs, values, rules, norms of behaviour;
- image of the organisation.

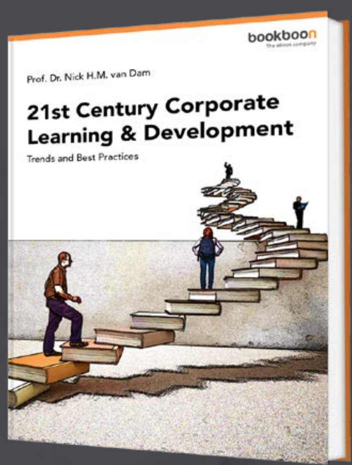
Basic guidelines Building organisational culture Compliance with the legislation Customer satisfaction
Strategic goal Expansion Development Improving business Identification of the organisation in the external environment
National idea Features of the national mentality Aspects of national pride
Promotion Image Branding Providing priority to the interests of employees, customers and partners
Own view of itself Human resources potential Motivation Uniqueness
Values adopted by the organisation Moral code Ethical and aesthetic standards Responsibility for the environment Traditions and legends

Employees identifying with the organisation Co-decision Conflict Management Teamwork Possibility of realizing the potential of employees
Meeting the needs of staff Quality of work life Education and career Support and relief

Table 2 Guidelines for building an organisation's mission statement

The mission statement of an organisation must include:

- the reason for the existence of the organisation, the needs that it satisfies and the products it offers;
- the competitive position it occupies and its distinctive competencies;
- its values, i.e. what people in the organisation believe in;
- the standards and patterns of behaviour which are typical of the organisation and maintain its distinctive capabilities and competencies.



Below are some examples for the mission of various business companies.

Microsoft

At Microsoft, our mission is to enable people and businesses throughout the world to realize their full potential. We consider our mission statement a promise to our customers. We deliver on that promise by striving to create technology that is accessible to everyone-regardless of age or ability. Microsoft's mission is to enable people and businesses throughout the world to realize their full potential. (Microsoft 2015)

Facebook

Founded in 2004, Facebook's mission is to give people the power to share and make the world more open and connected. People use Facebook to stay connected with friends and family, to discover what is going on in the world, and to share and express what matters to them. (Facebook 2015)

Google

Since the beginning, we have focused on providing the best user experience possible. Whether we are designing a new Internet browser or a new tweak to the look of the homepage, we take great care to ensure that they will ultimately serve you, rather than our own internal goal or bottom line. (Google 2015)

Dell

Our mission is to be the most successful IT systems company in the world by delivering the best customer experience in all markets we serve. In doing so, Dell will meet customer expectations of: (Dell, 2015)

- highest quality
- leading technology
- competitive pricing
- individual and company accountability
- best-in-class service and support
- flexible customisation capability
- superior corporate citizenship.

While a mission declares the main goal of an organisation, *a vision* outlines what the organisation wants to be. An effective vision presents a clear and accurate picture of the future and reflects the realistic aspirations of the organisation. It is memorable and aligned with the organisational values and culture. The vision is a strategic plan for the desired future state of the organisation. The mission and vision are sensitive to changes in the environment, as a result of which they can occasionally be redesigned and improved. (Velichkov 2008)

The vision of an organisation is a figurative representation of the meaning and prospects of the organisation which explains and shows to all employees and the public what the organisation should be like.

Below are some examples for the vision of a number of organisations.

Microsoft

Our vision is to create innovative technology that is accessible to everyone and that adapts to each person's needs. Accessible technology eliminates barriers for people with disabilities and it enables individuals to take full advantage of their capabilities. (Microsoft 2015)

Bill Gates, Chairman, Microsoft Corporation

Facebook

People use Facebook to stay connected with friends and family, to discover what's going on in the world, and to share and express what matters to them. (About.com 2015)

Nestlé

Each day we strive to make our products tastier and healthier choices that help consumers care for themselves and their families. This would not be possible without our unmatched R & D capability, nutrition science and passion for quality in everything we do. (Nestle 2015)

McDonald's

To be our customers' favourite place and way to eat and drink. (McDonald's 2015)

Disney Company

To be a top 10 brand within every market we operate in across Europe, Middle East and Africa delivering one vision and one voice to consumers and customers. (Disney 2015)

The basic goal, objectives, mission and vision of an organisation should be in compliance with the established organisational culture. *Organisational culture* outlines the organisation's boundaries, keeps its history, and represents its genetic code. Organisational culture builds and maintains the necessary distribution and balance of power and influence between the positions, informal roles and their performers. It integrates individuals, socialises them and gives them opportunity to meet the need for communication and sharing of knowledge and experience, forms a sense of identity, educates and motivates the staff and increases the system stability.

2 ORGANISATIONAL CULTURE AND ETHICAL STANDARDS

By means of a functioning system of values, norms and rules, leaders involve their associates and employees into desirable behaviour patterns, and require the conformity with the appropriate behaviour. Many organisations foster the creation of internal regulatory framework in this respect, which includes regulations, codes of ethics and standards for organisational culture. This framework may specify the requirements for the appropriate behaviour of all staff in relation to certain areas of concern.

In a broad sense, **culture** is all that is made by or with the help of a man. With the development of human civilisation, human culture has also evolved. A component of culture is the way of life of the individual whose foundations are determined by the social environment and presented in the form of objective conditions for life and activity, and as different rules. In the ’80s of 20th century, it was determined that the problem of creating and developing organisational culture was of major importance to the functioning of an organisation. Today, it is considered that all organisational problems are related to the culture of an organisation, i.e. they are in connection with the values shared by its members.

Traditionally, **organisational culture** is defined as a set of the following elements: 1) beliefs – deeply rooted truths, formed by national values and beliefs that are different for different cultures, which have shaped people's values, 2) values – social principles, goals or standards of an organisation and its members that build the value system of the organisation, 3) conventional wisdom – shared statements in terms of maxims, axioms, stories, tales, legends, aphorisms, 4) norms, 5) traditions and customs.

It is believed that Andrew Pettigrew first used the term "organisational culture" in 1976. (Pettigrew 1976)

In 1989, Deshpande and Webster analysed over 100 monographs, studies and articles on sociology and organisational behaviour and concluded that organisational culture could not be characterised otherwise except as: a model of shared values and beliefs that help people to understand the functioning of an organisation and thus to adopt the appropriate standards of conduct in the organisational structure. (Deshpande 1993)

According to Hill and Jones, organisational culture is defined as a set of values and norms that are shared by people and groups in an organisation and control the interaction between them. The definition explains the concept of organisational values as "beliefs and ideas about what goals organisational members should set, and the standards of conduct that must be followed to achieve these goals." (Hill 2001)

The US Centre for Analysis of Management defines culture as the emotional connection of organisational unification. Culture is the beliefs and expectations that members of the organisation share. These hopes and expectations produce rules that form the individual and group behaviour in the organisation.

The overall perception of the essence of organisational culture is supported by the understanding that culture is:

- Something which all or almost all members of different social groups share;
- Something that the older members of a group are trying to convey to younger members;
- Anything (morals, laws, customs) which forms the behaviour or structure of individuals' worldview. (Adler 1986)

The formation of organisational culture is a consequence of the creation of the universal, national and individual culture. The region of its creation, gender, race, religion, ethnicity, environmental factors, etc. influence it.

Back in 1776, Adam Smith stated that businesses were required to report to the public. Regardless of its nature, which is starting a company in order to generate profits with minimum inputs, it is bound to be ethical for two reasons at least: first, because whatever its field of activity is, it involves various stakeholders, and secondly, because the business can choose the form of behaviour (moral or otherwise) and needs to be responsible for this choice. (Smith 1776)

Social responsibility is a type of behaviour which is a reaction to the currently prevailing social norms, activities, values and expected results. It goes beyond the law and means assuming public duties by an organisation beyond the requirements of the law. Decision making executives should take into account the interests of the society, the organisation and the individuals in it. Corporate Social Responsibility is a term which characterises the ethical rights and obligations existing between companies and society. Its main aspects are moral relationships between the company and its shareholders, ethical problems among companies, ethical problems between companies and the society (such as hostile takeovers, industrial espionage, abuse of corporate policies, etc.).

Various internal and external groups are interested in the socially responsible actions of organisations. Some internal beneficiaries are staff, executives, shareholders, and owners. Examples for interested external parties are: society, governmental and non-governmental sector, the production sector, and the market as an economic category with the economic entities operating in it. Specific external recipients may be different individuals and groups at risk, such as minority and ethnic groups, adults and children with physical and mental disabilities, victims of violence, women over a certain age, pregnant women, mothers with children, young people.

Google – Our culture

Really, the people make Google the kind of company it is. We hire people who are smart and determined, and we favour ability over experience. Although Googlers share common goals and visions for the company, and speak dozens of languages, reflecting the global audience that we serve. In addition, when not at work, Googlers pursue interests ranging from cycling to beekeeping, from frisbee to foxtrot. We strive to maintain the open culture often associated with startups, in which everyone is a hands-on contributor and feels comfortable sharing ideas and opinions. In our weekly all-hands meetings – not to mention over email or in the cafe – Googlers ask questions directly to Larry, Sergey and other execs about any number of company issues. Our offices and cafes are designed to encourage interactions between Googlers within and across teams, and to spark conversation about work as well as play. (Google 2015)

Microsoft's Accessibility

Microsoft recognizes and values the capabilities and contributions of all people-including those with disabilities. We are a more successful company because of our efforts to recruit and employ top quality people including those who happen to have disabilities. Moreover, we recognize that our employees with disabilities make an added contribution by helping us reach a broader market for our products. Microsoft understands that accommodating and enabling employees to perform the necessary functions of their jobs ultimately enhances our ability to develop great products and services for everyone. Microsoft provides ergonomic hardware and assistive technology consultation so employees can be productive, comfortable, and injury-free at work. At Microsoft, accessibility is a business practice. Accessibility is part of Microsoft's Trustworthy Computing efforts, which focus on integrity and responsibility in our business practices. Microsoft recognizes that trust in computer technology is directly related to trust in the technology industry. (Microsoft 2015)

The strategy for corporate social responsibility of the organisation may include items such as: (Dimitrova, Petrova 2016)

1) Ownership rights over the material, financial and intangible resources, such as ideas, thoughts, information, and innovation.
2) Ethics of financial management, including: ban on the use of double-entry bookkeeping and misleading financial analysis, ban on insider information, securities fraud, currency fraud, prohibition of various corrupt practices, etc.
3) Ethics of human resources management including: prohibition of discrimination based on age, sex, race, religion, physical and mental performance, weight and attractiveness; ban on the application of mental and physical harassment; employee privacy; safety and healthy working conditions; ethics in employees' appointment and dismissal; fair treatment and fair wages of the workforce, etc.
4) Ethics of marketing, including requirements for transparency of the source of labour, environmental risks, transparency regarding the ingredients used in the products, appropriate labelling, truthfulness and authenticity of promotional offers, etc.
5) Ethics of production, including: the company's commitment to ensure that the products and services that are produced and the production processes that are applied do not harm the environment and the consumer.
6) International business ethics, including: search of universal values, combining the value systems of individual nations and communities; international business conduct; comparing of business traditions in relation to ethics and social responsibility in various countries, nations, religions; review and attempt to resolve the ethical problems arising from international transactions, globalisation of the economy, cultural exchanges between countries, implementation of global standards, etc.

Business ethics is a form of applied professional ethics that examines ethical principles and moral issues which arise in business environment. It covers all aspects of business behaviour of individuals and business companies. The scope and amount of ethical issues related to businesses reflects the extent to which they are in contradiction with certain economic, social, cultural, educational, environmental and other values of society.

Historically, the interest in business ethics increased considerably in the '80s and '90s of the 20th century. Today, from the smallest business unit to the largest businesses emphasis is put on the commitment to promote the dissemination of economic, social and environmentally oriented values, preparation and observance of ethics and social charters. In the 20th century the need for a study of the problem related to business ethics emerged because of a number of amoral business practices on a global scale.

Many companies have formulated internal policies pertaining to the ethical conduct of their employees as part of more comprehensive programs to apply business ethics in practice. These policies may vary from a corporate statement on ethics to corporate codes of conduct requiring specific behaviour. Thus, organisations focus on the continued commitment to socially responsible citizenship and ethical relationships not only in business but also in the kind of sustained commitment to society. Companies focus their **ethical codes** mainly on the following areas: customers, partners, employees, communities and minimising the negative impact of business on the environment.

In regard to **customers**, the focus is on the production of high quality products, the participation of clients in the development and manufacture of products, support for the use of the product, providing product updates, answering customers' questions, providing technical support, ensuring the security of financial transactions, customer databases, trade secrets, business strategies, intellectual property and other important assets owned by the customer.

In regard to **employees**, the focus is on the implementation of flexible working hours, health care plans and programmes, promoting balance between work and personal life, practices and policies that promote diversity at the workplace, organisational culture based on honour and tolerance. Employees can have access to health advice and counselling on topics such as marriage, stress, drugs and alcohol, financial assistance, legal advice, tax advice, retirement, etc. The employees should express their ideas or concerns freely and openly.

Partners can be provided with a wide range of incentives, discounts and marketing tools to accelerate business and revenue growth.

In regard to the **public**, corporate responsibility actions can take the form of donations of time and money for education, social activities and health care, initiatives related to environmental protection, financial grants for non-profit organisations throughout the world, supporting risk community groups with donations in kind such as books, school supplies, technology products, security products, money and time.

In terms of **environmental protection**, the ethical code should be focused on supporting healthy and sustainable environment through recycling, reducing the use of electricity, removing harmful materials in products, promotion of green initiatives, employees' donations of time for conducting ecological cleaning projects, and implementing energy-saving programmes.

Usually, ethical codes contain a list of offenses that can result in disciplinary action such as:

1. Falsification of documents which belong to the company and its customers;
2. Disclosure of information about the company;
3. Signature forgery;
4. Violation of legislation on corruption;
5. Violation of any published policy of the company;
6. Misappropriation of trade secrets of the company or incorrect processing of confidential information;
7. Use of company resources and assets for personal gain (including employees' time and effort);
8. Coercion, discrimination or harassment of other employees;
9. Non-compliance with safety rules at work;
10. Violation of corporate security;
11. Violation of the code of conduct;
12. Conflict of interest when individuals receive improper personal benefits as a result of their positions;
13. Other disloyal actions and initiatives.

The anti-corruption policy included in the codes of ethics prohibits the acceptance of a bribe by the management and employees of the company and the offer of a bribe, directly or indirectly, to a government employee or a member of a government employee's family with the purpose of obtaining or retaining a business or ensuring a competitive advantage over a competitor. All employees and partners should undergo a training on compliance with anti-corruption practices.

In cases of a violation of the ethical code, each employee is expected to report directly to the supervisor, to the Human Resources department, to representatives of the internal audit, to representatives of the Legal Department and other authorised executives. All reports should be taken seriously, whether they are anonymous or not, and any kind of discrimination, harassment or retaliation against the person who provides information on violations of the code of ethics is usually prohibited.

The Walt Disney Company incorporates best-in-class business standards as a key pillar of its business practices.

Compliance training, including training regarding the Company's Standards of Business Conduct and ethics, is provided to employees and Cast Members worldwide through the Company's learning management system known as Disney Development Connection. It is the Company's intent, through its compliance training, to ensure that all of its employees and Cast Members have the knowledge and training to act ethically and legally, in compliance with the Company's Standards of Business Conduct.

It is the policy of The Walt Disney Company to provide equal opportunity for all employees and applicants for employment without regard to race, religion, color, sex, sexual orientation, gender identity, national origin, age, marital status, covered veteran status, mental or physical disability, pregnancy, or any other basis prohibited by state or federal law. This policy extends, but is not limited, to recruitment and employment, promotion, demotion, transfer, layoff, termination, rate of pay and other forms of compensation, education, and training.

Disney – Our Commitment to the Community

We are dedicated to delivering quality products and services and cooperating with community leaders and members throughout the world to benefit local communities.

We are committed to the protection of the environment and the conservation of natural resources. (Disney 2015)

In their code of ethics, companies aim to introduce ethical principles by which to carry out business activities with shareholders, employees, customers, partners, distributors, suppliers, local communities and governments. These principles should be applied by all directors and employees. All violations of laws, regulations and rules may lead to individual liability for the offender, and disciplinary sanctions. Programs for introducing organisational ethics consist of different elements, such as training of all employees on ethics and social responsibility, and sharing ethical best practices inside and outside of the company.

Typical business objectives of organisations are realizing higher profits, increasing market share and cash flow. However, more and more businesses focus on areas such as contribution to the community and support to reduce the negative impacts on the environment. In recent years, there has been growing interest of organisations, their customers, employees and partners in corporate social responsibility. It focuses on the role of business as part of society and includes: (Dimitrova, Petrova 2016)

- minimizing the adverse impact of the organisational activities on the environment;
- providing good quality of working life of the employees;
- providing balance between personal life and professional development;
- investment in the development of local communities;
- supporting disadvantaged groups, etc.

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STRATEGIC MARKET ANALYSIS

The chapter presents different concepts of strategic analysis, market assessment and selection of strategy, including some traditional models for strategic market analysis and analysis of the portfolio of an organisation.

1 TRADITIONAL MODELS FOR STRATEGIC MARKET ANALYSIS

Different concepts of strategic analysis, market assessment and selection of strategy can be pointed as traditional. The most famous of them have been written by Andrews (well-known as the creator of the SWOT-analysis), Porter (the creator of the Model of Five Competitive Forces), Hamel and Prahalad (creators of the model for core competencies of the organisation, based on the organisation's ability to create and offer a unique product or service that would provide leadership position for the organisation at the market).

Prof. Subhash, a lecturer at the University of Connecticut, is the author of the concept of **3 Cs Analysis**. According to the concept, the main goal of the marketing strategy is the company's favourable positioning, in comparison with its competitors, based on various advantages including better quality of the service provided to the client,. Together, the three Cs, which stand for company, customer and competitor, underlie every strategy of an organisation.

Michael Tracey, a lecturer at the MIT Sloan Business School, and Fred Virsema, a lecturer at Harvard Business School, are the authors of the most popular publications in the field of strategic management and marketing. They are the authors of the strategic **concept of the three criteria** (Tracy,Virsema 2007). in which they suggest that the organisational strategic management should be focused on one of the following criteria: providing competitive prices and establishing relations of loyalty and trust with customers, improving the product, and innovating.

Authors of the **concept of opportunity evaluation** are Roger Kerin from the University of Minnesota and Robert Peterson from the University of Kent. The basic task of this model is to evaluate the correlation between the attractiveness of new opportunities for the organisation and the company's ability to occupy and control a niche in a specific market.

The **concept of the product life cycle** is another method of strategic analysis and assessment of the market**.** Theodore Levitt founded it in 1965. According to the concept, the four stages in the life of every product and service can be distinguished as follows: 1) introduction, 2) growth, 3) maturity and 4) decline or downturn. Each stage is characterised by different volumes of production and generated profit. There are different strategies for economic behaviour of the organisation depending on the stage of its products' life cycle. The life of each product is limited, but it can be extended using strategies as: identifying new customers and new customers'needs, initiating new ways of product use, forcing existing customers to increase consumption.

Introduction. The first stage of the product life cycle begins with introduction of the new product on the market. Initially, a profit for the organisation is not available at the beginning of this stage because the cost of production and product improvement are high.

		Cost of promotion	
		High	Low
Product price	High	Quick cream-skimming	Slow cream-skimming
	Low	Quick market penetration	Slow market penetration

Table 1 Strategies for Introducing a New Product to the Market

Growth is the period of acceptance of a product by the market and is characterised by a rapid growth in sales and profits, and expanding organisational market share. Strategies aimed at maintaining the market growth are:

1. Improving product quality and design
2. Adding new product properties
3. Adding new and related products to the product line of the company
4. Entering new market segments
5. Increasing distribution coverage
6. Advertising the products
7. Reducing prices to attract more buyers.

Products enter at the stage of maturity when the sales growth rate begins to decline. At this stage, the competition is intensive and all organisations try to find new market niches. Companies are forced to reduce prices, and because of constant or higher costs of promotion and advertising, the profit decreases. At the second stage the possible product strategies are: modification of the market by increasing the number of users and the frequency with which they buy products; modification of the product by improving product quality, and modification of elements of the marketing mix.

At the last stage of the product life cycle, which can be defined as decline or downturn, the sales of most products begin to drop. New strong competitors join the market. Possible strategies at this stage are: reduction of investment, finding more profitable market niches, product withdrawal, selectively decrease of investment levels, harvest of funds, quick leaving of business.

The strategic method **Profit Impact of Market Strategy** aims at finding those strategic variables of the organisation which affect the profit most. This strategic method answers three underlying questions:

1) What is the usual profit rate for each type of business?
2) What could the future performance of an organisation be according to its current strategies?
3) What are the strategies that can help to improve the future performance of the company?

Senior managers of General Electric, who want to know why some of their business units are more profitable than others, initiated this method. They started a research project in which each of their strategic business units provided information about certain elements of its activity. The survey, conducted between 1970 and 1983, involved 2.600 strategic business units from 200 companies. Today, there are over 3.811 observations of strategic business units, and the method PIMS is managed by PIMS Associates in London. Each strategic business unit provides information about the market where it operates, about the marketed products and the effectiveness of the strategies that have been implemented. 37 variables, which account for the majority of the business units' success, are mentioned in the original version of the method. (Schoeffler 1974) Some of them are:

- Strong market position
- High product quality
- Lower costs
- Lower capital investment requirements

- Market share
- Product design
- Intensity of investments
- Market growth.

Analytics and other alternative methods and approaches for analysis, market assessment and selection of strategy can be used in addition.

2 ANALYSIS OF THE PORTFOLIO OF AN ORGANISATION

The strategic portfolio of a company is a collection of relatively autonomous business units belonging to one owner. The portfolio analysis is a tool through which the company management identifies and assesses its economic activities in order to invest in the most profitable and promising areas and to reduce or suspend investments in inefficient projects. In this type of analysis the following should be considered:

1) All activities of the company are divided into strategic business units.
2) The relative competitiveness of different business units and perspectives for their markets should be determined.
3) Appropriate portfolio matrix should be established and analysed.
4) A strategy is created for each business unit, and business units with similar activities are combined into homogeneous groups for which similar strategies are selected.

A variety of approaches can be used in strategic analysis and assessment of environment, as well as in the choice of a business strategy. The most famous are the following matrices:

- Ansoff/Abel Matrix
- Boston Consulting Group Matrix
- General Electric-McKinsey Matrix
- Arthur Little Matrix
- Shell Matrix
- Hofer-Schendel Matrix.

Ansoff Matrix

The Ansoff Matrix indicates the relation between product and market in two ways – new products and markets and existing products and markets. (Ansof 1957)

Below are some recommendations for choosing the right strategy in four different situations:

1. **Existing product/Existing market.** The strategy for market penetration targets to expand markets and attract new customer groups. If a company chooses this strategic direction, it needs to focus its activities on attracting new users, improving product quality, improving services quality, using trade discounts, and using competitors' gaps.

2. **Existing product/New market.** The strategy for market development relies on the expansion of sales and aims at increasing or extending the product's and enterprise's life cycle. It aims at finding new market segments and a more thorough development of the market.
3. **New product/Existing market.** The strategy for product development focuses on the creation of new products (services) or modification of existing ones. In this case, the company looks for additional market niches in well-known and existing markets and tries to comply with the needs of existing customers.
4. **New product/New market.** The strategy of diversification aims at acquiring new markets with new products or diversified products. The strategy is a process of diversification, i.e. expansion and enrichment of the product portfolio.

Ansoff Matrix	Existing market	New market
Existing product	1. Strategy for market penetration	2. Strategy for market development
New product	3. Strategy for product development	4. Strategy for product diversification

Table 2 Ansoff Matrix (Ansof 1957)

The Ansoff matrix for strategic analysis is simple and easy to use, but it only has two characteristics. Derek Abel, the President of the European School of Management and Technology, tried to remove the gaps in the model proposed by Igor Ansoff by suggesting that businesses should be evaluated in three dimensions: customer groups, customer needs, and technologies used in the design and manufacture of a product.

Boston Consulting Group Matrix (BCG Matrix)

By using the principles of portfolio analysis, the Boston Consulting Group developed a matrix which characterised the relationship between market growth and market share. The Boston Consulting Group (BCG) is a global organisation for management consulting with about 77 offices in 42 countries. In 2011, it was chosen for the second best consulting company in the world. The model of Boston Consulting Group was developed by Bruce Henderson in 1968. (www.bcg.com)

This matrix is based on the product life cycle in which products go through four stages of development. The products initially begin their life as Problem Children or Question Marks, then turn into Stars, go to Cash Cows position, and at the end of their life cycle become Dogs.

The matrix is a logical culmination of a research conducted by experts from the Boston Consulting Group. Organisations which produced 24 basic types of products in seven industries (electricity, consumer durable goods, nondurable goods, production of plastics, gasoline, nonferrous metals, production of electrical equipment) were studied within the research process. The study showed that the cost of the production of a single unit was reduced by 10–30% when doubling variable costs, and this trend was manifested in almost every market segment which was studied. Therefore, the variable costs of production are considered to be one of the key factors for business success when determining the competitive advantages of an organisation.

The model was affirmed quickly and has been used by more than 100 organisations since the '70s of the 20^{th} century. The matrix model has 2 axes. The horizontal axis of the matrix shows the competitive position of the business organisation, while the vertical axis shows shows the growth rate of the market. Thus, the BCG pattern is depicted as a 2×2 matrix in which business volume can be represented by circles with centres at the intersection of the coordinates of market growth and the relative value of the organisation market share. The area of the circle is proportional to the total market size.

The devision of the BCG matrix in two axes was done on purpose. The business areas related to industries with growth rates above average are situated at the top of the matrix, and the industries with growth rates below average are situated at the bottom of the matrix.

The growth rate of the market is defined as the weighted average of the growth rates of the various market segments in which the company operates, i.e. by comparing the market volume in the current and base periods which is equal to the quantity of a product sold by all organisations-sellers for a certain period of time. Market growth of 10% or more is considered high. The relative market share is determined by dividing the market share of an organisation by the market share of its greatest competitor. When the indicator takes values from 0 to 1, the market share is considered low, and when the indicator takes values above 1, the market share is considered high. Indicator value 1 means that the organisation and its greatest competitor have equal market shares.

BCG matrix		Market share	
		Low	High
Market growth	High	Problem Children or Question Marks →	Stars ↴
	Low	Dogs	← Cash Cows

Table 3 Boston Consulting Group Matrix
(Adapted by http://www.bcg.com/about_bcg/history/history_1968.aspx)

The products situated in the box with high market growth and low relative market share are defined as Problem Children or Question Marks. They can be very promising as the market is expanding, but significant resources are necessary to support their growth. The management has to make a decision to increase the market share of goods or to stop investing in them.

The products situated in the box with high market growth and high relative market share are defined as Stars. They generate bigger cash flow than the mentioned above but at the same time need significant funds to maintain the market. In such cases, due to its high growth rates the market is attractive, and the organisation is constantly rejecting competitive attacks from other organisations. The Stars turn into Cash Cows after saturation of the market.

The products situated in the box with low rate of market growth and high relative market share are defined as Cash Cows. They can bring more revenue than is needed to maintain their growth and are major source of funds for the organisation.

The products which are situated in the box with low rate of market growth and low relative market share are defined as Dogs. The main feature of these products is that they generate losses or a negligible profit. At this stage, a decision must be taken whether to continue producing the goods for some more time or to withdraw them from the market.

In 1982, Barksdale and Harris added two new categories to the Boston Consulting Group Matrix – War Horses and Dodo. The War Horses are characterised by high market share and negative market growth. They are market leaders but their cash-generating position is under threat of the negative market growth. The strategy that can be taken in this situation could be "harvest" by seeking immediate profit returns. Dodo is a position in which the product is almost extinct and has low relative market share. In such cases, the low relative market share and the negative market growth have resulted in a decrease of sold volumes.

This model shows that the product market can not grow indefinitely. All products end up as Cash Cows or Dogs. Only a diversified company with a balanced product portfolio can take advantage of its growth opportunities. Therefore, a balanced portfolio should include Stars that could provide for the future, Cash cows which should provide the money for this future growth, Question Marks to be converted into Stars with additional resources, and even Dogs which are the result of the other three categories in the final stage of the product life cycle. A balanced portfolio should mostly consist of Cash cows, and have several Stars, several Question Marks as a reserve for the future, and a few Dogs as well. The saturation with new products or Dogs can lead to financial difficulties for the business.

The main recommendations given by the Boston Consulting Group about suitable strategies for product units in different matrix positions are presented below.

Category	Possible Strategies
Stars and Problem Children or Question Marks	Invest and increase market share
Stars and Cash Cows	Keep market share
The weak Cash Cows, Dogs and Problem Children or Question Marks	"Cream-skimming", i.e. to earn profit in the short term
Dogs, Problem Children or Question Marks, War Horses and Dodo	Sale or liquidation

Table 4 Possible Strategies According to the BCG Matrix

General Electric – McKinsey Matrix

A portfolio matrix for strategic analysis, market assessment and selection strategy was developed by McKinsey company for General Electric corporation in the '70s of the 20th century. The matrix was created to improve the BCG matrix and uses the attractiveness of the industry as a broader measure than market growth. It takes into consideration the interactions between the internal and external factors that determine the attractiveness of a specific industrial sector IA (Industry Attractiveness) and the competitive position of the company CP (Competitive Position). The attractiveness of the market is beyond the control of the organisation, and the competitive position depends on the results of the company. (http://www.mckinseyquarterly.com 2012)

Dimensions	Factors for Assessment
Industry attractiveness (Y-axis)	total market volume; annual growth rate of the market; rate of return in the industry; nature and intensity of competition; technological requirements; inflationary vulnerability; impact of technology; legislation; social, political and legal conditions; environmental impact
Competitive / Business position of the organisation (X-axis)	own market share; competitors' market share; volume of own sales; offered prduct portfolio; quality of products and services; effectiveness of distribution network; training of personnel; technological advantages; own patents; owned licenses; marketing flexibility; customer loyalty; management structure; R&D; branding and promotions; distribution; costs

Table 5 GE-McKinsey Matrix Characteristics (http://www.mckinseyquarterly.com 2012)

The General Electric – McKinsey matrix, in contrast with the BCG matrix, can be applied in all stages of the life cycle of products and technologies in a variety of competitive conditions. Its 3×3 dimensions allow giving a more detailed classification of the business and to take into consideration a variety of opportunities for strategic choice. The analysed enterprises can be represented as a circle or bubbles corresponding to the sales volume which a company has on the relevant markets. Each product or service can be presented using a piechart, where the pie diameter is proportional to the volume of sales or revenue obtained by the organisation from the product. (http://www.mckinseyquarterly.com 2012)

The matrix monitors the business position of the organisation on horizontal axis and the attractiveness of the market on the vertical axis, both in in three levels: high, medium and low. If the strategic position of the business improves, it is moved from right to left in the matrix and from the bottom up. Nine quadrants are formed and divided into three strategic areas:

- Zone of winners;
- Zone of losers;
- Central area which includes different positions.

General Electric – McKinsey Matrix		Organisational competitive position		
		High	Medium	Low
Industry/ market attractiveness	High	**Invest/Grow** Protect position and invest to grow	**Invest/Grow** Invest selectively on strengths	**Hold/Manage selectively for earnings** Build selectively on strengths and overcome weaknesses
	Medium	**Invest/Grow** Build selectively Invest in most atrractive segments	**Hold/Manage selectively for earnings** Invest in profitable segments	**Divest/Harvest** Limited expansion
	Low	**Hold/Manage selectively for earnings** Protect and/or refocus	**Divest/Harvest** Protect position only in profitable segments	**Divest/Harvest** Avoid investments/ Exit market

Table 6 GE – McKinsey Matrix (http://www.mckinseyquarterly.com 2012)

Different management strategies are used for the quadrants in each zone.

Invest/Grow zone. The products which are located in these quadrants are characterised by a high degree of attractiveness and a strong market position. It is recommended to invest in them in order to keep and protect current position, invest selectively in strengths, invest in the most atrractive segments, and monitor the market development at the same time.

Hold/Manage selectively for earnings zone. The organisation applies a strategy of holding the current position or investing selectively in this area. It is recommended to invest for improving the situation in order to restore the lost position and to overcome weaknesses, to invest in profitable segments or to protect, refocus and reduce investment level in order to harvest in the future.

Divest/Harvest zone. Organisational competitive position and industry/market attractiveness are in weak positions and appropriate strategies for the quadrants can be: reduce the level of investments in order to harvest and sell the business; to target at a market or market segment in which the company can achieve a significant competitive advantage; stop investing and exit market or market segment with low attractiveness.

This matrix takes into account a large number of important factors. However, it has some drawbacks in analysing the portfolio. Among them are:

- Difficulties in determining the market boundary and scale;
- Subjective evaluations;
- Static nature of the model;
- Too general recommendations.

Arthur Little Matrix (ADL/HP Model)

The Arthur Little Matrix was designed by Arthur D. Little, a company for management consulting. It is based on two variables which reflect two sectors, formed by expert evaluation: life cycle of the industry and organisation's position in relation to competitors. The main objective of this model is to provide the management with a universal method for strategic analysis and to enable analysis of portfolio strategies for determining the reasonable diversification of the organisation at a corporate level and at the level of a particular business. (http://www.adlittle.com 2012)

It is necessary to evaluate certain variables when using the ADL model.

Competitive Business Position (X-axis)	Industry Life Cycle Stage (Y-axis)
General competitiveness Patents, licenses Production efficiency Warranty service Integration Attitude to risk	Life cycle stage Market growth Features competition Commitment to customer Stability of market share Product lines Technology development

Table 7 ADL Variables (http://www.adlittle.com 2012)

According to the ADL model, the life cycle of all technologies and products goes through several phases.

Embryonic. This is the turbulent period when several companies try to take the leading role at the market and come into competition with one another. The companies invest mainly during this stage, so profits are either negative or about zero.

Growth. This is a period when the competitors who have remained on the market reap the fruits of victory. The competitors begin to struggle to obtain a growing share of the rising income. Sales grow rapidly and generate profits, which also increase. Cash flows could still be negative or becomes positive.

Mature. This is the period when the first signs of saturation of demand appear. There is stability in purchases, although a competitive redistribution of the market can continue. The volume of sales reaches a high level followed by a delay. The profit reaches high levels to remain at the achieved level or to start to decrease, while cash flows become or remain positive.

Aging. This is a period of decline in demand (sometimes it drops to zero) and reduced consumption of the product. At this stage, buyers lose interest in the products due to new and better substitutes or because of changing their preferences. The main features of this stage are: reducing the number of competitors, narrowing the scope of the goods, decrease in sales, sharp decline in profit, and reducing cash flows. Almost all elements have a tendency to decline.

The ADL model describes the competitive position of the business in a 5-point scale.

Dominant position. There is only one representative of the business or one dominant representative. This position is often the result of quasi-monopolies or highly secured technological leadership. Such a representative of the business sets standards for the industry and controls the behaviour of all potential competitors.

Strong position. Usually a company in such a position has some advantages over competitors, so it has the opportunity to choose their strategy of behaviour without complying with them and independently of the behaviour of other companies.

Favourable position. Ususally, this position is taken by one of the leaders in less concentrated industries where all competitors are aproximately at the same level and no one is dominant.

Tenable position. A company in such a position is specialised in a particular market niche.

Weak position. This position could mean that the company has a number of serious weaknesses that prevent it from becoming a center for generating profits. This business cannot survive on its own in the industry.

The combination of four industry life cycle stages and five competitive positions forms the ADL matrix, which consists of 20 cells and offers 20 strategies.

ADL Matrix		Industry Life Cycle Stage			
		Embryonic	Growth	Mature	Aging
Competitive Position	Dominant Position	All out to push for share/Hold position	Hold position/ Hold share	Hold position/ Grow with industry	Hold position
	Strong Position	Attempt to improve position/All out to push for share	Attempt to improve position/ Push for share	Hold position/ Grow with industry	Hold position or Harvest
	Favourable Position	Selective attempt to improve position	Attempt to improve position	Find a niche and protect it	Harvest/ withdraw
	Tenable Position	Selective investment/ Push for position	Find a niche and protect it	Find a niche and hang on	Withdraw/ Abandon
	Weak Position	Improve/ Leave	Turn around / Abandon	Turn around, do changes or leave	Abandon

Table 8 ADL Matrix (http://www.adlittle.com 2012)

Arthur Little's model presents a full picture of a business portfolio with appropriate recommendations for using specific strategies and can be applied for different types of business. It involves the use of the RONA graph (Return on Net Assets), which shows the performance of the business in terms of return on net assets and level of either reinvestment of cash funds (internal redeployment) in the business or directing funds to other businesses. The graph can be useful for balancing the company product portfolio. Very low or even negative return on net assets is typical for starting businesses. Therefore, newer and weaker enterprises are subject to greater risk than those enterprises which are at a mature stage. (http://www.adlittle.com 2012)

According to this model, a balanced portfolio is one that is characterised by positive cash flow or ensures that funds generated during the stages of maturity and aging of business can be spent on the development of new products and businesses. A portfolio which consists of products and organisations only in the stages of maturity and aging has sustainable competitive positions and can achieve positive cash flow and a high rate of return in the short term, but it may have no future in the long term. A portfolio which combines products and organisations in the embryonic stage and the stage of growth has good prospects, but can realise a negative cash flow.

Shell Matrix

Another model for strategic analysis is the Directional Policy Matrix, the DPM, developed by the British-Dutch Company Shell in 1975. The Shell Matrix resembles the examined patterns of market analysis and selection of appropriate strategy, focusing on the measurement of the cash flow and return on investment. (Oxford College of Marketing 2012)

Due to the fact that traditional methods of financial forecasting are useless in the case of choosing a long-term investment strategy in fast growing and dynamic industry as the oil industry, the British-Dutch Company Shell developed its own model for strategical analysis. The Shell model uses the variables presented below to describe the competitiveness of an organisation and the attractiveness of an industry.

Variables describing the competitiveness of the company (X-axis)	Variables describing the attractiveness of the industry (Y-axis)
Market share Distribution network coverage Distribution network efficiency Technological equipment Product line Production efficiency Inventories Experience curve Product quality Research capacity Economies of scale Sales and after-sales services	Industry growth Profit margins Customers and loyalty to company's brand Competitors Technological barriers to entry into the market Contractual relations Impact of suppliers Industry influence State influence Utilization of industry capacity Interchangeability of products Prospects for development Industry image

Table 9 Shell Matrix Variables (Oxford College of Marketing 2012)

The formed 3×3 matrix presents the competitive position of the company on X-axis, and the industry attractiveness on Y-axis.

Shell Matrix	Prospects for Industry Profitability			
		High	Average	Low
Competitive Position of the Business	Weak	Doubling production or closing a business 7	Continuation of the business with caution or partial cuts 8	Out of the crisis or abandon 9
	Average	Increasing competitive advantages 4	Continuation of the business with caution 5	Partial cuts of the activity 6
	Strong	Leadership 1	Growth 2	Generating cash funds 3

Table 10 Shell Matrix (Oxford College of Marketing 2012)

A specific strategy corresponds to each of the nine cells of the matrix:

1. Leadership in business. The company has a strong competitive position in an attractive industry. A possible strategy is to continue investing in business, while the industry continues to grow.
2. Growth. The company has strong competitive positions in a moderately attractive industry. The market is growing slowly and provides a good investment return. Possible strategies are to try and keep positions and/or invest in other profitable areas of business.
3. Generating cash funds. The company has strong competitive positions in an inattractive industry. It is either a leader or one of the market leaders. A possible strategy is to make a minimum investment and to extract maximum revenue.
4. Increasing the competitive advantages. The company occupies an average competitive position in an attractive industry. A possible strategy is to invest in order to help the company move to a leading position.
5. Continuaing business with caution. The company occupies an average competitive position in an industry with an average attractiveness. It has no special advantages or additional development opportunities. The market is growing slowly and the average profit for the industry slowly declines. A possible strategy is to invest carefully and in stages.
6. Partial cuts of the activity. The company occupies an average competitive position in an inattractive industry. The company does not possess any distinctive competitive advantages and the market is characterised by low profitability. Possible strategies are to receive maximum revenue from what is left and to invest in more promising and profitable sectors.
7. Doubling production or closing business. The company has a weak competitive position in an attractive industry. Possible strategy: to invest or to get out of this business. If the organisation proves to be able to fight for a leading position in the industry, it should use the first strategy; otherwise, it should make a decision to leave the business.
8. Continuing business with caution or partial cuts in production. The company has a weak competitive position in a moderately attractive industry. Possible strategies not to make investments; the whole management should focus on the cash flow balance. It is recommended to remain in the industry as long as it is profitable.
9. Out of the crisis or abandon. The company has a weak competitive position in an inattractive industry. Possible strategies are to try to overcome the crisis or to exit the business.

The business can go through some stages in its life cycle as follows: 1) doubling of production and choosing a new area of business; 2) gaining a competitive advantage in a growing market; 3) leadership in business in a market which continues to grow; 4) growth; 5) generating funds until the market stops its development; 6) partial cuts in which the market begins to shrink, the industry's profitability decreases, and the organisation's position naturally begins to become weak.

The general organisational strategy should ensure a balance between cash surpluses and deficits through regular development of promising new companies or products which will absorb the cash surpluses generated in the mature phase of the life cycle. The strategic balance can be defined as ensuring that the stage of maturity of the business will always generate sufficient financial resources to maintain the reproductive cycle of an organisation with the purpose of investing in promising new products and businesses.

Hofer-Schendel Matrix

The **Hofer-Schendel Matrix** model defines three levels of strategy formulation: corporative level, business level and functional level. The location of each type of business is determined by the development degree of its own market and its effectiveness compared with the competitors. (Hofer, Schendel 1978)

Business Possition Variables (X-axis)	Product/Market Lifecycle Variables (Y-axis)
Relative market share Distribution network efficiency Product range Production capacity Technological equipment Production efficiency Experience curve Product quality Research capacity Competitive prices Advertising and promotion effectiveness Vertical integration Company image	Life cycle stage Market prices Market expansion Technological change Market segmentation Industry importance

Table 11 Hofer-Schendel Matrix Variables (Hofer, Schendel 1978)

Hofer-Schendel Matrix model shows the competitive position of businesses on the X-axis in four positions: strong, average, weak and bad, and the stages of market development (development, growth, maturity/saturation, and decline) are on the ordinate Y-axis. Thus, the matrix's pattern acquires 4×4 dimensions.

<table>
<tr><th colspan="2" rowspan="2">Hofer-Schendel Matrix</th><th colspan="4">Competitive position of business</th></tr>
<tr><th>Strong</th><th>Average</th><th>Weak</th><th>Bad</th></tr>
<tr><td rowspan="4">Stages of product/ market evolution</td><td>Development</td><td colspan="3">Increase market share</td><td rowspan="4">Promotion/ liquidation and refusal</td></tr>
<tr><td>Growth</td><td colspan="3">Grow</td></tr>
<tr><td>Maturity/ saturation</td><td colspan="2">Increase profits</td><td rowspan="2">Market concentration</td></tr>
<tr><td>Decline</td><td colspan="2">Assets reduction</td></tr>
</table>

Table 12 Hofer-Schendel Matrix (Hofer, Schendel 1978)

The Hofer-Schendel Matrix model recommends the strategies given below. (Hofer 1978)

Strategy for increasing the market share. The main objective of the strategy is a steady increase in the share of the respective business. The implementation of this strategy requires investing more capital, which can be done through horizontal mergers, and developing unique competitive advantages based on product characteristics, segmentation, pricing, distribution, and improved service.

Growth strategies. It is necessary to strengthen the competitive position and to invest capital intensively.

Strategy for increasing profits. Profits can be increased as a result of segmentation of the market and efficient usage of existing assets. The positive cash flow can be used for investment in other promising areas of business.

Strategy of market concentration and/or assets reduction. The aim of the strategy is to concentrate business in a particular market niche, defend it and keep it. If this is not possible, the strategy can be directed to assets reduction or discontinue of business operations.

Strategies of promotion, liquidation and refusal. The aim of the strategies is to invest if the outcome would be positive, or to receive as much funding from businesses as possible and the business unit will leave the market and look for new opportunities.

The Hofer-Schendel model can be used to analyse both the position of the particular business unit and the position and the strategies of its competitors. The model highlights the existence of three types of profitable business strategies: strategies for increasing the market share, growth strategies and strategies for increasing the profit. According to the model, the busness unit with the largest market share is the winner.

The methods of strategic analysis and assessment of the market given above do not cover the whole range of means used for strategic management but they lay the foundation for its implementation.

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FORMULATING STRATEGIES AND STRATEGIC PARTNERSHIPS

The chapter presents different types of strategies including corporate strategies, business strategies, functional strategies, operational strategies; the process of formulation strategies and the forms of strategic partnerships.

1 TYPES OF STRATEGIES

A strategy is an integrated model of actions aiming to achieve the objectives of the company, and consists of a set of rules used to determine the main directions of activities. It can be developed on several levels. The first level is a common, global corporate strategy for the organisation's activity. The second level refers to a business area and is responsible for developing and implementing strategic business areas. The third level is the functional level and is developed in individual functional areas: finance, marketing, research and development, production, human resources, etc. The fourth level is developing a strategy for the geographically remote parts of the organisation, such as its agencies, branches, and specifying in detail the functional strategies.

Therefore, strategies generally are:

- corporate strategies;
- business strategies;
- functional strategies;
- operational strategies.

A great number of business strategies have been described in the field of strategic management. Some of them are presented below.

The strategy at the **corporate level** serves as a strategic positioning of the entire business organisation. It sets out the general directions of development of its activities and focuses on the types of business that will develop according to its potential. Corporate strategies are separated into three groups depending on the position of the business organisation on the market: strategies aimed at development, strategies aimed at stabilisation and strategies aimed at the survival of the organisation. Development strategies focus on increasing sales volumes, the market share, the level of assets and other indicators of the business organisation. Stabilisation strategies try to retain occupied positions.

Survival strategies aim at elimination of unprofitable activities, leaving the unprofitable markets, implementation of remedial programs and concentration in new profitable directions.

Business strategies

The strategy *for market development* includes the sale of an existing product or service on a new market. This can be achieved by targeting new geographic areas or to new market segments.

The strategy of *product development* involves modifying the existing product or developing a new product that is very similar to the old one for the same market. Thus, the existing customers are retained and the organisation also appeals to other customers with similar tastes.

In the strategy of *concentration* the organisation's efforts are focused on the supply of a product on a market. It helps the organisation to specialize in serving particular customers in the best way.

The strategy of *innovation* differs from the rest in its motive, which is to cause obsolescence of existing products, rather than to prolong their life cycle. For example, companies producing computers continuously introduce new element base or software that replace the previous ones.

In the strategy of *horizontal integration* an organisation integrates with other organisations in the same industry, but in the strategy of *vertical integration* the organisation is directed to the acquisition or creation of other organisations which will place its product on the market, to supply materials required for its manufacture or both.

The strategy for *establishing joint ventures* creates enterprises from two or more organisations which aim at providing the necessary resources to achieve common goals, avoiding customs' or legal constraints, distributing economic risk and so on.

The strategy of *concentric diversification* represents the creation of a new product intended for a new market by using the technology and marketing organisation of the existing ones. On the other hand, in the strategy of *conglomerate diversification* the organisation creates a new product or acquires another organisation which manufactures or sells products that are not associated with its previous production.

The strategy *of saving* is selected when the organisation faces difficulties in its operation. It is related to the reduction of labour and management costs, including layoffs, as well as reducing research costs, the marketing budget, additional payments to employees, etc.

The strategy of *separation* is selected in a case when the organisation decides to sell some of its units or elements of its business due to its poor financial condition in order to raise funds which are needed for other activities.

The strategy of *liquidation* is applied in cases of an expected bankruptcy. In such cases, it is often better for the organisation to liquidate its activity and make money from selling its parts and its assets before they become fully depreciated.

The strategy of *consolidation* is the merger of approximately equal partners as a result of which a new organisation with a new name is formed, while in the strategy of *ingesting* the larger organisation acquires and integrates the business of a smaller organisation into its structure.

Vertical disintegration (*outsourcing*) is a process of refusal of integration and represents the concentration of activity on a part of elements of the value chain, while the other activities shall be submitted to independent external suppliers. *Insourcing* is a process in which the organisation starts to provide customers with additional services on its own.

A *cluster* is a geographically limited critical mass of companies that have a connection with each other, e.g. manufacture and supply complementary or similar products, services or resources, and are associated in a particular field and united by similarities and mutual additions. Some of the advantages of clustering are: co-production; joint purchasing of raw materials, machinery and equipment; jointly organised trainings; joint lobbying efforts; sharing of experiences; co-financing; technology transfer and transfer of innovation among members; joint marketing, branding, distribution and logistics; joint competition with global leaders; joint research work; joint attraction of foreign investments, etc.

Functional strategies are developed for each business unit of an organisation. They emphasise on the implementation of basic functions in the entity's activities related to production management, finance, personnel, research, marketing, trade, etc.

A *production strategy* provides rhythm, continuity, proportionality and parallelism in work.

A *financial strategy* affects the decisions about capital structure, short-term and long-term loans, the cost of capital, the amount of dividends, on the asset structure, volume of investments, etc.

A *staff strategy* affects labour relations, recruitment and evaluation of personnel, promotion and payment, qualifications, etc. Furthermore, favourable and safe working conditions should be created and maintained.

A *research strategy* is focused on conducting high-quality applied research studies. It refers to the decisions related to the development of new or improved products, technologies, systems, etc.

A *marketing strategy* is used to identify and satisfy customer needs. It focuses on diverse pricing, distribution, promotion and other strategies.

The commercial activity is inherent to all companies and is oriented towards trading goods on a competitive basis. *The trade strategy* is aimed at greater supply, better selection, better quality, and better service, more significant discounts, etc.

Operational strategies affect innovation, investment, goods prices, promotions, distribution. They are performed by the structural units of different hierarchical levels.

An *innovation strategy* affects the qualitative and quantitative changes in products, markets, technologies, equipment, organisation, management, and training.

An *investment strategy* is directly related to business growth. Companies invest in order to maintain and/or expand their positions, renew their assets, reduce production costs, protect the environment, etc.

A *stock strategy* expresses companies' aspiration to satisfy their clients' needs. It affects commodity ranges, groups, trademarks and stock units on the market.

A *pricing strategy* affects the price level of the offered goods. Pricing strategies are strongly influenced by the economic and social environment.

A *promotional strategy* serves to inform, persuade, encourage and prompt customers to buy products and services. It aims to elicit a positive response among customers, affects their interests, and the emotional message in them is directed to customers' feelings and views.

A *distribution strategy* ensures the movement of production to the users. Various distribution systems are created including networks of channels in which the goods move to the market.

When the national market does not have enough capacity to absorb the production, the penetration of foreign markets proves the only suitable alternative. International strategies can be focused on:

- Expanding the product range with new products
- Rollouts
- Adoption of new foreign products and their supply to major markets
- Transfer and licensing of technology and R&D
- Acquisition of foreign companies.

The above strategies do not exhaust all possible alternatives that are applicable. Each organisation should find suitable options and choose the most advantageous strategy.

2 FORMULATING A STRATEGY

Formulating strategies should reflect the movement in the direction from the current state to the desired future, and should help for achieving the organisational goals. The strategy identifies in detail what the organisation needs to achieve and how, and determines the guidelines and framework within which each management decision must be taken.

The strategy comprises specific sections.

1) Introduction, which includes: legal form and status of the organisation, the organisation's main activity, form of ownership, description of products/services, financial resources necessary for their production/realization, expected financial results of production/marketing of products/services

2) Description of the organisation

   - Brief information about the company, including: history of the organisation and major successes and achievements
   - General information: seat and location of the organisation, buildings, area, land (owned or rented), employees, products
   - Characteristics of the underlying assets
   - Organisational and management structure
   - Technological structure: product lines, technology and capacity, organisation of production; forms and organisation of quality control
   - Management: management structure, fundamental rights and duties, special knowledge and experience, team

3) Description

   - description of products and services
   - demand of products and services
   - distinctive qualities of products/services
   - owned patents or licenses
   - forecast for product quality, design, packaging and properties
   - product life cycle and the factors that can change it
   - customer service
   - R&D

4) Analysis of users

- defining user groups
- user requirements
- identification of market trends
- intentions and reactions of potential customers
- requirements of the society and the government

5) Analysis of the competitive environment

- extent of competition: local, regional, national and global
- evaluation of the strategic intent of the organisation
- competitive position
- competitive strategy
- technological superiority
- reputation of competitors

When drawing conclusions, the analysis of competitors must answer the following questions:

1. Who is the biggest manufacturer of such products (services)?
2. What is his product/service? The main features of the level of quality, service, and customer feedback.
3. What are the levels of sales, services and advertising of the major competitors?
4. What is the level of prices of products of the major competitors?
5. What is the financial condition of competitors?

6) Analysis of the marketing mix

1. Market strategy and sales, including identifying trends, priorities, number of orders for the period, selling price and promotions
2. Own resources and external contractors, including suppliers of materials and resources, arrangements, deliveries, assessment of the risks of supply disruption, assessment of the risks of dependence on suppliers of materials
3. Distribution channels, including sales targeted at production units, system for domestic sales, wholesale and retail trade, security of supply chain
4. Messages to the public and forms of advertising (using media, personal meetings, catalogues, brochures)

7) Analysis of production

- Production capacity, including owned buildings, machinery, equipment, technical and technological advantages of the production system, manufacturing experience
- Constraints in production or supply of resources
- Scheme of production and sales flows
- Evaluation of production costs and their trends
- Regulations and technical specifications used in the production
- Quality control systems
- Waste disposal and environmental protection systems
- Plans for industrial cooperation

8) Personnel policy

This section should include information on staff, including information on recruitment, selection, training courses, assessment, payment and social benefits.

9) Financial plan

Based on three key financial documents – revenue forecast, cash flow statement and assets forecast, a funding strategy of the organisation shall be drawn. In this respect, it is necessary to consider the following elements:

- form of financing – equity or borrowed capital
- purpose of investment expenditure
- financial results from investment
- current financial requirements
- projected financing needs
- use of the raised capital

10) Risk assessment and insurance

This section should include types and sources of risk, measures to reduce the likelihood of adverse effects, risk prevention and minimization of losses.

11) Applications

Applications include all documents and materials that complement previous sections (specifications, technical descriptions, licenses, certificates, patents, and contracts), reports of the company managers, experts, consultants, marketing materials, product images, publications, links, websites, and arrangements.

The efficient process of implementation and realization of the chosen strategy should include effective control. The assessment, monitoring and supervising of the implementation of the strategy are the logical conclusion of the process undertaken in strategic management. The monitoring must ensure prevention of errors and defects, early detection of deviations and achieving objectives in a timely manner. The choice of strategy is of great importance for organisations because strategies help to identify the ways to achieve long-term goals in a rapidly changing and aggressive world. The type of strategy that the company will choose depends on its specific situation. Uncertainty and rapid changes in the environment, increasing competition, limited resources and desire to impose higher efficiency make planning a mandatory part of the process of strategic management.

3 FORMS OF STRATEGIC PARTNERSHIPS

All the organisation has learned over the years should be transmitted from one generation to another. Strategic partnerships not only remove limitations for the organisation, but are used to acquire new knowledge, skills, experience, and social roles. It provides an opportunity to meet the need for communication, sharing of knowledge, personal and professional experiences, values, opinions, judgments, habits and beliefs, forms a sense of identity, and differentiates organisation from all the others. Strategic partnerships have obtained a global significance in the 21st century, when the organisations prefer to concentrate their effort on specific areas of expertise and use their associates for non-specific transfer of knowledge and technologies. When building a strategic partnership, organisations combine their resources, experience, skills and knowledge during the manufacture and marketing of a new product or service. (Jalowca, Smyka, Nyska, Petrova 2015)

There are different forms of *groupings of companies,* designated by consortium, conglomerate, etc. (Jalowca, Smyka, Nyska, Petrova 2015)

A *holding company* is a limited liability company that aims to participate in other companies or in their management in any form, with or without conducting their own production or commercial activity. Some of the activities of the holding company are acquisition, management, evaluation and sale of shares in other companies; management and sale of bonds; acquisition, evaluation and sale of patents; granting of licenses; use of patents to companies in which the main company participates; financing companies in which the main company participates.

A *conglomerate* is a corporate structure of two or more enterprises, engaged in entirely different businesses, usually involving a parent company and several subsidiaries. It is a multinational and multi-industrial company. Major advantages of the conglomerates are diversification and large range of activities, which leads to reducing risks in general. A different model of conglomerate called "keiretsu" is used in Japan. While the western model of conglomerate consists of a corporation with several subsidiaries controlled by this corporation, in "keiretsu" the companies are connected by a closed internal equity and the important central role of a bank.

A *joint venture* is an agreement for forming a new company with new assets. Both parties have the right to exercise control over the new company and on its shares, revenues, expenses, assets. Both the costs and benefits of research and development can be shared through a joint venture.

In Germany, the joint venture is referred to as "concern". The concern is a type of economic union in which the companies retain their legal and economic independence, but there is a financial relationship between the participants. A major advantage of the concern is the concentration of financial and production resources. A joint venture can be created in the form of a consortium for the implementation of a specific purpose. Consortium, frequently translated as "association" or "society", is a temporary company established to perform a specific task, provide a service or manufacture a product in a more efficient manner. This is an association of two or more individuals, companies, universities or governments (or any combination of these) to participate in common activities and shared resources to achieve a common goal. It can be formed when one of the parties needs to use technological expertise, technical services, or the trademark of another party.

A *strategic alliance* (union) is a formal relationship between two or more countries. Different terms are used to describe the forms of this type of strategic partnership: "international coalition", "strategic networks", and the most common "alliances". This type of cooperation is aimed at interaction, and each partner hopes that the benefits of the joint efforts will be greater than the benefits of their individual efforts. Such a union is often related to technology transfer, access to knowledge and experience, economic specialisation, shared expenses and risk-sharing. The partners may support each other with various resources – products, distribution channels, manufacturing units, finance, equipment, machinery, knowledge, experience or intellectual property.

A *cooperation* without establishing joint ventures or non-joint ventures is another form of a strategic alliance. The lack of a legal entity means that these arrangements tend to be more flexible.

Science and technology parks are a phenomenon that first appeared in the United States. The primary objective of a Science and Technology Park is to develop an industrial area or the area near an established centre of excellence, often university where academics have the opportunity to carry out research in a real environment, develop ideas and transform them into real products. Scientific and technology parks create favourable conditions for the development, implementation and marketing of advanced technologies and applied research through the combined efforts of academic, research and educational institutions, high-tech companies, private entrepreneurs and investors, state and local authorities. Examples include the "Silicon Valley", which is a set of companies with a research focus in the field of electronics, and the "Research Triangle" in North Carolina, which is composed of several universities. In the UK, one of the first scientific parks is Cambridge Science Park. In this regard, USA is the leader with the greatest number of practices. Each year, Stanford University registers over 300 patents. Companies like Google, Sun Microsystems, Netscape, Cisco Systems and Yahoo descend from its environments.

Intermediary agencies are another way to provide technology transfer. They act as an intermediary between companies seeking technologies and companies that offer technologies.

An interesting way of technology transfer is performed through the so-called *research associations* established between universities and small companies. Their activities are carried out through post-graduate training. During the period in which students are taught, every university is associated with a local company in order to realise a definite research project. During the course, students acquire scientific knowledge and practical gain experience by working on research projects for the company. (Jalowca, Smyka, Nyska, Petrova 2015)

One of the oldest forms of technology transfer is *attracting staff* from a competitive company with the necessary knowledge and skills. This is one of the fastest methods to obtain the necessary technology.

Many manufacturing companies are increasingly entering into long-term relationships with their suppliers without realising informal alliances. Usually these relationships are based on some of the following reasons: (Jalowca, Smyka, Nyska, Petrova 2015)

- Lower production costs if the supplier changes a component so that it meets the needs of the company
- Reduced costs for research and development, based on information from the supplier on the use of the product by the customer
- Improving material flows caused by the reduction of inventories as a result of changes in the supply frequency and batch size
- Reducing administrative costs through integrated information systems.

A *research consortium* includes companies with a common interest in specific areas of research, in order to conduct joint research, exchange of information, knowledge and experience. The rationale for joining units includes sharing the cost and risk of research, sharing knowledge and equipment, performing pre-competitive research and establishing standards.

Scientific consulting companies experienced rapid growth in the beginning of the '80s of the 20th century. Their experts are people who have been employed at a research centre within a large organisation. They develop their own knowledge and skills in a specific area of science, and then offer their unique abilities to the industry.

Entrepreneurship in universities is one of the connecting elements in the innovation system. It is embodied by start-ups and ways to interact and exchange of information, know-how and technology between the participants. Specific forms of entrepreneurship are the companies created for carrying out research and education activities.

A *business incubator* is a structure/institution providing business incubation services at a regional level that is separate and has the necessary resources and capacity to provide integrated support to innovative start-ups. Business incubation can include the provision of facilities for use by businesses for a period of time under a flexible rental scheme, basic office services and equipment, consulting, information, training and other specialized services required for the development and strengthening of enterprises in the initial phase of their development. (European Commission 2012)

Clusters are geographic concentrations of interconnected companies and associated institutions in a particular field. (Bulgarian legislator 2012) The geographical proximity of their components distinguishes them from innovation networks. According to Michael Porter, a cluster is a geographically interconnected network of similar, interrelated or complementary competitors, with active channels for business relations, communication and dialogue, which share a specialised infrastructure, labour markets and services, and face common development opportunities and/or common threats. (Porter 1998)

Clusters represent specific networks of interconnected companies, but their competitors remain, specializing in different areas, for example suppliers, producers, organisations providing services, related administrative authorities, and non-governmental institutions in a given area and region. Their geographical, cultural and institutional proximity provides companies with advantages which they can hardly have as individual organisations, while at a distance from one another.

The innovative clusters are groups of independent companies which operate in a certain branch and region and are designed to stimulate innovative activity by promoting intensive interactions, sharing skills and knowledge, and contributing effectively to accomplish technology transfer, networking and dissemination of information in the cluster.

Members of the cluster can be legal entities, sole traders, NGOs, educational organisations, scientific institutions, public administrations and individuals which are organised around a unifying product or service. They create a network which should be attractive to local and foreign investors. Comparative advantages of clusters arise from the possibility for cooperation and partnership network and synergies that can be obtained there.

The increased competition between companies and organisations reduces the product life cycle, leads to the creation of innovative alliances and tends to be seen as an attractive strategy for the future of the organisation and the main competitive weapon. The usage of *innovation networks* has become more popular. For many scholars innovation networks are a kind of "virtual organisations". Others believe that they are nothing more than a new label to the market relations existing between the company and its partners. Some networks are described as a grouping of related companies and organisations that operate relatively autonomously but still are engaged in mutual assistance.

Innovation networks exist in the form of strategic partnerships that are the result of long-standing relationships with various business partners. They may also include universities, governments, agencies and even competitors.

The combination of public and private economic capacity is essential for the transfer of knowledge and technology. *PPPs* (Public Private Partnerships) are innovative solutions in business and military logistics that contribute for: (Jalowca, Smyka, Nyska, Petrova 2015)

- Facilitating the implementation of projects of public interest
- Sharing financial risks and reducing infrastructure costs, which are usually fully funded by the public sector
- Sustainable development, innovation, research through competition and involvement of private business.

The term "public-private partnership" describes a relationship in which public and private resources are combined to achieve a common goal or a set of common goals, thus providing mutual benefit for private companies, the public organisation and the society as a whole.

Public-private partnership has a long history. In the United States the principle that the government and political leaders have to use and support the private sector to develop research and innovation for the benefit of society is recorded in the country's constitution. The typical form of a consortium of private and public sector is a company with a special purpose – to develop, build, maintain and operate the assets during a contracted period. An outcome of public-private partnerships is the synergy between public and private institutions and organisations that successfully combine the need for new financial revenue, innovative practices and experience.

Conclusion

The main reasons for the formation of strategic partnerships in business and military logistics may be:

- Reducing business risks
- Using existing assets
- Building structures and economic and political positions of the partners
- Getting knowledge about the local and the national legal environment
- Providing access to strategic sectors
- Providing access to local resources
- Lobbying and influencing the government
- Providing access to foreign technology or expertise
- Conducting joint research
- Co-creation of innovative products
- Strengthening the position of the company
- Economies of market scale
- Reducing competition
- Entering new markets, etc.

Formation of strategic innovation alliances in business and military logistics starts with choosing the right partner, continues with negotiations based on the needs of each partner, and ends with the stage of cooperation. This last stage covers a wide range of activities, including joint goal setting and conflict resolution, and aims to maintain a sustainable relationship between the partners. Aside from the effectiveness of co-management, the success of strategic innovation alliances depends on mutual need and the ability of organisations to work together despite the differences in their organisational culture. All forms of cooperation include an element of risk and therefore require considerable trust between the parties. For many organisations, however, sharing ideas and technology with another company is exactly what they do not try to do. This is lack of confidence, which is at the base of their reluctance to participate in any form of cooperation.

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PARTS OF THE REVIEWS

The modern environment of socio-economic life, being dynamic and often unpredictable, presents a challenge to any manager more than ever. This work further supports this statement as it provides the unbiased reader with the opportunity to streamline management decisions through the key strategic management issues.

The evolution of the concept of "strategy" as well as the interrelation between "strategy" and "strategic management", tailored to the changes in business environment and a basis for achieving the mission, objectives and tasks of each business organisation, are the fundamentals of the integration between the two interconnected areas of strategic management, namely the theory and practice. In a unique way, has the author succeeded in creating a co-relation between knowledge and experience, with which the present work facilitates the communication between them greatly. And this circumstance itself defines the significant contribution of the work presented to the scientific and educational community, and its usefulness can only be confirmed, and I believe that it will be appreciated by all who are interested in strategic management.

Prof. Dimitrova, S., D.Sc.

The timeliness of the work presented is determined by the dynamically developing processes worldwide in all public spheres, mainly related to increased competition, unstable economic and political conditions, and growing economic and military uncertainty. These conditions require extensive research in the field of strategic management, both historically and in modern times.

The merits of this work are indisputable and are distinguished by: the author's extensive literary awareness; logical and consistent presentation; concise style; ability to study a scientific problem from its evolution to the options for its development and improvement. An important merit of this work is the analysis of management theories in their evolution and their application in various spheres of activity - economic and military.

As a conclusion, it should be emphasized that the presented textbook titled Genesis of Strategic Management is the outcome of the author's long-standing scientific and applied research. The work is of a very high scientific and applied significance and can be extremely useful for the instruction in management fundamentals and strategic management. It will also be useful for all those who are interested in these areas.

Prof. Banabakova, V., PhD

> *"Things should be called by their proper names, and these words should be spoken in front of all."*
>
> – Confucius

In a new age, managing hierarchical (i.e. multilevel) and network structures (in organisational behaviour, in the attitude to resources and goals) is not just a programme in response to uncertainty and rapid changes in the environment for organisations. It is also striving for high efficiency through modus vivendi (way of living) and modus operandi (manner of working). It is necessary to establish strategic guidance in order to help organisations cope with the complexity and uncertainty of the surrounding environment, where the strategy should reflect the movement towards narrowing the gap between the current state and the desired future by helping to achieve the organisational goals set.

Prof. Stoikov, S., PhD, Retired Colonel

The topic of the present textbook is oriented towards students and cadets at the Vasil Levski National Military University, and foreign trainees from the Erasmus+ EU programme for education, training, youth and sport studying the subject of Strategic Management. The scientific and applied contribution of the textbook make me believe that it will be appreciated and given the deserving attention by business organisations and the general public interested in strategic management issues.

Colonel, Assoc. Prof. Nichev, N., PhD

The presented textbook is a result of years of scientific work and accumulated teaching experience. It fully reflects the curriculum on the subject of Strategic Management. The textbook covers a subject that was not developed at the National Military University in Bulgaria so far. It is suitable for both students and cadets from the Vasil Levski National Military University, as well as for foreign students under the Erasmus+ Programme.

Lieutenant Colonel, Assoc. Prof. Filipov, S., PhD