VIABLE STRATEGIES IN VOLATILE TIMES

Strategie vhodné pro neklidné časy

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Abstract: The article aims at the description and assessment of strategic options for companies which have necessary resources to take the advantage of the current economic downturn. The theoretical framework is based on two predominant approaches to competitive advantage and the practical implications for actions to be adopted are derived from the recommendations published recently by the leading consulting firms. While quick fixes ensuring a short-term survival (mostly financially based cost-saving measures) are an essential first step, a longer-term success lies in the effective adoption of the scenario-planning techniques, active competitors intelligence and a proactive attitude to restructuring through a combination of mergers, acquisitions and divestment decisions.

Key words: economic downturn, crisis, competitive advantage, strategic choice

Abstrakt: Příspěvek je zaměřen na popis a hodnocení strategických možností pro podniky s dostatečnými zdroji k využití příležitostí plynoucích ze současného hospodářského poklesu. Teoretický rámec vychází ze dvou převažujících přístupů k tvorbě konkurenční výhody a praktická doporučení strategických tahů jsou odvozena z nedávno publikovaných příspěvků špičkových poradenských firem. Rychlé reakce na ztížené podmínky podnikání (orientované na opatření ve finanční oblasti) jsou jen prvním krokem k zajištění existence; dlouhodobější úspěch závisí na efektivním využívání technik pro tvorbu scénářů, aktivní analýze konkurentů a na proaktivním postoji k restrukturalizaci prostřednictvím fúzí, akvizicí i rozprodejem.

Klíčová slova: ekonomický pokles, krize, konkurenční výhoda, strategická volba

The global economic downturn brings not only disastrous prospects for some companies, but also unprecedented opportunities for those with sufficient resources to buy assets or to acquire market share on attractive terms. The ability to take the advantage of the current conditions depends largely on the strategists' recognition of changing the patterns of behaviour. There is a plenty of evidence that the old pattern has reached its limits and the worst way forward is to do more of the same. Surprisingly, a high proportion of companies is, however, building their budgets and investments plans on the assumption that they will return soon to their top performance levels. Now more than ever, the companies try to generate quick savings in order to ensure a short term survival. These include the familiar measures related to liquidity management, secured short-term funding, working capital, streamlining of capital expenditures, cost reducing contingency plans, protection of funding and capital base and extracting value from suppliers. This articles focuses on the longer-term measures developed on the theoretical underpinnings of various sources of competitive advantage.

OBJECTIVES AND METHODS

The article draws on the publications released recently by three of the top consulting companies in the area of strategy (based on rankings produced by Vault Inc. for the year 2009). The companies in focus are No. 1, 2 and 4 respectively in the Vault ranking: McKinsey & Company , Boston Consulting Group, Inc. and Booz & Company. The objective of this article is

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to assess by the means of a comparative analysis the strategic recommendation issued by the selected consulting companies. The articles under considerations are related to the topic of economic downturn and have been published in the first quarter of 2009.

RESULTS AND DISCUSSION

Strategy and competitive advantage – theoretical frameworks

The goal of many business strategies in general is to achieve competitive advantage (Tomšík 2007). In order to possess competitive advantage, a firm has to sustain profits that exceed the average for its industry. Over the years, various types of business strategies have been identified (see for instance: Porter 1980; David 2002; Thompson 2001), however, Porter's generic strategies remain the most commonly cited in various strategy texts. Porter (1980) developed three generic strategies that can be used singly or in combination to create a defendable position and to outperform competitors. The strategies are: overall cost leadership, differentiation and focus on a particular market niche. Porter states that these strategies are generic because they are applicable to a large variety of situations and contexts.

Porter's generic strategies are known as a source of positional advantage since they describe the firm's position in the industry as a leader either in low cost or differentiation. The resource-based view (Barney 1991; Grant 1991; Peteraf 1993; Rumelt 1984; Tichá, Hron 2006) on the contrary emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in the superior value creation. According to the resource-based view, there can be heterogeneity on the firm level that allows some firms to sustain competitive advantage. The resource based view of firms is based on two main assumptions: resource diversity and resource immobility (Barney 1991; Mata et al., 1995). According to Mata et al. (1995), these assumptions are defined as:

- Resource diversity (also called resource heterogeneity) pertains to whether a firm owns a resource or capability that is also owned by numerous other competing firms, then that resource cannot provide a competitive advantage.
- Resource immobility refers to a resource that is difficult to obtain by competitors because the cost of developing, acquiring or using that resource is too high.

These two assumptions can be used to determine whether an organization is able to create a sustainable competitive advantage by providing a framework for determining whether a process or technology provides a real advantage over the marketplace. Therefore, the resource-based view emphasizes the strategic choice, charging the management of the firm with important tasks of identifying, developing and deploying key resources to maximize returns. Abnormal returns according to Barney (1991) can be generated by resources meeting the following criteria:

- Valuable – A resource must enable a firm to employ a value-creating strategy, by either outperforming its competitors or reducing its own weaknesses (see also Amit, Shoemaker 1993).
- Rare – To be of value, a resource must be by definition rare. In a perfectly competitive strategic factor market for a resource, the price of the resource will be a reflection of the expected discounted future above-average returns.
- In-imitable – If a valuable resource is controlled by only one firm, it could be a source of a competitive advantage. This advantage could be sustainable if competitors are not able to duplicate this strategic asset perfectly (Peteraf 1993). An important underlying factor of inimitability is causal ambiguity, which occurs if the source from which a firm's competitive advantage stems is unknown (Peteraf 1993).
- Non-substitutable – Even if a resource is rare, potentially value-creating and imperfectly imitable, an equally important aspect is its lack of substitutability (Dierickx and Cool, 1989).

The above described two major theoretical streams taking into consideration structural aspects of the industry and/or the firm's resources and its competence might be, however, insufficient when disturbances in the business environment are of a substantial magnitude and need thus more elaboration to derive actions for businesses to survive market volatility.

Strategic actions for sustained success

Structural factors of the current economic downturn have created opportunities for firms with sufficient resources to exploit the conditions, where the old patterns vanish (and wipe out some firms along) and new ones emerge. Rumelt (2009) suggests first several quick fixes for the immediate survival and second actions to benefit from the new patterns. Based on comparative analysis of the articles published by leading consulting companies in the first quarter of 2009, the following actions are recommended:

- **Application of the scenario-planning techniques**: Despite the fact that the scenario planning has been around for decades, it is still a niche toll applied for strategy development. Scenarios are helpful in developing ideas about future developments while facilitating the operationalization of a wide range of possible outcomes in the unprecedentedly complex, uncertain and speedy changes brought about by the credit crisis. Bryan and Farrell (2009) suggest four scenarios (Regenerated global momentum, Buttered but resilient, Stalled globalization, The long frees) based on the following assumptions:

(1) Global credit and capital markets reopen and recover against the Global Credit and capital close down and remain volatile

(2) Severe global recession against Moderate Global Recession.

They also suggest that the potential winners are the firms assessing the alternative scenarios honestly, considering their implications, and preparing accordingly.

– **Anticipation of the competitors' strategies**: Competitive intelligence promotes faster, effective and insightful decision making. Especially the extent to which the current crisis has revealed a tremendous rate in the interdependency of business implies that the success of a firm's strategy often depends on the strategies of its competitors. The ability to anticipate the competitors' strategic moves is therefore essential and similarly to the above mentioned scenario-planning techniques often neglected. Competitors' analysis has to be carried on two levels: organisational and individual. The organisational level analysis reflects the theoretical underpinnings of resource-based view and builds on the notion that different endowments imply different strategies even in the same general market environment. The individual level analysis aims to find out the conformity of the competing firms' objectives and the objectives of their decision makers. The focus is therefore on the assessment of the preferences and incentives not only of the key decision-making players: owners (and other important stakeholders) and top-level managers, but also – in decentralized firms – the general managers and even the frontline employees. Courtney, Horn and Kar (2009) suggest the following four-phase competitor insight loop for this purpose:

(1) Listen to your competitor: Gather the basic competitive intelligence – what are the competitors saying?

(2) Think like a strategist for the competitor: What are its assets, capabilities, market positions? How might it protect, extend, and leverage them?

(3) Think like a decision maker for the competitor: Who is the likely decision maker? Are the decision makers´ interests aligned with those of the company's owners?

(4) Synthesize, learn and repeat: Synthesize the information to the point of view about which moves make the most and least sense for your competitor; Learn from the ongoing indicators and monitoring; Repeat.

– Restructuring (mergers, acquisitions, divestments): The economic downturn creates greater opportunities for corporate buyers to generate superior values. It is the best time to take advantage by the acquisition of assets of the distressed competitors at the bargain-basement prices. According to the BCG research, downturn deals have a higher chance of creating value for buyers than the upturn deals. In fact, the downturn deals are twice as likely to produce a long-term return in excess of 50 percent. This additional value is not generated purely from "buying low and selling high" but from the acquirers unlocking the hidden fundamental value through operational improvements. On the other hand, it is also time to make the divestment decision: the golden rule here is to make the decision fast enough to precede the competitors in similar moves and also to avoid the financial distress eliminating any bargaining power. In downturn, companies generally desire a greater focus yet hesitate to divest at depressed prices, even as the lagging businesses fall further and further behind.

CONCLUSIONS

The economic downturn requires a recession-specific set of actions to assess and seize a range of strategic opportunities. Companies with weak cash flow, high funding needs, poor ratings, high cyclical risks, or unstable investor bases are at the particular risk of a takeover, providing on the other hand a valuable opportunity for stronger players in the market to access resources enhancing the competitive edge of the buyers. In order to create value for the seller, alternative options for sale should be developed including a sale to peers, payment in stock instead of cash, or a spinoff in which the shareholders receive split shares as compensation. Recessions are also a good time to acquire talents as many companies opt to cost savings by employee reductions.

In general, there is a vast range of opportunities even in uncertain times for companies not only to sustain their competitive advantage but even for developing new sources of their competitiveness. The likely winners will take the countercyclical approach to capital expenditures, research and development and advertising – any action which will prevent them from repeating the old models under new circumstances.

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