Module 2
Unit 4

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Entrance

Keywords
strategic analysis, strategic choice, strategy implementation, generic strategies, strategic alternatives, vertical integration, internationalisation, diversification, business development

Learning Objective

This unit will analyse concepts and the scope of business strategy including scenario building and options on how to shape and assess strategy implementation. The course will critically review key elements of strategic management in order to discuss the contexts in which they are best applied. The course will address your strategic options (specialisation, diversification, integration) and how to integrate this analysis at the SME level. After reading this unit, you will be aware of the importance of organisational strategies geared to achieve the firm's overall objectives. A number of the general strategies which a firm may adopt is reviewed. You will become aware of the characteristics of vertical integration, internationalisation and diversification. Lastly, you will learn what the concept of Business Development essentially consists of and the main strategies and the potential ways to its successful achievement.

Estimated Time

It should take you around **80 minutes** to complete this unit.

Introduction

Strategy is about winning. Strategy is not a detailed plan or program of instructions; it is a unifying element that provides coherence and indicates a direction for the actions and decisions of an individual or organization. Strategic management can also be seen as a link between the firm and its environment. This chapter introduces important terms in strategic management. Important elements of strategic management are also described in this unit. Some of the most popular and successful types of strategies are reviewed.

The most concise explanation of Strategic Management defines it as development and implementation of a strategy that is directed towards achieving your business goals. The development of a business strategy does not necessarily require expensive consultants – employees, workers and the work environment of businesses are very good sources of strategic ideas and resources for its implementation. At the end of this module you will know how this can be achieved and you will get practical directions.

4.1 Introduction to Business Strategic Management

Keywords
Strategy, tactics, strategic analysis, strategic choice, implementation of strategy

Introduction
The common elements in many success stories in business were the presence of soundly formulated and effectively implemented strategies. Whereas tactics are concerned with the manoeuvres necessary to win battles, strategy is concerned with winning the war (Grant, 2002). Therefore, strategies are long-term orientated, while tactics focus on short-term reactions to your environment.

Strategic management is an important movement in management concepts, as it is easy to implement. It is also used in practice, as almost every company employs the concepts of strategic management. Most strategic activities consist of three important points: (1) strategic analysis, (2) strategic choice and (3) implementation of strategy.

When you think about formulating a strategy, there are many things you have to take into account. The environment is changing all the time, so you have to reflect, if your company is able to cope with such environmental changes. As a result of such changes, your organisational strengths may change over time. Hence you should consider whether a current strength will continue to be a strength in different circumstances. Furthermore you have to consider your company stakeholders, as they always have their own goals in mind. Knowing these goals will help you understand their behavioural patterns and their impact with regards to present and future conditions. Taking these factors into account will help you to develop your own business strategy and this is where you have to employ your strategic management skills. Strategic management is a structured method to develop, execute and evaluate your strategy.

4.1.1 Key Elements of Strategic Management

The following statements provide a definition of the concept of strategic management and the scope of business strategy. Hence you should act in accordance with the following principles:

- Strategy should not suppress the initiatives, creativity and professionalism of management and company employees;
- The entrepreneur and senior management members must be brave and creative in order to adapt their leading thought and consequently their directives for functional areas, regional units and partner companies according to the conditions of the respective situation;
- Strategy must be constantly observed, while tactics are urgent tasks that have to be accomplished in the short term, whilst aiming for your most important goals;

- Strategy is acting with regards to the greater picture, while inducing short-term elements and results.

There is no clear definition of strategy and it is very likely that it will never be found, as in practice, strategy and action plans are often intertwined and they therefore influence each other constantly.

There are three important elements in strategic management that can help your company operate effectively. These three elements are described as follows:

4.1.2 Strategic Analysis

Strategic analysis helps you understand your company's strategic position. It is important to analyse environmental changes and find out how they can affect you and your employees. Strategic analysis aims to create a view of the key factors which can have an impact on the present and future performance of your company. If strategic analysis is carried out in a correct manner then it will help you choose the right strategy.

Some key factors in strategic analysis are discussed briefly below. Understanding them can help you overcome difficulties.

(a) The environment: your company cannot exist without being able to interact with a complex commercial, economic, political, technological, cultural and social environment. Your company is faced with changes to the environment and a clear understanding of their impact is of great importance for the formation of your strategic plan. These external effects are called threats and weaknesses and they are part of the SWOT analysis which will be presented in a later module.

(b) The resources of your organisation: Resources of the organization are internal influences. This strategic capability of your company can be seen as your strengths and weaknesses which can also be a part of your SWOT analysis.

(c) The expectations of different stakeholders: The development of your company also depends on the expectations of the stakeholders of your company. Their beliefs and assumptions constitute the culture of your company. For example, the thinking of two managers of different divisions may result in different conclusions about your strategy, tough they are facing the same environmental conditions. Hence, many influences come from your stakeholders and the magnitude of their impact upon your strategy depends on the respective power of each group of stakeholders (i.e. the greater the power of a division in your company, the strongest their influence upon your strategic analysis).

A reflection upon these key factors, your company environment, resources, expectations and objectives within the cultural and political framework of your company should be the starting point for the execution of your strategic analysis.

4.1.3 Strategic Choice

After undertaking strategic analysis you will be ready to make a strategic choice. A strategic choice is defined as the selection of the best possible course of action based on the evaluation of your available strategic options.

4.1.4 Strategy Implementation

The final step, strategy implementation is defined as the way in which you will translate your strategy into actions. Strategic implementation requires careful planning and proper deployment of your company's resources, careful handling of possible changes in your organisation structure and effective change management. Implementation of your strategy can take place in several stages.

4.1.5 Formulation and Evolution of the Strategy

Strategy formulation is comprised of four principles:

- The entrepreneur or the management cannot create from nothing. They have to take into account the existing conditions of a company and transform them, if possible. Strategy formulation begins with the analysis of the strategic initial point, which means observing strengths and weaknesses of your company but also the opportunities and threats of the environment (SWOT analysis).
- The future position of strategic business units and the company as a whole in the environment is determined by its capability:
    - to create products or services which correspond to the needs of certain customers effectively and efficiently,
    - to offer employees safe and meaningful working places accompanied by fair compensation and
    - to gain all the required resources and components from suppliers, while creating fair conditions for both parties (i.e. company and suppliers).
- The concentration to central skills and the allocation of resources as well as the chronological classification of the main steps which can promote a company from the initial point to the desired target position.
- The last critical element of strategy is the determination of criteria and standards that can be used to measure and assess the success of the formulated strategy and be compared with the planned degree of achievement of objectives.

The planning phase within the framework of annual strategic planning activity normally lasts for several months, because it serves as basis for the forthcoming operational annual plans and budgets. If the procedure of strategic planning is formalized and implemented as part of the management's responsibilities, then employees can be urged to question key points and to help answer them.

As outlined previously, strategic management consists of three elements: Strategic analysis, strategic choice and strategy implementation.

4.1.6 How do I determine my Strategy?

Correct strategic management is an issue of great importance for your company. Your company's success will depend on the application of what you learn. A set of guidelines will help you to employ correct strategic management and make the right strategic choices:

In the process of **strategic choice** you must consider the following questions:

(a) First, which of these options are built upon organisational strengths, help you overcome weaknesses and take advantage of opportunities, while minimising or circumventing the threats your business faces? This question is known as the search for strategic fit or suitability of the strategy. However, it is important to take other issues into account, e.g. to what extent could a chosen strategy be put into effect? Could the estimated financial resources increase? Will sufficient stock to be made available at the right time and in the right place? Is there enough staff with the requisite skills? Even if these criteria can be met, would the choice be acceptable to the stakeholders?
(b) Selection of strategy: Keep in mind that there is more than one strategy that you can choose. There is not a "right" or a "wrong" choice, because choices always contain different threats and weaknesses.

Once you make a strategic choice you can move on to the **strategy implementation** stage, which is comprised of the following steps:

(a) Planning and allocating resources: Strategy implementation involves resource planning. What are the key tasks that have to be executed, what adjustments need to be made to your resources? What is the schedule for doing so and who is responsible for its execution?
(b) Organisational structure and design: Changes in your company strategy often require changes in the structure of your company. In some cases you may have to adjust your management systems.
(c) Managing strategic change: You also have to take into consideration that you need to manage strategic change. Strategic change management mechanisms are likely to be concerned not only with organisational redesign, but also with changing day-to-day routines and cultural aspects of the organisation, and overcoming political obstacles to change.

Summary of Key Points

The four main guiding principles you should stick to when forming your business strategy are the following:

- Strategy should not suppress initiative, creativity and professionalism of the company's management and staff;
- The company owner and the manager must be creative and brave enough to employ their leading though and directives for functional areas, regional units and partner companies regarding the demands for the situation;
- Strategy formation is a long-term task and strategy must be constantly observed, while tactics are the urgent tasks which have to be accomplished on a short-term basis and must not be neglected if you aim towards the fulfilment of greater goals in your company;
- Strategy is looking at the bigger picture, while dealing effectively with short-term tasks.

Strategic analysis provides an overview of the key factors which can affect the current and future performance of your company. A strategic choice is the selection of the best possible courses of action, based on evaluation of your strategic options. Lastly, strategy implementation is defined as the way in which you will translate your strategy into actions.

4.2. Types and Models of Strategies

Keywords
strategy implementation, generic strategies, strategic alternatives, vertical integration, internationalisation, diversification

4.2.1 Generic Strategies

Two of the essential decisions which a firm has to make are related to its position within the industry either by opting for low cost or differentiation, and how broad or narrow a market segment should be. Porter produced a matrix using cost advantage, differentiation advantage and a broad or narrow focus to classify a set of generic strategies that the firm can pursue to generate and maintain a competitive advantage.

By applying those strengths in either a broad or narrow scope, the three generic strategies include: cost leadership, differentiation and focus, shown in Figure *"Porter´s Generic Strategies"*.

Porter´s Generic Strategies.

Target Scope	Advantage	
	Low Cost	Product Uniqueness
Broad (Industry wide)	Cost Leadership Strategy	Differentiation Strategy
Narrow (Market Segment)	Focus Strategy (low cost)	Focus Strategy (differentiation)

These strategies can be applied in most cases at the SME level. They are called *generic strategies* because they are neither firm nor industry dependent.

Cost Leadership Strategy

It takes a lot of money to look this cheap, said Dolly Parton. Like others in the Low Cost Leadership category, Dolly Parton is a big business.

The Cost Leadership Strategy is frequently the domain of big business. Small firms are not, in general, resourced to achieve cost leadership (which requires economy of scale). This generic strategy emphasizes efficiency once a firm is considered as the best low cost producer in an industry for a given level of quality. Low costs allow firms to sell relatively standardised products that offer features acceptable to many customers at the lowest competitive price, and such low prices will gain competitive advantage thus increasing market share. Whether a cost leadership strategy is sustainable depends on the ability of another competitor to match or develop a cost base that is lower than the cost leader. The lowest cost base must be sustained if leadership is to continue.

Differentiation Strategy

Differentiation strategy is related to the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competition. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will cover the extra costs incurred in offering the unique product.

Focus Strategy

Focus is essentially a strategy of segmenting markets and appealing to only one or a few groups of consumers or industrial buyers. It is also called a segmentation strategy or niche strategy. It is hoped that by focusing the marketing efforts on one or two narrow market segments and tailoring the marketing mix to these specialized markets, it is possible to better meet the needs of that target market. At same time it attempts to achieve either a cost advantage or differentiation.

Why do firms implement generic strategies?

Cost Leadership Strategy

Within this strategy the firm sells its standardized products either below the average industry prices to increase market share or at average industry prices to earn a profit higher than that of competitors. Therefore, having a low cost advantage does not always lead to low price. Some firms that are very good at managing their costs sell their products at competitive parity, thus enjoying greater margins than their competitors. In this environment, the low cost business sets industry-standard pricing and brands its products to compete alongside other comparable brands in the category. Its success is measured by its profit. In the occurrence of a price war, the firm can maintain some effectiveness while the competitors suffer losses. Even without a price war, as the industry matures and prices decline, the firms that can produce more inexpensively will remain profitable for a longer period of time. The cost leadership strategy usually targets a broad market.

Differentiation Strategy

Differentiation is a viable strategy for earning above-average returns in an industry, because it creates a defensible position for coping with the five competitive forces. In fact, through product differentiation the firm attempts to gain a competitive advantage by increasing the perceived value of their products and services relative to the perceived value of other firm's products and services. Products sold by two different firms may be exactly the same, but if customers believe the first one is more valuable than the second, then the first product has a differentiation advantage. The existence of product differentiation, in the end, is always a matter of customer perception but firms can take a variety of actions to influence these perceptions.

Focus Strategy

The firm usually tries to gain a competitive advantage through product innovation and/or brand marketing rather than efficiency. Notably, a number of small and medium sized companies have found that the niche strategy is the most useful strategic area for them to explore (Lynch, 2003). While most companies employ cost leadership strategy, differentiation, or a mix of these two strategies, there are relatively fewer companies that adopt a niche strategy.

A focus strategy should target market segments that are less vulnerable to substitutes or where competition is weakest, in order to earn above-average returns on investment. A firm using a focus strategy frequently benefits from a high degree of customer loyalty, and this well-established loyalty discourages other firms from competing openly. Because of their narrow market focus, firms using a focus strategy market lower volumes and therefore have less bargaining power in relation to their suppliers. Nonetheless, firms pursuing a differentiation-focused strategy may be able to pass on higher costs to customers since similar alternative products do not exist.

4.2.2 Integrated Strategic Alternatives

Porter highlighted the idea that only one strategy, from the three generic business strategies, should be adopted by a firm and failure to do so will result in them being "stuck in the middle"[1]. He argued that there is a risk of losing direction for the organisation when practising more than one strategy. Porter stated that to be successful at multiple strategies, firms frequently create separate business units for each strategy. By separating the strategies into different units having different policies and even different cultures, it is less probable that a firm becomes "stuck in the middle".

Nevertheless, a single generic strategy is not always the best answer since the customers for a product frequently look at various aspects, for instance a mix of quality, style, utility, and price. A high quality producer that follows a single strategy can be affected by the entrance in the market of a new firm with a lower-quality product that better meets the overall customers' needs. Additionally, there is contemporary evidence of firms practising a "hybrid

[1]Porter 1980

strategy" (low cost and differentiation strategy) with success, doing even better than the ones adopting one generic strategy and resulting in sustainable competitive advantage. Multiple business strategies are essential to reply successfully to any environment condition: In the mid to late 1980's, when business environments were rather stable, flexibility wasn't so crucial in business strategies. To survive in the rapidly changing, extremely volatile current market contexts, however, requires flexibility. If a firm's business strategy cannot cope with environmental and market changes, long term survival becomes difficult. Diverging the strategy, making the most of opportunities and avoiding threats created by market conditions, is a pragmatic approach for any firm. Porter revised his preliminary view and accepted that hybrid business strategies could exist.

In short, Porter describes three generic strategies for gaining strategic advantage:

1. *Cost Leadership Strategy*– should we lower our costs?
2. *Product/Service Differentiation* Strategies – should we differentiate our products and services?
3. *Focus* Strategy – should we target a broad market or a narrow one?

Specific actions are required to implement each generic strategy and can vary greatly from one industry to another as well as within a single industry. Selecting and implementing the appropriate strategy is central to achieving long-term competitive advantage in an industry.

Critical analysis done in parallel for the different strategies identifies basic value in all strategies for creating and sustaining a competitive advantage. Reliable and superior performance, when compared to the competition, could be attained when a "hybrid strategy" is adopted, depending on the market and competitive conditions. Hybrid strategies should be adjusted based on the degree to which each generic strategy (cost leadership or differentiation) should be given priority in practise.

4.2.3 Vertical Integration in SMEs

When we state that an organisation is engaged in vertical integration, we mean that the organisation is responsible for two intertwined steps of the manufacturing or value chain process. The manufacturing or value chain process is the sequence of transformations that one or several raw materials undertake until they are transformed into the final good. Sometimes this flow is not in just one chain, e.g. some product is the result of two different middle products, hence we have parallel transformation. In this sense we have three possibilities of vertical integration: (a) backward or upstream integration[2]; (b) forward or downstream integration[3]; (c) lateral integration[4].

In practice it is sometimes difficult to distinguish lateral integration from backward integration[5]; indeed much research material only focuses on backward and forward integration, and so we will address this matter as such: lateral integration is often

[2] MacMillan, Hambrick & Pennings, 1986, "Uncertainty Reduction and the Threat of Supplier Retaliation: two views of he backward integration decision".
[3]Pennings, Hambrick& MacMillan, 1984, "Interorganizational Dependence and Forward Integration".
[4] Rocha, 2002."Integração vertical e incerteza".
[5]Ibidem.

considered as backward integration. Next we present examples of the value chain process, the organisation represented by the blue rectangles:

Types of Vertical Integration

No Integration

Raw materials → Product 1 → Product 2 → Final good

Backward Integration

Raw materials → Product 1 → Product 2 → Final good

Forward Integration

Raw materials → Product 1 → Product 2 → Final good

Therefore, the backward integration leads to the organisation producing what it bought from the suppliers; and the forward integration considers that the organisation is now also producing what its consumers used to buy.

Analyse the functioning of your enterprise. Can you identify any kind of vertical integration already present? Please, identify what you would have to integrate in your firm to perform backwards integration, and to achieve forwards integration.

4.2.4 Internationalisation of SMEs

The term internationalisation envelops all activities that a company undertakes with regards to its relations with foreign markets. Political and economic changes in the global terrain certainly influenced the term to a point where it now involves more activities than merely exporting goods to other countries. Thus, internationalisation can take many forms, such as investing in a foreign country (foreign direct investment), forming partnerships with foreign companies, subcontracting foreign experts, taking part in international networks, and many more.

From a historical point of view, internationalization of business started simultaneously along with mankind's ability to travel across the seas and overcome borders and the term itself can be interpreted and defined through many perspectives and viewpoints.[6]

The number of small firms that operate on an international level has been growing at a slow but steady pace and, as a result, their contribution to the global economy is also getting recognised, a fact which also altered their position as potential trade partners.[7] Researchers have pointed out that the time between the establishment of a company and its first international activity has become shorter; a factor which urges SMEs to carry out their operations in a timely and organised manner, in order to keep up with the developments and advances of the economy.[8]

Nonetheless, an SME which decides to engage in international operations (both inward and outward) must follow a certain pattern involving a series of activities, which will be integrated into the firm's strategy. This set of actions will form the internationalisation development strategy of the firm and it should be based on its available resources, due to the fact that a lack of resources can seriously affect the feasibility of the international operations that an SME wishes to undertake.[9]

4.2.5 Diversification for SMEs

Diversification is a business development strategy allowing a company to enter additional lines of business that are different from the current products, services and markets.

In the current conditions of dynamic markets and strong competition, a successful instrument of risk management is to avoid focusing on a single product, service and/or their distribution to a single limited market. When implemented wisely it contributes to keeping the company stable even in hard times since the economic downturn usually occurs simultaneously in all sectors and all markets.

Diversification of business activities brings competitive advantages allowing companies to reduce business risks. That is why it is a great tool for business development. However, its successful implementation requires profound knowledge and thorough preliminary assessment of the company and its environment. And, although sometimes diversification is

[6]Internationalization Process of SMEs: Strategies and Methods, Mohibul Islam Masum Alejandra Fernandez, June 2008, p. 11.
[7] OECD, Green Paper, 2003.
[8] Change in SME Internationalisation – A Network Perspective, Niina Nummela, 2002, p. 3.
[9] Edelman, L., Brush, C., Manolova, T., The impact of human and organizational resources on small firm strategy, 2001.

difficult for the small companies, it can prove to be inevitable when their original markets become unviable.

Summary of Key Points

The main objective of this chapter was to raise awareness about the importance of competence advantage and organisational strategies geared to achieve the firm's overall objectives.

Awareness about the importance of good business strategies for the firm as well as creating better value for the customers is highlighted.

4.3 Business Development

Keywords
business development, bottom up management, top down management, functional strategies, operational strategies

Business Development comprises a number of techniques and responsibilities which aim to gain new customers and new markets. Essentially it sets out a standard approach to develop new opportunities, either from within existing accounts or by proactively targeting potentially new accounts and then working to secure them. It involves evaluating a business and then realizing its full potential, using a number of tools.

4.3.1 Why?

After this short definition of the concept of Business Development it becomes clear to a large extent why you have to think and have a strategy for its application. Business Development is not a short-term or a one-step process. A successful company aiming to compete never stops business development but engages it as an ongoing process.

Business Development Strategy helps you outline your next steps in medium term and be flexible in short term; identify new customers and markets and paths to reach them; how to optimize your costs and strengthen your business growth; how to apply innovations and many more practical things.

REFLECTION: When was the last time you thought about the next steps for your business? When was the last time you involved others in the decision-making process?

4.3.2 Where?

Business Development strategies are applied to the internal, as well as the external environment, or in other words: internally with regard to processes, human resources and work environment; externally with regard to existing and targeted customers and markets, e.g. the World Wide Web.

REFLECTION: what is the situation in your work environment? Can you remember situations of lost opportunities or unsuccessful approach when dealing with foreign workers, partners or clients?

4.3.3 How?

There are different types of business development strategies and methods for their implementation (which is the subject of our next unit). Developing them usually includes listing the objectives, doing an analysis of current practices and developing measures to correct any weaknesses and thrust the business forward in terms of meeting objectives.

Some of you will prefer to use a '**bottom up**' method, while others will use a '**top down**' approach.

What is the difference?

In **bottom up management**, employees make suggestions and the best of the ideas will be passed up through management until, finally, some of the ideas are adopted.

In a **top down management** style, the business owner or senior managers will create the business development strategy and then implement the changes down through the chain of command.

Another option is the collaborative process in which managers and employees work together to develop the best business strategy.

In addition there is the model of **functional strategies** and **operational strategies** model.
What is the difference?

The **functional strategies** focus on broad ideas and tasks for different departments within a business – this may include marketing, human resources, new product lines as well as legal and financial strategies.

The **operational strategies** are much narrower. They typically deal with the day to day operations of the business and may focus on details such as how many cashiers are needed during a certain shift or how much stock to keep on hand.

Obviously, there is not one type of business strategy that is going to work for every business. In any case you should evaluate each idea based on its weaknesses, strengths, growth potential and risk potential. The initial development or review process may involve senior managers or employees from every department being involved. When possible or necessary, a business strategy consultant may be included.

Depending on the complexities of the strategies you plan to implement, there are several factors you should take into consideration. These include ensuring there are sufficient resources, assigning responsibilities and establishing a chain of command.

You should also develop a timeline and points at which you will evaluate the strategies to see if they are achieving the desired goals.

REFLECTION: Stop and ask yourself when was the last time you analyzed the book-keeping records and achieved results with your team? When was the last time you outlined measures to improve the situation? Did you or your team develop a timeline and points at which to evaluate their results?

A lot of owners or managers of the SME' usually track out their competitors' development. In some cases to find better or more effective model for their own company development or diversification. But you should bearing in mind that this approach not always is working way. For example: If you're in the insurance field, that doesn't mean that to find success you must copy the business model of the successful agent down the street. In fact, the contrary is often true.

Although used more often by larger companies, part of the business development strategies can be: **Mergers and Acquisitions** and **Strategic Alliances**.

A merger is a combination of two or more firms in which all but one legally cease to exist, and the combined organization continues under the original name of the surviving firm. There are several types of mergers: A subsidiary merger involves the target becoming a subsidiary of the parent. To the public, the target firm may be operated under its brand name, but it will be owned and controlled by the acquirer. A merger of equals is a merger framework usually applied whenever the merger participants are comparable in size, competitive position, profitability, and market capitalization. Under such circumstances, it is unclear if either party is ceding control to the other and which party is providing the greatest synergy. A horizontal merger occurs between two firms within the same industry. Vertical mergers are those in which the two firms participate at different stages of the production or value chain. In the context of the value chain, a vertical merger is one in which companies that do not own operations in each major segment of the value chain choose to 'backward integrate' by acquiring a supplier or to 'forward integrate' by acquiring a distributor.

Generally speaking, an acquisition occurs when one company takes a controlling ownership interest in another firm, a legal subsidiary of another firm, or selected assets of another firm, such as a manufacturing facility. An acquisition may involve the purchase of another firm's assets or stock, with the acquired firm continuing to exist as a legally owned subsidiary.

According to Peter Drucker; 'Alliances are where the real growth is.' Modern alliances are increasingly the golden means to the end of building, not simply a bigger business, but a greater and better one. Alliances come in all shapes and sizes, but share the same essential foundation: the belief that as active and sharing partners, both sides will achieve high ambitions that otherwise lie beyond reach. Most alliances involve joint ownership, usually 50-50. The important principle, however, is not the ownership, but the mutuality. And the vital means is communication, in which the Internet, especially in its extranet form, plays the crucial role.

Summary of Key Points

Business Development is important not only for businesses to survive from day to day, but also for its medium- and long-term development. There are several types of business development strategies and each one of them has its advantages and disadvantages – it is our responsibility to assess which one of them is the most suitable for our business.

There are also different paths to developing our business – it is our responsibility, too, to decide which one is the most adequate and profitable for us.

To be able to make an informed choice we should learn to weigh the risks, benefits and costs associated with every single decision we make – to undertake key actions, to proceed or not to the steps we have planned.

4.4 Evolution of Business Development

Keywords
Evolution of business development, method of Kaizen

The previous units clearly explained that business development is associated with developing new opportunities, either from within existing accounts or by proactively targeting brand new potential accounts and then working to close them.

Perhaps sometimes you think that in order to strengthen your business, you need to do fundamental, large-scale or at least serious changes – to layoff at least one employee, to change certain processes, technologies, raw materials, etc. It doesn't matter what the change is, as long as it is big and tangible. This is not necessarily true. Changes can be relatively small and incremental.

4.4.1 Why?

Each and every one of us has faced a personal challenge which in most cases was associated with some kind of a change – to stop smoking, change eating habits, start a fitness programme. And everyone has realized that the sudden change in any habit is extremely stressful and very often it has the opposite effect. The same is true for business, so change processes shall be planned well.

4.4.2 Where?

Experts in any field are continually making a series of small changes: they take short cuts; they leave out unimportant things, etc. The Eastern method of Kaizen encourages a continuous flow of small changes. Be sure that the small changes have their own intrinsic value. They can speed up the work, reduce stress and strain, reduce errors and they can simplify procedures. However, one of their greatest values is the motivational value. If employees and workers are continually looking for small possible changes, then they are going to take a far more active interest in what they are doing. They are going to think about things; challenge things; and consider alternatives. There is a switch from passive acceptance to active participation.

But be very careful and do not make changes for the sake of change! In order to reduce this danger, there can be a requirement that the change must 'show value'. Remember - just being novel or different is not a sufficient functional value.

4.4.3 What?

As for any 'working' change the ultimate justification is 'value' as shown in the following check-list:

- What is the value of this change?
- Who benefits from the change?
- How are the benefits delivered?
- What is the cost of these benefits?
- What are the potential problems?
- Will this change be acceptable?
- How durable are the benefits?
- Who else is affected and how?

EXERCISE: It is rather more difficult to go through it systematically and honestly. The really difficult cases are those where the ultimate benefits are delayed. At first there might be confusion, slow acceptance and even real drawbacks - but ultimately the benefits come through.

Because 'permissible changes' are changes that often are made within one's own decision space, the value criteria are somewhat simpler. There should be at least one dominant value. The feasibility, cost, drawbacks and effect on others can then be considered. The change should be tailored to maximise the dominant value. When there is a need to list a number of subsidiary values, then there is the suspicion that there is no dominant value.

Summary of Key Points

People can, and do, make small changes without anyone noticing. A visible policy of encouraging small changes results in more and bigger changes. Changes that start small can grow bigger and bigger - even to the point where there is a basic concept change.

But where a bold concept change is needed, a series of small steps will not bring this about. Indeed, it may have the opposite effect by discouraging bold thinking.

Summary of Learning Objectives

This unit dealt with the foundations of strategic management. You have learnt how to develop a general policy in your company and also how to implement it, so that your employees can embrace its principles. Thereafter, you became acquainted with the concepts and scope of business strategy and an overview of important principles of business strategies. The key elements of strategic management – analysis, choice and strategy implementation - were presented.

You acknowledged about different types of generic and other models of strategies and what your social enterprise could benefit from implementing them. Our intention in this unit was to clarify the statement that every big journey starts with the first step, including the journey of your business development.

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Glossary of terms

Strategic choice is defined as the selection of the best possible course of action based on the evaluation of your available strategic options.

Strategy implementation is defined as the way in which you will translate your strategy into actions. Strategic implementation requires careful planning and proper deployment of your company's resources, careful handling of possible changes in your organisation structure and effective change management. Implementation of your strategy can take place in several stages.

Generic strategies are those strategies that the firm can pursue to generate and maintain a competitive advantage. They are neither firm nor industry dependent. The three generic strategies include: cost leadership, differentiation and focus

Vertical integration describes a style of management control. Vertically integrated companies in a supply chain are united through a common owner. Usually each member of the supply chain produces a different product or (market-specific) service, and the products combine to satisfy a common need.

Internationalisation envelops all activities that a company undertakes with regards to its relations with foreign markets. Internationalisation can take many forms, such as investing in a foreign country (foreign direct investment), forming partnerships with foreign companies, subcontracting foreign experts, taking part in international networks, and many more.

Diversification is a business development strategy allowing a company to enter additional lines of business that are different from the current products, services and markets.

Business development comprises a number of techniques and responsibilities which aim to gain new customers and new markets. Essentially it sets out a standard approach to develop new opportunities, either from within existing accounts or by proactively targeting