

# STRATEGIC MANAGEMENT (from the Viewpoint of the Professor and of the Consultant)

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## Abstract

The paper describes the experiences of the author about strategic management, obtained principally in Hungary. From the viewpoint of the professor, it deals with the structure of the subject-matter and with the issues of transferring knowledge, describing the author's related experiences. The consultant describes his impressions obtained about the practical implementation and about the domestic culture of the strategic management, keeping in view, that elimination and correction of the existing insufficiencies may also be of assistance to improve efficiency of the education.

*Keywords:* strategic management, management consulting.

## 1. Introduction, Outlining the Subject

In this paper I wish to sum up my own - mainly domestic - experiences concerning strategic management. I came in contact with this subject in two respects:

- from one hand, as a university professor, lecturer of the subject of this title in the frame of postgraduate education;
- from the other hand, as a business management consultant, from the practice of the Hungarian enterprises.

In my quality of university lecturer, I deal with the structure of the subject, with the problems of transmitting the knowledge, and I describe my experiences in this connection. As an advisor or consultant I publish my impressions about the domestic culture of the strategic management, of its practical application; elimination and correction of the insufficiencies attributable to this, may also be helpful in rendering the education more successful. However, before starting the analysis, I would like to give short interpretation of the concepts I will be using, without entering into the difficulties of definitions.

The *strategy* is a comprehensive system of purposes and means, allowing under the changing external conditions or despite of them to attain our

goals and to make available the required qualified personnel and suitable procedures and devices, ensuring their co-ordinated operation.

The *strategic planning* aims at establishing the strategy. This includes:

- analysis of the surroundings;
- working of the corporate philosophy (its general orientation for the future);
- description of the system of purposes;
- evaluation of the corporate abilities and resources;
- definition of its scope;
- elaboration of alternative actions for attaining the goals;
- distribution of the resources.

It should be strongly stressed that strategic planning differs basically from the former planning called medium term (3 to 5 years) or long term (10 to 15 years) planning. It is not about a once for all description of a supposed future, not about the most accurate possible definition and documentation of the future sales possibilities and of the production programs necessary to their realisation.

In its centre there is the determination of the system of purposes and the definition of the corporate action alternatives in reaction to the challenges of the surroundings. Time limit of the strategic planning depends on the scope of activities. In case of quickly changing industrial branches, 1.5 or 2 years may be considered as a strategic interval, while for an enterprise active in a branch with stable demand and requiring slowly amortising production means, this interval could eventually attain up to 10 or 12 years.

The *strategic management* is of course more than the strategic planning, as it includes also the various tasks of execution. From among them the following tasks are to be mentioned:

- perception of the necessity of changes;
- decision about method and fields of changes;
- performing of the various marketing, technical, financial, organisational, educational, informational, etc. actions and projects determined by the plan;
- carrying out of the necessary organisational, structural changes;
- control of the interventions and of the execution;
- motivation of the people executing the tasks;
- overcoming internal and external resistance against changes.

It should become part of the management's attitude, that it is the strategic aim, the system of goals, which are fixed, while the management has to take previously not planned decisions in accommodating oneself to the changing circumstances or in possession of eventual new information.

That means, the management has to act flexibly, knowing and using the strategic plan as a general rule. It is quite natural that several changes, modification of previously decided actions are required, but these have a relatively small influence on the main strategic goals.

## 2. Teaching the Subject Entitled 'Strategic Management'

### *2.1 Development of the Subject*

The teaching of the subject entitled 'Complex Business Planning' has been started at the beginning of the eighties. This coincided with the attempt of the economic administration to evoke proprietary behaviour within the state-owned enterprises. This was intended through establishing factory councils and transferring some of the proprietary rights to the corporate level. After all, this attempt ended in failure. It yielded, however, strengthening of the demand on independent activity and independent decision making in the sphere of enterprises. As a natural consequence, this also implied recognition of the need for planning on its merits. Planning and acquiring the relative knowledge became more important than they were previously. The competent special literature and experiences of the developed countries became of common knowledge and both theory and practice of the strategic planning were given a greater emphasis within the subject-matter of our instruction. Beside the key works of ACKOFF, AN-SOFF, HINTERHUBER, HUSSEY, NEUBAUER and PORTER, also high quality Hungarian literature was created in this subject by BARAKONYI, CSATH and MÉSZÁROS.

In the frame of postgraduate education, *the subject of strategic planning has been connected with innovation planning and innovation management*. Our students, having a basic education in engineering, could probably sense more strongly the need for strategic thinking through this approach. For four or five years, the subject of innovation was given a primary role within the sphere of economic administration; programmes directed by ministries, social organisations for supporting innovation were established and competitions conducted for supporting special inter-university educational projects.

Works of the most important authors, some of them we have mentioned before, were of course included in the subject-matter of instruction, but surroundings favourable for innovation also made it possible to prepare case studies of the domestic experiences and to include them, too, into the instruction. Thus, our proceeding for ambient analysis, based principally on team-work, has been elaborated. Also scenario technics, as a procedure for identifying the system of goals, became easier and more intelligible

for the planners within the frame of the creative team-work. These issues were connected to the creation of the information base for portfolio analysis. The combination of methods has also been used within portfolio analysis; we have succeeded in supporting the team-work with personal computers, thus allowing evaluation and comparison of the single alternatives in a quick and expressive way. Computer aided team-work has been successfully applied also for action planning during our practical activity.

### *2.2 Content of the Subject-matter 'Strategic Management'*

Political and economic changes of regime ensured at the end of the eighties, privatisation of the state property, entry of the foreign investors and last but not least our direct contacts with Western European and American universities required transformation of the educational structure and of the subject-matters of instruction. As a result, the subject-matter '*Strategic Management*' has been formed in consideration of the international MBA standards.

The subject-matter of instruction is based on several elements. It relies on the international competent literature (DESS-MILLER, THOMPSON-STRICKLAND, PORTER) and also on the high standard work of the co-authors BARAKONYI-LORANGE, written in Hungarian language, also applicable as a text-book. Besides these external resources, we have deliberately laid particular emphasis on including in the subject-matter of instruction also the knowledge accumulated during departmental educational and research work, taken from the Hungarian experiences and reflecting them. Thus our strategic management procedure – already described previously under the subject 'Complex Business Planning' –, combining the various team methods and computer assistance, has been also included.

*Itemised subject-matter* of 'Strategic Management' in the session 1995-96 within the speciality manager/economist-engineer includes the following issues:

- Formation and structure of the strategic management. Evolution of the strategic thinking. Diverse classifications of strategies.
- Overview and critical analysis of business planning. Introduction of the various planning systems.
- Model of the strategic planning. Levels of the strategic planning. Interconnection of strategy and tactics. Solutions in the corporate practice.
- Procedure of the strategic planning, stages and their cyclical character. System of conditions of planning.
- Overview of information required for the foundation of strategic planning; their acquisition and processing.

Methods of strategic analysis. Analysis of the ambient and of the competitors.

- The system of strategic goals, composition of the mission and philosophy and their practical importance.
- Analysis of the strategic position, overview of the diverse analytical methods.

Introduction of the portfolio models, of the SWOT analysis and of the life-curve analysis, their connection to the various planning levels. Analysis of case examples.

- Planning of strategic actions. Interconnections between the analysis and action planning work, analysis of causes, effects and consequences.
- Concept and scheme of the strategic management. Interventions of the administrative system.

Structuring of the interventions on the base of goals and position.

- Practice of the implementation of the strategy. Performing actions, interconnections between project planning and strategy. Assessment of economic effects of the interventions.
- Management of changes. Interconnections between management of changes and strategic management.
- Concept of the strategic controlling; theoretical and practical issues of attaining the goals and evaluating performances.
- Interconnections between the strategic management and the corporate system of interestedness and incentives.

Individual and group interest.

Evaluating performances.

- Interconnections between corporate organisational structure and strategic management.

Strategy of organisational development.

- Human resources of the strategic management.

Leaders and strategists, experts and consultants in the practice of strategic management.

- Interconnections between corporate culture and strategy.
- Some issues of the macro-level strategies. Industrial, national, regional and international strategies.

It may be seen from this enumeration, that we conceive the strategic management as a subject-matter of integrative character, dealing also with the issues, connected with the strategy, of the organisational development, establishing the proper system of incentives, interestedness conditions, or of the connection between culture and strategy, besides handling the planning and implementation of the strategy and the indispensable controlling issues.

This integrative character is also represented in the fact that a strategy may only be conceived by integrating knowledge of various view-points,

thus all marketing, technical, financial and human considerations are to be present simultaneously, complementing each other. It is easy to see, without any special argumentation, that developing such a compound, multidisciplinary professional skill is only possible with the collaboration of a leader experienced in team-work. Therefore, under discussion of the methodology issues we give a priority to the introduction of team-work methods.

Comparing our instruction to the programmes of the Western European or American universities, we have to call the attention to one difference. Within the instructional practice of these countries, processing of the case studies receive a greater emphasis, than in ours. Of course, acquisition of the systematic knowledge obtained during elaboration of the case studies, modelling methodically well deliberated, typical and enlightening situations, involves considerable advantages. However, majority of the case studies described in the literature cannot be applied at all, or only with great difficulties to the domestic conditions. Therefore, in the actual stage it is our endeavour to enlarge and to complete our repertory of case examples well adapted to the Hungarian surroundings with the collaboration of our students. This was the reason, why among their study requirements the students have to prepare some practical example, possibly in small groups, making also a presentation of it and jointly analysed and evaluated. Didactic advantages of the well established case studies, pointing to the lesson are lost, however, preparing a work alone and the implied creativity may compensate the disadvantages.

During the instruction of the subject until now, I have been confirmed in my belief that handling of the real management issues is to be particularly stressed. We have to care for their presentation and analysis, and to ensure that students understand their interconnections. It must be our principal aim that they perceive the integrating character of the strategic management, moreover, they be able to apply these attainments in their own practice. It must be prevented that duties connected with carrying out the real management functions be passed over.

The conception of the corporate identity, mission and system of goals is of capital importance. However, it is worse than any charlatantry doing this without methodically studying the corporate culture and assessing all limitations and restrictions following from it. It must be conceived and respected that action planning also implies project planning, but successful implementation of a project depends not only on the properly selected managing style, but also on conscious handling of the resistance against changes and on applying the proper incentives adapted to the single case. Different part systems have to persist and operate side by side within the complete corporate system. Different management style and organisational forms are required during managing the research and development, than

for example during operating a production system requiring a technology particularly dangerous to the life and property. Or even time limits of implementing the various development actions may considerably differ from each other; some of them requiring some months while others several years. They are to be dealt with in a sensitive way. And also acceptance of all these differences by the corporate ambient has to be ensured. It is the duty of the manager steeled with the strategic management knowledge to make clear and to have accepted that diversity is not disorder or sign of anarchy, but a purposeful activity directed by the management.

Several further experiences of the professorial work could be enumerated, but I only wish to deal with the examination. When establishing our examination method we have to take into consideration the international practice. Written examination, allowing a relatively objective judgement, enables control of the positive knowledge, from the one hand. However, there is a group of tasks within the written examination, allowing a control of the ability of independent application. We try to increase the complexity of the examination by making possible in defined cases that the small team-work and presentation affect the mark.

### 3. Strategic Management in the Consultant Work

It is considered a basic value in our faculty for already several decades that the subject-matter of instruction is directly connected to the corporate practice; a symbiosis between the consultation issues and the instruction has to be established. In this way, both development and satisfaction of the verification need are ensured. Besides this internal – we may say university or scientific – expectation, there is also a strong requirement from the side of economic players, too: they want to know the new management methods. Because of the openness of the Hungarian economy, as well as of the preparedness of the industrial managers, the new management methods are introduced in the domestic business life with a relatively small delay. This situation already existed in the seventies, and it became more accentuated in our days, when inter-university connections are an everyday practice. It cannot be neglected either that even more big multinational companies are active in Hungary and – as auditors acceptable to them – also consulting companies of international importance make their appearance.

Corporate managers, sensitive to problems are able to perceive that technical, economic, business and marketing proceedings went through changes of such importance and intensity during the recent years, which also the most competent experts could not predict and that the dominant characteristic of the economic life will remain its mutability even in the

years to come. At the same time, these leaders also understand that only the ventures, able to adapt themselves to these changes are susceptible to succeed. This requires frequently modified programmes, new actions, renewed organisations and activities. It may seem a contradiction at the first glance, but it is proved by the example of several successful companies of international importance that a flexible and quick adaptation to the restlessly changing environmental conditions is principally made possible by a corporate management based on relatively steady and stable goals, by following the strategy and creatively applying the strategic management. Having recourse to an analogy: if we wish to cross the ocean, we know in advance the port of destination. During our crossing the wind may turn, we have to make manoeuvres, eventually to repair the ship or to substitute a broken mast, but our main remains to reach the port of destination.

We intended and intend to promote spreading of this mentality through our advisory activity. Our experiences connected with strategic planning and with adoption of the strategic management date back to the middle eighties. Further on we expose some of our experiences of universal character.

### *3.1 About the Progress of Establishing Strategy*

Ensuring acceptance of strategic management is mainly implemented to the same time of establishing the strategic plan, introducing the procedure. This requires a careful organisational work, concerning important, decisive parts of the corporate system. The portfolio analysis, the portfolio matrix make the series of sometimes lengthy and labour intensive procedures of the strategic planning apparent. In our experience, *a combination of methods, laying the main stress on the technics of portfolio planning*, is particularly well suited for familiarise on corporate level. In this way, company leaders and experts become active participants of the formation of the strategy, their information, knowledge is incorporated in the strategy almost before their eyes. Communication becomes direct, the procedure of forming a common will stimulates acceptance of original solutions, differing from the habitual ones.

Initial step of the combination of methods successfully applied by us, consists in composing the so-called strategic planning team. With the help of a team, properly covering all interdisciplinary knowledge, all necessary internal information concerning partly the venture itself, partly its *environment*, the changes coming up within the strategic time limit, and its *competitors* may be obtained relatively quickly and requiring relatively few

co-ordination work. The team's activity will form the base of the further planning work, too.

It is reasonable to draw up the *company's image of the future* and determine the system of goals to be attained, based on the strategic business branches, after identifying them.

In our praxis, the way of approach worked well, when the two dimensions of the *portfolio analysis* were formed by grouping in one of them the requirements characterising the external environment, while in the other one, the conditions describing the company's ambient.

The single *business branches* are evaluated by the team collectively, supported by a computer programme elaborated by us. With its help, the situation within the portfolio matrix may be displayed. The graphic display, the controllability of the evaluation system and the traceability of the evaluation factors' development make the strategic qualification of the various business branches well comprehensible.

In knowledge of the series of goals to be attained, the team may plan the necessary tasks and development *actions*. At the same time, also changes to be attained by the planned actions may be controlled within the portfolio matrix.

The outlined procedure requires a commitment and a strong support from the part of the company's management. Steady contacts between the management and the advisor is a basic requirement, but also the team members have to feel that their work is important for the management. Team members make simultaneously part of the traditional static organisation and of the dynamic planning team. Co-ordination of the activities of different character, finding of the proper balance give frequently rise to conflicts. In such cases, they try to obstruct and to thrust into the background the team-work, requiring mentality and activity differing from the habitual ones, alleging short term, practical duties as a reason. Leading the team-work requires high standard advisory support of a practised moderator, having proper methodical experiences, for the sake of avoiding in time eventual conflicts and deadlocks of the team-work.

### *3.2 Experiences about Relation between Leaders and Management*

The issue of strategy concerns principally the higher levels of the hierarchy. In our experience, leaders of the ventures are fully aware of their role, that is, of the fact they do have important tasks in establishing the strategy of the organisation under their guidance. They recognise and accept that the autocratic leading style cannot be applied in this field. When setting the aims and planning the possible actions, they claim for developing

consultative leading, rely on the knowledge of the management and are disposed to draw into the work even managers staying several steps below them in the hierarchy. As advisors, we have met most problems during *introduction and implementation* of the strategic conception. Leaders usually do not discern, what reactions and oppositions may be called forth in the various members of the organisation by the implementation of the strategy and by the divergence of the habitual way of activity. It could almost be considered a typical reaction that while they accept participation during the planning stage, they wish to resolve tasks subsequently, during implementation, by exercising force coming of their power and possession of resources. During implementation they mean quite an exclusive role for the technocratic guiding means, for regulations and instructions. Even pecuniary incentives, used relatively frequently, are bound to the formal execution of the tasks, to the mechanical performing of duties. We have observed this phenomenon in several cases and tried to offer a methodical assistance to the treatment of the problem. In our experience, however, leaders are hardly willing to deal with this problem. They do not consider their duty to handle with the oppositions within the organisation, they scarcely accept treatment methods based on the behaviourism, not believing in their efficiency. They look for quick success, while rendering attainment of their well defined aims more difficult through erroneously applying the means. Leaders on the second or third level, feeling themselves injured in their interests and in their obtained positions will be no more collaborating partners in the implementation. The higher leader does not comprehend this in a proper way, his next intervention comes again from the position of power, rendering more complete the sense of failure. The leader becomes uncertain, doubting practicability of the strategy and applicability of the strategic management, giving up part of his aims.

In our praxis we have met several similar cases. As a consequence, the leader originally full of ideas, slowly became as insignificant as it was the operation of the organisation, suppressing his ambitions.

This situation is also connected with the fact that leaders usually claim and accept the introduction of some new methods, the assessment of its applicability within the company and the necessary methodical assistance for planning a project, but they *do not require the consultant's assistance in the control of some process*. We have sensed several times that they do not ask for help in such cases, because they consider the recourse to an advice or to a consultative assistance as a query of their role of manager, of their leading abilities. Under such circumstances, they do not admit even to the advisor their incompetence in the given matter. We have experienced this attitude not only with Hungarian managers but also with foreign directors of some joint ventures active on the domestic market.

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