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APPROACHES OF SLOVAK INDUSTRIAL COMPANIES TO DEVELOPMENT OF BUSINESS STRATEGY

1. Strategy in globalisation business environment

Competitiveness of Central European and Slovak companies operating domestic or worldwide is influenced by many factors. The most important are integration of the Central European countries into political and economic structures of EU and globalisation of world economy. Globalisation as ongoing process is directly or indirectly influencing nearly all business activities of companies. Being able to compete successfully in global conditions, in spite of the fact that a company operates dominantly on local or national markets, means that a company must develop such a kind of strategy that is able to face global competitors. Increasing pressures from competitors force companies to develop and realise new and enterprising strategies more accepting conditions of permanently globalising markets.

The term “globalisation” regardless of how frequently it is used is still understood very variously and differently. Globalisation is differently interpreted by experts from economics and social sciences and business people. Globalisation and processes of globalisation in the world economy are discussed variously by authors [1; 2; 4; 5; 9; 11; 13, p. 341] and are linked mostly to following issues:

- liberalisation of world trade and constitutions of political and economic blocks,
- ongoing process of falling down trade barriers relating to free moving of people, goods and capital,
- intensive development and wide implementation of information and communication technologies,
- each point on the earth is easily stricken by physical or communication technologies,
- customer needs unification, products homogenisation and global diversification of offer,

- decreasing influence of national economies and increasing power of multinational corporations.

Reasons leading to processes of globalisation are influenced by different factors which are described in next table (tab. 1). Essential are market, costs, institutional and competitive factors, elements of which was drivers and forces for ongoing globalisation of the world economy.

Table 1. Essential factors of globalisation

Basic factors	Descriptions of basic factors of globalisation
Market factors	<ul style="list-style-type: none"> • Market homogenisation and global market (Golden triangle) made by USA, EU and Japan (equal consumer habits and high purchasing power). • Development of telecommunication and info technologies (high speed data exchange, processing and using information). • Globalisation of distribution channels (international business alliances and distribution structures).
Costs factors	<ul style="list-style-type: none"> • Economy of Scale effects (decreasing of fixed costs, elimination of duplicities, and return of R&D costs). • Economy of Scope (decreasing of costs related to operations in broad geographical scope). • Exploitation of "Experience curve effect" (effect of acceleration and accumulation of knowledge and decreasing of costs with higher production volume).
Institutional factors	<ul style="list-style-type: none"> • Falling down institutional barriers (trade, customs) in frame of GATT and WTO, common markets, free trade zones) • Development of SME's having multinational character in their market segment
Competitive factors	<ul style="list-style-type: none"> • Global competition (high competitive situation also on local markets) • Global strategies (need to react by strategy on local and also global players) • Global strategy marketing and local operative marketing (localisation of global marketing strategies)

Sources: rewrite according to [7, s. 13].

Important is also influence of technological factors, in which the key drivers are innovations in industries. This is crucial in all industries and not only in businesses of telecommunication and information technologies. Rapid global technological development happened in industries of materials and components, production, biotechnologies, energy, aircraft and automotive industry. Crucial for acceleration of the new technologies as driver of globalisation is support of science, research and high education system in develop and industrial countries.

2. Approaches of Slovak companies to development of business strategy

Previous year we realised research focused on approaches of Slovak companies to development of business strategy. This research was part of

broader faculty research project studying economic and business issues of globalisation processes. The subject of our research was approaches of companies operating in Slovak republic to processes of business strategy development in context of influence of global business environment. The research was focused on processes and activities that investigated companies made when they developed their last business strategy and extent of involvement globalisation issues into this process. Objects of our research were companies operating in production industries and with residence in Slovak republic, both owned domestic or foreign owners. Total number of investigated companies was 87 companies. Respondents were owners or managers having participation on last business strategy development and with expectation of next participation when developing new business strategy. Appropriate positions for our research were owners, CEOs, members of board, general and executive directors, e.g. strategy, marketing, finance directors, etc.

Respondents were asked to identify in which phase of process of strategy management is their company now. As the research has shown together 34% of companies are thinking or developing new strategy, 20% is developing functional strategies, 30% is implementing strategies made in previous times and 16% is in the process of evaluating existing strategy.

More than 47% of companies prepared written version of the strategy. Approximately 20% of companies declared existence of strategy, but these strategies are not written and are kept only in the heads of CEOs as ideas or business concepts. Only 13% of companies declared that formulation of strategy is not necessary, but there is still eventuality that these companies applied strategic thinking in running their businesses.

Present dynamic, turbulences and inability to forecast changes in external environment create pressure to companies to reassess business strategy more frequently and to react very flexible to changes in external environment by adapting intended strategy. These changes are more frequent than it was in past times. We investigated that duration of the period for that companies are developing business strategies became shorter from 10 to 5 years. One reason of that is the dynamic of changes is much higher in Slovak republic and Central European countries than in developed countries especially old EU members. Mentioned changes include permanent modification of business law, including approximation to EU legislation, increasing competitive environment because entering foreign investors and increasing prices of key inputs for production. Any change in external environment can influence business by positive and negative way. Respondents in our research were asked to identify positive and negative factors for period of next 5 years. Following table show summary of the most frequently mentioned factors and its frequency in research results (tab. 2).

Table 2. Positive and negative globalisation factors influencing companies

Positive factors	%	Negative factors	%
Enlargement of sales base, e.g. markets, markets entry without barriers	28	Growth of competition in Slovakia, strong competition from abroad	49
More business opportunities worldwide, international cooperation	14	Pressure of buyers to lower prices	24
Flow of new technologies and its easiest accessibility	13	Increasing of input prices, prices of materials, workforces, etc.	14
Opportunity to choose from many suppliers, new suppliers	6	Concentration, joining of big and dying of small and weak companies	17
Free entry to foreign markets, falling down trade barriers	6	Entering of cheap suppliers do not fulfilling quality standards e.g. from China.	16
Stability of prices, exchange rates, energy, elimination of monopoly impact	6	Higher migration of qualified workforce especially with high qualification.	6
Increasing of quality, better services	5	Increasing costs because acceptance of new legislation and its tightening	6
Increasing demand for high quality products and services	5	Decreasing of customer loyalty	5
Development of IT, HW a SW	3	Losing of competitiveness	5
Shorter distribution channels, internet sales	3	Increasing of prices as effect of EUR currency evolvement, losing of buying power	3
Consolidation of industry	2	Increasing of technological and material sophistication	2
Access to EU funding for companies development	2	Pressure on increasing quality	2

Source: own research.

As the most important positive impact of globalisation respondents had seen wider sales base (markets) and possibilities to enter new markets without barriers in administration, totally 28% of respondents. To have more business opportunities joining with international cooperation reflected 14% of respondents. The stream of new technologies was seen by 13% of respondents as positively impacted. Identically 6% of respondents declare that positive impact of globalisation will be a chance to select from bigger base of suppliers, also opening new markets and probability of higher stability of prices and currency. Interesting issue is that importance of IT technologies as one of the symbols of globalisation was not so highly appraise in view of respondents because it was only 3% from all answers.

As the most important negative impacts were seen increasing number and power of foreign competitions. Nearly 50% of respondents stated this. Second negative factor was pressure for decreasing the prices 24% that is in close relation to entering low cost suppliers, mainly from China 16%, but in many cases do not fulfilling domestic or international products or technological standards. Next negative factor is competition from strong and cooperating

competitors and threats of over competing of small and weak competitors. Mentioned factors were marked by 17% of respondents, 14% named threats of increasing the prices of materials, workforce, etc., what will lead to losing of competitiveness of companies.

In interviews we asked entrepreneurs, managers and directors for their expectation of important changes in the industries. Summarising their answers and also papers published in Slovak and international magazines we identify eight key changes, linked to globalisation and influencing Slovak and Central European Companies. The most important are prices of material, energy and workforce increasing. Lower importance was given to ability easy enter foreign markets and development of new markets. Very low probability was given changes connecting with change of industry structure as joining companies, alliances, fusions and mergers.

According the findings described above we think that pressure related to globalisation is permanently increasing for companies and in some industries is very high. Research confirms actual problems of business sector. The companies are losing their competitiveness because entering strong and experience foreign competitors, quick diffusion of know-how, losing effectiveness in production, increasing price level that lead to inability to compete in costs. Until the prices will get European or world level many companies in Central Europe and especially Slovakia lose their key source of competitive advantage. We think that price pressure and influence of cheap product from China and Asia will be permanently increasing. Next factor, we have identified in our research, which is in close relation to cheap prices is acceptance of very low quality products even those that do not match national or technical standards especially in cases that this fact is accompanied with the lowest price on market. Many markets are under pressure of "price spiral" pushing prices down and making unable compete also for those companies that are able fulfil high quality criteria. Quality from the competitive advantage point of view is not privilege but essential condition of success in business. We think that companies which are under mentioned pressures will need to realise internal restructuring to be able sale their production to discerning markets with low price sensitivity.

We asked companies which concrete measures have made yet or are going to realise as their reaction to globalisation processes. We selected eight measures as the most important finding obtained from interviews. These measures covered functions of marketing, purchasing, international cooperation, costs, investment and strategy. In the table 3 we aligned obtained answers according the frequency of the most obtained to the less one.

Table 3. Realised and planned measures as reaction on globalisation

Measures	We have realised it yet	We plan to realise it	Both
Looking for cheap suppliers worldwide	72%	18%	10%
Strong cost cutting to be able decrease prices	56%	20%	24%
Cooperation and alliances with global industry players	51%	45%	4%
Investments into R&D and marketing	40%	52%	8%
Participation on international division of labor into globally operating business	39%	58%	3%
We manage next entry to EU or world markets	34%	53%	13%
Building of strong brand and making it worldwide	27%	69%	3%
We are looking and preparing for strategic investors	16%	84%	0%

Source: own research.

Together more than 82% of respondents looked for cheapest suppliers worldwide. This is result of direct pressure on companies from foreign and especially Asia competitors with very cheap goods and raw materials. On the other side open markets, upcoming new members into EU and ongoing liberalisation have lead companies to operations with worldwide suppliers. More than 80% of respondents mentioned that their companies started programmes of cost cutting with aim of decreasing prices. Rest of them, 20% answered that the questions of costs cutting will be on the programme in the close future. Nearly 55% of respondents mentioned that their companies have made measures concerning cooperation and development of alliances with strong globally operating competitors. Together 48% of companies made significant investment into R&D and marketing. Into international division of labour have been involved 42% of companies. Approximately 47% of companies have realised entering to foreign markets and 53% plan to realise it. The most frequent measures that companies plan to realise, nearly 84% of companies, are preparation and looking for appropriate foreign investors and investments into strong brand name. Building up positions of company on global markets plan 70% of companies. We think that these measures make evident that companies are very proactive in their long-term planning and anticipate future plans to be able react and also influence industries.

3. Global strategy development

A successful international strategy must create and then sustain competitive advantage across national boundaries whether on a regional or worldwide basis [9, p. 160]. Following picture shows process of formulating a transnational strategy (fig. 1). Various approaches of global strategic management were incorporated into

it. The approach is both “inside out” and “outside in”. That mean the importance of simultaneous, continuous and iterative internal and external analysis of business and its environment are recognised as inseparable from process of developing core competences, generic and transnational strategy.

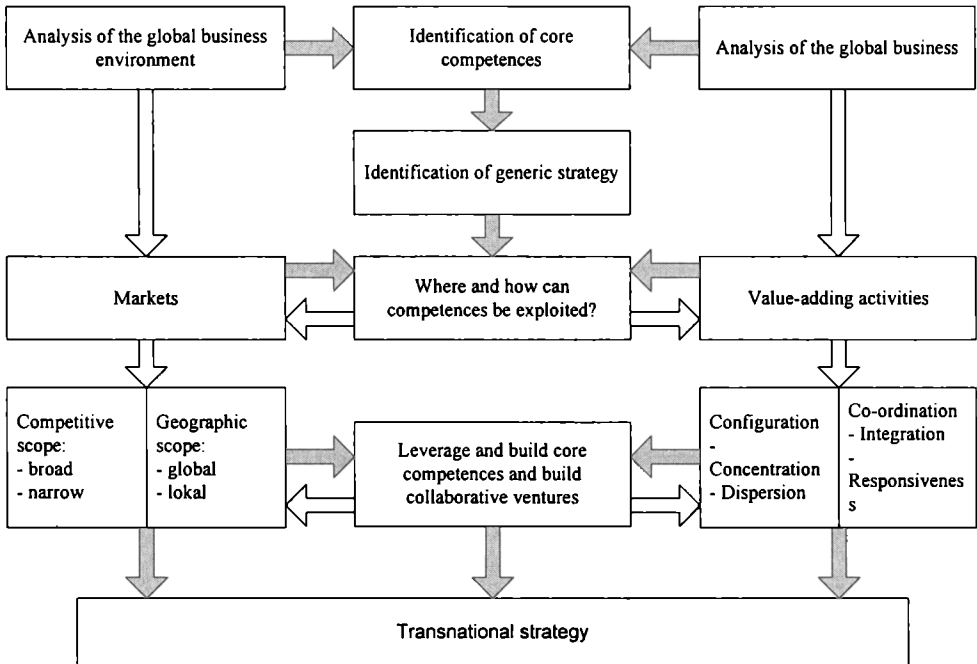


Fig. 1. Global and transnational strategy formulation

Source: [9, p. 160].

As mentioned above development of global or international strategy includes number of logical steps concerning analysis of external and internal environment, identification of key capabilities and core competences through evaluation of strengths and weaknesses, creation of strategy choices and selection of the most appropriate strategy. Various authors have developed typologies of global strategies that can be divided into three main categories:

1. Based on generic strategies of organisation and its competitive positioning as the source of competitive advantage.
2. Focusing on knowledge, resources, capabilities and competences as sources of sustained superior performance.
3. Emphasising co-ordination and integration of geographically oriented operations to get global competitiveness.

According our opinion the company global strategy is not clear immediately and it usually goes through process of ongoing profiling. Suggested model of

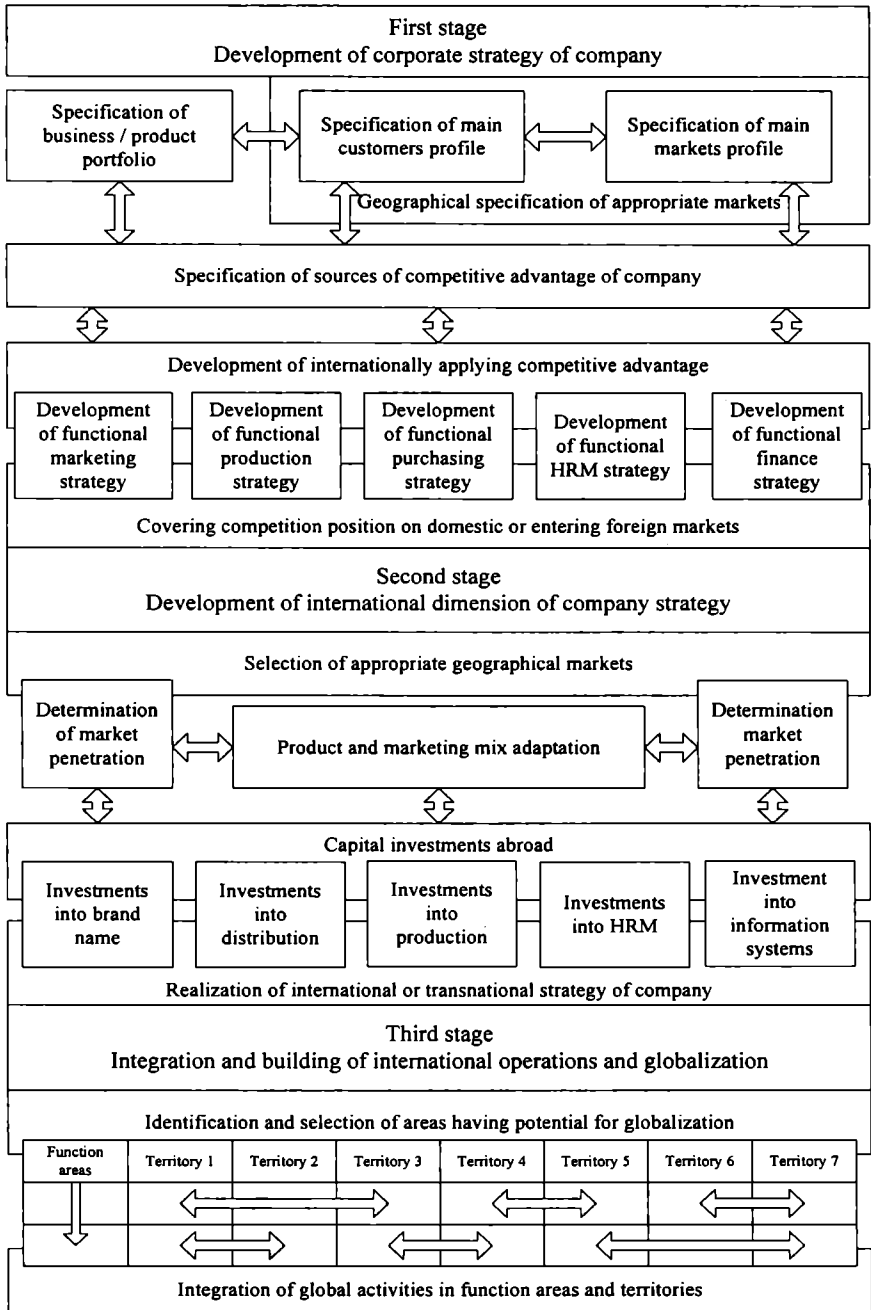


Fig. 2. Steps in development of global strategy

Source: own research.

global strategy development took into account time dimension and also company growth from local to global operations. Strong disadvantage of this model is that simplifies and generalises processes that are usually very complicated in real business life. This model contains following three stages (fig. 2):

1. Development of the corporate strategy profile, defining core businesses, main business areas and possible sources of competitive advantage.
2. Development of international dimension of corporate strategy, export orientation, building sales and production capacities.
3. Globalisation of international strategy, integration of strategy in frame of served and new countries.

First stage concerns selection and definition of businesses or product portfolio as the base of future corporate strategy. This is important for Central Europe and especially for Slovak companies because their portfolios are too broad and covering many areas. Consequences of broad and deep portfolios are higher costs, prices, very long lead times, high inventories and problems of setting and building up sustainable the competitive advantage. The second step in this stage is definition of customers and markets profile the company wants to serve including its geographical selection. As we found in our research more than 30% of Slovak companies are considering future geographical expansion on global markets. Third step cover selection and development of competitive advantage to be able compete domestically and internationally. Step four covers development of functional strategies and realisation of strategy by covering competitive positions on domestic or entering foreign markets.

The second stage involves development of international expansion and covers selection of these geographical markets the company wants to compete and includes specific steps for entering markets, product adaptation and arrangements of marketing mix elements. This stage also includes capital investment abroad, building distribution net, and processing, production and sales capacities.

The third stage involves integration and completing international operations. First step in this stage is identification and selection of areas which are the most appropriate for integration and globalisation. In second step global activities are integrated together with the aim to fully serve global markets and to be able keep or increase costs effectiveness. If company is going to develop global strategy it is necessary to consider multiplication effects of the global strategy and how global strategy influences company with previous export strategy and also impact on company relating businesses. Advantages can be obtained from global markets operation experiences or global product base, low costs for R&D, engineering, etc. Advantages could also come from using cheap local and national sources, global marketing operation, global brand name, ad campaign, better knowing of customer's problems, etc. Mentioned process of development of global strategy shows that development of strategy is an ongoing process

which depends on company capabilities and its ability to serve local, international or global markets.

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Summary

Competitiveness of business organisations domestic in Slovak republic is influenced by various factors. The most important are continuous integration into political and economic structures of European Union and globalisation of the world economy. Paper describes finding from the research concerning ability of Slovak industrial companies to compete on domestic and world market. We studied how companies prepared their last business strategies. We described positive and negative impact of globalisation on business in Slovakia and identified expected changes in period of next five years. We have described typical measures that companies realised as a reaction to globalisation pressures.