

Strategy related factors of business entity structure and behaviour

Faktory struktury a chování podnikatelských subjektů ve vztahu k jejich strategii

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Abstract: Each business entity in a turbulent environment aims its behaviour towards achieving defined strategic goals. Strategy formulation means a process towards achieving a model of behaviour which makes use of opportunities in the external environment with optimal use of individual sources so as to satisfy the interests of the main interest groups. The possibility of setting such strategic alternatives is an expression of "health" of a business entity and, at the same time, it is a pre-requisite of success in creating a methodological approach to the selection of the best acceptable variance of solution.

Key words: strategy, alternatives, decision-making process, business entity, external and internal environment, efficient behaviour

Abstrakt: Každý podnikatelský subjekt v turbulentním prostředí směřuje své chování k dosažení svých vymezených strategických cílů. Formulace strategie představuje proces k dosažení takového modelu chování, který využívá příležitostí ve vnějším prostředí při optimálním využití jednotlivých zdrojů tak, aby byly uspokojeny zájmy hlavních zájmových skupin. Možnost vytvoření alternativ strategie je výrazem „zdraví“ podnikatelského subjektu a je zároveň podmínkou úspěchu ve vytvoření metodického postupu pro výběr nejpříjemnější varianty řešení.

Klíčová slova: strategie, alternativy, rozhodovací proces, podnikatelský subjekt, vnější a vnitřní prostředí, efektivní chování

INTRODUCTION

Changes, being the only constant values of the today's turbulent environment, are the cause of necessity to seek the business entities' "health" factors as an expression of their mutual homeostasis with the external and internal environment. The business entity health diagnosis, proposals of change in the business entity strategy, and the selection of the best suited variation of the selected strategy have become not only a part of the strategic decision-making of managers but also a part of their everyday diagnostic activity. This contribution, produced as a realisation output of the Project NAZV QF 3261, stems from the preceding realisation output. The business entity health diagnostics (Hron 2004) is a methodological starting point for the selection of a suitable business strategy.

METHODS

The objective of the present contribution is an approach framework for the business entity behaviour model stemming from the methodology of a business entity health diagnostic process (Hron 2004), organisation balance analysis (Hron, Macák 2005), with a particular focus on the approach to a suitable strategy selection. Methods of the theory of organisation systems and quantitative and qualitative analyses of projects in the teaching subjects in "Strategic management", "Management", "Business operation and economics" and "Theory of management" have been the main focus in the teaching programmes at the Faculty of Economics and Management at the Czech University of Agriculture in Prague.

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RESULTS AND DISCUSSION

The project of a business entity and its behaviour model requires, above all, team work and respecting the phase approach. The analyses results thereby obtained suggested that the project be structured in 10 phases:

Business entity identification

This fundamental and starting phase should include

- business entity establishment initiative;
- its capital and technical availability or equipment;
- existence of interest groups.

A particular definition of the interest groups is of great importance as the extent of the satisfaction of their needs and requirements is a criterion of success of the given business entity.

FORMULATION OF VISION AND OBJECTIVES OF A BUSINESS ENTITY

The mission of a business entity is an integral part of a strategic focus which sets the reason and sense for which the given business entity exists. Generally, they are the vision and mission of the business entity, in a more concrete sense they are the intention and objectives. All these elements of the strategic focus of a business enterprise are arranged hierarchically (Figure 1).

Vision of a business entity indicates what a business entity should be; it is focused at the future, it represents aspirations without any detailed specification of the ways and means of their fulfilment.

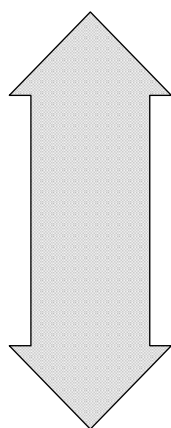
Mission of a business subject is a formulated and written vision. The vision verbalisation means its relative concretization and formulation of answers to questions, such as

- What is the reason of the existence of a business entity, its sense?
- Which obligations the business entity has to various interest groups?
- What emphasis should be put on the satisfaction of the interests of separate interest groups?
- What is unique in our business entity?
- Which changes may take place within the future 3–5 years?
- Who is the main client, which market segment?
- Which are the main products of the business entity today and in the future?
- Which are and which will be its most important economic interests?
- Which are the fundamental values and norms of the business entity?

Intent of a business entity is another step in the vision concretization. This include financial and non-financial interests of various groups on both motivational and viability levels.

Objectives mean an operational definition of the intentions. They define the relatively general conclusions and they define accurately what must be achieved so as to make the conclusions realistic.

Integrating



Specific

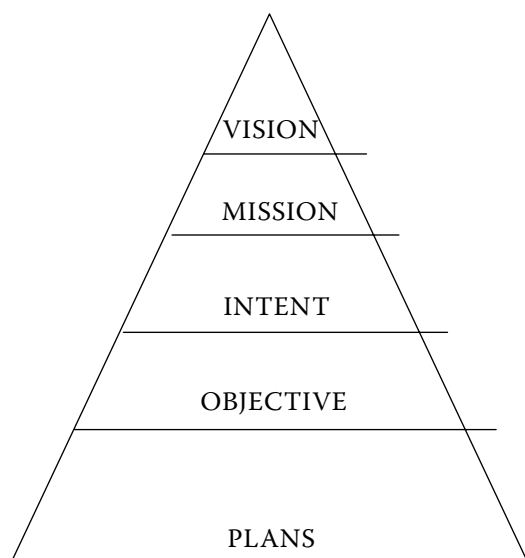


Figure 1. Business entity strategic focus

Plans are a concrete description of ways of achieving the goals, including ways, terms and personal responsibilities, business entity source allocation, etc.

The mission defines why a business entity exists, and it is a guideline for what it should do. The formulated mission of a business entity is an important element of strategic management as it provides the managing workers as well as the rank-and files with a clear awareness of the purpose and a feeling of appurtenance with the business entity, it is the driving force, an “invisible hand” which directs the business entity in its development. The mission, objectives, strategies and even the culture must be modified with respect to the changes of the above elements. Consistency amongst these five elements is an everlasting task.

External environment analysis

A successful development of a business entity is based upon the establishment of a homeostasis with the internal and external environment and that is why its thorough understanding and its qualitative and quantitative assessments are inevitable (Hron 2004). The external environment characteristics depend upon the definition of the relevant factors of the environment which can affect the business entity.

The business entity external environment is simply anything that is outside the entity, however, for the needs of a strategic analysis only those circumstances are important that have a direct effect upon the business entity (i.e. the relationship between the circumstances and the business entity).

The individual circumstances can be divided into four segments, as follows:

Social segment

(involving circumstances of the way of life, including life values)

The object of an analysis can be, for instance

- demography
- income distribution
- population mobility
- lifestyle
- education level
- approach to work and leisure time

Technological segment

(involving circumstances related to the development of the means of production, materials, processes, know-how)

- The analysis is concerned, for instance, with
- government expenditures for research and science
 - new discoveries, inventions, patents,
 - technology transfers
 - rate of ageing of the means of production

Economic segment

(involving circumstances such as cash flow, goods, services, information, energies)

The analysis deals with, for instance

- GDP development trends
- business entity life cycle
- funds availability, interest rate
- inflation
- unemployment
- energy availability and costs

Political (administrative-legislative) segment

(involving circumstances connected with political power distribution, including local and foreign governments)

The analysis takes into account

- government stability
- foreign trade regulation
- tax policy
- competition legislation
- environment protection

The analytical model presented in Figure 2 is a blueprint for the external environment detailed analysis.

Internal environment analysis

Harmony between the business entity and the internal environment is in fact a result of the harmony between the exploitation of the business entity's resources and its processes with the environment development trends (Tichá 2001). The analysis involves:

- Analysis of the level of processes, the level of the current resources and their arrangement (in case of restructuring).
- Analysis of the potential resources and processes (in case of a new project).

The internal environment analysis conclusions make a basis for the definition of the business entities' strengths and weaknesses which can be related to the external environment and which can be used for the assessment of the future success in mutual relationship, such as with the application of a SWOT analysis.

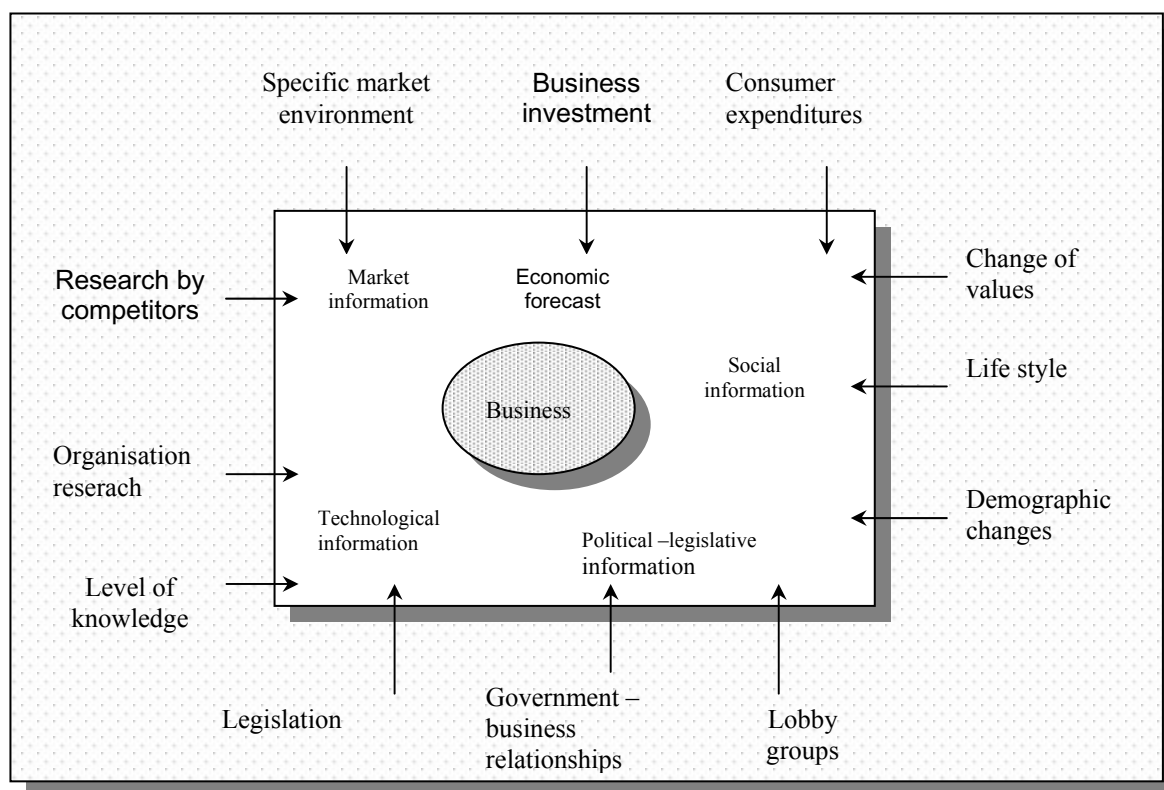


Figure 2. External environment analysis model

Source: Hron 2003

Among the internal environment circumstances belong, e.g.:

- type of ownership relations
- level of natural and technical resources
- level of technological processes
- manual workers' qualification
- marketing management level
- structural arrangement of separate elements

Determining fundamental resources and processes

The ultimate behaviour of a business entity is a function of its structure, of the level of separate pa-

rameters characteristic of technical and human elements, of their system arrangement and managerial interconnection (Hron 2003). Such a relationship can be simplified in the following chart and a quantitative relationship (Table 1).

The quantitative relationship of the above variables is given by the equation

$$e = \frac{c}{1 + C(F + R)} \times a$$

where:

- e - variable of ultimate behaviour
- a - variable of external environment
- $F = 1 - D$ - variable of business entity
- $R = 1 - M$ - variable of marketing management
- C - structural variable

Table 1. Business entity ultimate behaviour

Extrenal environment a		
	Natural, technical and human resources – a structural variable	C
System of organisation of business entities (firms)	Company management variable	D
	Marketing management variable	M
Ultimate behaviour		

Determining the organisation arrangement

The organisation arrangement of business entities depends upon the level of factors of the establishment of organisation and management units (Hron 2004).

Defining basic organisation norms

The proposed structural and process arrangement must be formalized, the individual organisation norms must be defined so as to make the project realizable and viable.

Selecting suitable project and strategy variations

One of the fundamental requirements of strategic management – preparing for the future using the potential of the present – requires generating of

alternatives which will make it possible for the business entity to acquire and strengthen its position with respect to future development. As the external environment changes are rapid and frequent, the structure of threats and opportunities changes constantly with them which requires to generate sufficiently quickly strategic alternatives as a first step in responding to the changes (Figure 3). Among the elementary principles of setting alternatives, there are:

- *Variability of suggested alternatives*
Only a wide scope of suggested alternatives allow to emphasize the high qualities of some of them through mutual benchmarking. In the process of benchmarking, the list of the alternatives usually dwindles since some of them appear to be merely other alternatives of the given topic.
- *Difference between the set alternative and current strategy*
A need to assess the current strategy in the process of determining its difference from the suggested strategy is an asset among others.

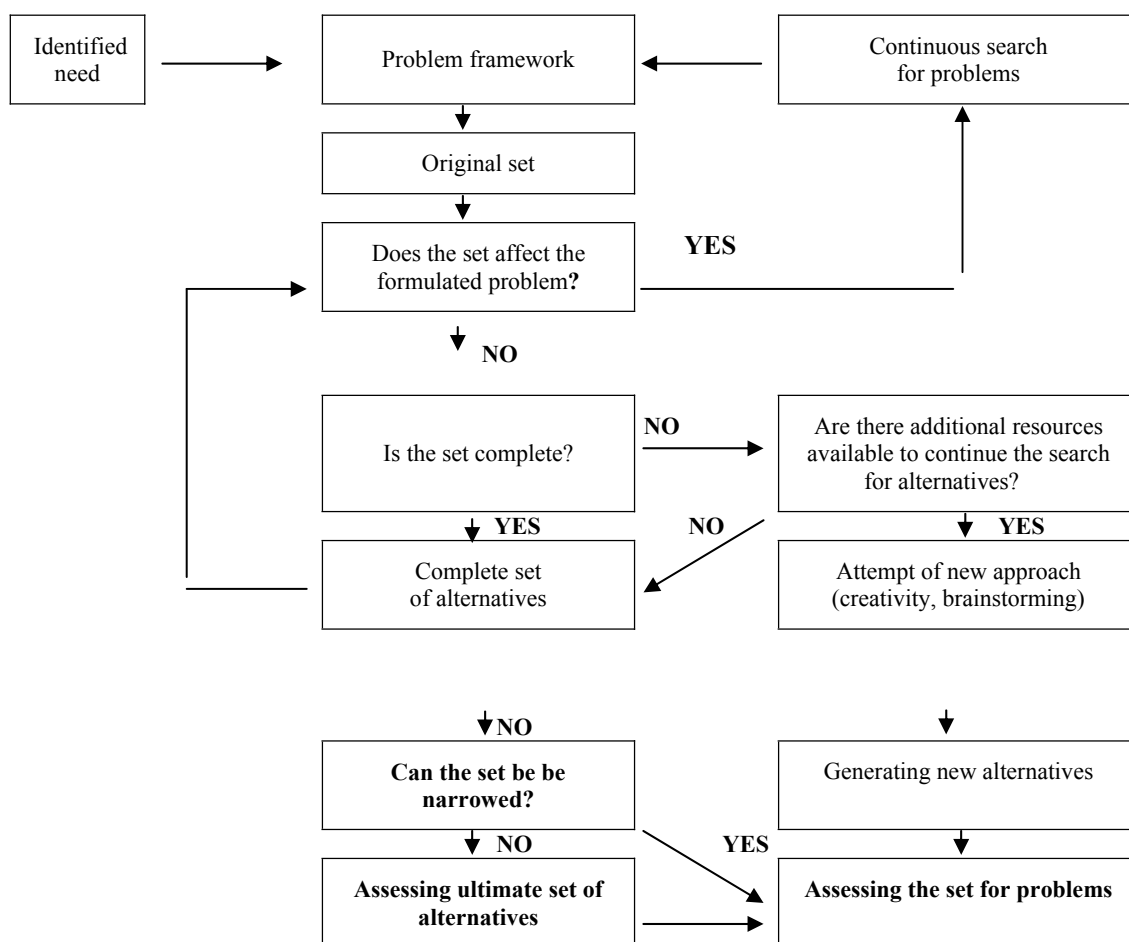


Figure 3. Alternatives generation process model

Source: Hron 2004

– *Implementation inconvenience*

The easier the introduction of the alternative way the less the probability for the suggested solution to leave the current behaviour form.

– *Relation to set objectives*

Inventive and ambitious alternatives often result in increased expectations and objectives. Even a new formulation of long-term objectives may be among the consequences.

Generating alternatives is not a simple linear process. The assessment of different alternatives can result in a change of criteria for strategic decision-making. If such a change takes place, a new set of alternative solutions must be produced (Figure 4).

Set objectives achievement trajectory definition

A concrete example of achieving the set objectives can demonstrate quantitative relations of the

ultimate behaviour of business entities and the time delay (Hron 2005).

$$e = C[a - (\Delta_r a + \Delta_r a)]$$

$$= C[a - (Fe + Re)]$$

Of that

$$e = \frac{C}{1 + C(F + R)} \times a$$

where:

- e – ultimate behaviour variable
- a – external environment variable
- $F = 1 - D$ – business management variable
- $R = 1 - M$ – marketing management variable
- C – structural variable

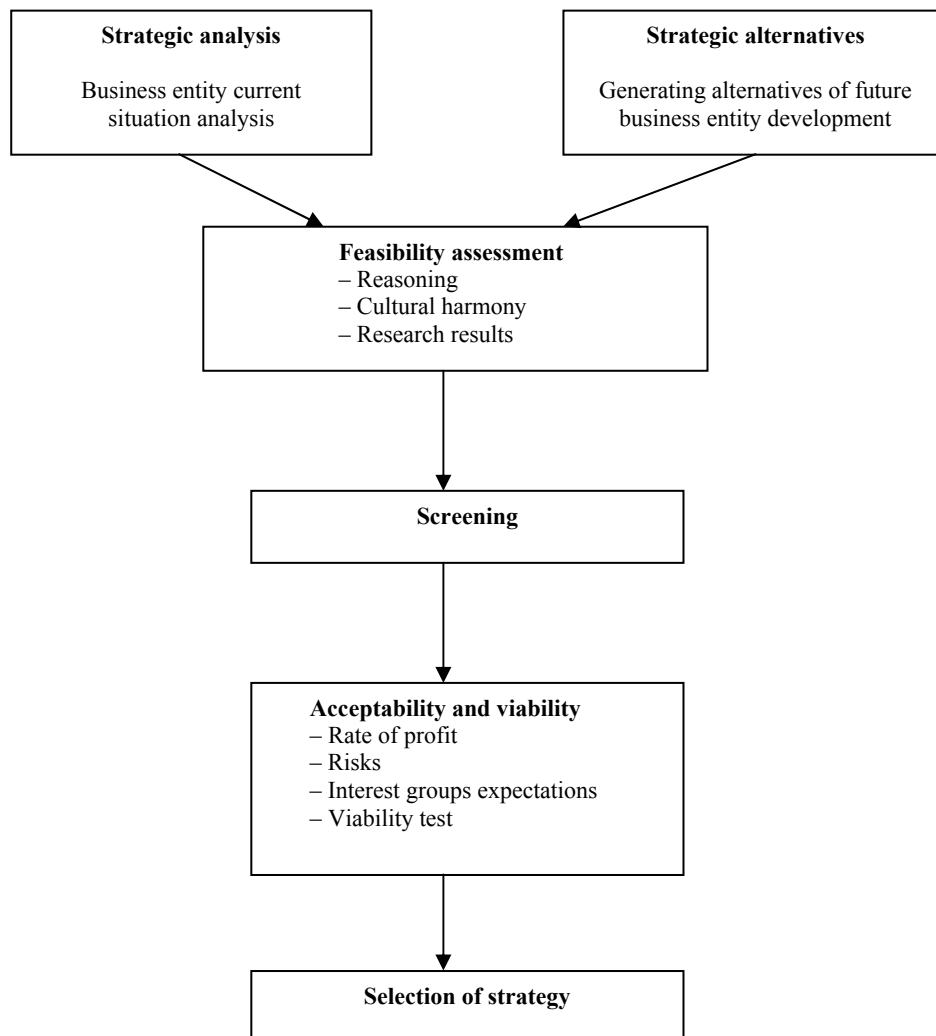


Figure 4. Strategic alternatives assessment framework

Source: Hron 2004

Table 2. Strategic alternatives selection grid

FAKTOR	Weight	Strategy X		Strategy Y	
		SA	CSA	SA	CSA
Strengths					
1.	3	4	12	2	6
2	4	3	12	4	16
Weaknesses					
1.	2	–	–	1	2
2	2	3	6	2	4
Opportunities					
1.	4	3	12	2	8
2	4	–	–	4	16
Threats					
1.	1	4	4	1	1
2.	2	3	6	4	8
Total			52		63

Degree	Activity score	Internal environment	External environment
1	not acceptable	principal weakness	weak enterprise response
2	potentially acceptable	unimportant weakness	average enterprise response
3	probably acceptable	unimportant strength	above average enterprise response
4	highly acceptable	principal strength	outstanding enterprise response

Notes: SA = activity score, CSA = total activity score (weight x SA)

Source: Hron 2004

$$e_t = \frac{C \times a}{1 + C(F + R)} - [C(F + R)]^t \times f_o$$

where:

e_t – ultimate behaviour variable in relevant year

f_o – initial deviation of ultimate behaviour from target state

$$t = \frac{\log f_t - \log f_o}{\log [C(F + R)]}$$

where:

f_t – ultimate deviation of targeted ultimate behaviour

Strategy implementation

Strategy implementation is the most complex phase of the strategic management process and it is of paramount importance for the success of the selected strategy. This phase is very closely linked with the

strategy formation (as early as in the process of the strategy formation, the possibilities of its implementation must be accounted for) and yet it varies substantially in a number of aspects (Table 3).

Strategy implementation may involve such processes as: market change, new organisation units establishment, production capacities closedown, new labour recruitment, price policy changes, remuneration system change, new check-up procedures introduction, new facilities construction, labour re-qualification, manager transfer within enterprise, introduction of an information system, etc. There is no uniform approach; implementation of a particular strategy depends upon the type and age of the enterprise, upon the type and age of the market, upon the resources available, and upon a number of other circumstances which make the implementation of any strategy a unique operation.

Adequate exploitation of the business entity's personnel potential is of fundamental importance for the successful strategy implementation. The suggested

Table 3. Comparison of strategy formulation process and its implementation

STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
Allocation of forces prior to action	Forces management in course of action
Process aimed at merit	Process aimed at efficiency
Process primarily intellectual	Process primarily operational
Need of intuition and good analytical competence	Need of skills in human resources motivation and management
Coordination of several individuals	Coordination of a number of people

strategy can be successfully made viable only in mutual harmony of the roles of the managers and leaders.

CONCLUSION

Quantitative and qualitative analyses of structural arrangement of business subjects, factors and standards and their resulting behaviour prove clearly that each business enterprise is a unique entity. Its managers' qualification plays a decisive role.

The well known equation holds invariably: efficient behaviour of business entities depends upon the qualification of its managers who have the know-how, the will, who are able and can keep pace.

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