UNIVERSITY OF LATVIA

Strategic management

Project „Development and Approbation of Applied Courses Based on the Transfer of Teaching Innovations in Finance and Management for Further Education of Entrepreneurs and Specialists in Latvia, Lithuania and Bulgaria", part of the Leonardo da Vinci programme

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Table of Contents

Introduction 4

1. Characteristics of the operation of contemporary organizations 5

2. Volatility of organizational environment 16

2.1. Directly influenced external environment of an organization 20

2.2. Indirectly influenced external environment of an organization 24

3. Changes in the content of a manager's wok 29

4. Stratēģiskā vadīšana un tās loma mūsdienu organizāciju vadīšanā 37

4.1. Stratēģiskās vadīšanas būtība un struktūra ..... **Error! Bookmark not defined.**

4.2. Stratēģisko lēmumu pieņemšana ..... **Error! Bookmark not defined.**

4.2.1. Stratēģijas izpratne ..... **Error! Bookmark not defined.**

4.2.2. Organizācijas stratēģiskās vadīšanas izpratne ..... **Error! Bookmark not defined.**

4.2.3.Nepieciešamības pieeja ..... **Error! Bookmark not defined.**

4.2.4. Pretējo spēku modelis ..... **Error! Bookmark not defined.**

Stratēģiskā vadīšanas procesa elementi ..... **Error! Bookmark not defined.**

4.2.5. Stratēģijas veidošanas komanda ..... **Error! Bookmark not defined.**

4.2.6. Stratēģiskās vadība sistēmas izveides elementi **Error! Bookmark not defined.**

5.Stratēģiski operatīvais vadības modelis ..... **Error! Bookmark not defined.**

5.1. Problēmas / iespējas identifikācijas pieeja ..... **Error! Bookmark not defined.**

5.2. Lēmuma izmaksu aprēķins. ..... **Error! Bookmark not defined.**

5.3. Lēmumu audits ..... **Error! Bookmark not defined.**

5.4. Lēmuma rezultātu daudzpusība ..... **Error! Bookmark not defined.**

6. Stratēģijas efektivitātes novērtēšana........................... **Error! Bookmark not defined.**

7. Stratēģiskā kontrole .... **Error! Bookmark not defined.**

8. Ekselences iegūšana. .... **Error! Bookmark not defined.**

Bibliogrāfija .... **Error! Bookmark not defined.**

Introduction

Strategic management is one of the key tools available for managers of organizations to establish the organizational management systems. This paper will look at the key elements of strategic management to improve the students' understanding of strategic management by placing a major emphasis on strategic decision-making in a changing environment. The volatile environment is the circumstance hindering the development of long-term plans and forecasts, and complicating the planning and management processes by introducing a great degree of uncertainty therein. Therefore, this teaching material is based, to a large extent, on the strategic management process of an organization in a changing environment.

The learning approach is based on class activity and independent studies of strategic management theory, allocating the major part of the seminars to the analysis of practical examples of particular organizations.

The material is aimed at improving the students' understanding of the idea and principles of strategic management. The two key parts of strategic management are strategic planning and strategy implementation process, jointly referred to as strategic management. Strategic planning is a separate course of studies, which places the main emphasis on certain planning methods, while the strategic management course is based on the issues of implementation of plans, principles of adaptation of the internal and external environment, and the understanding of methods. The beginning of each chapter contains questions for discussion aimed at encouraging the students' reflection of the issue discussed, as well as to raise interest by demonstrating practical examples of the particular issue in an open discussion. Next step in the learning process is the presentation of the theory of the issue, to be learned by the students independently. In class, students discuss and look at the possible practical applications of a theory at a particular organization of their choice. At the end of the lesson, a summary of the essential theoretical and practical conclusions made during the lesson, or of the information and knowledge everybody should have obtained from the lesson is drawn up. While one of the students prepares the summary/conclusions, the rest of the class test themselves by providing answers to the questions posed in the conclusion of the lesson. The main objective of the closing questions of the lesson is to repeat the key points of the subject in order to improve the students' understanding by asking them make theoretical and practical conclusions. At the end of the chapter, the student should be able to present the key theoretical and practical points of the subject.

1. Characteristics of the operation of contemporary organizations

Introductory questions:

1. Why is the understanding of the characteristics of the operation of organizations important for the success of strategic management process?

2. How would you characterize the major changes in business environment in 21st century? What trends can you identify?

3. Is it easier or harder to start a business in the 21st century? Please provide your justification.

Organizational management is currently undergoing major changes in the way organizations are being managed and the conditions surrounding it. As pointed out by a number of authors, information and its increase in volume are the key reasons for the change, which is also evident in the content of work. The main problem faced by organizations is the constant change, a catalyst for instability and a hindrance for stable long-term development of organizations. This is evident both in the global and Latvian economic crisis. As a result of accumulated knowledge, the amount of information increases and the technologies for the communication and exchange of information are developed. Along with the development of humanity, economy develops into a knowledge-based economy. “Development of knowledge-based economy means, increasingly, the ability of economy, politics and social life to support and manage the creation of innovation and group-based learning" (6, p. 1.). "Although knowledge has always been central to economic development, there is compelling evidence that production capacity and knowledge utilization is a better substantiated indicator for the assessment of the level of welfare and progress of an economy" (2, p. 17) "A knowledge-based economy is an economy which places a much higher strategic emphasis on research and development and other formal methods of knowledge creation; uses education and training for the development of human capital; manages information, knowledge and experience through investments in coding and establishment of social networks; and organizes the copyright market for knowledge" (3, p. 9). Organizations, being a part of economy and indeed, a driving force thereof, cannot ignore the changes in the surrounding environment, and to a large extent, are a source for development of a new economy themselves. The idea that organizations are the basis of continuous innovation was proposed by J. Schumpeter back in the 40ies of the last century. He introduced the concept of "Creative destruction" whose main thesis is that there is no equilibrium in economy; as soon as a system approaches its state of equilibrium, new inventions and ideas by organizations and individuals create new opportunities which disrupt the status quo. The nature of changes in economic processes is best seen in the current economic situation of Latvia and the world, that is, the previous model of economic development, based on external supply of funds to the economy, has proved its lack of viability, whereas the new policy adopted by Latvia and other countries, namely, to spend what they earn, entails great social unrest; in addition, it is still not clear what the real effects of this policy to organizations involved in both the private and public sector will be. The currently proposed strategic management model places maximum emphasis on the assessment of the real environment of the organization, enabling the organizations develop under different conditions of national economy, tax environment and aid policy. The rationale of such approach is evident globally, in the rapid changes in national policy, redistribution of funding, and cost cutting measures, which are at times unpredictable; therefore, present increasing levels of risk if used as a basis for organizational strategies. However, since "the increase of the role of knowledge in economy and the changes in the structure of employment have brought a change in organizations themselves, by shaping a new type of organization, namely, intellectual organizations which rely solely on knowledge in their work" (4, p. 39), and, taking into account that "strategic management is frequently being characterized as a discipline still under continuous development (Ketchen, Boyd, & Bergh, 2008)" (5, p. 621), it can be argued that the theoretic framework for the strategic management of knowledge-based organizations is not yet fully laid, and "the analysis of the content on strategic management found, yet again, that there is great room for improvement and for changes in the direction of research (e.g., Bergh& Holbein, 1997; Boyd, Gove, & Hitt, 2005; Shook, Ketchen, Hult, & Kacmar, 2004) (6). Strategic management research primarily focuses on the attainment of the objectives of strategic management of traditional organizations, taking only partial account of the specific conditions for the operation of intellectual organizations and their other features such as knowledge creation, level of education of employees, management of knowledge exchange and the intellectual property market in a rapidly changing organizational environment. The term "traditional organizations" is used to denote organizations which focus on the management of tangible resources and the use of external knowledge, whereas "intellectual organizations" means those focused on the creation of new knowledge and the use of information in the creation of service products. Latvian law does not offer a classification of organizations in traditional and other types of organizations, but it does provide definitions for the assessment of intellectual work, namely the Cabinet of Ministers Regulations No. 533, which contain such criteria for its assessment as education, professional experience, complexity of work, mental effort, cooperation, responsibility for the progress and results of the work, responsibility for decisions, as well as define what qualifies as intellectual work. According to Cabinet of Ministers Regulations No. 185 (currently not in effect), **"**Regulations on the fundamental methodology for the assessment of intellectual work and qualification categories": "5. Intellectual work is any activity performed by way of a set of mental efforts (cerebral and neural energy) in order to reach a certain goal. 6. Intellectual work includes the physical effort necessary to perform it. 7. In the use of the term "intellectual work", the mental nature of the work is emphasised. 8. The highest form of intellectual work is creative work. Creative work results in the creation of new, or the improvement of existing, progress-oriented, tangible or intangible value. Creative work combines intensive thinking with the pursuit of new solutions and knowledge, and according actions.” (7) On the other hand, an explanation of physical labour in Latvian law is given in Cabinet of Ministers Regulations No. 403 “Regulations on the fundamental methodology for the assessment of physical labour and the establishment of qualification categories for the positions of employees of institutions financed from the State budget”. “3. Physical labour is any activity performed by way of physical strength (muscle effort) in order to create tangible and/or intangible value and to provide services to satisfy the needs of society. Physical labour includes the mental effort necessary to perform it.” (8)

A comparison of traditional and intellectual organizations shows the primary role of knowledge over tangible resources which used to be the dominant criteria for the assessment of organizations.

Criterion	**Traditional organizations**	**Intellectual organizations**
Establishment of organizations	Since 18th century (Industrial Revolution)	Since the second half of 20th century (shift to knowledge economy)
Typical industries	Industrial manufacture, construction, transportation	Science, research, professional services and advice
Key assets	Physical capital (land, equipment, financial resources)	Intellectual capital
Key raw materials, resources	Physical raw materials	Knowledge
Description of employees	Mainly involved in manual labour; however, the share of intellectual workers also increases (managers,	Intellectual workers (highly-rated professionals in their area) – scientists, advisers, architects, lawyers, financial

	marketing, financial, human resources management or law specialists, etc.)	experts, doctors, software programmers, advertising, PR specialists and other specialists.
Description	Routine or monotonous. Accurate execution of work according to methods developed by management expected from employees	Employees are free to choose the method for completion of their work, creative or innovative solutions expected of employees
Result of work	Goods produced or services rendered according to instructions	Creative and (or) innovative solutions, new knowledge

Figure 1.1. Comparison of traditional and intellectual organizations (4, p. 41)

From the above-mentioned, the key factors for the management of intellectual organizations can be inferred, namely, the management of information and organizational knowledge. A particular feature of contemporary business and organizational environment is that, since the middle of the previous century, the amount of information available for organizations and individuals has increased considerably, and the tools used to process the said information have seen substantial development. “The OECD economies are increasingly based on knowledge and information. Knowledge is now recognised as the driver of productivity and economic growth, leading to a new focus on the role of information, technology and learning in economic performance. The term “knowledge-based economy” stems from this fuller recognition of the place of knowledge and technology in modern OECD economies.” (9) It can be said that the availability of information and knowledge has greatly increased. Accordingly, the information asymmetry between economic operators has decreased, at least in terms of the availability of information; however, the complexity of information and differences in the ability to utilize it has increased the asymmetry between organizations in terms of competitiveness. The fact is attested by the diverse success indicators of organizations working in the same field. The wide availability of information is attested by the development of the Internet, which has enabled the creation of electronic data bases, and the usage of the methods for the analysis of the varied automatically generated electronic data in the creation of business models. As a leader in this area and an example of the importance of information to the build-up of competitiveness, *Google* and its services can be mentioned. The company, by providing free-of-charge search engines, e-mail, maps and an Internet browser software, has created an automatically generated service business model for advertisers, based on the profile of particular consumers. According to this model, any Internet user, while performing a search in the Google search engine, automatically receives indirect advertisement on services which might be relevant to the user, based on his or her previously completed searches and indirect analysis of keywords of the sent e-mails. This approach enables organizations to advertise their products and services to potential customers whose profile best matches the profile of the product or the service being offered, additionally taking into account the geographical location of both the customer and the supplier. Organizations able to use information to create new added value for their customers, gain a competitive advantage, whereas organizations which do not use information to create new added value, are forced to respond to changes in the external environment chaotically, that is, in a non-strategic way. It can be argued that the capacity to use information is directly proportional to the knowledge and experience of the economic operator. Only the skills which an organization is able to use to create added value for the prospective customers of the organization can be regarded as organizational knowledge; otherwise, this is merely information. Accumulated superfluous amounts of information in an organization is in fact a waste of resources which increases total costs but does not produce a result (added value) and thus reduces the efficiency of the organization. The contemporary particularities of the work of an organization are characterized by the comparison of the new, knowledge-based economy and the traditional economy.

Aspect of economy	Industrial economy	New knowledge-based economy
Market		

Economic development	Stable and linear, predictable	**Unstable** – very rapid changes, a large-scale onset and unexpected decline, and **chaotic** – future changes in the direction of the development of economy are unclear
Market change	Slow and linear	Quick and unpredictable
Economy	Supplier-oriented	Customer-oriented
Lifetime of products and technologies	Long	Short
Key drivers of economy	Large industrial organizations	Innovative, knowledge-based organizations and business
Area of competition	Local	Global hyper-competition
Competition: name of the game	Size: bigger eat the little ones	Quickness: quicker eat the slower ones
Marketing: name of the game	Mass marketing	Differentiation
Organization		
Pace of business	Slow	Considerably quicker, with ever-increasing customer expectations
Emphasis on	Stability	Change management
Approach to business development	Strategic pyramid: vision, mission, objectives, action plans	Opportunity-oriented, dynamic strategy
Measure of success	Profit	Market capitalization (market value of the whole organization)
Type of production	Mass production	Flexible and lean (resource-efficient) production
Key growth drivers	Capital	People, knowledge, skills
Key sources of innovation	Research	Research, systemic innovation, knowledge management, integration, creation of new businesses, risk management strategies, new business models.
Key drivers of technology	Automation and mechanization	Information and communication technology, e-business, computerised design and production.
Key sources of competitive advantage	Access to raw materials, cheap labour and change capital; cost-cutting as a result of economies of scale.	The advantage in skills: excellence of organization, agility; human resources, partnership with clients; differentiation strategies, competition strategies.

Resources at short supply	Financial capital	Human capital
Decision-making	Vertical	Shared
Innovation process	Periodic, linear	Continuous, systemic innovation
Focus of production	Internal processes	Comprehensive management of the organizational processes and comprehensive chain of value
Strategic alliances with other organizations	Rare, "I am going on my own" thinking	Establishment of cooperation teams in order to complement the available resources
Organizational structures	Hierarchic, bureaucratic, functional, pyramid-type structures	Inter-linked sub-systems, flexible, delegated, delegation of powers to employees, flat or network structures
Business model	Traditional: command and control	New: focused on people, knowledge and coherence
Labour		
Leadership	Vertical	Shared: delegation of powers to employees and self-direction
Characteristics of workforce	Predominantly male workforce, a large share of partially educated or uneducated employees	No gender restrictions; large share of university graduates among employees
Skills	A single skill, standardization	Multiple skills, flexibility
Education requirements	Skills or degree	Continuous learning: the time necessary to acquire new knowledge is more important than the actual level of knowledge.
Relationship between management and staff	Confrontation	Cooperation, teamwork
Relationships of employment	Stable	Considerable influence of market opportunities/risks
Employees regarded as	Cost factor	Investment

Figure 1.2. Comparison of the new knowledge-based and the traditional economy (10)

As seen in Figure 1.2, there are significant differences in the internal and external environment between the new and the traditional economy. The need to change the content of work for organizational managers so as to ensure the viability and development of the organization in the changing business environment stems from these differences.

The features of the operation of contemporary organizations have also been considered from the point of view of systems theory, which clearly demonstrates the mutual interaction between the various objects. Peter Senge is one of the leading researchers in this area. The systemic approach has helped draw a number of useful conclusions regarding strategic management of an organization in a changing environment. First, „businesses and other human endeavors are systems as well. They are bound by invisible fabrics of interrelated actions, which often take years to fully play out their effect on each other. Since we ourselves are a part of an interlinked system, it is unthinkably hard to see the model of changes as a whole. Instead, we focus on snapshots of individual parts of the system and are left wondering why our deepest problems are never solved. Systemic thinking is a conceptual framework, a set of knowledge and a tool that developed over the previous 50 years, in order to give a more clear view of the models and help us see the most efficient ways to change them." (11, p. 7) Secondly, „the compensating feedback: when the intervention in the system made in good faith produce a response from the system that exceeds the benefits from the intervention. We all know what it means to receive compensating feedback from the system – the harder you push, the harder the system pushes back; the more effort you expend trying to improve matters, the more effort seems to be required". (11, p. 58) It should be noted that the compensating feedback applies to all elements of a system, both the efforts of the management to change the system, both the positive or negative intervention by groups of employees or individual employees made in the organizational system as a whole or in the individual elements of the system. This process could be described as a principle of interaction between all parties concerned, and the organization as a system on the whole. It should be understood that the compensating feedback works both ways: both towards a positive intervention, both towards an intervention made with a negative purpose. Such negative intervention made in a system or an element of a system will, over time, lead to a compensating feedback response against the source of the negative intervention. Thirdly, „systems thinking is a method for seeing the big picture." (11, p. 68) „(...) organizations break down, despite individual wisdom and innovative products, because they are unable to link their highly varied functions and talents in a single, productive entirety." (11, p. 69).

Systems theory and systems thinking approach can serve as a means of justification of the operation of an organization in an environment of dynamic change. Systems theory approach is the binding element between an organization as a system and the influence the changing environment exerts on it. However, even systems theory has its restrictions, similar to the ones generally related to the strategic plans and business analysis tools, which do not give the desired result, regardless of the application sophisticated analysis methods. The answer lies in the fact that „they are established to work under a certain type of complexity, characterized by the existence of multiple variables: detail complexity. However, there are two types of complexity. The other type of complexity is dynamic complexity in particular situations, when the causes and effects are subtle and the effects over time of interventions are not obvious. Conventional forecasting, planning, and analysis methods are not equipped to deal with dynamic complexity". (11, p. 71) There are a number of features by which dynamic complexity can be identified. Lack of understanding of the various mechanisms of complexity is the source of the problems so common among organizations and even on a national scale. „when the same action has dramatically different effects in the short-run and in the long-run, there is dynamic complexity. When an action has one set of consequences locally and a very different set of consequences in another part of the system, there is dynamic complexity. When obvious interventions produce non-obvious consequences, there is dynamic complexity. The real lever of action in many management situations lies in the understanding of dynamic complexity, not detail complexity". (11, p. 71-72) The understanding of dynamic complexity is a frequent stumbling block for organizations, understandably because the thinking of managers frequently involves the use of a comparatively small number of variables in the decision-making process, such as profits, and the expectation of direct and obvious consequences from their actions. Such approach helps managers make decisions easier, because it simplifies the decision-making process as far as possible. However, there are frequent cases when a decision by a manager or an employee produces negative results for the organization, despite the decision being unanimously supported and understandable for the major part of the employees. Mangers need to see the attitude and receive the support of employees, which is another reason why dynamic complexity in the decision-making process lacks understanding and is underused. It is hard to explain dynamic complexity to employees. A good manager „sees interrelationships instead of linear cause-effect chains, and processes of change instead of snapshots of situations" (11 lpp. 73), whereas employees, due to their information and knowledge being incomplete, tend to see processes as being linear and to focus on individual facts, disregarding the multiple feedbacks in operation between the elements of a system, which may both amplify and counteract the positive effects of previous actions. In order to perceive an organization as a system, it is necessary to understand the concept of feedback, which has a wider meaning in the systems thinking terminology. „It means a mutual flow of influence. It is a rule in systems thinking that every influence is both a cause and an effect". (11 p. 75) The issues discussed above show the aspects of use of systems thinking in the work of an organization, and the level of complexity for the organization in the context of organizational strategy and a changing environment, making an additional mention of the various challenges of a manager in the work with dynamic systems, which the organizations can be regarded as. Increasingly, dynamic complexity enters the changing environment of organizations as a condition to be reckoned with while shaping the strategic management system of the organization. Features of contemporary organizations are also evident in the understanding of managers or employees of what an organization actually is. Further, when describing organizations, different understandings of the essence of organizations will be covered, expressed by way of metaphors. „ (...) All organizations and management theories are based on linked images or metaphors, which enable us to see and manage organizations differently, albeit in an incomplete way. We use metaphors when we try to understand an element of experience in terms of another element. An interesting aspect of metaphors is that a metaphor always creates a one-sided understanding of a situation. It emphasizes certain interpretations and is tended to force all others in the background". (12 lpp. 4) Thus, metaphors in organizational theory show our different understandings of the same issue, in each particular case emphasizing an aspect dominant for the particular person or group of persons. Gareth Morgan, one of the leading researchers in organizational theory, has divided ways of understanding organizations according to metaphors used to describe them: organizations as systems of machines; organizations as organisms; organizations as brain (learning organizations); organizations as cultures; organizations as political systems; organizations as prisons for sociopaths; organizations as change and transformation; organizations as instruments of dominance. Examples for each of these metaphors can be found in practice and are in use in real life, including in Latvia. The understanding of the being of the organization is set by its founders at the moment of its establishment, and later brought to life through managers and employees, who, collectively, shape the operating processes and cultural features of the organization.

Closing questions for discussion

1. What metaphor would you consider as best suitable for an organization?
2. Please describe strategy from the point of view of systems theory?
3. What factors are dominant in competitive environment in 21st century?

2. Volatility of organizational environment

Introductory questions:

1. Why are the changes in external environment so frequent and what are their causes?

2. How does uncertainty influence organizations?

3. Is the uncertainty of external and internal environment good or bad for organizations?

In the middle of difficulty, there's opportunity – Albert Einstein

Organizational environment is a much discussed concept; however, they do encounter the problem how to ensure a continuous alignment of the organizational activities and plans with the ever-changing information and events of the external environment. Organizations ask: how to ensure the dynamics of a strategic plan regarding the volatility of the external environment. Organizational environment may be categorized according to the pace of change and the extent of the change, that is, how many industries it encompasses.

The change in the environment is caused by the businesses themselves. Such theory was proposed by Joseph Schumpeter, introducing the contemporary popular term „creative destruction". „As a result of creative destruction, the existing products and production methods are destroyed and replaced by new ones". (14, p. 526) Such process can never lead to permanent equilibrium in an economic system, since there will always be new entrepreneurs who will disrupt the existing equilibrium. It also follows from this theory that full competition is impossible because businesses are constantly willing to disrupt the competitive environment and to enter a state of no competition. This theory explains the mechanism and causes for innovation, namely, the wish to be in a situation where there are no competitors, even if just for a moment. „When an economy, industry or an organization is doing something differently, something beyond the existing practices, this is *creative response*". (15, p. 411) Creative response by business actors disrupts the equilibrium among organizations and is the driver of economic progress and crises as well. The latter trend is well evident from the global economic boom from 2000 onwards, followed by the economic crisis in 2008, which was marked by the innovative business methods and products of the banking sector and financial systems on the whole, such as hedge funds, transactions involving derivatives, real estate speculations and trade.

For organizations, one of the key objectives is to ensure its growth and the clients' necessity for it. The solution is to offer to clients a product which would significantly differ from the one offered by their competitors, commonly referred to as „innovative product". The innovative product brings changes to the competitive environment and introduces an aspect of uncertainty to it. For the competitors, the uncertainty lies in how long it will take to copy the product/service, whereas for the innovative organization, the uncertainty means how long it will take for the competitors to copy the innovative product/service and how attractive the innovative product/service would be to the clients. As we see, uncertainty is higher for the innovator than for the competitor. This is one of the reasons why Latvian organizations are reluctant to introduce innovations. However, the key motivation for the introduction of innovations is the period of non-competition which is directly proportional to the degree of novelty of the innovation. It is a period of time for which an organization obtains returns from the state of uncertainty in the organization's environment.

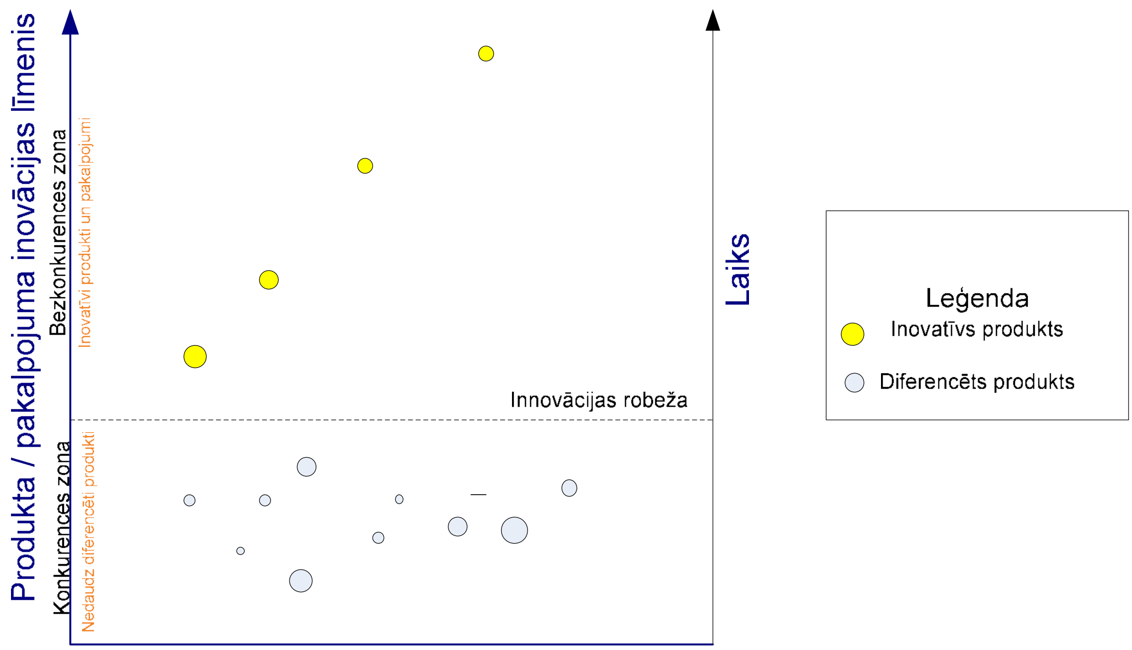


Figure 2.1. Period of non-competition of innovative products/services

Produkta/pakalpojuma inovācijas līmenis	Degree of novelty of the innovative product/service
Konkurences zona	Area of competition
Bezonkurences zona	Area of non-competition
Nedaudz diferencēti produkti	Somewhat differentiated products
Inovācijas robeža	Margin of innovation
Laiks	Time

Leģenda	Legend
Inovatīvs produkts	Innovative product
Diferencēts produkts	Differentiated product

Another element characteristic of the organizational environment is the uncertainty surrounding the organization itself. It is in human nature to be concerned by everything that influences him/her, while he or she themselves lack information of the influencing factor, and consequently, the ability to control it, thus reducing their freedom of action. One of the motivations for organizational growth in size is the possibility to obtain control in the field that the organization operates in, or in a part thereof. A high market share and availability of sizeable funds give organizations the opportunity to obtain a greater degree of control over the field of activity or industry the organization is engaged into. The desire of organizations to control the elements of surrounding environment is directly related to the intention to reduce risks to the results of the organization’s performance, and ensures the future predictability of the organization’s actions. Managers of organizations are constantly dealing with the desire to manage the external environment and the inability to control it. „The cause of problems for organizations is that changes in the external environment cannot be managed. They can, however, be predicted”. (16, p. 215) This quote, actually, sums up the very essence of the problem, which poses problems for all organizations, namely, it is the uncertainty about the processes occurring in the external environment and the inability to control them, while feeling the necessity to do so. Although, in real life, we may see numerous attempts to influence the elements of the external environment and to steer its processes directly, the actual results are unpredictable. Management is defined as a “process, by which something is being organized, guided in a certain direction, to a certain goal, taking responsibility over the process being managed, its results and consequences” (17). The most typical tools aimed at influencing the external environment are lobbying in legislative work, involvement of entrepreneurs in state administration, NGOs, associations. In Latvia, a marked attempt to manage elements of external environment was made in 2009, when social partners were involved in the drawing up of the budget for 2010 and in the processes aimed at improving the public service functions and processes. However, this initiative has produced few obvious results, which serves as another proof for the uncertainty as regards the possibilities for organizations to influence, let alone manage, the processes of the external environment. An exception to this assumption may be dictatorships or corrupt governments working in their own interests or in the interests those of certain businesses; however, as proved by history, such state is unsustainable and is usually only possible in a restricted area for a restricted period.

Organizations take external influence very seriously and frequently regard it as the crucial factor for success. This approach has been supported by such authors as M. Porter, developing his model for industry competition and five forces model. However, we should draw a line between the between the part of the external environment which is subject to influence by organizations, and the part which is only subject to partial or limited influence by large organizations or subject to no influence by medium-sized and small organizations. Organizations may relatively easy influence the environment which they encounter in their everyday activities. Thus, we may distinguish between directly and indirectly influenced environments. There are also other types of environment categories in business management literature, such as the comprehensive environment and competitive environment. This distinction, as regards comprehensive environment, is similar, whereas the competitive environment is based on the 5 forces model by M. Porter, which contains competitors, bargaining power of purchasers, bargaining power of suppliers, substitute and new entrants.

Closing questions for discussion:

1. Why are organizations continuously involved in innovation?
2. What strategy should organizations adopt if it chooses not to adapt to the actual environment of the organization?

2.1. Directly influenced external environment of an organization

Introductory questions:

1. Can an organization influence its environment; how?

2. Do you consider the practice by large corporations, whereby favourable decisions by governments are achieved by exerting an influence on the governments, ethical?

3. How can small organizations influence their environment?

For an organization, environment of direct influence is an environment external to the organization, which is still subject to significant influence, and partially, control by the organization. The environment is highly volatile; however, it is relatively easy to influence it, by applying certain methods and using certain information. In this context, "management" of the environment means the ability to see the causal link between certain actions and their consequences. Key change drivers for this part of environment, are the changes in the behaviour of competitors, suppliers, labour market and target audience. The basic tools for managing such environment is advertising, public relations, long-term cooperation with the most important partners, the so-called „partnering", mergers, takeovers, joint ventures, pre-emptive tactics as regards competitors, innovation. A successful innovation of a service or product by an organization, for a while, until the competitors copy the offering, puts it in a position safe from competition; as a result, the influence of volatility of the environment decreases significantly, and the organization may fully focus on the influence and control of its clients and target audience.

A chart of the management of environment of direct influence and the methods applied for this purpose is shown in figure 2.2.

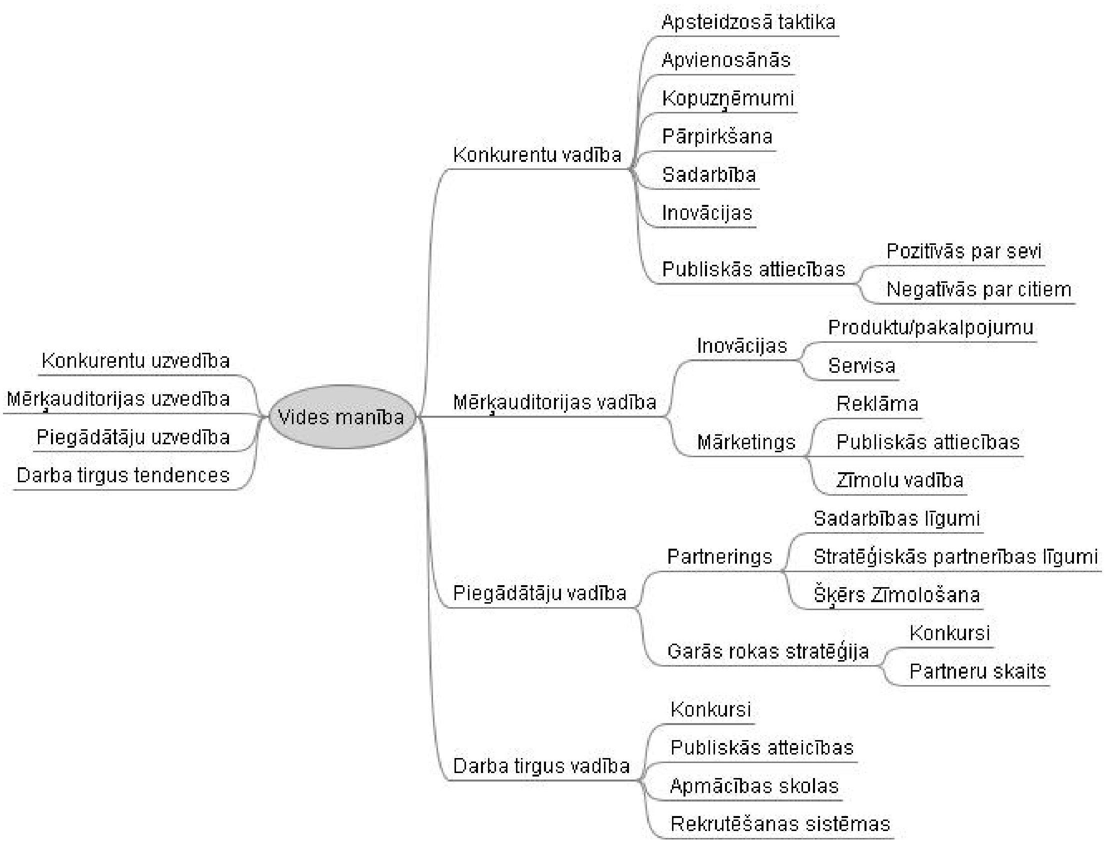


Figure 2.2. Chart depicting the change management in a directly influenced environment.

Vides mainība	Volatility of environment
Konkurentu uzvedība	Behaviour of competitors
Mērķauditorijas uzvedība	Behaviour of target audience
Piegādātāju uzvedība	Behaviour of suppliers
Darba tirgus tendences	Labour market trends
Konkurentu vadība	Management of competitors
Apsteidzošā taktika	Pre-emptive tactics
Apvienošanās	Mergers
Kopuzņēmumi	Joint ventures
Pārpirkšana	Takeovers
Sadarbība	Cooperation
Inovācijas	Innovation
Sabiedriskās attiecības	Public relations
Pozitīvās par sevi	Positive about the organization
Negatīvās par citiem	Negative about others

Mērķauditorijas vadība	Target audience management
Inovācijas	Innovation
Produktu/pakalpojumu	Product/services
Servisa	Service
Mārketings	Marketing
Reklāma	Advertising
Publiskās attiecības	Public relations
Zīmolu vadība	Brand management
Piegādātāju vadība	Supplier management
Partnerings	Partnering
Sadarbības līgumi	Cooperation agreement
Stratēģiskās partnerības līgumi	Strategic partnership agreement
Šķērs Zīmološana	Cross-branding
Garās rokas stratēģija	Long arm strategy
Konkursi	Tenders
Partneru skaits	Number of partners
Darba tirgus vadība	Labour market management
Konkursi	Vacancies
Publiskās attiecības	Public relations
Apmācības skolas	Training schools
Rekrutēšanas sistēmas	Recruitment systems

By using these methods, an organization can exert rather significant influence on directly influenced environment, thus reducing the uncertainty around it. Such management involves, in fact, continuous organizational measures, monitoring the critical factors of the directly influenced external environment (target audience, competitors, labour market and suppliers), ensuring a continuous stream of information about their activities and patterns of action with the aim of increasing organization's own freedom of action. Freedom of action is the objective of organizations as regards the mitigation of negative effects of the external environment. If the ability to act freely is considered a precondition to reaching one's own goals, and a crucial criterion of success in the interaction of an organization with the external environment, the quality of the financial and strategic objectives can be assessed according the degree of freedom which the organization obtains by reaching these objectives. The opposite to this is the inability of an organization to make decisions freely, as a result of which it has to deal with the consequences instead of causes, and follow a strategy of survival, making decisions according to the „least worst option". Operation in such conditions is unsustainable and will not ensure the growth of the organization. The freedom of decision-making of an organization is crucial for the strategic management for intellectual organizations, because the trend of their employees to act independently or semi-independently involves the possibility for freedom of action and its elements in all areas of activity of the organization, both in the external and in the internal environment. “The traditional authoritarian management style is unsuitable for knowledge-based enterprises, because the intellectual workforce places high value in high degree of independence and freedom of action in decision-making”. (4, p. 6) If a high degree of freedom in decision-making is a precondition to good performance of the staff of an intellectual organization, it is logical to conclude that not only management style, but also the organizational strategy should promote the ability of the organization as a system to freely make decisions in the best interests of organization at any particular set of circumstances in an environment. It can be assumed that an opposite situation deprives the intellectual workforce of motivation and hampers creativity in their work.

Closing questions for discussion:

1. What are the elements of an environment subject to direct influence by an organization?

2.2. Indirectly influenced external environment of an organization

Introductory questions:

1. How deeply should the indirect environment of an organization be analyzed and why should it be done?

2. Where would you gather the information for the analysis of environment?

3. Which type of environment of the organization would you consider as more important: directly or indirectly influenced?

External environment subject to indirect influence is the environment which the organization has less chance to influence. This is the environment that managers of organizations in Latvia mention when they speak of "unfavourable" environment to business. It includes law, taxation policy and many other factors of economic environment. In business management literature, it is usually described by way of the PEST, or the PESTEL model, of which PEST refers to political, economic, social and technological environment factors, while PESTEL considers to political, economic, social, technological, environmental and legal factors. Each of the above-mentioned elements of external environment can be regarded as a huge system with numerous subsystems, each with its own objectives, principles of operation, traditions and cycles. Consequently, the differences in scale of the elements of the system are clearly visible. In addition, a major part of entrepreneurs regard these elements of environment as restrictions, or biased or unbiased rules governing their activities, which reduce their freedom of action and, as such, are detrimental to them. Each of the elements can be characterized by scale (volume), objectives, and cycle (intensity of change). It is the understanding of the scale, objective and cycle of each element of environment which would increase the awareness of managers of organizations about the principles under which it operates, and enable them to see the causal links between various interactions in the external system, and assess the possibilities to influence these processes. A pronounced trend in Latvia currently is placing the all the blame on everybody else: the government, the Parliament, politicians, entrepreneurs, universities, educational system, taxation policy, etc. In these circumstances, an organization, when building its strategy and analysing its external environment, must be clearly aware of the factors of the environment as such, and the possibilities to influence them as well. This awareness determines the three possible strategic alternatives of action for an organization: influence and no adaptation, partial influence and adaptation, full adaptation. By such clear definition of their initial position, organizations avoid having illusions and false hopes for better days and build strategies based on the real state of affairs of the external environment.

Model for analysis of the indirectly influenced external environment

One of the objectives for organizational strategy is to match the opportunities offered by the external environment with the organization's internal resources and capacities. It can be based on the PESTEL model, by complementing it with the additional information which would enable the organization to structure the information obtained as better suited for its strategy-building needs, that is, setting the alternative strategies and their corresponding objectives. The model can be based on the cause-effect approach, which is successfully used in the Fishbone model (cause-effect diagram). Each causal relation chain has a distinct cause and effect, which can be characterized by the scale in which the course of events can be understood. The **scale (volume)** is the extent of the cause-effect chain of the external environment, which should be understood in order to identify the future trends, their direction and influence on the organization. The scale can have two aspects, namely, time and extent. The temporal aspect determines the length of the time period to be included in the analysis, while the extent shows of how broad a perspective the particular event should be looked at. However, from a costs point of view for the organization, it is important to determine the frequency of the monitoring efforts of the external environment. The frequency of observations depends on the length of the cycle and the intensity of fluctuations in the particular factor of the environment. For example, currently, the Latvian legislative environment should be monitored daily, which is very important for the long-term operations of organizations; however, such daily monitoring requires considerable amount of time and funds. Understanding of the scale of the event enables organizations to forecast trends and sets the effective restriction for the resources an organization spends for the analysis of an event which occurred in the external environment. Events in external environment can be characterized by their **target** or purpose. In fact, this indicator also shows the trend of the events as the direction of the cause-effect chain in the framework of the scale discussed above. It can be said that every event occurs with a certain direction and purpose. This direction clearly shows the way the events are heading. A third element used to describe events in the external environment of an organization, is the cycle. A **cycle** of events shows the probable future changes, if they are cyclical, and the features which help us identify the recurrence or periodicity of the events. Use of such model for analysis of the indirect external environment would provide organizations with better understanding of it and enable them to make a strategic decision on the possible attempts to influence on the particular factors.

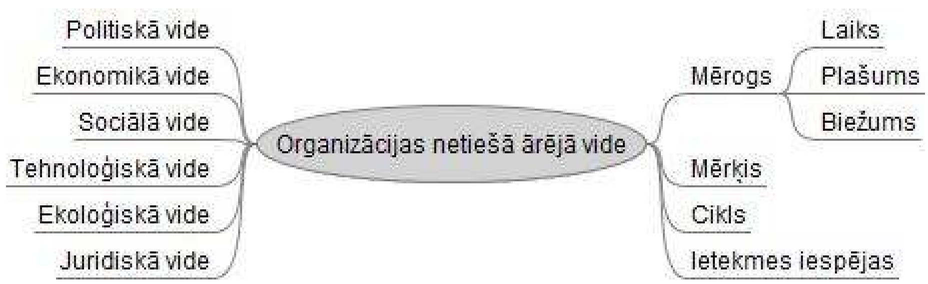


Figure 2.3. Diagram of indirect external environment of an organization

Organizācijas netiešā ārējā vide	Indirect external environment of an organization
Politiskā vide	Political environment
Ekonomiskā vide	Economic environment
Sociālā vide	Social environment
Tehnoloģiskā vide	Technological environment
Ekoloģiskā vide	Ecologic environment
Juridiskā vide	Legal environment
Mērogs	Scale
Mērķis	Target
Cikls	Cycle
Ietekmes iespējas	Possibilities to influence
Laiks	Time
Platums	Extent
Biežums	Frequency

Indirect environment of an organization can be analysed by using the following table:

Environment	**Scale**			**Target**	**Cycle**	**Possibilities to influence**
	Time	Extent	Frequency			
Political	When are the changes about to occur?	How many industries will be affected?	How often do changes of political direction occur?	Trends	Are the changes cyclical? What are the features of the cycle?	What are the chances to influence the political situation?
Economic	What events are to be expected,	How many industries will be	How frequent the changes are	Trends	What are the features of the	Is it possible to influence the

	when?	affected?	predicted to be		cycle?	economic situation?
Social	What events are to be expected, when?	What part of the society will be affected?	What is the durability and frequency of the changes?	Trends and their direction	Are the social changes cyclical? What are the features of the cycle?	Is it subject to influence?
Technological	What new changes in technology are to be expected?	How many industries will be affected?	What is the durability and lifetime of the changes?	What are the trends and directions of technological changes	Are the technological changes cyclical?	Is there a possibility to influence the development of technologies and their standards?
Environmental	What events are to be expected, when?	How global will the events be and what industries will be affected?	What is the expected frequency of the changes, what is the durability of these processes?	Trends of events, and the development of events	Are the events cyclical?	Are the processes subject to influence?
Legal	What new changes in laws are to be expected, when?	What aspects of society, industry, organization could be impacted?	What is the stability of legislature and the durability of laws?	Trends in legislature	Are the legislative initiatives cyclical?	Can legislation be influenced?

Figure 2.3. Table for the analysis of the environment having an indirect influence on an organization

By performing an analysis as described in the above model, organizations obtain summarized and clear information on the elements of their external environment which they can use when building or updating their strategy. Thus they can spot recent trends and opportunities in the external environment, as well as obtain a way to use them as a planning tool, that is, make planning outputs an operational control tool. Such approach enables the use of the up-to-date "opportunity" or "dynamic" strategy approach, when strategies are opened and created from operational opportunities. In addition, this model enables the organization to realistically assess its chances to influence its indirectly influenced external environment. This, for its part, means, that an organization builds its strategy on the basis of the actual situation instead of illusions. A dynamic dimension is added by the trends and cycle elements of the model, allowing us to identify the trends of the external environment which are crucial for strategic management in a changing external environment.

Closing questions for discussion:

1. Why is the recurrence of events important? How can an organization use it in its strategy?
2. Why, in an analysis of the external environment of an organization, is it frequently sufficient to have trends instead of certain facts and figures to make long-term decisions?

3. Changes in the content of a manager's wok

Introductory questions:

1. What is the content of a manager's work? Please give examples?

2. Have the management functions changed nowadays?

3. What is knowledge in an organization?

Intellectual organizations are an integral part of the global economy; therefore, they have the same problems which traditional organizations face, and, importantly, one of the issues is the change of the organization and their frequency in each particular field of activity of the organization. Changes are described by the number of events, which occur continuously and directly influence the organization. The number of the interrelated events influencing an organization is the consequence of globalization; therefore, it can be regarded as one of the key change drivers in organizational management, along with knowledge and change. The quote by Charles Darwin on the evolution of species seems very fitting for contemporary organizations as well: *„It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change".*

The content of work of the manager of an organization described as the activities traditionally performed by a manager performing his or her functions: planning, organizing, directing, motivating and controlling the organization's work. The most important changes in the content of work concern knowledge management in parallel with the traditional organizational management function. Knowledge management has been studied and the fundamental concepts defined: data, information, knowledge, wisdom. "Data are unprocessed raw representations of reality; information is data that has been processed in some meaningful ways; knowledge is information that has been processed in some meaningful ways; wisdom is knowledge that has been processed in some meaningful ways". (18, p. 5) This approach views knowledge as a hierarchy. Management of a knowledge hierarchy is one of the key changes to the content of contemporary managers' work. "Business organizations tend to be interested to use both their proprietary business knowledge, both the personal knowledge of their employees. Business knowledge of an organization means practical knowledge useful for management, production, services or innovation, rather than knowledge in its wider social and scientific meaning". (19, p. 2) Knowledge can be explicit or tacit; in addition, the amount of tacit knowledge exceeds the amount of explicit knowledge. "Tacit knowledge and explicit knowledge is not mutually exclusive; attempts to surface them in the organization will require resources and can produce unexpected results". (19, p. 12) Transfer of tacit knowledge to an organization in their explicit form is a precondition to raising an organization's competitiveness in the new knowledge-based economy and a new piece of content of a manager's work, namely, the planning, organizing, directing, motivation and control of a process for new applicable business knowledge. From the above-mentioned, we can conclude that with the influence of the new knowledge-based economy and the rapidly changing environment, the content of manager's work of an organization has been complemented by activities related to the creation of new, explicit business knowledge which serve to the organization in general and which the manager performs by managing the knowledge hierarchy of the organization.

There are a number of theories for the knowledge management process in knowledge management literature, which includes the static and the dynamic knowledge management models which work in parallel in the same organization.

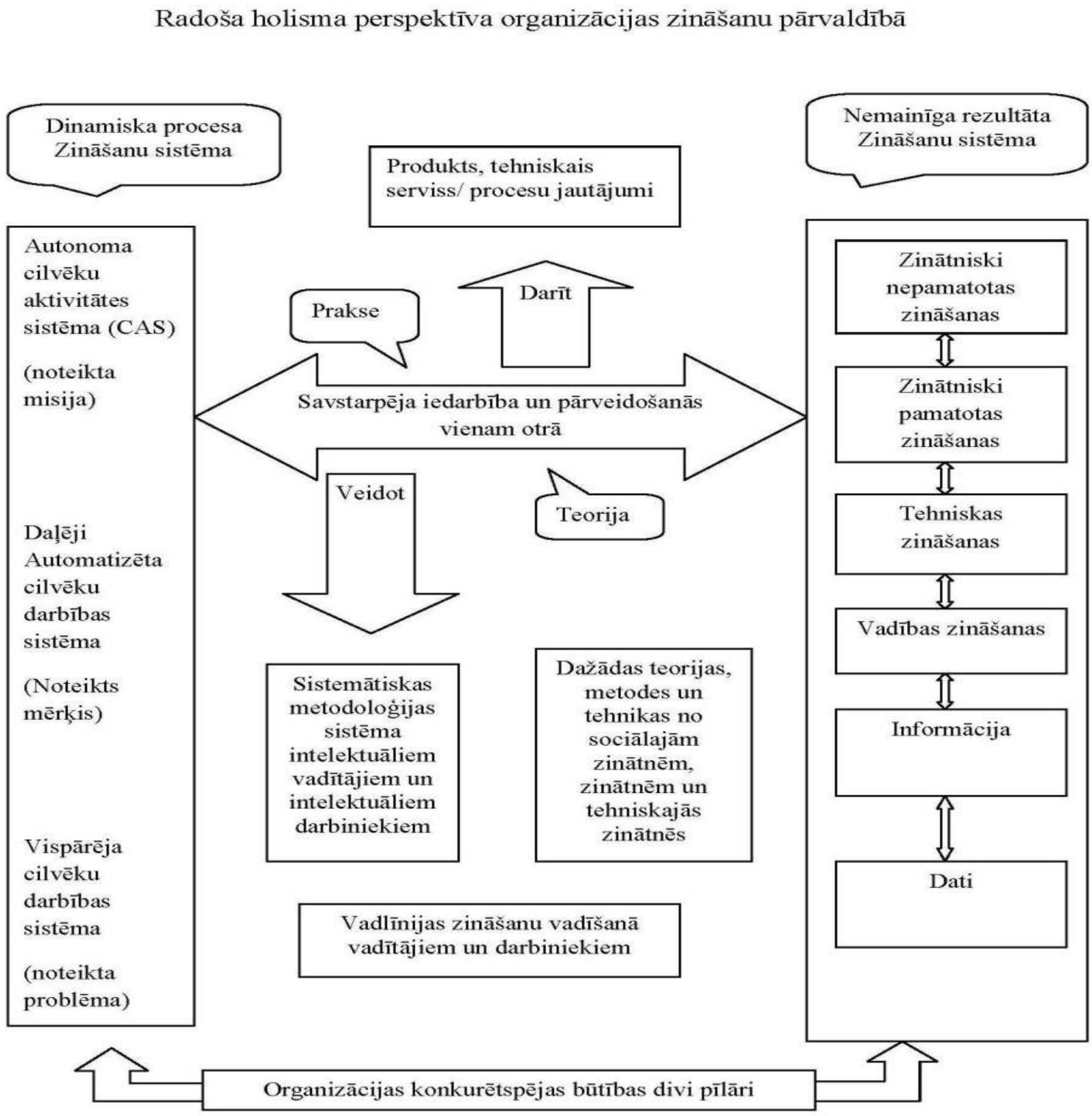


Figure 3.1. Perspective of creative holism in organizational knowledge management (19, p. 12)

Radoša holisma perspektīva organizācijas zināšanu pārvaldībā	Perspective of creative holism in organizational knowledge management
Dinamiska procesa zināšanu sistēma	Knowledge system of a dynamic process
Autonoma cilvēku aktivitātes sistēma (CAS) (Noteikta misija)	Autonomous human activity system (HAS) (Mission determined)

Daļēji automatizēta cilvēku darbības sistēma (Noteikts mērķis)	Partially automated human activity system (Target determined)
Vispārēja cilvēku darbības sistēma (Noteikta problēma)	Generic human activity system (Problem determined)
Produkts, tehniskais serviss/procesu jautājumi	Product, technical service/process issues
Darīt	Action
Prakse	Practice
Savstarpēja mijiedarbība un pārveidošanās vienam otrā	Mutual interaction and inter-transformation
Veidot	Creation
Sistemātiskas metodoloģijas sistēma intelektuāliem vadītājiem un intelektuāliem darbiniekiem	System of systematic methodology for intellectual managers and intellectual staff
Dažādas teorijas, metodes un tehnikas no sociālajām zinātnēm, zinātnēm un tehniskajām zinātnēm	Various theories, methods and techniques from social sciences, sciences and technical sciences
Vadlīnijas zināšanu vadīšanā vadītājiem un darbiniekiem	Guidelines in knowledge management for managers and employees
Nemainīga rezultāta zināšanu sistēma	Constant knowledge system
Zinātniski nepamatotas zināšanas	Scientifically unjustified knowledge
Zinātniski pamatotas zināšanas	Scientifically justified knowledge
Tehniskas zināšanas	Technical knowledge
Vadības zināšanas	Management knowledge
Informācija	Information
Dati	Data
Organizācijas konkurētspējas divi pīlāri	Two pillars of organizational competitiveness

Given the challenges of the new economy, changing environment and the particularity of intellectual organizations in terms of strategic planning, the use of autonomous human activity system in strategic management of intellectual organizations is crucial. Research in the problem of strategic management of knowledge in an intellectual organization, and the transfer of knowledge from the tacit, individual level, to the explicit form of business knowledge, its integration into the strategic plan and its implementation, has been scarce, and theoretic background for these purposes has not been developed.

It can be argued that the changes in the content of work are based on the sharing and delegation of the power to analyse information and events and the power to make the according decisions. Previously, with the amount of information being smaller and the size of the organizations restricted, an organization could be managed by a single person who could process the information crucial for the operations of the organization and make the according decisions; however, the vast amount of information subject to processing, and the decisions to be taken accordingly, frequently hinders their proper understanding. Consequently, the shared information processing and decision-making ensures parallel decision-making across the organization. In a parallel decision-making process, the coordination of the parallel decisions made becomes a key task for the management of the organization. In traditional hierarchical organizations, parallel decisions were made strictly according to the hierarchy, within the rigorous framework of the powers and functions, thus effectively excluding the overlapping of processes. In the modern horizontal intellectual organizations operating in a rapidly changing environment, the delegation of the powers regarding the processing of information obtained from the external environment and the ensuing decision-making is frequently not accurate, because of the wide scope of tasks delegated to every employee of such organizations. Under such conditions and changed time pressures, the role of the coordinating function of the management of intellectual organizations increases at the expense of the role of planning function as a set of activities aimed at reaching its objectives. Thus, it can be concluded that the changing environment burdens organizations with an additional amount of information, which the decision-makers of the organization must process in order to respond appropriately and to match the actions of the organization with the requirements of the environment.

Organizations that base their operation on a strategy usually have a well-developed strategic plan. As a result of the increase in volume of information, the focus of management functions has shifted from being in charge of the operation of the organization to efforts aimed at ensuring the integrity of the organization and the exchange of information among various stakeholders within and beyond the organization. The managerial functions of traditional organizations were planning, organizing, directing, motivation and control;

however, in modern organizations, the role of management changes due to the sheer volume of the information which hampers the direction role of management, if decisions are made only at the management level. If the number of changes and the volume of information is restricted, the conventional management functions can be performed rather easily; however, as the volume of information and number of changes increases considerably, the conventional communication chains no longer ensure efficient decision-making. Modern organizations have found a solution to this problem by reducing the number of managerial levels and adopting the so-called horizontal structures, as well as by increasing the level of knowledge of individual employees and within the organization on the whole. However, the operation of these organizations is based on highly qualified employees who would be able to take important decisions without continuous communication to coordinate the decision and on the basis of the changing information and internal and external circumstances of the organizational at a particular moment. In fact, it means that the larger part of the organization's workforce perform all the conventional organizational management functions to full extent. Accordingly, it can be argued that the managerial functions of an organization have not changed per se; rather, the number of employees performing the functions has increased considerably. Thus, the key task of the executive management is to coordinate the activities of the multiple managers and to guide them all in a single direction. A key problem for this task is lurking in the decision-making process. The previous model, where a formal order or instruction by the manager or owner of the organization was sufficient to announce the change of course of action, does not satisfy the *managing employees* of the organization. Managing employees are the employees who perform management functions at an organization, yet, however, do not have a formal status of a manager, or have it only for a certain period in connection with a formal or informal project, over which the particular employee is in charge of and whose performance requires the involvement of other employees. The managing employee needs to understand and accept the executive management's arguments in favour of the changes in the operation of the organization. The survey of organizations found that managing employees are most inclined to resist change in the operation of the organization if they lack information on the reasoning of executive management and on the conditions of the environment surrounding the organization. Such situation causes distrust to executive management among employees, which may lead to covert non-performance of the decisions made by executive management. Managers who told they provided information on the reasoning behind their decisions to their employees on a regular basis, and listened to the employees' opinions, did not always receive support from the employees, citing as reasons the inability by the employees to understand the information of the environment and the reasoning of the management due to differences in the levels of education and in priorities. Consequently, it can be concluded that the varied content of work in organizations prevents us from developing a single best managerial model for an organization. At organizations with a highly educated workforce and intellectual work, employees should be treated as separate *managing employees*, which, for the most part, make decisions themselves and perform their tasks with a clear understanding of his or her motivation for action and link to the organization, similar to how a separate business or unit might operate. Consequently, organizations, where line employees must make independent decisions as a response to changes in the organizational environment and to organize their work themselves, might be referred to as intellectual organizations. The conventional and well-studied organizations where most of the tasks are regulated and decisions are taken at a strictly defined managerial level might be referred to as traditional organizations. For an intellectual organization, the strategic management should have two certain and distinctly defined strategies: the external strategy and the internal strategy. The external strategy would be focused on value creation for external clients of the organization, while the internal strategy would be focused on value creation for its internal stakeholders, the managing employees.

Concluding questions for discussion:

1. How have the functions of employees changed recently?
2. How have the functions of managers changed recently?

4. Strategic management and its role in the management of a modern organization.

Introductory questions:

1. Why strategic management issue is so topical in our days?

2. If you would have to explain term “strategy” in one sentence what would it be?

3. What is the difference between the strategic planning and the strategic management?

We may regard that in the modern management literature an issue on the strategic planning is widely, comprehensively developed, justified, and grounded with studies and an application of various methods that are used in the practise successfully. However, in the literature the issue on the strategic management is comparatively indefinite. The following excerpts certify this idea, "Strategic management is often described as the discipline still being continuously in development process (Ketchen, Boyd, & Bergh, 2008)" (p.5, 621) and "content analysis devoted to the topic of the strategic management repeatedly found that there is a wide area for improvements and change of directions for studies (e.g., Bergh& Holbein, 1997; Boyd, Gove, & Hitt, 2005; Shook, Ketchen, Hult, & Kacmar, 2004) (6). Approval for this statement can be found in various definitions of the strategic management. Practically, they reflect a slightly changed definition of the strategic planning. In addition to previously mentioned approach of the strategically operational management, it is necessary to mention a limited aspect of the strategy. Symbolically, the strategy could be named as the way selected by the organization for reaching of their objectives. Way is always related to the final destination. However, it is essential to understand that any way in its essence is also a limit. The limit aspect in the strategy development is often left without a notice and as the result it is difficult to draw boundaries of the strategic way. In the operational management the limit factor is even more important because it foresees less possibilities of maneuver because of the limited time period and process particularity. The limiting element of the strategy is especially significant factor taking into account rapidly changing conditions of the external environment. There are many definitions for the strategy and the strategic management. They can be analyzed from historical view or according to their content. In cases when the same term has very many definitions by various authors it is essential to take into account the view and focus of various authors when they have made these definitions. It is necessary to review various views on concepts of the strategy and the strategic management to be able to use these opinions further with an objective to synthesize a common view that could enrich the existing base of knowledge and provide a new insight in the issue of the strategic management and the strategic planning putting the focus on the strategy in conditions of the changing environment.

1. „Strategy is a large work of an organization. In situations of life and death it is Tao for survival or disappearing. (Sun Tzu, The art of War)" (20, p.3). In this definition the managing process of an organization and correspondence of an action to a specific situation is accented. Thereby, actually the focus is made on operation activities that are usually explicit in the specific situations.
2. „In the military area: Strategy is related to „drawing of a war plan ... by sketching individual campaigns and deciding on individual operations within their scale (Von Clausewitz, 1976:177). As it can be also seen from the strategy definition of the military area it foresees the planning and individual behaviour in specific situations, i.e. operational management.
3. In game theory: Strategy is „a full plan: plan that identifies what choices (players) will make in all possible situations (von Newman and Morgenstern, 1944:79). This strategic definition of the game theory intends future action, durability and a behaviour of each player, limiting it more and more. There is only one the best behaviour variant for each player in the specific situation.
4. Management science: Strategy is combined, comprehensive and integrated plan.... developed with an objective to ensure a basic task and achieving of goals. (Glueck,

1980:9). This definition accents comprehensive, scholastic and integrated action of an organization as well as its purposefulness expressed by means of goals.

5. Plan, strategy can also by a trick, specific "maneuver" made with an intention to overcome an opponent or a competitor" (21, p. 4). This definition accents planning, oneness of the strategy, uniqueness and competitions as the main element of the organization environment.
6. „Determining of long-term goals and tasks of a company, accepting of operational plan and distribution of resources required for fulfilling of this plan." (Alfred Chandler, Strategy and Culture (Cambridge, MA: MIT Press, 1962)); main accent is made on the planning process and elements of the organization system planned for longer period of time.
7. „Strategy is a model of tasks, existence reasons or objectives and combination of main policy and plans for fulfilling of these objectives expressed to show in which industry company operates or will operate and what is the company like or what it will be." (Keneth Andrews, The Concepts of Corporate Strategy (Homewood, IL: Irwin, 1971));
8. „What is business strategy, it is all about the name, competitive advantage.... The only task of the strategic planning is to make a company as effective as possible, long-term superiority over competitors. Corporative strategy means a trial to change the organization force against competitors in the maximally effective way. (Kenichi Ohmae, The Minde of Strategist (Harmondsworth: Pengin Books, 1983) (20, p.21)
9. Strategy is a mediator between an organization and its environment (Mintzbergs, 1983)
10. Organization strategy describes how it will create a value for shareholders, clients and citizens. 2004 (22, p.4)
11. Strategic management concept consists of a decision and operation set and as the result the strategy is formulated and its implementation in life is done with an objective to achieve goals of an organization. (23, p.248)

12. „Strategy is a framework where choice can be made about essence and direction of the organization's future. With the framework we understand limits and parameters that show what an organization can achieve" (23, p.86).
13. „Strategic management is full set of determinations for an organization to achieve competitiveness and return for investments above the average level" (14, p.6)
14. „Strategy is an integrated and coordinated determination and activities created in order to use basic competences and to acquire competitive advantage" (14, p. 144)

As we can see from the previously mentioned strategy definitions several terms are used and their understanding is not straightforward and various authors have different perspective on the meaning of the specific terms. To avoid further misunderstandings, the following definitions of the main terms are offered from the strategy literature:

- Organization objectives are specific short-term and long-term quantitative results that are directly related to tasks and are measured as the main indicators of fulfilling. They have to reflect crucial success factors for every organizational area in an organization" (23, p.254)
- „Tasks are qualitative and quantitative announcements what an organization wants to achieve in measurable future. They have to be internally united and to agree with a mission" (23, p. 254)
- „Strategic mission is an announcement for a unique existence of an organization and its area of an operation expressed by product and market terminology" (14, p. 27)
- „Vision is desired future situation of an organization" (24, p. 13)
- Reason of an organization existence
- „Basic values of an organization are principles guiding behaviour of an organization" (24, p. 207)
- „Basic competences of an organization are special set of applied technologies, skills and/or business processes developed and learned during the time with an intention to satisfy needs of clients" (23, p. 242)

- Basic strategic competences of an organization are „combination of competences required for an organization to dominate in the existing markets or to create new markets, it may include abandoning of some existing basic competences, strengthening of other competences and creating of other new competences" (23, p. 242)
- „Sustainable competitive advantage of an organization is accomplished if the organization implements value creating strategy where other organizations are not able to copy provided benefits or it is too expensive for them to do so" (24, p. 5)
- „Organizational culture is referred to complex set of ideologies, symbols and basic values that ares united in the entire organization and impacts the way the organization ensures its operation. This is social energy guiding – or inability to guide – the organization" (14, p. 36)
- „Interested parties are all people (organizations) that are interested in the operation of an organization, are able to impact an organization or can be impacted by an operation of an organization. They can be internal (like employees) or external (like vendors or pressure groups)" (23, p. 236). „Interested parties are individuals and groups that can impact or are being impacted by the strategic operational results of an organization and the ones that have claims regarding an operation of an organization to realize" (14, p. 28)
- „Strategic flexibility is set of skills used by an organization to react on various requests and possibilities that is a part of dynamic and indefinite competition environment" (14, p. 20)
- „Strategic intention is mean for the usage of organization's internal resources, skills and basic competences to achieve organization's objectives in the competitive environment. Strategic intention exists if all employees and organization levels are determined to follow a specific (important) fulfilling criteria" (14, p. 26) May be replaced with organization's vision or vice versa.
- „Strategic groups consist of competing organizations with same competition methods and positions in the market". (23, p. 246)

- „Crucial success factors (CSFs) are its product or service characteristic that are especially valuable for a client group and where an organization has to exceed competitors" (24, p. 96)
- „Synergy exists if a value created by business units of an organization created when working together exceed the value that each business unit would create when working separately" (14, p. 256)
- „Organization policy is regulations and guidelines determining limits in which an operation of an organization shall take place." (21, p. 10)
- „Corporative management represents relationships of interested parties and they are used to determine and to control a strategic direction and a performance of an organization" (14, p. 402)
- „Strategic control includes usage of long-term criteria by executive management related to an organization strategy in order to assess operation of organization's departments and divisions" (14, p. 449)
- „Strategic leadership is an ability to foresee, to imagine, to maintain flexibility and to inspire others to create strategic changes required for an organization" (14, p. 489)
- „Business model is a system in which a product or a service and information "flows" among parties involved" (24, p. 13)
- „Strategic drift is taking place when an organization's strategy starts progressively disagreeing to its strategic position and its operational indicators become worse" (24, p. 27)
- „General environment of an organization consists of elements of wider society impacting society and organizations in them" (14, p. 50)

As we see from the definitions stated above the strategy includes a very wide scope of issues and, in addition, it is necessary to mention that the definitions above is only a small part from offers of various perspectives and methods used in the modern strategic management. Definitions offered are the ones directly related to the strategic management of an organization in conditions of dynamic environment.

When the understanding of the role of the strategy in the work of an organization developed, the focus made by organization leaders, researchers of management science also changed while working on the strategy. This issue is studied in several studies on the historical development of the strategy and figure 4.1 looks at one of these studies.

Period	**1950's**	**1960's — early 1970's**	**Late 1970's — mid 1980'**	**Late 1980's — 1990's**	**2000's**
Dominant Theme	Budgetary planning and control	Corporate planning	Positioning	Competitive advantage	Strategic and organisational innovation
Main Issues	Financial control	Growth planning, especially diversification and portfolio planning	Selecting industries and markets Positioning for market leadership	Focusing strategy around sources of competitive advantage Development of new businesses	Reconciling size with flexibility and responsiveness
Principal Concepts and Techniques	Financial budgeting Investment planning Project appraisal	Medium- and long-term forecasting Corporate planning techniques Synergy	Industry analysis Segmentation PIMS analysis SBU's Portfolio planning	Resources and capabilities Shareholder value Knowledge management Information technology	Corporative strategies Competing for standards Complexity and self-organisation Corporate social responsibility
Organisational Implications	Systems of operational and capital budgeting become key mechanisms of coordination and control	Creation of corporate planning departments and long-term planning processes Mergers and acquisitions	Multidivisional and multinational structures Greater industry and market selectivity	Restructuring and reengineering Refocusing Outsourcing E-business	Alliances and networks New models of leadership Informal structures Less reliance on direction, more on emergence

Table 4.1. Evolution of strategic management (page 19, 20)

As seen in the table, the perception of the essence of strategy has changed significantly. From the Latvian organisations' viewpoint, it is quite advantageous to use the freshest concepts of strategic management in planning and managing their future businesses. Otherwise, the lack of understanding or use of outdated concepts can be one of the reasons for low competitiveness.

Taking into account the non-stop process of organisation improvement, which is enforced on companies by the competition and changes in the economic environment, the emergence of new trends in the strategic management development is obvious. In the time of global recession, the adjustment of the organisation's management processes to the rapid changes is a prerequisite for surviving. Taking this into account, new trends in strategic management can be observed. "For most organisations the shift from 20th century to 21st century was insignificant for the processes of operational activities. However, the new century has brought considerable changes demanding new processes of planning and management" (page 99, 25). Nowadays the planning should be based on the principle "look for the unexpected in all elements of organisational environment" (page 99, 25). The reason of such a statement is changes in the provisions of economic activity drawing more and more away from the "industrial economy towards the digital economy, where the intellectual capital has replaced the basic assets" (page 25, 100). As a result, it is more difficult to appraise the value of the organisation and capital. "Various organisations rushed to take advantage of the new assets of knowledge and intellect. Both the traditional methods of cutting expenses, and the strategies for economies of scale were no longer among the top choices of managers" (page 25, 100). Alan Greenspan in his speech in 2000 suggested that in today's world the ideas more and more often replace the actual production of goods, and that competition for reputation becomes an important driving force of the economy. The produced goods often can be appraised even before the completion of the whole transaction. On the other hand, the service providers usually can offer nothing but their reputation (p. 100, 25). Conditions like the aforementioned are responsible for changes in the organisation management and decision-making system. Both the speed of information exchange and combination of the digital possibilities has created the so-called "hypercompetition". "Economy of hypercompetition is based on a continuous and rapid creation of new organisational resources, like new products, services, procedures and processes. In the digital economy, the organisation assets are amortised very quickly." (p. 101, 25) As an example of this process, the rapid changes in the popularity of the Latvian restaurants and entertainment places can be mentioned, because a company has to amortise basically all the assets during two-year time in order to gain a profit before introducing a completely new concept and investments. The traditional M. Porter's five forces model (one of the forces being "Barriers to entry") was considered to be self-evident; yet, the use of internet in various industries has overcome those barriers and opened an instantaneous global market for poorly-known businesses. It has created new and cheaper channels of distribution. As a result, the marginal profit on a unit is being reduced (p. 101, 25). The global access to prices and information has increased. Organisations for which the geographical borders were an argument for different prices for the same items, more and more often come across the customers' tendency to buy an item in the country where it has the lowest price by using the global modular transport system and simplified, unified customs procedures, which often are completely discharged, as within the European Union. This tendency to choose products globally characterises not only the organisation business, but also the people`s behaviour in retail business. For example, let us take the behaviour of Latvian consumers — they use internet catalogues for comparing the prices of goods offered by Ikea in Helsinki, Stockholm, and Poland in order to pick the country where to purchase the household items whose supply and price are inadequate in Latvia. A significant finding for the Latvian companies in organising the strategic planning and strategic management within an organisation is the necessity of expanding the region and scope of analysis of competitors. When developing a strategy, an organisation has to compare the chain of adding-value processes and the customer added value not only in Latvia, but also globally. If this is not present, the strategy (and consequently the necessary investments) of the company can be defined as very risky. Regarding the wide-spread use of internet, growing knowledge of information systems, improvement of means of transportation, and the growing number of multimodal transport systems, it can be suggested that the global competition will continue to grow. When developing their strategies, all Latvian organisations should consider both the aspects of regional competition and chain of the added value, and the global competitors.

Use the following criteria for setting the range of global competitors:

1. Availability of information on the Internet
2. Insignificant language barrier
3. Availability of multimodal transport system
4. Simple customs procedures
5. Simple possibility of physical movement
6. Significance of an excessive factor to a specific product/service

There is a growing tendency to use outsourcing. Organisations when assessing strategic decisions related to vertical integration more and more often choose outsourcing as a solution for optimisation of expenses and simplification of management, transparency. Outsourcing is used as simple control and cost planning techniques, which reduce the risk to investments and focus on the key elements of added value in the basic activity of an organisation. There is popular term "virtual corporations or organisations" (p. 102, 25), which characterizes the desire of virtual corporations or organisations to be flexible and able to adjust to the changing environment.

Several comparatively stable economic and environmental indicators served as a basis for strategic planning concepts, which enabled organisations to develop strategic planning process and acquire good results using them – "low inflation, corresponding demand, stable legal framework, low interest rates and stable share market. Such stability in the business environment enabled strategic planners to use such aggressive strategies as reorganisation, reduction, outsourcing, refocusing and cost reduction strategies. These strategies significantly improved organisation profit indicators" (p. 25, 102). In the circumstances of rapid changes use of methods which request time and stability is becoming more and more difficult. As a result, organisation profit indicators deteriorated with the change of situation, and recurrently used, previously successful, strategies did not bring the expected results. An alternative solution used by many organisations was a focus strategy. "A new strategy focusing on things one knows best or the spheres of organisation activity, where it has a clear and powerful competitive advantage, is becoming more and more popular (p. 102, 25). The same approach is related to the tendency of horizontal mergers instead of vertical ones, thus focusing on the current sphere of activity and synergies that arise due to merger.

Questions for discussion:

1. How many alternatives shall be assessed before taking the final decision?

4.1. Essence and structure of strategic management

Introductory questions:

1. Why is strategy often named pathway?

2. Do you have your own life and development strategy? If yes – why; if not – why?

The necessity of strategic management of an organisation is based on experience. Managers` experience testifies that decisions of organisation all-level managers may be divided into three categories: positive result, neutral result, negative result. In cases when results are seen comparatively soon, as with everyday tasks, decision assessment is relatively simple; however, if decision consequences appear in a longer period the task becomes more complicated. The diverse experience organisation managers had in relation to consequences of their previous decisions made seriously consider the necessity of evaluating decisions crucial to an organisation, in a different way than everyday decisions. Organisation managers found the solution in planning approach, which was later named as strategic planning. "Strategic planning means to establish and maintain a sustainable performance of an organisation in the future" (p. 26, 4). Another quotation that characterizes the essence of strategy forming is *„A pathway which does not provide a traveller is not worth travelling"* (p. 16, 27). Such approach shows the management of an organisation a key strategic challenge, how to choose such pathway for an organization which would ensure sustainable existence and development of an organisation; furthermore it points out, if an organization is unable to provide its vitality and development, the chosen branch of activity is not suitable for the specific organisation. There is an opinion that it is the task of strategic management to guide and keep an organisation on the chosen pathway. Strategic management can be defined as a forward-looking, comprehensive organisation management system and decision taking process.

Organisation management is a key necessity of contemporary enterprises in the fast-changing environment. Strategic management is a tool an organisation manager may use to organise the management process of an organisation, because it includes planning, long-term vision, organisational structure and organization of work. This comprehensive viewpoint is the advantage of strategic management. Such name most accurately displays the management process in the fast-changing environment. Changeability of situation does not allow organisations to make long-term plans and blindly follow them; however, if an organisation wants to exist and develop it is possible and necessary to make strategically oriented operational decisions. It is not an issue whether it is beneficial for an organisation to have a strategy or not to have; it is an issue of ability of an organisation to exist in the current situation. Many types of organisation strategy have been investigated: from strategic planning to the balanced scorecard system. Such authors as M. Porter, Norton and Kaplan, and Mintzberg have made a significant contribution to the understanding of strategic planning. The leading authors representing various schools of strategy have given classified descriptions of strategies. The understanding of different approaches to the issue of strategy is of key importance, otherwise one may get an impression that strategy is an abstract notion, since even scholars have no unique concept of strategy; furthermore, strategy may have different meanings in different spheres of life.

The approach of various schools of strategy is important due to the reason that use of certain metaphors demonstrates diverse aspects of the same idea.

Strategic planning schools are:

1. Design school: concept procedure. .... Finding balance between the inner strengths and weaknesses of an organisation, and the external opportunities and threats.
2. Planning school: a formal process ...not only the brain process; it is formal, divided into specific steps, supplemented with control tables and various techniques (especially related to tasks, budgets, programs, operational plans).

3. Positioning school: an analytical process. ...The planner becomes an analyst. Includes such concepts as strategic groups, value chains, game theory etc., but always with an analytical approach.
4. Entrepreneurial school: process of future vision. ...The key person is the top manager. Changed the strategy focus from accurate design, plan or position to indefinite vision and a wide perspective.
5. Cognitive school: a mental process. Mainly involved in investigation of the essence of strategy. The school has its deviations: interpretation or constructive approach to strategy. Cognition is used to design strategies as creative interpretations instead of maps of reality in a more or less objective manner...
6. Learning school: a sudden process. Strategies appear unexpectedly, they are found in an organisation, and the so called formulation and implementation relation.
7. Power school: a negotiation process. There are two sub-groups. Micro power school considers development of strategy as the internal policy of an organisation – the process which involves negotiations, compulsion and confrontation among the empowered players. From the viewpoint of Macro power school an organisation is an entity which exerts power over others and among its partners in an alliance, joint venture and other network relations, to reach an agreement on “collective” strategies in its interests.
8. Culture school: a social process. ...Focus on common interests and integration – formulation of strategy taking roots in organisational culture.
9. Environment school: a reactive process. Includes the so called “coincidence theory” which investigates the reactions expected from an organisation in a particular environment and the “population ecology” which requests restrictions of significant strategic decisions. An “institutional theory” which describes the institutional pressure organizations may encounter and, most probably, is a hybrid of power and cognitive school.

10. Configuration school: a transformation process. Organisations are considered as configurations – in compliance with behaviour and characteristic quantity cluster.... If an organisation may be described by the word 'condition', changes may be described as a dynamic transformation process – a step from one situation into another (pp. 23-26, 21).

However, this division of strategic schools is not the only one found in the management theory; there are authors like Elf Ring and Volberda (2001), who have divided the strategic management approaches into three strategic schools.

1. 'Boundary school' – basically deals with the issue where to set organisation boundaries and how to guide the process across such division;
2. 'Dynamic capability school' – perceives strategic management as a collective learning process with the purpose to develop the special abilities of an organisation which are difficult to copy.
3. 'Configurational school' – perceives strategy as a process of establishment and decline in the configuration of an organisation, such as strategic methods, archetypes and stages of development (p. 176, 28).

Division of strategic approaches into schools is not establishment of new schools of strategy theory; however, it shows the key tendencies in the sphere of strategic management. An inquiry of entrepreneurs and experts shows that different understandings of the issue of strategy among the respondents is a reason of diverse approaches to strategy by different organisations, as well as of diversity and changeability in the organisation environment. So we can with good reason state that entrepreneurs` different understanding of organisation strategy causes changes of environment, which, for its part, is a reason for more complicated organisation management. However, such diversity of understanding is an objective phenomenon, representation of a person`s individuality. With the increase of individualism the diversity of opinions will increase respectively. Such approach leads to a significant conclusion, same as in the issue about possible organisational structures: currently there is no "one best model", organisations successfully apply different approaches. Similarly, in the strategic management theory there is no "one best approach" or one dominating approach;

organisation managers and strategy researchers have rather chosen the approach "it depends" on specific activity conditions and criteria. Organisation managers, who have chosen strategic management approach for management of an organisation, before commencement of strategic management process have to specify which approach is the most appropriate for their organisation and its specific conditions.

The previously described process for making of strategic decisions and the strategic planning process in the organization is performed with a specific aim. Why does the organization want to commence implementation of strategic management? From the gathered definitions of strategic management and strategy, that comprise understanding of the authors about the aim and necessity of a strategy, we can set several key words that characterize a strategy: survival, competitive advantage, mission, vision, competences, gain above average, competition, resources, abilities, operational direction, environment, risk, management, strategic intent. Diversity of aims of strategic management can be seen when analyzing definitions of strategic management provided by different authors. However, in all the schools, models of strategy mentioned above the idea of strategic management itself can be found. Holistic approach should be assumed as one of the primary conceptions. Strategy covers and influences all organization. Thus, all organization and its environment is the field of strategic management. The word 'strategic' refers to the management process, which means that we can draw the border of strategic management up to where the field of management or influence of a specific manager or a specific organization extends or up to where it should extend. Strategic management, similar to systematic approach where systematic thinking is emphasized, is the ability of managers to think strategically and holistically. Substantial is the ability of a manager to see the total view of mutual influences of processes of his organization and their connection with the latest and most advanced trends of management theory, yet without falling into extremes and exaggerations in connection with their implementation in his organization. "The greatest failures in strategic management have occurred when managers took one opinion too seriously. This field had its obsession with planning, later with general positionings that were based on precise calculations, and now with learning" (27, page 21). Manager of an organization should have an understanding about management guidelines of an organization and his management principles, prior to making the decision adopt or not to adopt a new theory in his organization. Coherence of such knowledge is connected with the possible contradictions between the management guidelines of a manager or an organization and the principles comprised within the latest theories elaborated by other people. Exactly this hidden conflict of management principles is the reason for failures of the new attractive theories in some organizations and convincing success in others.

As it can be seen from the many previously described theories that have developed in the course of time due to authors seeking answers to the substantial question – why do some organizations succeed and others do not. Many methods have been created that have experienced their prosperity and decline. For example, “Management by Objectives”, TQM, Balanced Scorecard, Lean Management, 6 Sigma etc. It means that the range of methods available nowadays to the manager for making of strategic decisions and managing of an organization that succeeds can be considered sufficient. Moreover, there are organizations that can not only survive, but also develop even in difficult conditions. It might be beneficial to set a task not to answer the questions ‘how to do’, or ‘what to do’, because these questions have been largely described in scientific literature with the help of various methods and from various aspects, but rather ‘what is the most important for the management of strategy-oriented organization in changing environment conditions. The question about importance is more substantial than the question about how to implement the process. To find the answer as to what is the most important, the method of reverse logics may be used, discarding what has been proven as important factor, but not the determinant one. This approach is used when determining the critical success factors of a sphere or CSF. Critical success factors are factors that are critical for succeeding in a specific sphere. When studying the factors determining success in each sphere and discarding the least substantial ones, the most determinant factors can be obtained without the presence of which success in the particular sphere would be impossible.

Implementation of processes depends on several competencies. Nowadays competences of an organization may be purchased or obtained, if there is an understanding as to which of them is necessary and which is lacking, if some specific management competencies are lacking, for example, project management organizations always have the possibility to hire an employee with accordant specialization, to send its employees for training or use services of consultants or currently popular external services. It can be concluded that when availability of competences in the environment of an organization exists, the matter about the competences lacking for implementation of a strategy is in fact a decision of the organization about the necessity of a competence and a function of resources of the organization. We might consider competences insignificant as an index, but the matter about what competences we need is more substantial. It should be noted that many organizations when establishing the strategy of the organization use a different approach. They define the competences that they have and select the sphere of activity where these competences would ensure the biggest yield. This question has been studied world-wide with the aim to clarify what exactly determines success of an organization – sphere where the organization operates, this approach was elaborated by M. Porter, or unique resources of the organization. For example, Porras states that if the unique resources of an organization do not correspond to current market, then the organization should change its sphere of activity and not its competences or values. Though each of these approaches is important and topical when elaborating the strategy of an organization, yet it is not the most important strategic management issue of an organization. It can be justified by the fact that there are organizations that have attained notable success in the market by using one, as well as the other approach. The amount of resources of an organization is usually one of the differencing factors in selection of the approach. It is easier for big organizations to choose a beneficial sphere and succeed there. For example, General Elektric became known in Latvia as a refrigerator brand, but currently it deals with financial entrepreneurship. Latvian textile companies are a good example of how competences determined the circle of clients. If before restoration of independence of Latvia the big textile companies were widely known with their brand, for example, Rīgas apģērbs, Ogres trikotāžas kombināts, then with the market conditions changing the companies retained their competences, but changed the circle of clients, and now they successfully ensure manufacturing of other famous brands. It can be concluded that while both approaches ensure successful entrepreneurship, other factors that are determinant should be searched. Finding of determinant factors should divide the conception of strategic management into maximally small elements that arise from the assumed opinion about strategy. Definitions of strategy provided before, as well as definition of strategy elaborated by Drs Kepner and Tregoe - "Strategy is the framework which guides those choices that determine the nature and direction of an organization. The framework is borders and parameters that show what the organization may achieve" (86. page 23) - shall be used. However, prior to commencing analyzing of the basis of strategic management of some organization, it should be clarified what activities of an organization may be called strategic and what may not. In management theories, approaches directed towards development of an organization are considered strategic, but in economic models all activities that take the reactions of other market players to activities of organization into account are considered strategic. From the point of view of economic theory, the game theory is a typical sample of strategic activity. "Game theory describes mutual interplay of reactions of competition in specific group of competitors" (264, page 24). Terms like "Strategic behavior" can be found in scientific literature, which is defined as cognitive, emotional and territorial interplay of managers within a group (or among groups) if the matter affects strategic challenges" (93, page 29). Interaction and mutual dependence of various groups both within an organization and outside an organization is emphasized. "Strategic behavior" is defined as "Measures that an organization take in order to improve its competitive position in relation to its competitors, to obtain independent commercial advantage thus ensuring long-term profit" (30), there are authors that emphasize the influence of environment on an organization "to influence economic environment with the aim to increase profit" (382, page 31), when applying the approach of game theory strategic behavior is defined as "investment of resources with the aim to decrease choices of competitors" (46, page 32). "There are two categories of strategic behavior. 'Non-cooperative behavior' occurs when organizations try to improve their position in relation to its competitors by trying not to allow them enter the market, trying to discontinue their operation or reduce their profit. 'Cooperative strategic behavior' occurs when an organization tries to coordinate its activities in the market, thus decreasing reactions of competition (it does not always require strict agreement)" (30). Strategic behavior is closely connected with the competitive dynamics. "Competitive dynamics occurs from a range of competitive activities and responses of competitors among organizations that compete in one sphere" (189, page 14). Intensity of competitive dynamics shows the changeability element of the environment of organization from the side of competitors. Assumption of mangers of organizations that external environment of organization, especially competition will remain unchanged after commencement of implementation of strategic activities of organization and their further implementation can be considered as one of the biggest mistakes of organizations. "Mutual dependence among organizations means that strategic competitiveness and gain above average can realize only when organizations admit that their strategies have not been implemented independently from activities and responses of their competitors" (191, page 14).

An opinion exists that defining of strategic activity requires usage of both approaches - the strategic management approach where the main emphasis is put on durability, alternatives and direction, and the view assumed by economists where the main emphasis is put on interaction of various interested persons and their actions in relation to competitors. The following definition of strategic behavior may be established: Strategic behavior is activity where the managers make decisions, act taking into account the development direction, values, alternative future development scenarios of the organization and the reaction of interested persons to activity of an organization in its external and internal environment. In order to understand this definition of strategic activity better, a task to define non-strategic activity can be set. Activity model of an organization could be considered the main element for differentiation of strategic and non-strategic activity. If organization, due to any changes of external and internal environment, adapts to the changes of environment not retaining its development direction, value system, then such activity can be considered non-strategic. Such activity is also called reactive. Organizations simply react to stimulus of external environment and follow the direction of such stimulus, changing their operation, procedures, employees, suppliers, clients and products according to market situation at that time.

Questions for discussion:

1. What are the critical success factors of strategic management?
2. What is non-strategic behavior like?

4.2. Taking Strategic Decisions

Introductory questions:

1. Is it possible to say that taking decisions is one of the most important tasks of managers of each level? Substantiate your arguments.
2. What kind of decisions are the most difficult?
3. What are the main preconditions for an organization to be able to take right decisions?

One of the main tasks of managers of organizations is taking decisions substantial for the organization. Decision-taking pays a decisive role for ensuring a successful strategic management in any organization. Theoretical substantiation of taking strategic decisions will be divided into two parts, where the first part will deal with the general aspects of decision-taking process, whilst the second part will consider specific aspects of taking strategic decisions.

4.2.1. Theoretical Substantiation of Decision-taking

There are no wrong decisions, there are just different consequences. (Author)

Decision-taking is one of the most important tasks and main functions of all kinds of managers. “A mechanism of decision-taking is, in fact, a mechanism of the entire organization management.” (33 p. 399) “The main task of managers of all levels is taking decisions”. (34 p. 521) Managers are expected to do this by the personnel and managers of a higher level. A manager does not only have the duty to take decisions but also to undertake responsibility for them. A particular significance in the decision-taking process is conferred to the present economic situation when, along with changes in the external environment, this involves an increase of different events that have an impact on the organization, whilst the time between the events reduce due to their increasing frequency. In fact, a reaction of the organization to these events is a decision. Decision-taking, however, is connected with different uncertainties, misunderstanding and inconsequent actions that might lead to grave failures by the organization. P. Druker has said that "Decisions turn out to be unsuccessful not because they have been incorrect from the very beginning but because that objectives (or conditions) have been changed. Although initially the decision was correct, it became inconsistent with them due to the change thereof". (35 p. 15)

Many sources of literature deal with the issue of decision-taking. Methods of decision taking have been broadly described, and the roots of these methods can be found in the necessity of implementing strategic tasks of troops. These methods have then been transferred to the field of decision-taking within organization management. Decisions can formally be defined in the following ways:

1. A product of management, reaction of an organization to a problem;
2. Determination of actions based on several alternatives;
3. Selection of certain considered objectives and means of reaching thereof;
4. Choice of the kind of activities that guarantee a positive result of an operation (36 p. 13);
5. Decision taking is a selection of the only alternative amongst the rest;
6. Decisions of the management is an emotional and legal act of thinking that lead to selection of one alternative out of several, these activities being performed by managers acting within the field of their jurisdiction; (37 p. 211)
7. A decision is a point where a choice among alternatives is made, these alternatives usually being competing possibilities; (38 p. 14)
8. Decision-taking in an organization is identification of a problem and finding a solution for it; (39 p. 280)

Different sources of literature provide different classification of decisions. "Authors propose classifying decision based on their level:

1. Operative decisions;
2. Strategic decisions.

Operative decisions are related with ensuring everyday functioning of an organization.

Strategic decisions are related with policy and trends of development of the organization for a long-term period." (38 p. 16).

Decisions can also be classified based on their impact on an organization. "It is generally accepted that some decisions have a greater influence than others.

1. Small decisions;
2. Average decisions.
3. Great decisions.

Having understood the significance of a decision, it is possible to determine the amount of resources to be allocated for implementing a particular decision. Many managers fail to understand that time, the one at their or someone else's disposal, is becoming a resource people are running short of". (38 p. 17)

Decisions can also be classified based on their objects. "Decisions can beL

1. Money-related decisions;
2. Human-related decisions" (38 p. 17).

This kind of decision classification reflects the way of thinking of managers of organizations. It is possible to determine the basis of a decision, for instance, "money", and then a manger can take a decision in a particular situation based on the particular criterion. Another wide-spread criterion that serves as the grounds for decisions within organizations is money. If work collective makes a pressure on a manager and this pressure exceeds the one made by shareholders regarding saving financial resources, it is often that a manager obeys the pressure of employees and a decision is made in favour of them. However, sometimes it is not right to compare employees and financial resources when taking decisions. It is necessary to apply "profit and costs analysis" (34 p. 539) and the suggested decision assessment model.

B. C. Jukajeva suggests a wide range of classifications for decisions of management:

1. Cause of origin:
    a. Initiative;

   b. Instruction.
2. Kind of decision transfer:
   a. Oral;
   b. Written.
3. Party that makes decision:
   a. Individual;
   b. Collective, colleagues.
4. Level of innovations (uniqueness):
   a. Routine (traditional);
   b. Innovative (creative);
5. Availability of information:
   a. Circumstances of certainty;
   b. Possibility;
   c. Circumstances of uncertainty.
6. Methods of taking decisions:
   a. Based on figures;
   b. Based on experience.
7. Directions of the aim:
   a. One aim;
   b. Several aims.
8. Based on the nature of decision:
   a. Economical;
   b. Technical;
   c. Social;
   d. Organizational.
9. Based on the period of action:
   a. Long-term;
   b. Operative (36 p. 39).

As it has already shown above, definitions of management decisions considered decisions from the point of view of problems. In such a case the task of a management decision is solving a particular problem. In this case decision-taking can be divided into two stages – "problem identification stage and problem solution stage. In the problem identification stage, information of the surrounding environment and the internal situation of the organization is analysed, it is also established whether functioning of an organization is satisfactory, as well as causes of problem are being identified. Problem solution stage sets in when alternative solutions of a problem are analysed and one of the solutions is selected and implemented." (39 p. 280) Thus, as managers search for solutions, they are clearly instructed that it is necessary to make a research before implementing the solution.

When elaborating methodology for taking decisions related with the ability of an organization to adapt to environmental changes, it is important to consider decisions that are classified based on the method of taking of them. Different authors suggest several classifications, however "decisions based on figures, decisions based on experience" (36 p. 39) and "programmable and non-programmable decisions" (39 p. 280 – 281) prevail. Peter Druker divide decisions into four categories: 1. Typical problem; 2. In an enterprise regarded as unique, however usual as to their essence, 3. Extraordinary situation; 4. New kind of problem, indeed a unique problem. For all kinds of problems, except indeed unique ones, it is necessary to find general solutions. However, unique events require different solutions. Managers won't be able to establish regularities among extraordinary situations. Good managers will take their time to establish which one of the four types of problems they have faced because incorrect determination of a problem may lead to a wrong decision". (35 p. 9-11) Although authors provide different classifications, they still have one principle in common – either problem solutions can or cannot be standardized. In addition to the above arguments, it is necessary to take into account the increasing impact of the changing external environment that reduces the possibility to adopt a standard decision since new possibilities are being created. A great part of everyday solutions at an operative level still can be regarded as programmable decisions.

“Programmable decisions – they recur and they are strictly defined. There exist even ready-made procedures for solving a problem. These problems are structured, they usually have clear criteria of solutions, the necessary information is at the disposal of the user, it is easy to calculate alternative solutions and it is very likely that the selected decision would be a success.

Non-programmable decisions are non-standard decisions, it is difficult to classify them, there is no certain procedure for solving a problem. Such situation occurs when an organization has not yet faced such kind of problem and does not know how to react. There are no solution criteria, and the alternatives are unclear. Moreover, it is not clear whether the solutions suggested would solve the problem. Usually, when taking non-programmable decisions, several alternative solutions are elaborated. Often the process of taking non-programmable decisions involves strategic planning due to the uncertainty, and it is very difficult to take a decision.” (39 p. 280 – 281) The both above described classifications of decisions require analysis of alternatives and selection of the most advantageous decision, however, the main difference between the both kinds of classification is the simplicity of difficultness to single out alternatives, and calculation of advantage offered by each of them.

“There are two ways how amangers take decisiosn in an organization. The first one is a rational approach that guides a manager to the aim to be reach by the fecision. In other sources of literature this method is called synoptical model. The other is restricted rational approach, revision of perspectives that instruct a manager to the way of taking a decision under the circumstances of restricted resources and time”. (39 p. 282)

“A rational approach requires systematic analysis of the problem, then a choice must be made among the suggested solutions, and then it is necessary to implement it according to a logical sequence of actions, step by step. A rational approach has been elaborated with the view to guide decision-making process because often managers of organizations do not have any system instructing them through decision-making process, and they guide themselves based on an accidental choice. Although the rational model has been developed as “the ideal model” that is unlikely to be implemented in real, difficult and ever changing life, it would still help managers to thing in a more rational way when taking decisions. A manager always has to apply systematic approach procedures as often as possible. If managers have a better understanding of a rational decision-taking process, then it would help him or her to take a better decision also when taking one under circumstances of lack of information." (39 p. 282)

Different sources of literature offer various descriptions of principles of a rational approach having different versions; though they are rather similar. They have been summarized in the Image 4.2.

Quality of decision-taking depends of the quality of information required to take the decision. It can be stated that quality of decision-taking is directly proportional with the real situation of information development and the specific features of the decision. If one has very precise information at one's disposition, the information not being compliant with a particular decision or being partial, this might, in fact, lead to adoption of a low-quality decision.

Approach No. 1 (39 p. 283 - 285)	Approach No. 2 (35 p. 7-8)	Approach No. 3 (40 p.. 128)
1. To investigate the surrounding environment	1. Classification of the problem	1. What "obligatory" conditions should be included in the decision? 1.1. What is the most important thing that one cannot do without? 1.2. What is the maximum sum that we are ready to spend? 1.3. What is the maximum time within which we should have return? 1.4. What should be the basic benefits that we would get? 1.5. What key points should be included into the alternative selected by me?
2. To define the problem	2. Defining of the problem	2. What would you like to obtain? 2.1. What are the expected benefits from this decision? 2.2. What problems can be solved provided that these problems are not classified

		as “mandatory”?
3. To establish the aim	3. Establishing the way of solving the problem	3. What are the side-effects of the decision?
4. To diagnose a problem	4. Taking of a decision regarding circumstances that would allow choosing the right rather than the most acceptable solution without observing “the biding regulations”	4. What are the alternatives?
5. To elaborate alternatives	5. Taking of such decision that would include activities for implementing the decision in real life	
6. To assess each of the alternatives	6. Assessment of validity and effectiveness of the decision taken by comparing it to a real course of events.	
7. To select the best of the alternatives		
8. To implement the selected alternative		

Image 4.2. Methods for assessing decisions step by step

As it can be seen in Image 4.2, there are different approaches – beginning with very formal ones and ending with the one that is better understood by entrepreneurs who apply brainstorming method within the organization when setting powerful questions on the problem to be analysed or decision to be made. The range of these questions can be supplemented, but the most important of the suggested questions are as follows: "What would be the benefits for the organization from this decision? How the decision falls within the value system of the organization established in its mission? What are the most substantial consequences of the expected ones? How would our decision influence stockholders of our organization (employees, suppliers, transporters, customers, and the society)?" (40 p. 128) The author particularly emphasized these questions because decision assessment models suggested by the author further in his work would be based on the modified versions of these questions. The author agrees with the P. Drunker's decision assessment method concerning the real course of events. This method will further be analysed i the section "Decision Audit". P. Drunker, in his concept of decision development, places an emphasis on the importance of conditions. "A step of conditions in decision-making is to be aware of all conditions that the decision to be taken should comply with. What are the objectives that we want to reach by means of the decision? What are the main tasks to be implemented? What conditions should be observed? In the science, these conditions are usually called as boundary conditions. For a decision to be regarded as effective, it should comply with all boundary conditions." (35 p. 15) Effectiveness of a decision in this case is being determined based on accomplishment indices of all decision conditions. A decision is being considered by means of condition (restriction) indices. Such approach correlates with the decision indices and control mechanisms described in the balanced index system. However, the main difference is that the system of balanced indices applies indices directed to the future, whilst P. Drunker offers decision-restricting indices. "A decision that does not comply with boundary conditions is worse than an incorrectly defined problem. It is not possible to implement a decision that is based on correct data and wrong conclusions." (35 p. 15) Substantial changes of boundary conditions serve as the grounds for changing aims and strategy of the organization because implementation of the old strategy under new boundary conditions is ineffective. Boundary conditions can be used as the basis for developing a map of critical external environment indices, which would serve as an index system and signal the organization on critical changes of boundary conditions in the external environment, which means starting developing new aims and, in the case of need, strategy even in case if the previous strategy term has not yet been expired or, in some cases, has just began. Such "external environment index maps" can be an important part of organization strategy and serving as a linking element between the internal and external environment of the organization, as well as function as a tool for determining changes and measuring compatibility. By means of an external environment index map of an organization and by performing constant monitoring, it is possible to identify, in advance, elements of the environment that are crucial for the organization and to immediately react on all organization levels by thus ensuring operative adoption to changes of the external environment. Another positive effect of having developed such a map is leaving off all insignificant factors and boundary conditions, which would ensure saving of resources spent on ensuring monitoring of the external environment. By applying certain methods, two important elements that ensure effectiveness of an organization are obtained, these elements following from time consumption: less time needed for reaction and saving of resources in the result of time saving, as well as other costs related to ensuring monitoring of the external environment.

Boundary conditions are crucial for identification of conflicting decisions. "The most dangerous decisions are those having mutually conflicting conditions to be met. Such decisions are usually called a stake. However, their real cause is even smaller than a stake. This is the hope that two (or more) unrelated conditions can be implemented simultaneously. In fact, this is the hope that a miracle would occur. But it should be noted that miracles sometimes occur, however one cannot count on them, and this is sad." (35 p. 16-17)

One of the most important components of a decision of a manager is a compromise. A compromise is "a conciliation made by mutual concession" (41 p. 391). Another compromise practice, which is often applied by organizations, is the so-called compromise deals. "Compromise deals mean a grounded choice by a person made among different products and offers. Compromise deals arise from fundamental differences in costs structures, which is usually manifested by the price". (42 p. 3) However, from the point of view of decision-taking, this is a conscious choice of a manager among two or several alternatives. He is trying to find the solution that would ensure the organization the greatest benefit possible. The main difference between a compromise in a decision-taking process and a compromise among two organizations, natural persons or an organization and a natural person is the fact that none of the alternatives are worsened for the benefit of any other alternative. This condition is one of the most important for ensuring impartiality of the choice of alternatives. During the decision-making process, alternatives are elaborated in as objective manner as possible, based on the available amount of information, and at the stage of confirmation, the alternatives should be regarded as constant. When one alternative is selected, the weaker ones are set aside since they did not prove themselves to be strong enough. The strong and weak sides of such alternatives are not being changed except for cases when additional information of fact has been revealed. Difficulties when looking for a compromise, are related with two conditions. The first condition, which includes a subdivision, is the fact that "there exist two kinds of compromises. The first ones are best characterized by an old saying: half a loaf of bread is better than no bread. The second ones are best seen in the story about Solomon who said that "A half of a child is better than no child". In the first case, the boundary condition is being observed. If a person is looking for food, a half of a loaf of bread would do to mitigate hunger since it is still food. However "a half of a child" does not comply with the boundary condition because such a child cannot live and grow." (35 p. 18) For an enterprise, when making a choice among alternatives, it is important to understand that there are situations when it is better to put up with a lesser benefit and thus ensure changes, for instance, in the growth of the market share, and there are situation when a "to-be-or-not-to-be" decision has to be made, for instance, all alternatives that do not ensure sustainable development of an enterprise but only prolong viability for a certain period of time are put aside. Many Latvian companies might deal with such a choice in the nearest future. The second conditions is related with different basis for comparing alternatives included in the alternatives, these bases being figures, proportions, qualitative indices, trends etc. in case if an organization is willing to reach different aims simultaneously, whilst each of the aims has another basis. There are solutions suggested for this problem, them helping to find the right solution. “Balanced exchange. It enables finding practical solutions even if you have to reach several aims and compare a range of alternatives. In fact, the approach of a balanced exchange resembles barter since it makes you calculate benefit of one alternative by transferring it to the units of measurement of the other”. 43 p. 29-30)

As an organization is looking for a compromise by applying a rational method, it is substantial to agree on a common understanding of a compromise, details particularly dealing with strategic issues, as well as formation of a common assessment base for all alternatives. Otherwise one can spend much time and effort in fruitless discussions and taking a decision that does not correspond to the situation. Compromises, which an organization applies to its clients and takes into account when taking decision, are important sources of identifying possibilities from the point of view of organization strategy. As an organization seeks for entrepreneurial opportunities, might consider compromises suggested by the field or the company as conditions that, in fact, are restrictions, and find new development possibilities in them. This phenomenon in the strategic management of organizations is considered from the point of view of field restrictions. “A compromise takes place when the field applies restrictions created by it and following from the practice of it an restrictions applied to its clients”. (42 p. 3) The system of imposing decision conditions or restrictions in an enterprise can serve as a considerable obstruction for innovations in an organization because it restricts the ability of an organization as a system to adapt to changes of the external environment. This, in fact, means that policy of the organization, internal regulations, rules of procedure, work practices a.o. hamper operative speed of reaction and diversity of ideas regarding situation changes within the organization and the external environment thereof. Before an organization is able to adapt to the organization environment, they have to revise policy and instruction system of the organization with the view to reduce restriction for managers of all levels and employees regarding the issue of flexibility of the decision.

4.2.2. Theoretical Substantiation of Strategic Decisions

Admitting the need of strategies in the decision-taking process is the first step of launching strategic process in an organization. As it will be described further in this work on decision taking, than launching of strategic planning requires the trust by the organization in the necessity of the strategy. Moreover, it is necessary to be sure and to understand what is strategy, strategic action and what is the difference between strategy and simple planning. The range of strategic questions is usually related with "long-term activities of an organization; field of activities; advantages over competitors; analysis of the changing business environment; formation of resources and competences; values and expectations of stockholders. Consequently, these decisions are: complex as to their nature; made under unclear circumstances; have an impact on operative decisions; require an integrated approach (from the internal and external environment) by involving considerable changes". (24 p. 10)

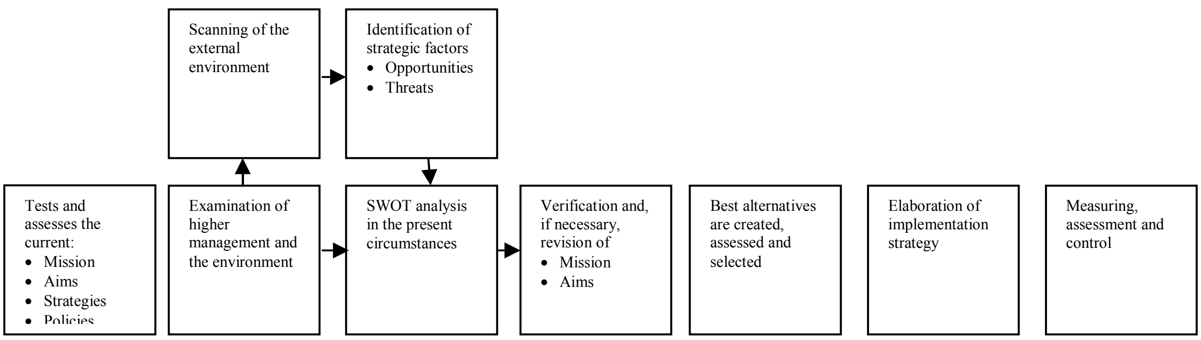
It is important for managers of the organization to understand what an effective strategic decision is. "The ability to regularly take fast, broadly supported and high quality strategic decisions is a counter stone of an effective strategy". (45 p. 149) Speed in particular is one of the most important factors in conditions of a rapidly changing environment. Fast taking of decisions as usually understood taking of operative everyday decisions; however, the rapidly changing environment of nowadays requires speeding up the process of strategic decision-taking; moreover, not only in the period of strategy operation, i.e. the process of its formulation, but also during the course of implementation of strategy by means of passive correction and control of the course of realization of strategy and monitoring of the reached steps towards the set aim of the organization.

Scientific literature offers several schemes describing the process of strategic decision-taking, and all of them are more or less similar. Let as examine in details one of the processes of decision taking:

1. Determining the mission of organization by including a statement, philosophy and main aims of existence of the organization;

2. Assessment of the internal environment of the organization by including assessment of its culture and history, as well as that of formal and informal organization;
3. Assessment of the external environment by applying PEST analysis;
4. Coordinating external possibilities and threats of the organization with the internal force and weak dies of with by applying a SWOT analysis;
5. By applying previous analysis, to identify desired options in the frameworks of the mission of the organization;
6. Selection of long-term strategies and policies among the respective range of strategies and policies with a view to reach the possibilities chosen by the organization;
7. Elaboration of short term and medium term strategies and action programmes that are coordinated with long term strategies and policies;
8. Implementation programmes that are based on budgets and action plans that are based on particular allocated budget resources and are monitored by means of the respective management information, planning and control system, bonus system and sanction system;
9. Tests and Assessment system for monitoring of strategic process and ensuring of information for the system of further strategic decisions". (23 p. 248)

Such process of strategic decision-taking does not automatically mean that a company is able to adapt to the rapidly changing external environment, and it can be regarded as strategic management. Moreover, "the process can and cannot be formally expressed through a system of strategic planning". (23 p. 248) Graphically, the system of taking strategic decision can be pictured as in the Image 4.3 below.



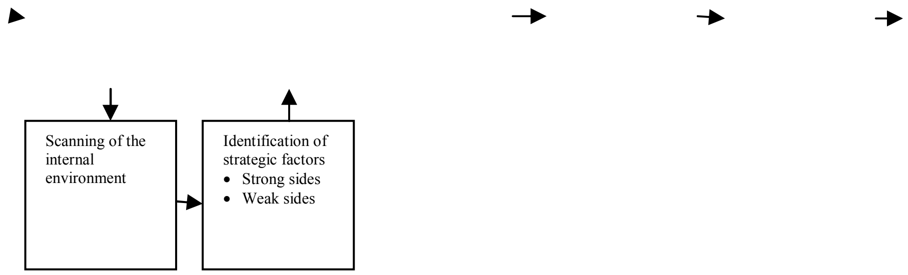


Image 4.3. Process of strategic decision-making (23 p. 249)

One of the main problems that exist in organizations that use the procedure of strategic decision-making is related with a comprehensive and regular implementation at all organizational levels. Periodical implementation of a strategic decision within organization is association with campaign management campaigns in situations when the organization requires reorganization.

4.2.1. Understanding of Strategy

Strategic management process of organization has different levels. Levels of understanding can be classified based on the object, understanding of organization strategy and understanding of strategy as an object disregarding a particular organization. To be able to establish a successful strategic management process, it is necessary to achieve an in-depth understanding of both levels.

4.2.2. Understanding of Strategic Management of an Organization

Each organization has an individual understanding on organization strategy regarding the vision of future of an organization as a system. Future vision of an organization is shown by its aims and decisions. Having surveyed representatives of organizations, it can be concluded that opinion of managers and employees of organizations considerably differ regarding the fact whether the organization has or has no strategic development. The main reason that followed from the survey was that the words of managers did not match their activities. Such situation is better noticed by employees of the organization. Organization cab be classified into four categories based on their attitude towards strategic decisions.

1. Strategic organizations are organizations, formation and implementation of strategy of which and taking everyday decisions at all levels is related with the strategy of the organization;
2. Strategy-oriented organizations are organizations that have elaborated their strategies, plans and programmes for implementation thereof, allocated budget resources for implementation of the strategy; however, implementation of the strategy is the priority only of the higher and medium management. Everyday decisions are not always coordinated with the strategy. Personnel of the organization are being informed on the strategy in the form of campaigns and in accordance with the terms of the strategy.
3. Planning organizations are organizations that develop a strategy; however implementation thereof is the priority only of the higher management. Other levels of the organization are informed in the form of campaigns. Strategic decisions are adopted only at a higher level. At other management level, plans are implemented. If there is no plan related with the decision to be taken, then the decision is adopted without any coordination thereof with the strategy.
4. Adaptive organizations are organizations that do not elaborate any strategy, decisions are made in accordance with the requirements of the internal and external environment and understanding of managers of each organizational level regarding the best possible solution in a particular situation.

Behaviour of each of the above mentioned types of organizations can be characterized bas on two main criteria: periodicity and the number of organizations taking part in development of strategic decisions and organizational levels involved in the process of decisions-making, the decisions being based on a strategy:

	Management	Medium level management	Lower level management	Employees
Strategic organization	Initiates and supports elaboration and implementation of strategy. Periodicity: constantly	Takes part in elaboration, implementation and improvement of strategy on regular basis Periodicity: constantly	Takes part in elaboration, implementation and improvement of strategy Periodicity: on regular basis	Partially take part in elaboration of strategy, participate in implementation of it, are facilitated to get involved in improvement of

				strategy Periodicity: on regular basis
Strategy-oriented organization	Initiates and supports development and implementation of strategy Periodicity: constantly	Participates in elaboration, implementation and improvement of strategy. Periodicity: constantly	Takes part in elaboration and improvement of strategy. Periodicity: occasionally, in the form of campaigns	Do not participate in elaboration and improvement of strategy. Participate in implementation of strategy. Periodicity: in the form of campaigns
Planning organization	Initiates and supports development and implementation of strategy. Periodicity: on regular basis	Partially participates in elaboration of strategy. Uses budget and plans for implementation of the strategy. Periodicity: in the form of campaigns, constant planning process	Participates in implementation of strategy. Periodicity: in the form of campaigns	Implement plans of the management
Adaptive organization	Strategy is not elaborated, operative plans are developed.	Implementation of plans, solving of everyday problems.	Operative actions according to what is needed	Fulfilling work tasks.

Analysis of adopting of strategic decisions by an organization gives us an insight into the attitude of the organization towards the strategy and thus its attitude towards development prospects of the organization and the amount of risk related with the organization.

Having summarized all above mentioned challenges of strategic decisions, we will see how necessary a complex approach towards making strategic decisions is. "Definition of strategy includes assessing design, formation of an intuitive vision and expected training; it is related with transformation and a process in a long term, and it should also include a prior analysis and subsequently elaborated programmes, a well as continuous discussions, and it should also comply with the increasing requirements of the environment of the organization. Try to omit one of these elements, and you'd see what happens!" (21 p. 28)

4.2.3. Necessity Approach

When executing analysis for determining the dominant aspects in the organization working in creative industry, it is possible to determine the level of understanding by the organization of the strategy. This attitude can be changed based on another understanding of the strategic management process by the organization. This attitude is based on the necessity approach. The necessity approach, however, is based on a supposition that an organization would cease developing in a long period of time provided that the structure or an element of the organization has not proved to be necessary for existence. At the organizational level, such a situation is manifested in the fact that an organization loses its position in the market and has to go bankrupt or cease its activities because products or services of it are no more necessary. It is possible to single out several levels of necessity by classifying them based on the environment it pertains to:

1. **Internal environment:**
   a. Individual necessity – employee, position
   b. Structural necessity – organizational structure, levels
   c. Necessity for processes – a particular process, procedure, norms within an organization
   d. Necessity for products, services – a particular product, service or groups thereof
   e. Necessity of resources – which resources are indeed indispensible, which are not and do not form a sufficient added value.
2. **External environment:**
   a. Necessity of a client – whether a particular is indeed necessary?
   b. Necessity of suppliers – what suppliers are indeed necessary for successful functioning of the organization?
   c. Necessity of competitors – whether it is necessary for the organization to compete with the particular organization?
   d. Necessity of other stakeholders – opinions and activity conditions of what stakeholders should be taken into account and used in coordination of objectives of the organization?

Such approach is broadly used in management methods that contribute into discussions about the environment of the organization, it is easy to understand and use for situation analysis.

By applying this approach, each element of a system should continuously prove the necessity of its existence for the organization and its stakeholders, whilst the system in general should prove necessity of each element of it. Strategic management of an organization is shown in maintenance of necessities monitoring, conditions for system functioning and principles, which in general can be called as necessity management process. This concept places an emphasis on self-regulatory approach. The concept of added value is based on coordinated activities of the system when each of the elements of the system contributes into the system at the same level that is necessary; otherwise resources are overrun. The theory of added value is rather statistical and does not provide for any dynamism in the system. However, the concept of necessity provides for introducing a chaos element in the system. If system behaviour is determined under chaos conditions, our main strategic task is to create a self-regulating system that would be able to adapt itself to environment conditions. According to this concept, a system is able to adapt to the environment and function in highly determined conditions. Problem of the concept is related with flexibility of the system and consumption of resources. A classical approach to ensuring flexibility is maintenance of extra resources in the case if demand changes or if it is necessary to change products or services. Flexibility costs a lot for an organization. In the result of it, flexibility level within an organization usually is a compromise between the level of flexibility and costs for maintenance of extra resources, extra services and use of services related with the organization. However, flexibility is indispensible for an organization to be able to adapt to environmental changes. However, this issue can be approach from another viewpoint by defining that each element of the system shows its necessity for the system in general, whilst the system proves its necessity in the element of it, and thus it would find, by way of self-regulation, the best and most appropriate regime of functioning in a particular situation. SBU and ABC concepts, in fact, have applied this approach when these were elaborated; however, it is possible to define that the task of each individual element of the system is to prove its necessity to the system in general and each its element. This can be reached by ensuring that each element of the system constantly improves its field of action and thus forms the necessity for improvement in other elements of the system. The aim is to ensure efficiency of a self-regulating system by preserving flexibility elements within the system. The difference between the Japanese Kaizen that brings forward the concept of constant development lies in improvement motivation. It is possible to say that each element of a system perfects itself with a view to prove its necessity rather than to develop and broaden. Development, in fact, is just a result of the improvement process. Such change of motivation is an important condition for forming of organizational culture. Organizations define development as their objective and require improvement from its employees, and they often face resistance to changes. In the basis of such resistance, lies a natural indisposition of employees to conform to changes because this requires extra intellectual, mental and often physical effort. Such a situation leads to spending of resources by the management into proving the necessity of improvement by thus creating additional stimulus and motivators that would ensure involvement of employees into self-perfection. The concept of necessity also deals with this issue from another side by creating conditions in functioning of an organization, and it follows there of that employees themselves should prove that they are needed by the organization. In practical entrepreneurship, we can observe this approach in organization where carried development of employees serves as the main stimulus. Employees lot upon better future prospects to climb hierarchy of the organization, they are ready to undertake different challenge because otherwise their carrier in a particular organization would case developing. By improving knowledge and skills, they indirectly show the organization needs him or her. Such approach is applied by Proctor & Gamble. Employees are given the possibility to make a career only if he is ready to occupy positions and work with different product categories and often in different states with a view to gain the necessary experience in functioning of an international organization. However, the majority of organizations having restricted career possibilities, try to elaborate different motivation schemes to facilitate self-improvement. Proving of necessity does not mean that elements of a system should compete with one another. Here, it is possible to make conclusions that are stated in the book “Blue Ocean Strategy”, namely, “In the blue ocean, competition should not be taken into account because rules of the game are waiting to be introduced”. (50 p. 5) Such an approach should also be applied to introduce the culture of need for employees of an organization. From the strategic point of view of an organization, application of the Pareto principle in determining strategic and individual necessities and decision-taking process is of great use, although this entity is difficult to be measured. Still, it is important to apply it as a principle. “Effective functioning of Pareto is reached if it is not possible to reached a better result by worsening the situation for any party”. (23 p. 184) Understanding of this principle is substantial for each employee of an organization, and it should be applied to each employee of the organization and used in the frameworks of strategic management of the organization when developing culture of the organization. Importance of this principle lies in the fact that it is typical for a person to prove his or her necessity by creating systemic procedures dependant on him or her, obtaining control over and access to information rather than by creating an added value for the organization and improving himself or herself. Everyone knows a saying that “each bureaucratic system would become even more bureaucratic in the long run”, because it creates elements of its maintenance and spreading by using the authority conferred to it and trying to broaden the latter by thus creating an illusory feeling of control and security. This feeling of control and security is the most dangerous phenomenon for an organization that is willing to become able to adapt to rapidly changing conditions of the environment. However, it should be emphasized that the willing of employees to create a safe and stable system is natural and it follows, for instance, from the hierarchy of needs by Maslov, and it is one of the basic elements of motivation of a person. Consequently, the main task of managers of organizations who want to manage the organization by applying the necessity approach is to create and maintain elements and restrictions of system improvement that would altogether create an environment wherein employees and clients would be able to prove their necessity for the organization and would not, at the same time, worsen the situation of other stakeholders. These individual features and understanding of cultural element of an organization might considerably improve understanding of managers and employees of the principles of functioning of an organization. When elaborating organizational strategy and managing its implementation, managers should constantly make sure that each element of the system proves its necessity on the one hand and would not cause excessive use of resources to any structural unit on the other hand; in other words – it is necessary to ensure necessity though efficiency. A similar approach was applied in the so-called “Force Field Theory” elaborated by Kurt Levin. This theory is based on the thesis that human behaviour is a function of a person and the environment: B=f(P,E) (51). Based on this function, a method for analysing situations and challenges from the point of view of forces that facilitate or raise obstacles for changes by evaluating each force in the scale from 1 (weak) to 5 (strong) has been developed (52). Such self-regulating approach has a risk factor, namely, non-systematic functioning of elements of the system and loss of a common aim provided that each element of a system is trying to be independent and not to be subject to a common management of the organization. It is possible to apply the principle of correspondence to assess necessity. Conformity means conformity of functioning of an organization with the strategy and environment of the organization. The second complex criterion is financial benefits. To assess financial benefits, it is possible to apply the following elements: profit, value of an organization, credit standing. If any of the indices has increased whilst the others have not substantially deteriorated, it is possible to conclude that an organization has obtained a financial benefit.

4.2.4. Model of Counterforce

It is important for managers of organization to understand what ensures successful and sustainable functioning of an organization. Strategic management is one of the methods to form a successful future for an organization; it is necessary to understand, however, what the driving force of such development is and what obstructs the organisation to get improved. By applying this method of analysis, the organization is able to assess its development possibilities and forces that would obstruct development thereof.

Counteraction force, restrictive force, target and idea force, organizational (internal resources) force. Interaction of these four forces determines the ability of the organization to reach its aims set.

Counteraction force can be characterized as all possible activities that are deliberately or unawares performed by internal or external stakeholders when reaching their individual aims and that directly or indirectly obstruct further implementation of organization’s strategy.

Restrictive force can be characterized as a complex of external political, legal, economical or business restrictions that determine external restrictions of activities by the organization, as well as internal regulations and policies of the organization. External restrictions of an organization might have a formal and informal character. Formal external restriction to activities of an organization might be determined by different regulating acts, laws, taxes and agreements. Informal restrictions are such restrictions that are established by the norms, customs and specific cultural features of a particular state, society organization.

Target and idea force can be characterized as force that creates idea value for a client and that would attract and hold a client to the organization. Quality of aims is related with the fact how well employees of the organization have understood them and how well they describe the idea forming the value. Consequently, each idea can be assessed based on two criteria. 1. Added values created for clients by an idea and 2. Clarity and deepness of aims and objectives describing the idea. Strategically operational management concepts provide that strategic aims and objectives of an organization should have clearly visible conditions at the operative level. However, operative solutions should have a visible ling with strategic aims and creating value to clients in accordance with the strategy.

The Force of internal resources and abilities of an organization are related with the capability of an organization and its body of resources that ensure a sustainable and constant formation of value and profit for an organization. Abilities of an organization include ability of mangers of each level to fulfil managerial functions by also ensuring implementation of strategy and gaining expected return on investments. It is possible to apply return indices and resources dynamics indices as criteria for assessing abilities of the organization or its management. This approach is schematically showed in Image 4.4.

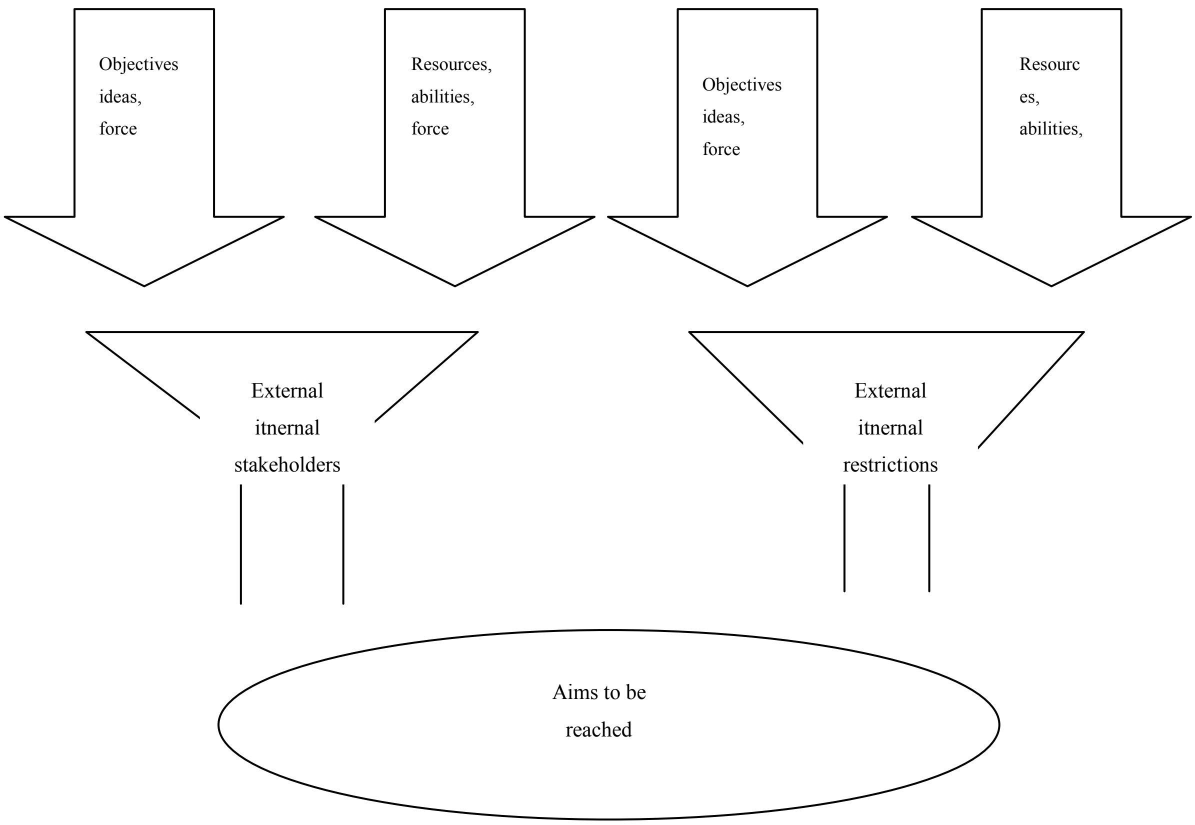


Image 4.4. Scheme of aim force and restrictions

This approach can be used by facilitating assessment of strategic alternatives. In the process of assessment of strategic alternatives, several aims of ides to be implemented are developed (depending on the stage of alternativity) x_{1-n}, each aim/idea is determined with the level of opposition/support by stakeholders in the scale from +3 to -3, whilst each external and internal restriction is established with the force of restriction influence. In both cases, opinion of experts of strategy developers is taken into consideration. Then each aim/idea is determined the planned amount of the necessary resource y_{1-n} and its availability is assessed. Availability of necessary capabilities is determined in the same way z_{1-n}. Then availability of resources and capabilities is assessed based on an expert examination scale (from +3 to -3). After assessment of aims/ideas, an organization is able to take a more equitable decision regarding possible alternatives of strategic action. Information summarized by the organization is showed in Image No. 4.5.

Aims, ideas	Opposition and support of external and internal stakeholders (from +3 to -3)	External and internal restrictions (from 0 to -3)	Resources	Availability of resources	Abilities	Availability of abilities	Strategic action
x			y		z		
x			y		z		
x			y		z		

Image 4.5. Assessment table of aims/ideas of strategic alternatives

The main advantage of this method is realistic view on internal and external assessment of organization’s environment during the strategy development process. This allows avoiding ungrounded hopes to the most advantageous solution of external environment if compared to what is possible, which would then lead to looking for guilty persons outside organization, like, the state, legislation, global crisis etc.

Elements of Strategic Management Process

As an organization reaches a common concept of strategy, the next step of strategic management is development of such strategy. In the initial stage of strategy development, it is possible to apply methods described in changes management theory regarding initiation of changes in organizations. One of the main tasks of strategic management is introduction of positive changes in an organization during implementation of strategy. Consequently, changes cannot be avoided and are even indispensable. Rapidly changing environment is particularly demanding towards the ability of an organization to adapt to environmental changes.

4.2.5. Initiators of Strategy and Their Motivation

The initial stage of developing a strategy is always related with motivation for elaborating a strategy and its initiator. Initiators of strategy can be classified into three categories: formal, informal and indirect initiators.

1. Formal initiators of strategy are supreme management and shareholders of an organization. Their formal status depends on legal status and hierarchical structure of the organization.
2. Informal initiators of strategy are stakeholders of organization having a direct impact on the work of the organization whilst they do not have the right to initiate such process;
3. Indirect initiators are those stakeholders of an organization that cannot directly influence functioning of an organization, but are able to incite the need for the organization to change its strategy.

Formal initiators	**Motivations and stimuli for initiating strategy changes**
Shareholders / council	1. It is necessary to have a clear vision of the future of the organization 2. Bad results of organization performance
Board / Management	1. It is necessary to have a clear vision of the future of the organization 1. Bad results of organization performance 2. End of term of the previous strategy 3. Changes in the internal and external environment of the organization 4. Legalization of policy of organization management
Informal initiators	
Medium level management	1. Dissatisfaction with organization management 2. Obtaining of a more beneficial situation

Labour unions	1. Beneficial circumstances for employees
Clients	1. Dissatisfaction with the product / service 2. Increase / reduction of demand 3. Consolidation of clients, vertical and horizontal integration 4. Necessity to reduce an enterprise 5. Changes in clients' strategies 6. Demand of new technologies and innovations 7. Emergence of new clients and target groups 8. Fashion trends 9. Changes in habits, paradigms and cultures 10. Demographical changes
Suppliers	1. Dissatisfaction with collaboration 2. Consolidation of suppliers, vertical and horizontal integration 3. Change of an owner 4. Changes of supply and demand 11. Necessity to reduce an enterprise 5. Change in suppliers' strategies 6. Offer of new technologies and innovations
Organizations R&D	1. Emergence of new technologies 2. Elaboration of innovations
Non-governmental organizations	1. Requirements of ecology 2. Ethical criteria for organization functioning
Indirect initiators	
Competitors	1. Changes in the competitors' strategies 2. Counterclaim measures of competitors that were not foreseen in the strategy 3. Market development trends 4. Emergence of international competitors, trends of globalization
Government	1. Changes in the State policy 2. Tax changes 3. Political stability

Local governments	1. Changes in regional policies 2. Changes in local government development strategy

Image 4.6. Initiators of strategies and the field of influence

By applying this approach, an organization can assess the level of necessity of strategic changes directly with the stakeholders. Organizations should use this assessment approach with a view to find or whether there is enough motivation to launch another strategic cycle and whether all conditions are present. Such analysis should be made before each strategic period disregarding whether it is the end of a planning period or there is an objective necessity to change strategy before the expiry of the term.

4.2.5. Team for Elaboration of strategy

When forming a team to elaborate strategy, first it is necessary to realize the necessity of introducing a strategy by ensuring that each member of the team is aware of urgency and importance of each question. An organization can find motivation that conforms to the strategy and substantiate necessity and urgency of a new strategy. Only after the formal initiator of strategy has elaborated and achieved a common understanding by the strategy development team of the necessity and urgency of strategy, it is permitted to inform other participants of the organization regarding the launching of the strategy development process. The initiator of strategy development and his or her team is the one responsible for the results of the strategy, and therefore they are responsible for announcing the strategy launching procedure before announcing the launch of the process that might lead to dissatisfaction amount stakeholders of the organization. To substantiate such approach, it is necessary to mention an expression of a German Minister of Foreign Affairs Joschka Fischer that he addressed to the international society before the start of the Iraq war: “I cannot persuade the society on the necessity of war if I personally do not believe in it”. In a similar way, formal initiators of strategy should analyse one’s trust into the necessity of strategy. If it turns out that motivation is insufficient or there is not trust into the necessity of it, it is advised not to launch the process. If the process is launched without having strong confidence in the necessity of it, it is pretty likely that the process would turn out to be formal and noneffective, which would lead to overrun of resources. When the issue regarding the necessity of strategy is clear, it is possible to launch the formal procedure of strategic decision-making.

4.2.6. Elements for Formation of Strategic Management System

Nowadays it is not possible to single out the most correct strategic management model for organizations that would ensure a long-term success. There exist, however, a body of strategic management elements that should be used by obtaining a model of strategic management appropriate for each particular organization, that would ensure a long-term success for it. There exist groups and sequences of strategic management processes that can be applied by an organization to form a system of strategic management that would correspond to its specific features.

Consequently, it is important to decide on the way of choosing the most appropriate strategic approach. It is necessary not to regard the condition of choosing a strategic approach as a common body of factors, but it is indispensible to divide and analyse them in several categories:

1. Conditions of the internal environment;
    a. Specific requirements of founders;
    b. Specific features of organization management;
    c. Conditions of organization culture;
    d. Abilities and competencies of organization;
    e. Resources of organization.
2. Conditions of the external environment;
    a. Conditions of the competition environment;
    b. Conditions of the general environment;
    c. Specific features of environment dynamics.

When analysing the above mentioned factors, an organization can better select strategy that is best compliant with the particular organization and specific conditions of its functioning. When the above mentioned internal and external environmental conditions are analysed, developers of strategy of an organization create a unique system for developing a strategy. Organization-specific strategy development and implementation system facilitates development of a unique strategy that cannot be copied by competitors. Thus organizations might avoid unconscious copying of the strategy by competitors, which would prevent an organization to develop an efficient differentiation strategy. In order to make a scheme for a unique strategy system, the process of strategy development can be divided into two separate stages by grouping available theories and methods into each stage. Additional benefit from application of this approach is the understanding of theoretical and practical issues related with strategic management.

Methodological approach of strategy development is the principle of strategy elaboration selected by an organization. This principle is used as the basis for introducing strategic process within an organization;

1. Methodological approach of strategic management is a choice made by the management of an organization regarding methods that are most appropriate for the needs and specific features of the organization. This shows the willingness of the management to introduce strategic management in a particular organization;
2. Administrative approaches of strategic management is a way how an organization can choose to perform strategy administration and implementation process;
3. Strategy structure elements are those elements that can be included into the strategic management process; choice of strategic structure elements depends on the methods of development of a particular strategy;
4. Strategic issue analysis methods are methods that help analysing strategic information and adopt strategic decisions. The choice thereof depend on strategy methods within an organization and selected elements of structure;
5. Content elements of a strategy are alternatives available to an organization, possible choices and practical strategies. The choice of particular strategies depends on the methodology of strategic management defined by the organization, its content and information obtained in the result of analysis.

Such approach would permit managers of organization, when launching the process of strategic management, to select the most appropriate approaches, elements, methods and content. The difficulty of making such choice lies in the fact that in each of these segments a number of different methods, theories and concepts are available, them often being mutually contradictory because their authors have developed them in a complex way, staring from methodology and ending with practical content elements.

Methodological approaches for strategy development	**Administrative approaches of strategic management**	**Structural elements of strategy**	**Methods of analysis of strategic issues**	**Strategy content elements**
• Strategic decision-making • Strategic planning • Strategic management • Strategic leadership	• Initiative of the strategy initiator regarding strategy development • Organization of a team for elaboration of strategy • Instructing of management • General management personnel meeting • Strategy assessment meeting • Plan revision 1 • Strategy revision meeting • Strategy assessment meeting • Plan revision 2. • Strategy revision meeting 2 • Repeated submission of plan • Submission of a plan to the board of directors	• Strategy motivation and substantiation of necessity • Mission • Vision / strategic aim • Policy of organization • Structure of organization • Main aims • Objectives • System of execution criteria • Basic values • Reasons for existence • Competition advantage • Critical success factors • Organization business model • Organization culture • Basic competencies • Strategy selection (alternatives) • Planning of scenarios • Corporate strategy • SBV strategies • Business level strategy • Functional strategy • Change management strategy • Re-engineering • Implementation strategy • Programmes • Projects	• Model of five forces • 7s framework model • BCG matrix • Benchmarking • Cause-effect diagrams • Idea cards • Financial analysis methods • Expected profit analysis • Analysis of possibilities • Analysis of stakeholders • Real opportunities (RO) analysis • Costs – expenditures analysis • Analysis of competitors • Balanced indices system • Targeted changes model • Target analysis • Motivation analysis • Basic competence analysis model • Basic quadrant model • Selling funnel analysis • Change quadrant analysis • PEST • PESTEL • Priority matrix • Risk analysis • Coherence analysis • Synergy analysis • Force field analysis • Strategic layout analysis • Strategic cards • Strategic decision tree analysis • SWOT analysis • TOWS matrix • Value chain analysis	• Development strategy • Diversification strategy • Integration strategy • Reduction strategy • General strategies • Low price leader • Differentiation • Focus • Strategic position • Strategic clients • Strategic segments • Strategic groups • Vertical integration • Horizontal integration

Image 4.7. Elements of strategic management

This method shows organizations the way how it is possible to easily reach the most appropriate strategic management model and to implement it. In fact, such approach can be implemented by summoning a one-day management seminar in accordance with the organization management hierarchy and, by using Image 4.7, to subsequently form a strategic management model of the organization by applying the brainstorming method. Such approach would ensure involvement of the appropriate managerial levels into the management process and would clearly show the mechanism of its implementation.

Questions for discussion:

1. What are the main elements of strategic necessity approach?
2. What forces are taken into account in the model of counterforce and how these can influence strategy of an organization?
3. What are the elements of strategy management system?

5. Strategic operational management model

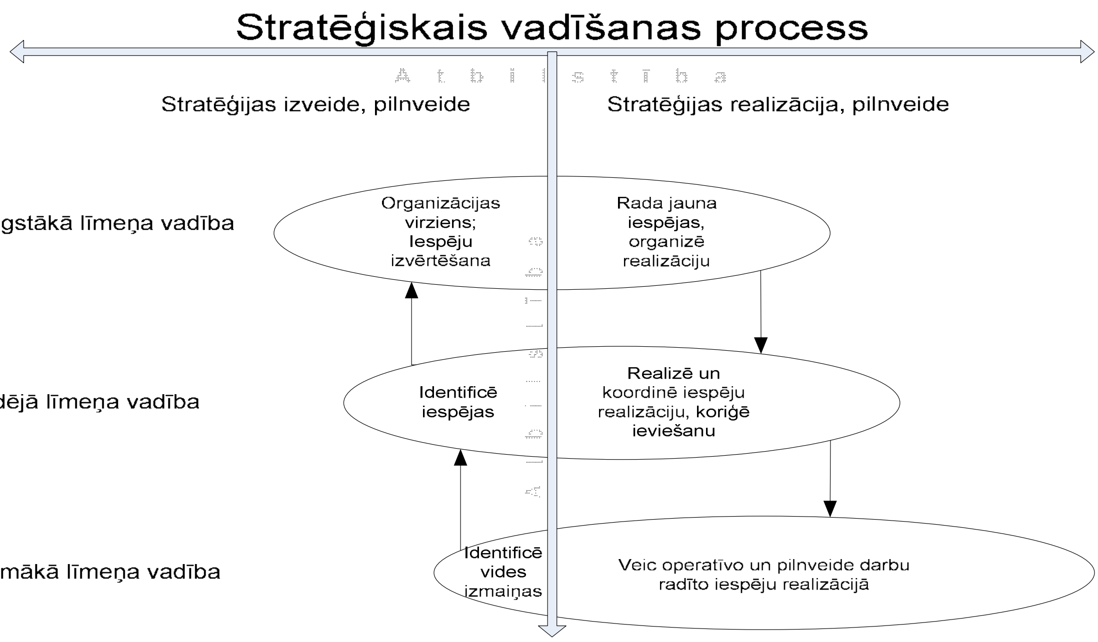
Introductory questions:

1. How would you start the elaboration of a strategic plan in a creative organisation? Please identify the first 5 steps!

2. Why does nowadays the strategic and operational planning come closer to each other?

3. What are the key success factors for a successful implementation of a strategy?

Due to the rapid changes in the environment of a company it is possible to change also the strategic management approach that would enable introducing an approach in the management of a company focussing on getting over changes and uncertainty. It can be said that the companies may no longer rely on a 5-year strategy without introducing updates and changes within the period. Traditionally strategy monitoring approach is being used, updating the strategy and the set objectives to correspond with the changes in the internal and outer environment of the company. It is being offered to develop this approach further, extending it till the operational management level. This approach may be especially used by the intellectual companies, where there is a highly qualified labour force. The strategic operational management approach is based on a dynamic approach of the strategic management process that prevents incompatibilities between the static strategy to the next period and changes in the environment within this period. Aim of the company may be considered the improvement thereof, which happens in line with the improvement of activities and processes in the company. Strategy is one of the processes in organisation, a plan that is subject to the improvement process, strategic management and implementation process is also improving affecting the strategy itself. The strategy is elaborated and implemented by respective persons of the company, thus the strategic management and improvement process is realized in line with the organisational structure and is not implemented separately by particular structural units. Let us look at the future of an organisation not like a determined, static situation, which is the usual case in strategic plans and which are modified with alternative scenarios, but still are static and uncertain. The uncertainty approach allows the company to look at its future including all possible scenarios in its development and meets the chosen development direction. The development directions are taken from the traditional corporative strategies by M. Porter: development, integration, diversification, reduction. Such an approach may be used, but in these uncertain conditions allow a faster change from one corporative level strategy to another. For example, organisations that managed to switch from a development strategy to the integration strategy at the beginning of the economic downturn are now in a better position than the companies, the management model of which was adapted to the development strategy. Using such an approach the key task of the upper management level of a company is to create development possibilities on a regular basis for the middle and lower level managers. The development possibilities are optional, but independent business models. These can be regarded as a kind of projects that are offered to managers of the middle and lower management level for approbation and implementation. Such approach enables involvement of all management levels in the strategic management of the company and provides permanently a tense and motivating working environment thus preventing routine due to similar everyday activities. The issue of motivation is especially important to the creative companies and persons working in the creative industry, where a highly qualified labour force to create motivation requires interesting, new working conditions and change of activities on a regular base. See the strategic management model in Figure 5.1.



5.1. Figure. Strategic management

Stratēģiskās vadīšanas process Strategic management

Atbilstība	Compatibility
Augstākā līmeņa vadība	Upper management level
Organizācijas virziens; iespēju uzvērtēšana	Direction of the organisation; assessment of opportunities
Rada jaunas iespējas; organizē realizāciju	Creates new opportunities; organises the implementation thereof
Vidējā līmeņa vadība	Middle management level
Identificē iespējas	Identifies opportunities
Realizē un koordinē iespēju realizāciju; koriģē ieviešanu	Implements and coordinates implementation of opportunities; corrects the implementation
Zemākā līmeņa vadība	Lower management level
Identificē vides izmaiņas	Identifies changes in the environment

The key elements of the strategic operational management, which forms the basis of all management systems, are the decisions taken in relation to the company management. The difference between the strategic operational and traditional strategic management is the linkage of decisions made by all management levels to the operational management of the company, thus enabling the compatibility thereof to the current circumstances in the internal and outer environment of the company and the strategy.

Closing questions to the topic:

1. Why is compatibility regarded as the basis of strategic management systems?

2. How important is it to involve lower level managers in the creation of strategic opportunities? How is it of benefit to the company?

5.1. Problems / opportunities identification approach

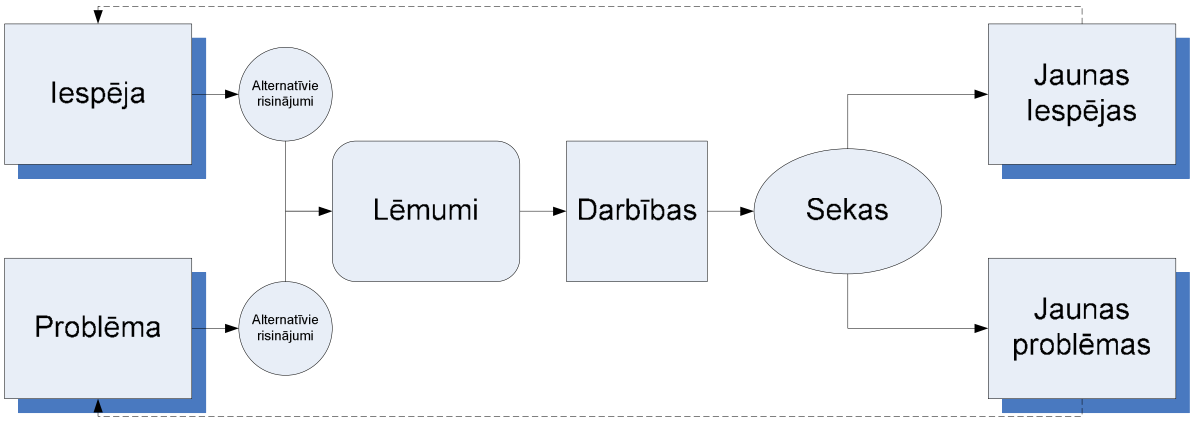
Introductory questions:

1. Why do the employees only identify problems, but do not offer any solutions?

2. What methodology shall be used to make the employees change and make them offer solutions and make decisions according to their skills?

One option, how a manager may provide recommendations to the board of a company, is to follow the 4 steps:

1. Problem / opportunity
2. Reasons in the internal and external environment of the company
3. Review of alternative options
4. Action
5. Assessment of consequences
6. New opportunities/ problems



5.2. Figure. Problem-opportunities solution model

Introducing such a system in the review of the company issues would improve the decision-making process and provide time-savings. In the organisation in Latvia it is common to use in the horizontal and vertical communication only the first level – “we have a problem”. Such kind of communication of unprepared information within a company proves that there are unskilled managers and managers unwilling to learn on all management levels. This results in the operational management being involved in the solution of a problem, while in fact this means that the higher level management is bothered with other issues and may not pay their attention to strategic issues. It can thus be concluded that one of the crucial inefficiency reasons in the companies in Latvia is the fact that the communication level - “we have a problem” - is being used. In relation to the latter, two types of costs are identified:

1. Costs related to the decision-making
2. Costs related to the implementation of the decision

Nowadays the companies do not calculate the costs related to decision-making and consider only costs related to the implementation of the decision. This leads to waste of time in the horizontal communication with colleagues and vertical communication with supervisors and inferior, or discussing the issue in workshops without prior preparation, with limited amount of information in hand that may lead to:

1. Making subjective decisions within a group, where there is limited information available;
2. Inferiors avoiding decision-making and transferring this duty to the workshop, a colleague or the supervisor;
3. Worsening of financial situation of the company due to irrational use of working time;

4. Losses due to making subjective decisions that are not related with the company environment;
5. Losses due to lost opportunities that appear more and more in the changing situation, when the opportunities appear and get lost again, if these are not taken.

Each such communication should be carefully prepared by the respective person. Considering the quality of the internal communication within the company and the necessity to react quickly to the problem within a changing environment, the companies may use 3 optional procedures for the vertical and horizontal communication. Basis for the differentiation of the internal communication the available information may be used:

1. Procedure of full information communication;
2. Procedure of partial information, procedure based on experience communication;
3. Problem identification procedure.

Procedure of full information communication for the vertical and horizontal communication involves a description chart of the problem/ opportunity: problem, environment, options, decisions, actions and possible consequences.

Procedure of partial information involves the problem and at least 3 solution options. As a result of the communication a decision is made, which is one of the proposed options, or one of the options is being altered and improved.

Problem identification procedure involves only the identification of the problem and reporting the fact as such. Such communication may be used only in cases, where the employee has noticed a problem or an approaching problem, but he/she is not responsible for the problem, he/she cannot solve the problem due to lacking skills.

Criteria for the application of one of the aforementioned procedures depends on the company specifics, number of organizational management levels and these should be identified on individual basis. A document, where a company should describe the application of each communication option, could be the general guidelines of the company, which is approved by the decision-making body (the company structure differs in each company). The following criteria groups result out of the classification of the decision-making:

1. Criteria of amount or significance. If the problem solution relates to an amount of money according to the company size, the procedure of full information communication shall be used; in all other cases procedure of partial information and problem identification procedure may be used. Depending on the amount of money

or the period thereof, within the procedure this approach enables to describe the criteria related to the implementation of the respective procedure in detail.

2. Level criteria. For strategic decisions procedure of full information communication shall be used, but for tactic and operational decisions procedure of partial information may be used. In a way the criteria overlap, but depending on the type of company the necessity may arise to apply both of the criteria separately.

Introducing both - the problem solution procedure and the calculation of costs in relation to the decisions - would provide time savings, increase in efficiency and development of learning culture within a company.

Closing questions of the topic:

1. How many options would you consider to make an efficient decision?
2. In which cases the procedure of full information should be used?
3. How can subjective decision-making be avoided? What is the basis for subjective decision-making?

5.2. Calculation of costs related to decisions.

Introductory questions:

1. Why is it necessary to calculate costs in relation to decisions and in which cases it is crucial?
2. What is efficiency and how to achieve it in a company?

One of the simple ways to increase efficiency in a company is starting with calculation of average costs per hour within each management level. The issue of calculation of costs related to decisions was identified from the interviews carried out in the companies. The interview results showed that organisations do not calculate costs related to decisions. The administrative expenses are calculated from the moment, when project implementation is started, but the costs on launching a project are not considered and included in the total overheads. From the point of the total company expenses it is correct, but this does not show the full costs of the project. The modern softwares allow calculating the time spent for each project separately. For large companies, where multi-level decision-making procedures are introduced, it is recommended to introduce procedures calculating costs related to the decisions. The most difficult in this procedure is the moment, where the starting point of the costs related to decisions is determined. Often the costs are calculated from the moment, when a problem/ opportunity is identified and the solution thereof is started (see Fig. 5.2). The person initiating the problem/ opportunity solution creates a title and code for the decision in the software, and all other persons use it, indicating it in their time-sheets. The point, where the calculation of costs related to the problem/ opportunity ends, usually is the moment, where all stakeholders agree on a solution that is described in paper and transferred to respective employees and structural units. By using this approach the company would get the actual administrative costs for their key decisions, which would be the basis to assess the qualification of employees and optimisation of administrative costs.

Closing questions for discussion:

1. How shall the moment of problem identification be fixed?

2. What costs are considered in the calculation of the total costs related to the decision?

5.3. Decision audit

Introductory questions:

1. What is the use of assessing decisions of the managers?
2. Which decisions by the managers you would like to audit on a regular basis?

One cannot underestimate the significance of decisions in a modern company. This is also closely related to the quality of the decision, based on which it is possible to determine the qualification of the manager and benefit to successful operation of the company. “Quality of a decision is a set of features, which provide successful implementation of a decision and a certain effect is being achieved,” (36, p.56). A significant issue in this definition – how to measure the efficiency of decisions? The issue of efficiency is one of the key competitiveness elements of companies and efficient decisions are a key aspect in the efficiency of a company. It can be said that each decision made by all level managers jointly and separately bring the company closer or move back from the company objectives. “Efficiency of decisions stresses a mandatory balance between the expected and achieved economic and social effect with expenses on elaboration and implementation. Observing this criterion is the key precondition for the survival and growth of companies within market economy," (36, p. 56). The achieved effect and balance of invested capital is the main principle of efficiency, which can be related also to decision-making. There are authors, who offer to measure efficiency of decisions, according to the performance rate of the decisions made:

$$K_k = \frac{R_v - R_n}{R_p} x100$$

$K_k - quality\ rate\ of\ decisions\ made$

$R_p - \ number\ of\ decisions\ made\ by\ the\ management$

$R_v - \ number\ of\ decisions\ by\ management\ that\ were\ introduced$

$R_n - \ number\ of\ decisions\ by\ the\ management\ that\ were\ introduced\ in\ low\ quality$

(p.36, 57)

Such an approach indirectly points to the efficiency of the manager and could be applied in large companies aiming to measure the balance between the manager and related structural units and the ability to introduce ideas of the higher management. If this rate in such systems will turn out to be low, this may point to the fact that the higher level management is not well informed of the actual situation within the company or in the external environment, and this can be grouped by reasons of the non-performance of the decisions:

1. Organisation as a system wishes to implement management decisions, but due to objective reasons this is not possible.
2. Organisation as a system does not implement management decisions:
   a. Impossible due to objective internal reasons – no time, financial, human resources etc.
   b. Does not want to implement management decisions – no motivation, no control mechanisms within the company, no belief in the management.

It should be noted that such situation within a company points out to an unskilled manager. A decision that is not implemented in time or is delayed is also an indicator that the company is working of low quality. Such criterion in case of written decisions can be treated as an auditable performance criterion of the manager and is relatively easy to be checked in the annual decision audit process. The manager is responsible, according to management duties, also of the decisions and control of the works performed by his/ her employees. The implementation of the decisions directly depends on the ability of the manager to organise, coordinate and motivate the respective persons within the company. Considering the impact of the changing environment on a modern company, this criterion may be used to audit the management and their decisions in addition to the external environment impact criteria and adverse impact by the delayed decisions. In such way a more objective result of the decision audit is reached.

Closing guestions for discussion:

1. Why do companies not implement decisions of higher level managers?
2. Which company management level is most important for the implementation of the strategy?

5.4. Versatility of decision results

Introductory questions:

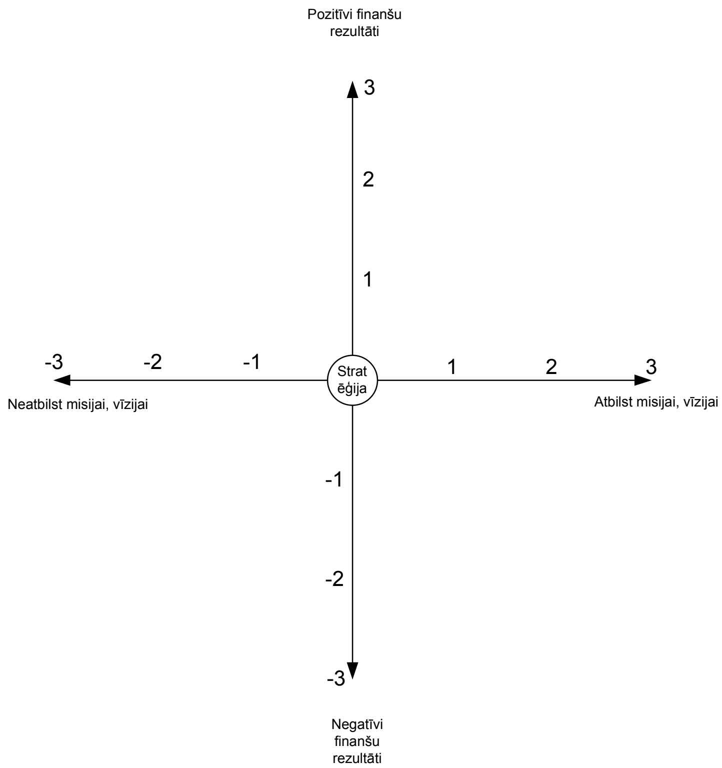
1. Based on what criteria can the qualification of different level managers be evaluated?
2. Which financial ratios best depict the qualification of managers?
3. Which managers within the company implement the strategy?

One of the possible options how to look at the management decisions is the multi-functionality. This means that the company managers shall be able to look at the problem from different perspectives and make a versatile decision. Such approach would provide efficient operation of the company, where with a single decision several results are achieved. There is an idiom - “To kill two birds with one stone” -, which hides one of the key elements in efficient operation: with one action several positive results are achieved. If we look at the global ecosystem, we see that in the nature there is no such action with only one result, on the contrary – several positive effects. For example, the tree – it is home to birds, insects, a secret place to hide, it produces oxygen, dung, creates shadow, shelter from the sun, produces fruits etc. One of criteria to describe an efficient decision is the number of positive effects it creates. A very practical method, which the manager can use by him /herself, before making a decision; it can also be used by higher management, carrying out the annual performance assessment of the managers. Thus it can easily be calculated, how many positive effects the formal (written) decisions, which are being assessed on random choice, created. Such an approach would provide an objective assessment of the manager's work, because the results would be quantified thus providing an opportunity to compare these, since the results can be ranged. The annual result, which is quantified, may also be called a "decision feasibility rate". At the end of the year the decision feasibility rate may be positive or negative. Criteria to assess the efficiency of decisions are divided in two main groups, where the impact of the decision on the following is being assessed:

1. Subject of the decision:
    a. Customers, customer groups or a single customer;
    b. Organisation;
    c. All employees, particular group of employees or a single employee;
    d. Cooperation partners, group of partners or a single partner;
    e. Community, part of community;
    f. Whole ecosystem.
2. Decision functions:
    a. Implementation of the strategy;
    b. Increase of efficiency;
    c. Increase of motivation;
    d. Increase of profit.
3. Compatibility:
    a. In line with the strategic plan, mission, vision;
    b. Not in line with the strategic plan, mission, vision:
        i. Positive impact on financial results;
        ii. Negative impact on financial results.

The studies carried out so far show that the managers on different management levels lack time for detailed assessment of their operational decisions, and as a result of that the number of justifying facts is being decreased. In making a decision, often no more than two facts are considered. This hypothesis is on one hand based on a principle of planning and setting goals, where the higher level objectives are turned into lower level objectives – thus it can be said that the strategic objectives are changed to operational objectives; on the other hand the implementation of objectives is carried out through everyday activities, taking operational decisions. While on the strategic level there are 5 – 10 strategic objectives, on the operational level (top of the objective tree) there may be a far larger number of objectives. The first task for the company is to develop such operational objectives, which are in line with the strategy of the company, and the second task is to make such decisions in their everyday work that these are in line with the strategy of the company, considering that the number of operational decisions managers make every day is huge. Out of this fact an assumption is made that in a very changing environment the managers have no time to assess each of their operational decisions in detail. Managers solve this problem by decreasing the number of justifying facts that are considered in the decision-making. In making a decision, often one or two facts are considered, for example, the profit or loss etc. The manager makes decisions, based on the amount of information and his/ her own priority system. Considering the changing environment that leads to the necessity to make many decisions within a very short period, it can be assumed that it is possible to make operational decisions based on two complex aspects – the compatibility aspect and the financial profitability aspect.

In addition to the model described before, one may also use the decision direction model. This model is based in a depiction of the objectives, mission, vision and financial benefits of the company.



4.3 Figure. Axles of compatibility and financial results

Pozitīvi finanšu rezultāti Neatbilst misijai, vīzijai Atbilst misijai, vīzijai Negatīvi finanšu rezultāti	Positive financial results Not in line with mission, vision In line with mission, vision Negative financial results

The idea of the model is based on several assumptions:

1. The company has an approved sustainable strategic plan, key objectives and priorities;
2. In order the company could adapt to changing outer environment, the managers shall make decisions, which are not directly described in the strategic plan. This is due to the necessity to work in circumstances of limited chaos.
    a. If the company avoids elaborating a strategic plan, the number of such decisions increases all the time.
    b. If the decision is not in line with the strategic plan, this does not always mean that it is a wrong decision.
3. The model can be used in two ways:
4. The managers of the company need a simple tool that enables them visually and on a graph to carry out assessment of everyday decisions, which are made in relation to

tactic and operational issues due to changes in external or internal environment, as well as due to recommendations by customers or employees.

   a. To make a positive decision;
   b. To make a negative decision;
   c. To postpone decision-making, requiring additional information etc.

5. The higher decision-making bodies of the company or a supervising body need a simple tool, with the help of which the management work can be assessed with a simple dimension analysis.

The idea of the assessment of decisions is modelled on two dimensions:

1. On X axle the compatibility with the strategy of the company is depicted;

2. On Y axle the financial benefits are depicted. Where the Manager makes assessment of the decision before actual decision-making, these can be the potential benefits to the company; at the end of the year, carrying out the decision audit, the actual consequences can be assessed.

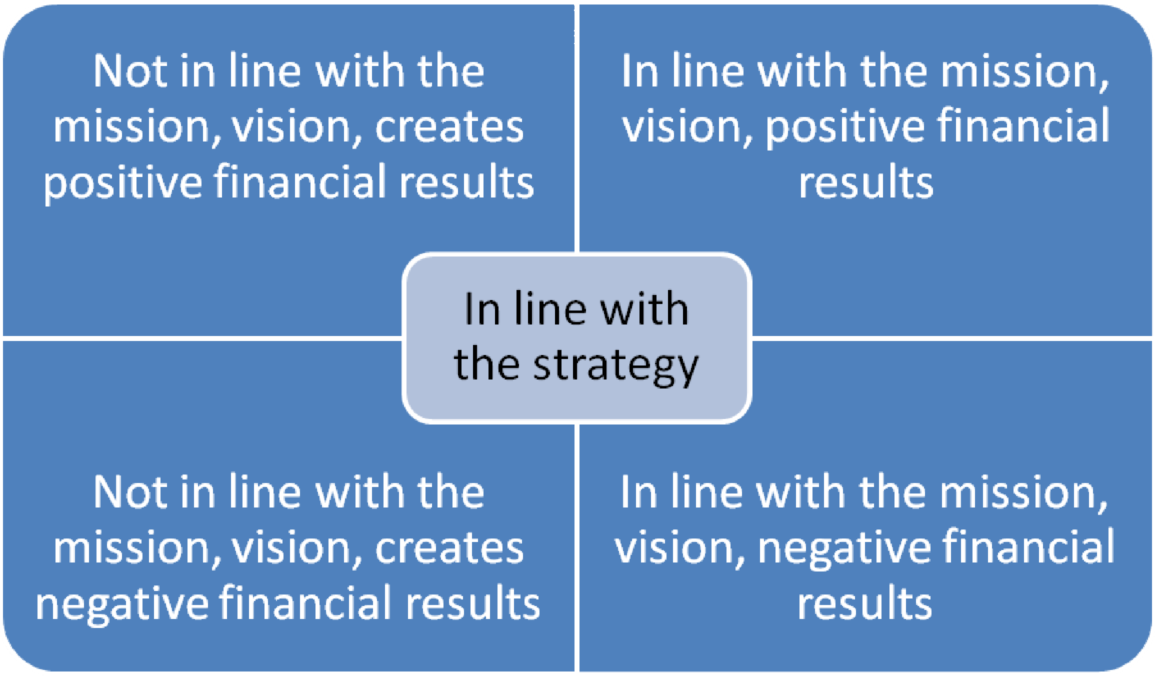
3. The results are measured from -3 (very low compatibility) till +3 (very compatible) on each axle, on an interval of “1”, “0” in the middle.

4. The decision to be assessed by an expert (the decision making person may be the expert him/herself) assessing, how much it complies with the mission, vision, rating the decision from “-3” till “+3”. Thus the location of the decision is placed on the X axle.

5. The financial benefit from the decision is assessed by an expert either before actual decision-making or in the decision audit, assessing the actual impact of the decision on financial results of the company, where the capital return in relation to each decision is assessed. The result is placed on Y axle.

6. All decisions can be grouped in 5 categories (see Fig. 5.4):
   a. Decision that is completely in line with the strategy of the company; hits the target and is right in centre in this graph. No marks are placed on the graph; no deviations from the nature of the strategy – nor in the financial aspects, nor in the outputs.

b. The subject and nature of the decision is in line with the mission and vision of the company, but it is not included in the strategy; positive impact on financial results.
c. The subject and nature of the decision is in line with the mission and vision of the company, but it is not included in the strategy; negative impact on financial results;
d. The subject and nature of the decision is not in line with the mission and vision of the company, but it is not included in the strategy; negative impact on financial results.
e. The subject and nature of the decision is not in line with the mission and vision of the company, but it is not included in the strategy; positive impact on financial results.



5.4. Figure. Assessment of decisions

Considering the double use of this model the conclusions can be classified in 2 groups according to the period, when assessment of decisions was carried out.

1. Prior to decision-making as a tool to assess decisions;
2. Audit tool of decisions by managers.

	Conclusions	Action
In line with the	**Positive:** the manager knows the strategy well and	The higher level

strategy	knows how to use information and decisions in line with it. **Negative:** In case all decisions made by the manager are in this area of the graph, there is high probability that the manager only follows the tasks defined in the strategy, but does not make innovative and risky decisions, which threatens the capability of the company to adapt to changing circumstances. Problems with motivation may exist in the company.	managers shall pay more attention to the motivation and his/ her ability to risk and think innovative – training courses,
In line with mission, vision, positive financial results	**Positive:** the manager understands well and is able to follow the changes in outer environment, innovative, creative and cares for the development of the company; motivated. **Negative:** Risks of the decisions shall be assessed; these can be too high, although there is profit. The rest of the company probably is not ready for the challenges due to such decisions.	
In line with mission, vision, negative financial results	**Positive:** Manager sought possibilities to improve the work of the organisation, addressed the challenges in a creative way. Adverse impact on financial results shall be assessed – if “-1”, probably other, intangible benefits were achieved, which will provide results over a longer term, what are the development possibilities of this idea. Manager is given the possibility to learn from own mistakes. **Negative:** manager is not capable to assess financial risks, lacks planning, coordination and organisational skills, but only in cases, where the overall benefit from the investment is far too less.	
Not in line with mission, vision, positive financial results	**Positive:** Manager is able to see positive effect on financial results, even if the decision is not in line with strategy, mission and vision. From point of view of the organisation, such challenges shall be taken and decisions made, because probably the strategy,	If there are much decisions in this area of the graph, the company should consider elaboration of a new

	mission and vision do no more correspond to the actual situation. **Negative:** If such situation arises and each structural unit makes their own decisions, which are not in line with the strategy, mission and vision, this may lead to loss of the overall direction and loss of target audience.	strategy, updating also the mission and vision
Not in line with mission, vision, negative financial results	**Positive:** Opportunity to learn from own mistakes. **Negative:** Unskilled manager, lacks loyalty, neglecting.	Consider changing the manager.

According to sources, it is recommended to consider the decision functions corresponding to the management functions:

1. Organizing;
2. Coordinating;
3. Motivating (36, p.14).

It is important that the manager often has to make decisions either to do or not to do something. “In a random test it was concluded that 25% of all decisions made in the companies could have not been made at all, because in fact these were not possible to be implemented,” (36, p.11). Particularly the ability of the manager to assess the situation and make the right decision in the right moment is seen in the financial results of the company. Major part of manager decisions are related to assigning the resources (financial or time) in relation to the implementation of the decision, and this is related also to the time resources of the manager him/ herself, as well. Often the decision not doing anything provides time savings to the company. To carry an in-depth analysis of the decision processes by the management, one shall start with the conscious review of the necessity to do/ not to do something.

Closing guestions for discussion:

1. How will you choose the manager's decision that will be assessed according to the assessment model thereof?

2. Who is able to assess the decisions made by the higher management?

3. What would you, as the managing director of the company do, if decisions made by your employees have positive effect on financial results, but are not in line with the strategy?

6. Assessment of the efficiency of the strategy

Introductory questions:

- How important is it to know, how efficient is your strategy and what happens, if it is not controlled?
- Which stakeholder groups are mostly interested in the efficiency of the strategy and which may be against the assessment of the strategy?

Before assessing the efficiency of the strategy, traditional ways to assess and measure company performance shall be considered.

The profit and loss account and the balance sheet are the primary assessment tools for major part of companies. The documents provide an objective description of the overall situation, the performance of the company in a particular moment, and the historical accounts and balance sheets show general information of previous performance. The only limitation in the profit and loss accounts and the balance sheets is the fact that they depict only the financial performance. It can be argued, of course, that the financial performance is the only reasonable and justifiable measure, which can be taken seriously, since the survival of the company is directly related to its financial results. It is often mentioned also that the assets and liabilities are understandable only then, when they are turned in financial terms, where it would be hard to make mistakes.

The financial performance unfortunately cannot depict the future success of the company. The possible success is as good as its strategy. High number of operation termination even in kind of successful companies and long-term survival is based on a precise, concrete strategy of an overall situation strategy and the ability to implement it.

There are two goals for the assessment of a strategy:

- Does it happen? Does the company do, what was intended? Are the critical success factors achieved?
- Does the strategy work? Is it the right choice? Do the strategic objectives provide expected results? (12, p.188)

In a hypercompetitive environment the companies are currently working in, the second set of questions from the abovementioned should not be used too often, but sometimes an answer shall be provided to these questions even, when there is the smallest evidence. Good managers know, when to step back and disassemble the existing strategy for the sake of a new one (12, p.188).

Sometime pressure from investors is hard to bear. The announcement on profit causes the drop of stock prices, the decrease of stock prices may cause excitement among employees, employees in such state tend to frighten customers away, and the customers will make their orders elsewhere.

All evidence proves that the companies, which will be able to control the relationship of all stakeholders efficient, will survive and grow. If the stakeholders are not "surprised", they are informed of the key strategic objectives, they are informed of the possible consequences by the strategy, they will usually support the organisation even if the key financial indicators will not be very promising.

Before we look at any assessment methods, one should understand, what shall be assessed. The efficiency of the strategy shall be assessed and this is done, based on particular or general criteria that are common in the whole company. These criteria were developed by Robert Kaplan and David Norton, who in their books and magazines offer a very valuable general, overarching set of criteria (12, p.189).

Kaplan and Norton have developed a system called *balanced scorecard.* This system included 4 key areas or perspectives, how one can assess, whether the chosen strategy is successful:

1. **Financial perspective** – still a very important aspect, since it is regarded as a universal, easy to understand and almost with no culture barriers. Traditionally the finances are assessed by profitability and return on investment. But a growing tendency is to assess the economic value they add. The shareholder profit is more important to those companies, which are owned by a large number of shareholders.
2. **Customer perspective** – includes several options, although each of these is somehow related to customer satisfaction, which is the basis in order to keep customers and get part of the market through new customers.
3. **Internal environment and processes' perspective** – a set of processes that the company does internally, i.e. all things, which are done to develop a product, offer service, transport the good to the market etc. The internal measurements are related to

productivity and efficiency in the respective industry the company is working in. This related to constant quality improvements and cost reduction.

4. **Learning and growth perspective** – related to such areas as employee training courses, i.e., whether in providing information or training courses, the company performance can be affected (12, p.189).

The aforementioned four perspectives of the balanced scorecard are very valuable, because:

a) It provides a simple overarching view from the strategic success assessment (financial, customers, internal environment, growth);
b) Helps to integrate this kind of process thinking – „What could I do and how could I assess, how efficient have I improved or managed my own company or the performance of its structural unit, based on these four criteria" (12, p.192).

From the abovementioned assessment criteria, another approach in the elaboration of the strategy is developed and a strategy objective is created. The steps in elaboration of the strategy are depicted in Figure 6.1 (12, p.192).

6.1. Figure. Strategy elaboration.

Some arguments, why the balanced scorecard system approach in the elaboration of the strategy is of risk:

- Few attention is paid to all key *future perspectives,* which is crucial, when a viable strategic aim shall be identified;
- It is assumed that the vision and values within the company already exist, which is not always the case. Moreover – often the stakeholders lack common approach. Due to this reason, in the first two steps the vision and values are re-approved, as seen in Figure 13.1;
- No overall transaction with competitors. Few possibilities to forecast the future markets with existing and new competitors, trying different impact of them (12, p. 193).

Although on the other hand, as soon as the company has underwent this future outlook, the balanced scorecard system approach specifies some very pragmatic ways, how to approach implementation of the strategy. It is valuable, because serious measurements require a coordination level, communication and agreement.

Closing questions for discussion:

- Which strategic perspectives would you use as priorities to assess the strategic progress in your company? What does it depend on?
- Develop an assessment plan for the strategy you have elaborated.

7. Strategic control

Introductory questions:

- What is the difference between strategy efficiency assessment and strategic control? Is it important to use both for achievement of strategic aims of an activity?
- Provided the strategy is flexible, how to ensure control, if we know that control parameters are fixed?

Strategic control is a process wherewith an organisation creates control systems and sets goals to achieve. The aims of strategic control are:

- To provide management with the means which motivate employees to work for achievement of organisation goals;
- To provide a feedback to show how good the organisation and its employees work. (5, p. 287).

The main task of control is to motivate employees concentrate on problems an organisation may encounter in the future, solving thereof shall require creative approach and employee contribution.

Strategic control systems are formal systems for setting of goals, monitoring, assessment and provision of feedback; their primary function is to provide management with the information whether an organisation strategy and structure comply with the strategic aims attaining indices for. (5, p. 287)

An efficient strategic control system has several features:

- It is sufficiently flexible to enable the company manager to react on unexpected events;
- It provides accurate information displaying true results of company activity;
- It provides management with timely information;
- It is sufficiently open to perceive and follow events of the external environment which may have a significant influence on organisation;
- It shall avoid negative reports since there is a possibility that it is designed to show negative results only;
- Responsibility centres shall be established at the company level.

Responsibility centres are indivisible components of a company responsible for a certain sphere of company activity; they are assessed and controlled respectively. The primary management task is to divide organisation according to responsibility centres, which serve as a virtual company division by certain features or types displayed in Table 7.1.

Type of responsibility centres	Example of responsible structure	What is controlled	Control instruments
Revenue centre	Commerce division Branches of activity Product divisions	Revenue	Purposes of sales amount
Expenses centre	Functional divisions	Labour and intangible resource costs	Detailed elaboration of budget Accounting of product costs
Centres of constant	Functional divisions		

expenses	Branches of activity	Total expenses	Budget
Profit centres	Market or product division	Profit	Profit or loss account
Investment centres	Branches of activity	Return on capital	Full financial reports ROI – Return on investment Return on assets

Table 7.1 Types of responsibility centres.

The set responsibility centres are usually used for management accounting and accountancy purposes, to classify both expenses and revenues. Often organisational structure is used as a basis for setting responsibility centres, because it has already been divided into certain divisions or functions. Also company value chains may be used for setting of responsibility centres; such chains most accurately display the values in a production company and may serve as a basis for establishment of control system.

The task of a company management is to create a more efficient strategic control system, which is based on four stages:

1. Set standards or aims the achievements are assessed against.
2. Create frames of reference or monitoring which show whether the aims are achieved.
3. Compare the current situation against the set aims.
4. Assess the results and make adjustments if the aim has not been achieved. (5, p. 290).

Either decision may lead to partial changes in the organisation strategy or structure, or changes in resource investment. Strategic control in an organisation is usually manifested and shows up at all four strategic management levels, including the individual level (the fourth level). Each level is linked with diverse control functions.

When establishing the control system the company management must take into account the least loss principle, namely, when taking a decision to control or not to control certain parameters, managers concede that certain losses may arise due to inaccuracies of the least control executed.

Organisations may use quite simple control systems that determine company production amounts, as well as more complicated control systems that measure and control organisational behaviour.

There are five types of strategic control systems which an organisation may use to monitor and control its activities:

- Direct monitoring;
- Financial control;
- Performance control;
- Bureaucratic control;
- Organisational culture (5, p. 292)

Direct monitoring is a type of strategic control whereby the manager performs direct control, and a formal control system does not exist. Direct monitoring system is recommendable for carrying out principal changes or solving critical situations within a company.

Financial control – within this type of control the company strategic management (owners) set financial goals a company should attain. Such goals are an increase in profit, cost-efficiency etc. The company attained goals are compared with those of other organisations using the market value of shares, return on investment, market share and even the cash flow. Thus a company can assess how well it operates.

Performance control is a control system whereby the managers assess or forecast the performance of goal parameters for each branch, division or employee and compare the achievements with the set goals. Very often a company remuneration system is linked to performance of goals; therefore performance control provides motivation to all-level managers in an organisation.

One of the drawbacks of the financial accounting control system is use of quantitative indicators for measurement of company performance results. Financial information is important; however, to obtain a more complete outline of the company performance results they should be supplemented with qualitative indicators. Balanced scorecard model is based on supplement of financial information with performance indicators, which demonstrate how the organisation achieves the four elements of competitive advantage.

Table 7.2 is an example of balanced scorecard model. This model should be perceived as the various instruments and indicators on an aircraft control panel. To successfully pilot an aircraft, a pilot needs to make use of a lot of measurements and information. If a pilot relied on just one indicator the flight would be a failure. The same refers to a company management – to successfully run a company, managers shall be able to monitor performance indicators in many spheres.

Finance					Clients			
Critical success factors	What to measure	Purpose	How to measure		Critical success factors	What to measure	Purpose	How to measure
Survival	Cash flow	Positive cash flow	Every month		Customer service (standard products)	Cash flow		

Internal environment		Innovations and training

Critical success factors	What to measure	Purpose	How to measure		Critical success factors	What to measure	Purpose	How to measure
Development of IT system: - function - costs	Performance for the invested funds LVL (compared to competitors)				Best service	- rapidity of reaching the market - easiness of imitation		

Table 7.2 Example of a balanced scorecard model.

High-level researchers suggest considering a company activity from four different angles:

- Financial perspective - provides a company development and profitability.
- External relations or client perspectives - take care of the value creating strategy, which makes difference for clients.
- Internal environment - shows the strategic priorities among the various processes from the point of view how they satisfy the client and owners` interests.
- Learning and growth or innovation perspective - focuses on company priorities regarding management of changes, innovations and growth. (5, p. 295)

Bureaucratic control is a type of control which includes development of a system of comprehensive regulations and procedures to direct company activities and functions, and activities or the course of activities of individuals. The task of bureaucratic control is not to set or specify aims, but to standardize way of rendering. The main types of bureaucratic control are activity budget and standardization.

Organisational or corporate culture is the entirety of norms, standards and values among employees of an organisation, which affects the course of activity. Control, using the culture, is powerful, when values are stable for employees and they, without thought, comply with organisational values. Table 7.3 displays the ways, how organisational culture affects employees.

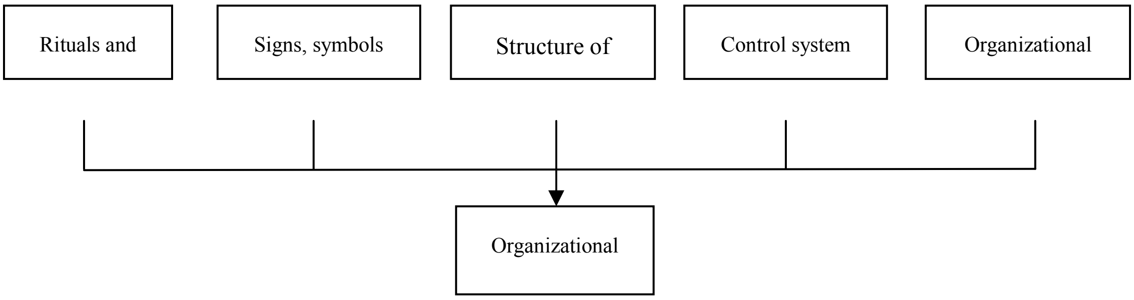


Table 7.3 Ways of transmitting culture

Some organisations are characterized by informal employment relationship: employees wear casual clothing and address each other informally. While other organisations request a strict dress code and employee communication is performed through formal channels. Both the organisational structure and the culture change employee behaviour, therefore concordance is of great importance, thus providing for successful implementation of strategy. Strategic leaders have a significant impact on organisational culture.

Closing questions for discussion:

- Which forms of control would you use in the organisation you analyse and why these ones?
- Develop a strategic control plan for the organisation you analyse.

8. Pursuit of excellence

Introductory questions:

- Why do organisations keep improving and developing?
- Why do organisations need excellence?
- Who is responsible for excellence in an organisation?
- Name organisations that you consider a standard of excellence. Justify your choice!

Any process of strategic planning should be based on a progress towards excellence, as it is among the main driving forces securing a sustainable competitive advantage. One of the main mistakes of different organisations is that strategy and organisation's environment are considered to be static elements, as a result the organisation's activities are not adjusted to changes of the external environment, and the organisation gradually loses its position in the competition fight. The progress towards excellence begins with an assumption that nothing is good enough and there can always be space for improvement. When organisational culture is in favour of such an approach, it is inclined towards an uninterrupted improvement of every organisational system, in a long-term period it ensures the existence and development of an organisation without regard to any environmental changes.

What is excellence? Two groups of authors, Tom Peters and Robert Waterman in their book *In Search of Excellence* (1982), and Walter Goldsmith and David Clutterbuck in their book *The Winning Streak* (1997), have identified the condition of excellence in successful organisations (12, p.199):

Peters and Waterman: 8 principles	Goldsmith and Clutterbuck: Ten key factors for the balance of success
A bias for action - rather perform a real	**Control versus autonomy** - give people maximum freedom, but not to lose the

activity than a non-stop analysis.	advantages of the organisation's size and its driving force at the same time.
Staying close to the customer - learn your customers and cater to their needs.	**Long-term strategy versus short-term urgency** - solve tomorrow's problems today, thinking strategically means reducing non-stop fire fighting in a long-term period.
Autonomy and entrepreneurship - create small operative units and encourage them to act independently.	**Evolutionary versus revolutionary change** - focus on what is not working at the moment and fix it before looking for new problem areas.
Productivity through people - every employee is aware of the importance of their performance in gaining success.	**Pride versus humility** - be proud of success, but always be careful not to become self-satisfied.
Hands on, value driven - the top administration is at the very heart of the organisation and keeps strong faith in it.	**Focus versus breadth of vision** - stick to the knitting at all times, but recognise the moment when changes are needed.
Stick to the knitting - keep running the business that your organisation does the best.	**Values versus rules** - values are understood and they determine the decision-making at all levels, but still there are rules laying out what employees should do.
Simple form, lean staff - horizontal organisation with a simple structure.	**Customer care versus customer count** - growing bigger means getting more customers, balance it with your capacity to take care of them.
Simultaneous loose-tight properties - make a true commitment to the key values of the organisation and in the same time encourage	**Challenging versus nurturing people** - define ambitious goals for people, but support and understand them at the same

differences and diversity of approaches.	time.
	Leaders versus managers — they both are of importance, though in successful organisations more attention is paid to leadership than to management.
	Gentle versus abrupt succession - smooth changes in the organisation management; succession of core values and strategy.

Nowadays the European model for quality improvement or EFQM is used as the basic model of excellence. The non-profit organisation EFQM (European Foundation for Quality Management) was established in 1988 by 14 presidents of the most popular European companies (Bosch, BT, Bull, Ciba-Geigy, Dassault, Electrolux, Fiat, KLM, Nestlé, Olivetti, Philips, Renault, Sulzer, Volkswagen), and approved by the European Commission.

Assessment of a company by using EFQM, can give the organisation the following:

- Possibility of benchmarking the management efficiency against the best European companies;
- Possibility to learn from the experience of the most successful European companies;
- Identification of the strong and weak sides of the company, basing on the facts;
- Involvement of the staff in performing of the company self-evaluation, thus motivating them to participate in the achievement of common goals;
- Identification of the “Best practice” within the organisation;
- Evaluation of all the processes/activities that are important for the organisation;
- Taking into account the conclusions when performing the strategic planning.

Table 8.1. shows a schematic representation of the model.

(PLAN)

(PERFORM)

(EVALUATE)

<table>
<tr><td rowspan="3">1. Leadership</td><td>3. People Management</td><td rowspan="3">5. Quality System and Processes</td><td>7. People Satisfaction</td><td rowspan="3">9. Business Results</td></tr>
<tr><td>2. Strategy & Planning</td><td>6. Customer Satisfaction</td></tr>
<tr><td>4. Resources</td><td>8. Impact on Society</td></tr>
</table>

Enablers Results

Feedback

(ACT)

Table 8.1. European model for quality improvement or EFQM

The main elements of the model can be divided into two groups, namely, enablers and results of the organisation activity. In this model, the point of reference is the relative coefficients (altogether 1000 points), which were allocated to each of organisational elements included in the model — 500 points to both enablers and results.

Enablers of the organisation's activity	**Results**
Leadership (100) - manner of inspiring, supporting, and encouraging the climate of excellence in an organisation by the administration and other leaders.	**Customer Satisfaction (200)** - evidence showing the customer perception of organisation's products, services, and customer relationship management.
Strategy & Planning (80) - manner of defining, implementing and adjusting a	**People Satisfaction (90)** — evidence showing the staff's perception of their

strategy and turning it into a policy by an organisation.	organisation.
People Management (90) - manner of making use of employees' full potential in serving customers by an organisation.	**Impact on Society (60)** - what an organisation gains in the relationship with the society. Perception of the organisation's performance by the society regarding the quality of life, environment, and conservation of global resources.
Resources (90) - manner of making use of organisation's resources to support the strategy.	**Business Results (150)** - what an organisation gains in relation to the set goals and needs of the interested parties.
Processes (140) - performance of all value-adding processes in an organisation, and manner of their control and improvement, thus securing a non-stop development of the organisation.	

In the strategic planning process, which is a part of the strategic management, the organisation should develop both the internal standards of quality (for evaluating the activity of different units in the whole period of the strategic plan), and external standards (they would be compared to those of the particular industry). This kind of approach allows for planning and regular supervision of the excellence level of the organisation's performance. Taking this into account, it can be concluded that the progress towards excellence is a sequel and part of the strategic management in the process of strategy implementation and development.

Closing questions for discussion

1. Why organisations use the EFQM model?
2. Imagine: after using the EFQM model in an organisation the results gained significantly fall behind the expectations; what would you do if you were the manager of this organisation? Name five consequent activities.
3. What is responsible for success of an organisation? Name and justify at least five elements, use examples.

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