STRATEGIC ORIENTATION OF BUSINESS ORGANIZATION – STEP BY STEP

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I. Global Strategy of organization

Every business strategy exists to achieve certain objective. The *global objective* of business enterprises is to make new consumers or to create new values for costumers (Drucker). For this purpose, every organization should choose own unique *strategic orientation*, to formulate a *global strategy* and to follow it.

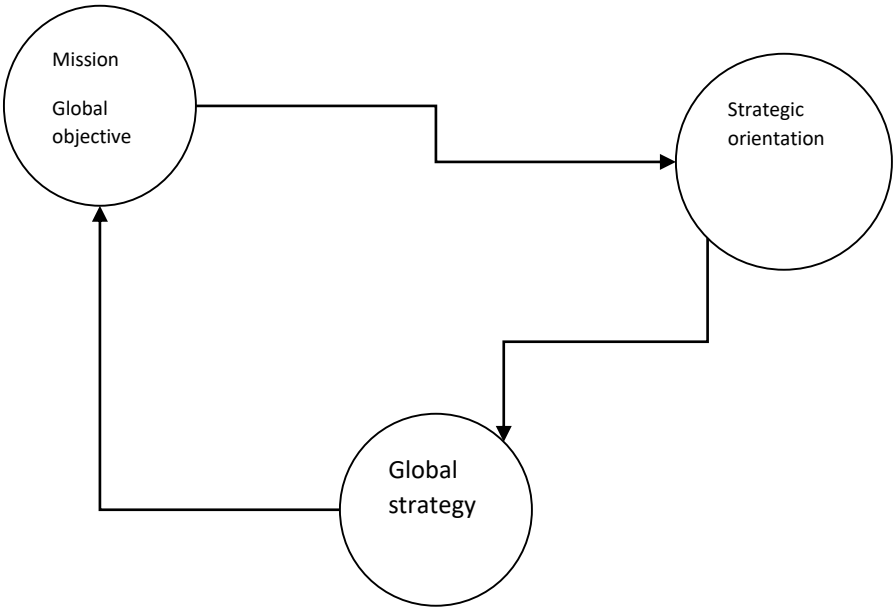


Figure 1. Process of strategic orientation of company /step by step/. Source: Own interpretation.

The global objective /mission/

The mission of business organization is a global objective which has to be accomplished in purpose to succeed in certain *business conditions* (Radev, Borisov, 2009). The mission gives answers of the following questions: Who we are? What we want to do? What is our role in community?

The mission has several components – *competitive advantage, vision* how to use this advantage and *massage* to costumers.

The competitive advantage of organization is something – a feature which helps costumers to recognize the organization among others. The meaning of competitive advantage is more sophisticated. The competitive advantage is dominated by certain *business conditions.* That means an adequate potential of knowledge, recourses, capabilities, experience and motivation to use them in certain *business conditions* which give a unique chance to dominate the market. In contextual meaning of *mission* the business organization has to define her competitive advantage, how she is going to use it and what business ethics will be followed in purpose the give a new value for all potential costumers.

Strategic orientation

Every business organization has to define her strategic focus. That means several strategic objectives which accomplishment leads to accomplishment of *mission.* Strategic orientation of organization can be shown as an *objective tree.* This tree consists the following branches – *mission, strategic objectives, tactical objectives and operational objectives.*

Strategic objectives are long-term objectives which are defined after evaluation of *business conditions.* (Bachev, Ivanov, Radev, and Dung, 2009) These objectives are hard to define and their change is not desired to be happened very often.

Tactical objectives are medium-term objectives which show the business tactics of organization. If the company operates in permanent fast changing *business conditions* these objectives have to be redefine more often (Porter, 2015).

Operative objectives are short-term objectives which are basic for operational management of the company. Their accomplishment leads to successful realized business tactics.

Global strategy

To achieve the mission every business organization has to define own strategic orientation and implemented a global strategy. Strategy means a skill to organize war activities in way lead to total victory. Also that means an action plan to act influenced by your enemy in certain situation. Global strategy of business organization is a plan which gives answer of question - How organization can dominate the market? That means how the organization will define and achieve a competitive advantage; how she uses it in purpose to beat the competition in current business conditions.

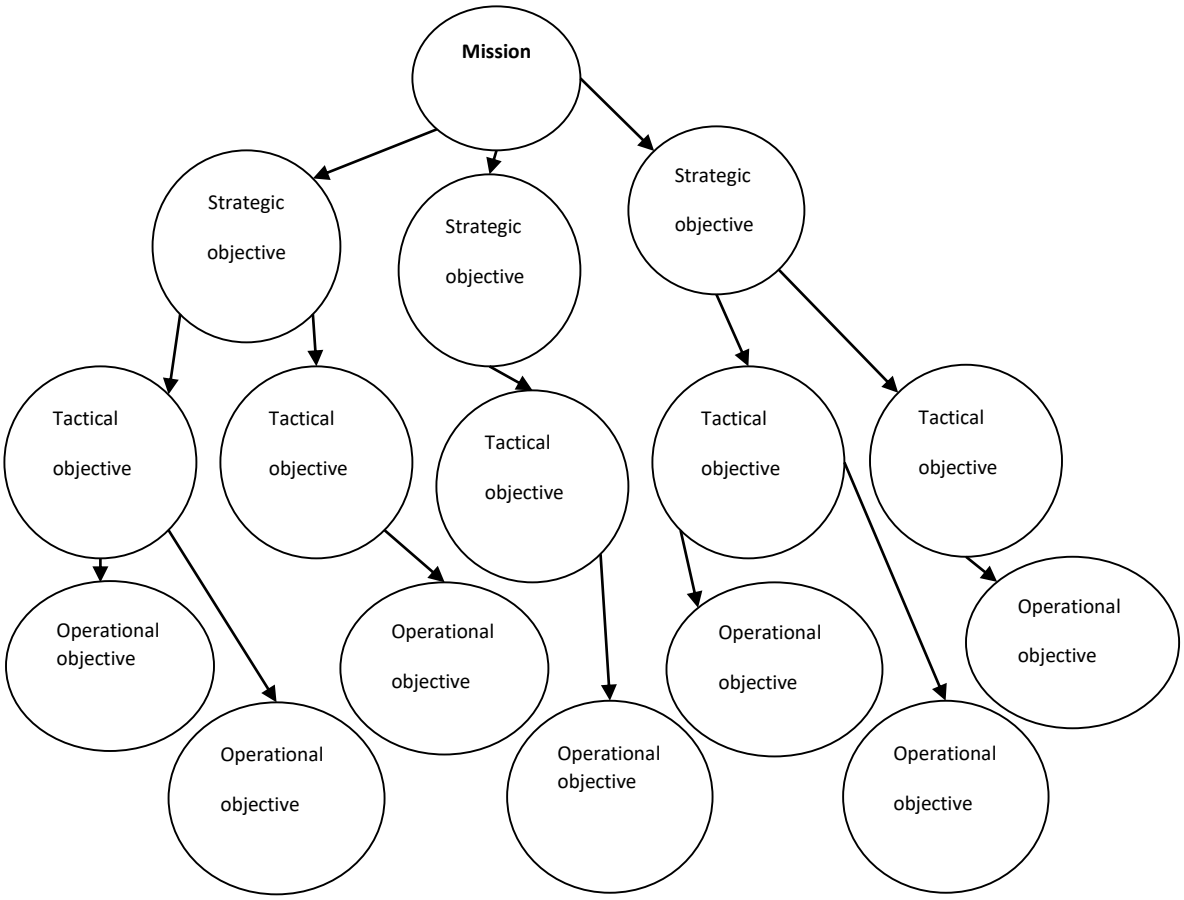


Figure 2. Tree of objectives. Source: Own interpretation.

II. Business conditions

Every company operates in environment that has the following features: *complexity, uncertainty* and *mutual dependence* of all structural components. Business conditions are combination of factors which counter or benefit the development of company. The basic features of business conditions require system approach for evaluation. It means business condition to be shown as sophistical system which consists of large variety of elements (factors) which mutual dependence and influence is hard to be predicted. The business conditions can be shaped in two layers: *internal and external.* The main criteria for separation of business conditions in these two layers are ***degree of control.***

Internal business conditions (all factors controlled by company)

That means the company herself. All factors (elements) of business environment that can be managed by management generate the internal layer. The management is responsible of

organization. The organization (company) looked as manageable environment consist the following factors:

Mission – global goal of company. The process of shaping mission involves several personages – owners of company, managers and personnel. These stakeholders are responsible to negotiate in purpose to give a clear vision of how the business will be developed in future. Using the defined vision, the management is responsible to define a clear and understandable mission of organization. Mission has several functions:

- It can be used as a managing instrument. Leaders of companies who clearly understand the power of mission use it as motivation tool.
- Also it can be used as instrument who expresses the company ethics to all costumers. Mission can be used as tool which gives unique meaning of company activities at consciousness of costumers.

Tree of objectives. It is an instrument (factor) used in process of development of objectives of the company. All objectives are planned by management and they have to be shaped by following principles (SMART) – shortness, measurability, accuracy, ranging and time orientated. That means every objective has to be clearly defined in short meaning, can be measured, accurately defined, committed with other objectives and can be achieved in certain period of time. The operative link of company gives the *operational objectives*. Tactical and strategic links of management define *tactical* and *strategic objectives* of company. All objectives create a tree. Higher tree more objectives have to be achieved in future.

The Organizational structure of company is also an internal element of business conditions. This is the "spinal cord" of company management (Avila, 1997). Organizational structure includes all work places, links, personnel, communications and orders of their dependence at management hierarchy of the company. The organizational structure is shaped by following these steps:

- defining authority of personnel;
- defining all work places of personnel;
- grouping all work places in departments;
- defining the order of following commands in company.

Every company has unique mixture of all of these elements which define her own organizational structure. In theory of strategic management there are several types of organizational structure – *linear* (which can be seen in Army); *linear – headquartered* (which can be seen in governmental departments); *functional* (very often used in large enterprises); *project structure* (can be seen in scientific organizations and innovation sectors); *product-orientated* (used by international companies).The choice of organizational structure should be carefully considered using the following criteria – *mission, global strategy and market conditions.*

Tasks which have to be done in purpose to be achieved all objectives of the company. The different management links of company plane and delegate all tasks. That means to give authority of

same part of the personnel to execute certain task by using company resources in order to achieve an objective. There are long-term and short-term tasks which require some skills of personnel for their accomplishment.

Resources of the company are relatively scarce. That means in certain point every resource of the company is not enough and that fact generates conflicts within. So the management should measure and planned all company resources in an efficiency way. The recourses can be divided in several groups:

- *Natural resources* – water, air, land, biological organisms used in manufacturing and distribution of company products. These resources can be restored and should be used in extreme caution;
- *Material resources* – materials, raw-materials and inputs used in manufacturing and logistic;
- *Financial resources* – all finance of the company. All activities require funds and financial instruments to obtain them;
- *Innovations* – they are unique recourses of the company which consists of new technologies, processes and products. To create an innovation, the company management has to apply a new kind of thinking how to make business;
- *Entrepreneurship* – this is the most important resource of every company. Without its involvement in manufacturing all other resources are only a potential but not a productive system. Entrepreneurship means to take reasonable risk to invest in certain activity in purpose to gain profit.
- *Motivation of personnel.* The management is responsible for any degree of motivation of the personnel. Highly motivated personnel are a basic for successful obtained competitive advantage.
- *Leadership.* Leadership means how management does his work. The management has to lead the company to success. Leadership of the management is influenced by: internal and external factors. Internal factors are dominated and there are: type of personality of leader; his ethics, education, experience and intuition. External factors are: group dynamics – number of employees, managed by leader; formal and non formal communications in groups of employees, communications with other leaders.

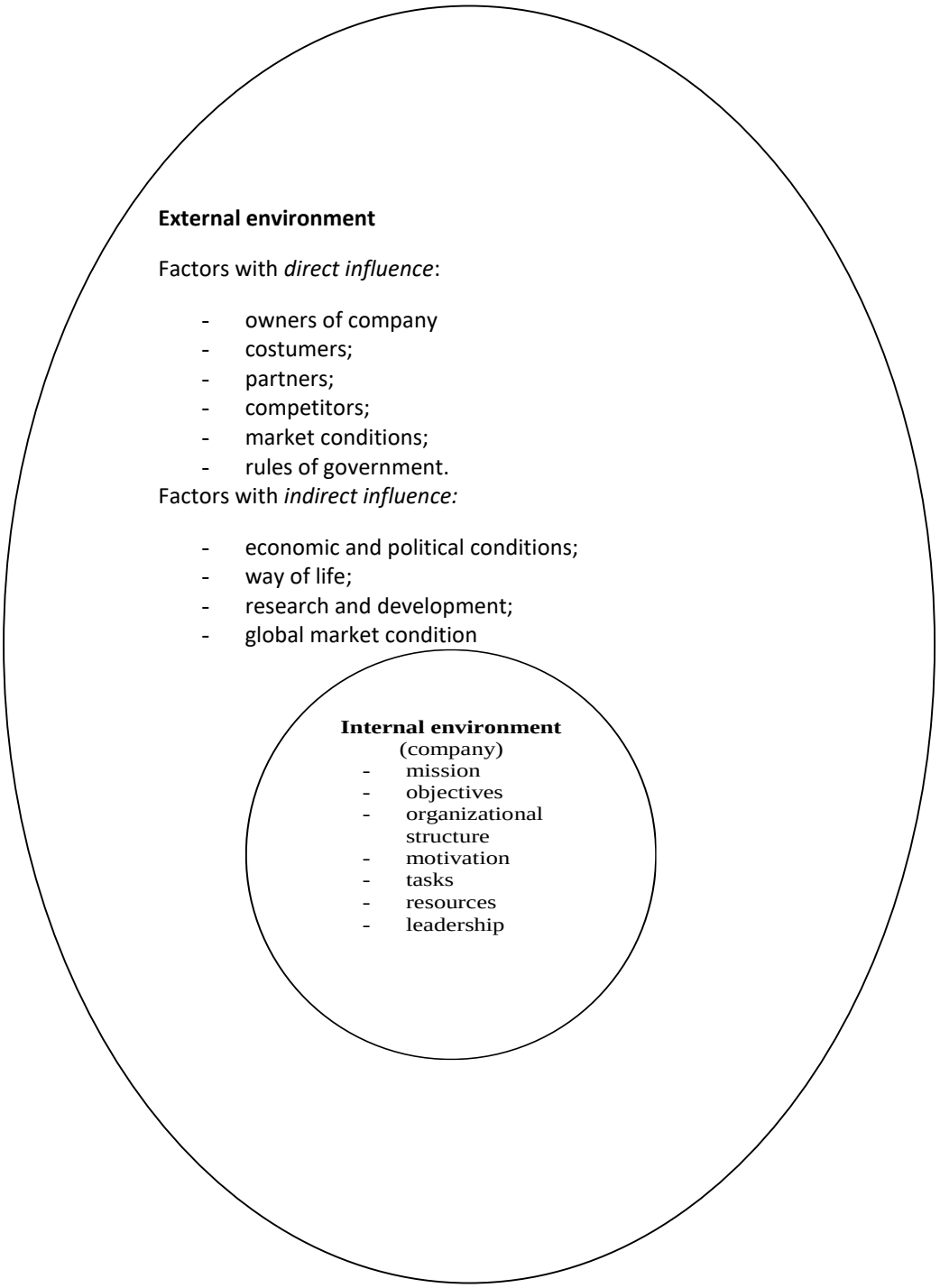


Figure 3. Business conditions – layers. Source: Own interpretation.

External businesses condition

All factors (elements) of business environment which cannot be managed by company generate the external layer. This layer is plenty of factors which have different influence on company activities and also different dependence. This variety of factors requires dividing the external layer into two sectors called: sector with ***direct influence*** and ***indirect influence*** on company activities.

Factors with direct influence on company. These are all factors which react with company immediately after impact. Who they are depends on what kind of company is managed. In generally all factors with direct influence are:

- *Owners of company.* Their decisions directly influence the management of the company.
- *Costumers* have serous influence on every activity of the company. The costumers are these personages who evaluates how successful is the company at current market conditions.
- *Competitors* are those factors that make company to improve all activates done by her.
- *Company partners.* These are all persons, companies and other type of organizations who lobby for company interests.
- *Market condition.* All markets are characterized by – demand, supply and competition. These forces define what does the market conditions are at the moment.
- *Government* which regulates the business sector has direct influence on company. Government defines the rules of the game but the company has to follow them.

Factors with indirect influence on company. These factors have long-term influence on the company and often take time to show their influence. Such factors are:

- Transnational, National and Local economic and political situation at which company operates;
- Way of life of costumers (that includes): religion, ethics, social status, age, point of view for the future and extra;
- Research and development of the sector in which company operates in global and local aspect;
- Tendency on global market (demand, supply and competition).

III. Analysis of business conditions

The main feature of business environment is *complexity.* The *system approach* is the most suitable for examination of business environment. That means to investigate the object shown as a system of several elements (factors) which collaborate with other systems part of external environment. One of the most popular methods of analysis of business conditions is **SWOT**. The basic idea is to investigate and define four features of company which have significant importance for her success in future. SWOT means: S → strengths; W → weaknesses; O → opportunities; T → threats.

S (strengths) → these are all activities of company which she executes better than her basic competitors.

W (weaknesses) → these are all activities of company which are executed worst than her competitors.

O (opportunities) → all factors of business environment who give chance for success of the company.

T (threats) → all factors of business environment which influence are fatal for company.

SWOT may execute in two stapes called – ***internal audit and external audit***

SWOT → INTERNAL AUDIT + EXTERNAL AUDIT

INTERNAL AUDIT evaluate Internal environment (company)→ Result: **define all S and W.**

EXTERNAL AUDIT evaluate External environment → Results: **define all O and T.**

III. 1. Internal audit

Internal audit means to evaluate all significant factors of *internal business environment* which are the company herself. In result there will be defined all **S** and **W** of the company for certain period of time. All **S** and **W** are results of management of the organization and they can be changed. There are several approaches for evaluation of the company – *functional approach and" chain of values".*

Functional approach

Company which operates on the market execute several activities which can be divided by functional feature as – **manufacturing; financial activities; marketing; logistics; management of personnel; innovation and R&D activities.**

- Marketing (evaluation)

In market orientated economy the first and lead link is marketing department of the company. All marketing activities are the most important subject of evaluation. There are number of elements which are vital to be evaluated as:

- Products and services of the company; diversification or specialization of company;
- Rate of concentration of sales by products or costumers;
- Opportunities for gathering market information;
- Market share – tangency and value;
- Potential for grow of sales;
- Value added by products and services;
- Distribution channels – number, range and control;
- Efficiency of sales;
- Reputation, quality of products and services provided by company;

- Efficiency of branding;
- Price strategy;
- Level of costumer loyalty;
- Efficiency of marketing budget. ROI – rent ability of investments, ROS – rent ability of sales, ROE – rent ability of equity.

- Finance (evaluation)

- Opportunities for gathering short-term and long-term capital;
- Ratio – debt/equity;
- Liquidity;
- Value and structure of all company funds;
- Capital expenditures – value and structure;
- Expenditures for expansion on new markets;
- Ratio – price/ cost-price; ratio – price/profit;
- Investments – structure and value;
- Rent ability of investments;
- Return of own capital;
- Efficiency of investments – net present value; benefit cost ratio; profitability and pay back period.

- Costs and revenues (evaluation)

- Expenditures for investment process;
- Structure of manufacturing costs; ratio – variable to fixed costs;
- Value and structure of variable and fixed costs;
- Value and structure of transitional costs – contracting and act;
- Cost-price structure;
- Break even point;
- Efficiency of cost control;
- Efficiency of costs;
- Opportunities for reduce all costs;
- Degree of substitution of costs;
- Value and structure of revenues by products and services;
- Efficiency of sales;
- Efficiency of revenues;
- Degree of differentiation of revenues.

- Manufacturing (evaluation):

- Accessibility to raw materials, stocks and services required by manufactory;
- Material and labor costs;
- System of control of all company stocks;
- Economy of scale;

- Efficiency of technology and innovation;
- Degree of vertical aggregation of manufacturing;
- Value added by products;
- Efficiency of equipment;
- Labor efficiency – experience, technical competence of personnel, productivity of equipment.

- Research and development (evaluation):

- Evaluation and selection of R&D personnel;
- Motivation of personnel;
- Labor conditions;
- Instruments of stimulation and motivation of R&D personnel;
- Labor efficiency;
- Investment in human capital;
- Experience and qualification of personnel;
- Conflicts and changes of R&D stuff;
- Value of R&D expenditures;
- Capitalization of R&D products;
- Number of successful innovations;
- Efficiency of R&D costs;
- Knowledge tanks and efficiency of knowledge;
- Efficiency of investments in innovation.

- Management of personnel (evaluation):

- Type of organizational structure – efficiency;
- Reputation and respect of the company;
- Achievement of objectives;
- Communications – structure, links, chain of commands in every department;
- Make decision process;
- Strategic planning system;
- Motivation;
- Labor efficiency;
- Work conditions;
- Way of payment and career;
- Investment in human capital;
- Change of teams and personnel;
- Leadership;
- Evaluation and selection of personnel;
- Team building.

Approach "***Chain of values"***

The company can achieve competitive advantage by reorganize her basic activities. Using this approach, the company can be viewed as link which is a part of chain called "*chain of values".* The chain shows how is organized the manufacturing and distribution of certain product or service. Company can embrace the whole chain or several links in purpose to make profit in certain market conditions. To achieve the objective all company activities can be divided into two groups called – *basic and supportive activities.*

The basic activities include creation of the product, distribution and after sale services. Using this approach basic activity is:

- Supply of raw materials, stocks and services;
- Manufacturing;
- Placement and storage of manufactured production;
- Marketing and sales;
- After sale services.

Supportive activities:

- Supply;
- Research and development;
- Management of personnel;
- Infrastructure of company.

After execution of internal audit all **S** and **W** are defined and management can go further at company analysis.

III. 2. External audit

External audit evaluates all factors of external environment that have significant influence on company. After execution of audit the management can define all **O** and **T** in front of company. Opportunities and threats are coming from external environment and cannot be managed by company. Their evaluation is vital because the management must adapt company behavior in respond of them. One of the most popular approaches is **PEST – analysis**. That means to be evaluated four key factors of external environment (which are):

P – Evaluation of policy in country where is localized the company or market of company products and services**;**

E – Evaluation of economy conditions for doing business**;**

S – evaluation of society – what is the way of live of potential costumers – religion, culture, point of view**;**

T – Evaluation of technical development of competitors and company**.**

There are a large variety of factors, elements of external environment. Every audit requires time and funds. Every company is unique and operates at unique business conditions. For these reasons company management can use **Expert approach** to evaluate the external environment. This approach includes evaluation of direct influence of all factors which are part of external environment.

To execute such an analysis, the company has to involve in evaluation process real experts. These experts must know which key factors are significant for the success of company.

In result of external audit, the management can define all **O** and **T** in front of company.

IV. Strategic orientation

All **S, W, O and T** as results of executed Internal and External audit are arranged in matrix called **SWOT – matrix.**

The SWOT – matrix is basic tool for definition of strategic orientation of company. To be precise tool, the matrix should be composing by following several principles:

- The elements have to be **competent distributed**. Competence distribution of all elements **S, W, O, T** in every quadrant of matrix.
- All elements (S, W, O, T) should be ranging by **level of significance**. On fist place should be the most important S, W, O or T.
- The number of elements in the matrix should be **minimized** in order to improve the process of strategy implementation;
- The number of elements in every quadrant of matrix should be **equal.**

Evaluation of internal conditions	**Evaluation of external conditions**
S1 S2 S3 Sn	O1 O2 O3 On
W1 W2 W3 Wn	T1 T2 T3 Tn

n = 1,2,3…..n

Figure 4. SWOT matrix. Source: Own interpretation

The SWOT – matrix is used as basic tool for development of strategic goals of the company and her global strategy. This matrix is input of **SOR – analysis (**strategic orientation analysis). SOR means:

S → strengths of company

O → opportunities

R → roadblocks

These three key factors are important for future success of the company. The basic idea in SOR – analysis: if you have some strengths you should grasps every opportunity in front of you and do not lose time to improve your weaknesses.

To execute competent SOR – analysis the company should develop and use the results in **SWOT – matrix** (see fig.5 and fig. 6). That means SOR – analysis is an evaluation of how strong is dependence of all elements (S, W, O, T) viewed on the SWOT – matrix.

SWOT → gives answer of the question: **Where is the company at the moment?**

SOR → gives answer of the question: **Where will be the company in the future?**

There are four types of dependence which have to be evaluated:

(1) S → O: How this strength (S) can help company to grasp the opportunity (O)? Management of company should evaluate is there any dependence between these two elements and how strong is she?

(2) W →O: How this weakness (W) can prevent to grasp the opportunity (O)? Management of company evaluate is there any dependence between these two elements and how strong is she?

(3) S → T: How this strength (S) can help company to defense herself from certain threat (T)?

(4) W →T: How this weakness can prevent company to defense herself from certain threat (T)?

In every common company there are four types of stakeholders – ***owners; managers; personnel; partners.*** Every stakeholder should be involved in voting process. The main goal is to use votes to express how strong is the dependence of S, W, O, T.

The voting is crucial step of SOR – analysis. The stakeholders who play role of experts voting (evaluate the dependence between elements in SWOT matrix) by using **4-degree voting range:**

0 – there is no dependence between elements

1 – there is some dependence between elements

2 – there is strong dependence between elements

3 – there is significant dependence between elements

All votes of experts (stakeholders) are given into document called **SOR – matrix**.

Every expert fills in separately SOR – matrix (see fig. 5). Finally all votes are aggregate in one SOR – matrix (see fig. 6) which gives the aggregate opinion of all experts. More experts involved in voting process more objective will be the result.

		Opportunities					Threats				
		Short descript. O1	Short descript. O2	Short descript. O3	Short descript. O4	Short descript. O5	Short descript. T1	Short descript. T2	Short descript. T3	Short descript. T4	Short descript. T5
Strengths	Short descript. S1	3			3	3	3				
	Short descript. S2		2		3		2		3		2
	Short descript. S3	1	3	2	3			1	1	2	
	Short descript. S4		2			2	2	1	3		
	Short descript. S5	3	1		2	1	1	1	2	2	
Weaknesses	Short descript. W1			2							
	Short descript. W2	2	1	3		3		2			1
	Short descript. W3	1	1				1		3		
	Short descript. W4				1					2	
	Short descript. W5	2					1				
Tot.		12	11	7	12	9	10	5	12	6	3

0 – there is no dependence between elements

1 – there is some dependence between elements

2 – there is strong dependence between elements

3 – there is significant dependence between elements

Figure 5. SOR – matrix filled by individual expert. Source: Methodological approach of project "EU-Balkan vegetables" funded by 6th frame work program.

		Opportunities					Threats					Tot.
		Short descript. O1	Short descript. O2	Short descript. O3	Short descript. O4	Short descript. O5	Short descript. T1	Short descript. T2	Short descript. T3	Short descript. T4	Short descript. T5	
Strengths	Short descript. S1	26	5	5	26	15	23		7	15	9	131
	Short descript. S2	8	20	5	15	21	2		6			77
	Short descript. S3	24	25	8	24	2	15	10	5	25	20	158
	Short descript. S4	12	3	12	8	6	19	2	28	1	10	101
	Short descript. S5	10	7	10	16		4	11	7	19	1	85
Weaknesses	Short descript. W1	3	9	5	10	6	10	6	6	20		75
	Short descript. W2	22	6	15	4	20	10	2	5	1	6	91
	Short descript. W3	10	12	3		8	6	18	29	3		89
	Short descript. W4		8	7	11		5		9		4	44
	Short descript. W5		5	10		2	4	1	8		2	32
Tot.		115	100	80	114	80	98	50	110	84	52	883

Attack: 313

Defence: 239

Clean ship: 176

Crisis: 155

Figure 6. Aggregate SOR – matrix (10 experts). Source: Methodological approach of project "EU-Balkan vegetables" funded by 6th frame work program.

What does the results of Aggregate SOR – matrix show?

1) Which opportunities are most attractive?

These opportunities that have the highest voting given by experts are the most attractive. As the example shows these are **01** with score 115 and **04** with score 114.

2) Which threats are crucial?

T3 with highest score – 110 and **T4** with score 98.

3) Which strengths and weaknesses are the most important?

The voting of experts shows the most important strengths of company are: **S3** with score 158 and **S4** with score 131. The most important weaknesses of the company are: **W2** with score 91 and **W3** with score 89.

4) Which are the strategic objectives of the company?

Using votes, the management of the company easy can define who will be the strategic focus of the company (strategic objectives)

Every strategic objective is defined by using three elements – S, O, R

S – Strengths; O – Opportunity and R – Roadblocks (significant Threats and Weaknesses of the company)

As the example shows O1 and O4 are the most attractive opportunities in front of the company.

These opportunities can be grasp by using the following strengths – S1 with highest score – 26 and S3 with score 24. (see in fig. 6 column O1 and column O4)

The most significant Threats are T3 and T1. T3 can be defeated by using S4 (this strength is voted by experts with the highest score – 28). T1 can be defeated by using S1 (with highest score 23). If company want to succeed she has to improve the following weaknesses which are roadblocks – W2 with highest score 22 (see column O1) and W4 with score 11(see column O4).

5) Whit kind of global strategy should company follow to achieve her strategic goals and mission?

The sum of votes in every quadrant of Aggregate SOR – matrix gives the answer. The highest score points the type of global strategy of the company. As example shows the global strategy of the company is to **ATTACK** (the sum of votes given by all experts in this quadrant are the highest - 313). "ATTACK – strategy" means to use all your strengths to grasp the most attractive opportunities in front of you.

"DEFENCE – strategy" means to defense yourself by using all your strengths and after that to grasp the opportunities in front of you.

"CLEAN SHIP – strategy" means company should reorganize her activities in order to gain higher efficiency. The company should choose manufacturing and distribution of new products and services or to adopt new technologies to create a competitive advantage in certain conditions.

"CRISIS – strategy" means to close all enterprises which are not profitable and to minimize all costs; to shut down all activities of company. The purpose is to minimize all costs and to pull back all products and services from market.

The aggregate SOR – matrix (see fig. 6) gives the following outcomes – **strategic objectives** and **global strategy** of the company. After defining of all strategic objectives company management can easy develop *The Objective tree.*

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