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FACULTY OF BUSINESS AND MANAGEMENT
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PROPOSAL OF STRATEGY OF SBU DEVELOPMENT NÁVRH STRATEGIE ROZVOJE SBU

DIPLOMOVÁ PRÁCE
MASTER'S THESIS

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Thesis title: Proposal of Strategy of SBU Development

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Theoretical base – specify basic terms, strategic business unit, process of creation and implementation of the strategy, specificity of the strategy for the SBU

Analysis of the current state – basic company characteristics, analysis of external and internal factors, evaluation summary of the company position

Proposals – proposal of the SBU strategic development, procedure of the implementation, prerequisites evaluation for the realization, identification of critical factors, specification of expected contributions

Conclusion – summary of the whole work

Bibliography

Appendixes – according to needs

Basic sources of information:

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Abstrakt v českém jazyce

Bývalý americký prezident prohlásil: “Plány jsou nic, plánování je všechno”. V tomto duchu lze říci, že dobře fungující systém strategického řízení je svým způsobem důležitější než samotné dokumenty, které produkuje. V tomto duchu se nese i celá tato práce, která zachycuje určitý stav strategie jedné strategické obchodní jednotky (SBU) dotčeného subjektu a její posun kupředu od původních abstraktních cílů k naprosto jasným a konkrétním krokům, které bude třeba v budoucnosti udělat pro rozvoj této obchodní jednotky.

Po zhodnocení současného stavu teorie, je provedena analýza současného stavu strategie obchodní jednotky vzhledem k jejím okolím. Ze závěrečné SWOT analýzy jsou pak pro jednotlivé její prvky určovány cíle směřující ke strategickému rozvoji. Každý cíl je rozvinut do jednoho, či více kroků, které jasně determinují jak a kdy lze daného cíle dosáhnout. Na závěr je zhodnocen přínos této obchodní strategie, její předpoklady a rizikové faktory. Nejcennějším na celém dokumentu je však samotná činnost tvorby strategie, která rozvíjí zcela nové pohledy na možnosti rozvoje strategické obchodní jednotky.

Abstract in English

Former American president declared: “Plans are nothing, planning is everything”. In this manner we can state that a well functional strategic management system is much more important than documents that it will produce. This work is conducted in this spirit, so it captures a strategy state of one strategic business unit (SBU) of the aggrieved subject and moves it forward from the original abstract goals to completely clear and concrete steps that has to be done in the future for the development of this business unit.

After review of the current theory state an analysis of the current state of the business strategy is done in consideration to all SBU environments. For each element of the final SWOT analysis are determined objectives of strategic development. Each objective is developed into one or more steps, which are clearly showing how and when the target can be achieved. Finally, the contribution of this business strategy, its assumptions and risk factors is assessed. The most valuable output of the document, however, is making the strategy work itself, which is developing an entirely new perspectives on the opportunities to develop strategic business units.

Klíčová slova v českém jazyce:

Strategická obchodní jednotka, Strategie SBU, Strategické myšlení, Strategická analýza, Formulace strategie, Implementace strategie, Vyhodnocení strategie, Konkurenceschopnost, Konkurenční výhoda, Input/Output přístup ke tvorbě strategie, Přístup k tvorbě strategie založený na zdrojích, SLEPT, Porterových pět sil, SWOT

Key words in English:

Strategic Business Unit, SBU Strategy, Strategic Thinking, Strategy analysis, Strategy formulation, Strategy implementation, Strategy evaluation, Competitiveness, Competitive advantage, Input/Output based view, Resource based view, SLEPT, Porters' five forces, SWOT

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Rád bych poděkoval mé ženě a mým rodičům za podporu, kterou mi při vytváření práce a v průběhu studií poskytovali. Dále bych rád poděkoval vedoucímu práce za mnoho cenných rad při tvorbě strategie. Velký dík patří i všem členům oddělení, zejména Těm zainteresovaným do tvorby strategie, za cenné informace a aktivní přístup.

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1. INTRODUCTION

Already in old times was a good strategy one of the most searched items in the world including warfare, politics or trade. Former American president declared: “Plans are nothing, planning is everything”. In this manner we can state that a well functional strategic management system is much more important then documents that it will produce. They are getting old quickly in the current dynamic and turbulent entrepreneurial environment. Systems that are able to detect such obsolence and dynamically decide about necessity of strategy changes are gaining importance.

I will focus on analysis, formulation and partly implementation of the aggrieved subject department strategy. This department is a part of the aggrieved subject that is running a business in the IT industry. The company is a subsidiary company of the aggrieved subject syndicate and it is dealing mainly with software solutions development for other syndicate divisions. This document should answer to questions about its further strategic development on the level of business strategy and the strategy relationship to the internal setting as well to other departments, to aggrieved subject and to the corporation.

2. GOALS AND METHODS

2.1. Goals

Well determined and described problem is the key issue of the successful solution. It is not possible to solve all the problems in the company in this work therefore problems to be solved will be determined through goals of this thesis. Goals should be formulated in the way that they are satisfying SMART principle (described in section 3.1). The most important goal that has to be reached is to propose the strategy of the department development on the basis of an analysis. Department has to operate as a standalone SBU.

Goals - Department

First version of the strategy that is being already developed in the department is not the final strategy. Due to the restructuring and integration in the SBU one of the main goals is to be able through the time to give an answer to questions: Who we are as a department? And where and how we want to go? This is as well fulfilling the name (goal) of the submission – Proposal of development of SBU strategy.

Second main goal is how to handle SBU strategy in our matrix structure? Employees are expecting visions from our aggrieved subject but when they are not getting this they are expecting an alternative from us. Should we be part of the strategy creation of each aggrieved subject or should we always define certain strategy frame within our SBU?

Currently described SBU is consisting of two departments with the same central functions. Strategy has to have some common part for both aggrieved subjects but then it should be treated as for two different SBUs.

Strategy in aggrieved subject in history was built up from available resources and business uniqueness in each Delivery Segment rather than as top-down approach. Nevertheless while RVB approach is used more often it will be interesting to answer these questions:

How could TOP management of aggrieved subject create strategy in the matrix organization? What should be their vision and corporate strategy or what is missing now in their approach? How is this then interconnected with the RBV approach of each SBU?

Goals – Author

Introduce practical and utilizable proposals, outputs, measures, projects, etc. that will be more effective, economical, rational, etc. than in current state.

The goal is determined by question: Will be achieved qualitative or quantitative improvement in comparison with the current state? [3]

My main personal goal is:

1. Learn about combined approach to the strategy on the base of RBV and I/O approaches.
2. Find out the best way of applying a mix of RBV and I/O strategy creation approaches on the practical example.
3. Critically check the result and formulate recommendation which strategy approach is better for the future aggrieved subject development. There are three main conclusions possible: use only RBV, use only I/O, use combined approach of both methods as it is worked out in this diploma thesis.

Goals - Committee [3]

Demonstrate overall level of skills and workmanship of the thesis author.

Verification of the knowledge and know-how that student gained through the education.

Verify that the student is able to acquire and make use of findings and methods while solving complex and practical problem.

The goal is determined by the question: Did he prove ability, competence and workmanship?

2.2. Methods

Every strategy should be formulated on the basis of the real facts that were found out during the analysis. The relevancy of these facts is supported by already existing methods and their appropriate usage. This section is providing an overview of used elaboration methods – methods and procedures of data collecting used during the analysis.

Typically analysis of the company environment is being done in the direction of the external environment to the very heart of the company. This subsection deals with the common principle that is being used for following methods. The analysis is starting with the issues that are behind influence of the company. Usually this starts with the international (global) environment at first, followed by the national (general) environment, industry (external) environment until we will come to the internal environment of the organization. The best illustration that also interconnects described methods is on the Figure 1. As a result of these environments analysis we will extrapolate future opportunities and threats for the external environments and strengths and weaknesses for the internal environment. They will be then practically used for the further strategy formulation with the help of SWOT analysis.

Methods of analysis used for particular environments are:

- Global-International environment: it has no concrete method but it represents the most universal environment; global trends will be used for this environment and they will be mentioned as a part of the SLEPT analysis as well
- General environment – SLEPT analysis: exploring of social, legal, economical, political and technological impacts on the company
- External-Industry environment – Five forces model (by M. Porter): views on opportunities and threats from the point of view of buyers power, suppliers power, rivalry, product substitution threat and potential of new market entrants
- Internal environment – the main goal is to find out in which areas can company develop and what is not its strong aspect; there exists several areas that can be analyzed:
 - Production and production control factors

- Scientific and technical development factors
- Financial and budget factors
- Human resources Factors
- Marketing and distribution factors

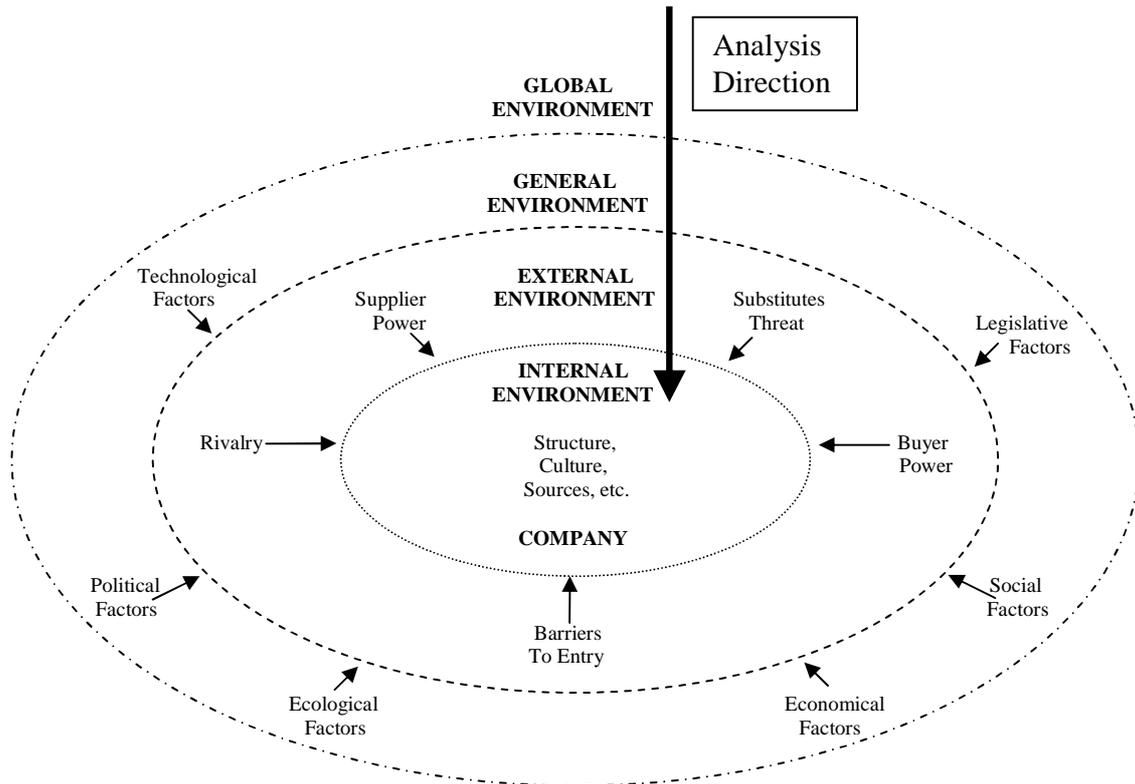


Figure 1: Environments, Source: [4]

As it was mentioned the basis of the strategy formulation will be a SWOT analysis that is illustrated on the following figure:

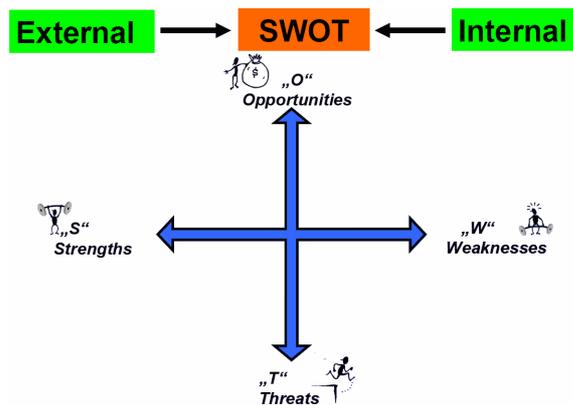


Figure 1: SWOT analysis, Source: [12]

SMART principles of goals definition will be used in the strategic goals formulation part as much as possible. That means that proposed steps for goals achieving will be specific, **m**easurable, **a**chievable, **r**ealistic and **t**ime framed. More information about used methods can be found in Appendix C.

2.3. Information Sources and Objectification

This section covers characteristic of used information sources and approaches for the discovered information objectification. My information sources started to develop based on two books mentioned in the assignment [1] and [2]. My leader advised me Basics of the strategic management as well ([4]). On this base I was searching for the other sources mainly on the internet. These sources nevertheless must be verified or often extended by another authors work – this is the main base for the objectification of the acquired knowledge. Still there is still more usual book literature then just three mentioned books. For instance a swot analysis is being mentioned with its four attributes (strengths, weaknesses, opportunities and threats) but only a few sources are mentioning second level of the swot – relationships between these attributes – that are giving a new view on the same analysed data. The bibliography is covering at most the theoretical part.

Sources for the analysis are half-and-half from the internet (external part) and from the company itself (internal part). They are consisting from the tasks that were conducted for several subjects during my study and they were aimed directly on aggrieved subject situations. So you can find here parts from the management, microeconomics, enterprise economy, finance, management of information systems, quality, innovation, etc.

3. THEORETICAL BASE

3.1. Basic Terms

The point of this section is to determine basic terms and terminology that will be further used in all steps of the strategy creation.

Strategic management

is an ongoing process that assesses the business and the industries in which the company is involved; assesses its competitors and sets goals and strategies to meet all existing and potential competitors; and then reassesses each strategy annually or quarterly [i.e. regularly] to determine how it has been implemented and whether it has succeeded or needs replacement by a new strategy to meet changed circumstances, new technology, new competitors, a new economic environment., or a new social, financial, or political environment [33].

Strategy

is about choice, which affects outcomes. They can be gained by having a competitive advantage against the others. Organizations can often survive - indeed do well - for periods of time in conditions of relative stability, low environmental turbulence and little competition for resources. Virtually none of these conditions prevail in the modern world for great lengths of time for any organization or sector, public or private. The nature of the strategy adopted and implemented emerges from a combination of the structure of the organization (loosely coupled or tightly coupled), the type of resources available and the nature of the coupling it has with environment and the strategic objective being pursued. Strategy is adaptable by nature rather than rigid set of instructions. In some situations it takes the nature of emergent strategy.

The simplest explanation of this is the analogy of a sports scenario. If a football team were to organize a plan in which the ball is passed in a particular sequence between

specifically positioned players, their success is dependent on each of those players both being present at the exact location, and remembering exactly when, from whom and to whom the ball is to be passed; moreover that no interruption to the sequence occurs. By comparison, if the team were to simplify this plan to a strategy where the ball is passed in the pattern alone, between any of the team, and at any area on the field, then their vulnerability to variables is greatly reduced, and the opportunity to operate in that manner occurs far more often. This manner is a strategy [34].

Company's Mission and Vision [2]

Every firm (organization, institution) is founded and exists to fulfill its specific mission – producing goods or providing a service to its customers. This **mission of the company** complies with the basic idea (**vision**) of the company founder(s) as to what the core of the business will be, who its customers will be, and by what kind of products or services the company will satisfy the needs of its customers. In the case of companies in industrially developed countries it is quite common for the mission of the company to be concisely expressed in written form. In this form, the mission fulfils several functions simultaneously:

It expresses the basic strategic intention of the owners and the top management of the company. Connecting it to strategy of the company makes the mission more concrete in certain specific areas.

It has a strong external informational importance because it declares the mission of the company to the public and by this way exposes the company to public control. The public perception of the company usually improves as a result of this. A publicly declared mission provides basic information for the company's important stakeholders: future shareholders, employees, suppliers, and customers. By formulating a company mission, the owners and the top management of the company give clear signals about their existence, position and long-term business aims.

Inwardly, a company mission represents the basic norm for behavior of the management as well as employees. In Western countries it is quite common for employees to be familiarized with the company's mission in detail. With regard to the specific Czech

business culture, such approach is unfortunately uncommon even in organizations where a mission is formulated.

Competitive advantage

is coming from the ability to earn a return on investment that was better than the average for the industry sector [28]. It is created by rare, non-imitable, unique and valuable resources and capabilities.

SMART

is a mnemonic used in strategic management at the proposals stage. It is a way of evaluating if the objectives that are being set are appropriate for the individual project. A SMART objective is one that is specific, measurable, achievable, relevant and time-bound. We can use following question to test our SMART goal [39]:

- *Specific* – Is there a description of a precise or specific behavior / outcome which is linked to a rate, number, percentage or frequency?
- *Measurable* – Is there a reliable system in place to measure progress towards the achievement of the objective?
- *Achievable* – With a reasonable amount of effort and application can the objective be achieved?
- *Relevant* – Can the people with whom the objective is set make an impact on the situation? Do they have the necessary knowledge, authority and skill?
- *Time-framed* – Is there a finish and/or a start date clearly stated or defined?

Business portfolio

is the collection of Strategic Business Units that together form a corporation. The optimal business portfolio is one that fits perfectly to the company's strengths and helps to exploit the most attractive industries or markets.

3.2. Strategic Business Unit

The main part of the practical part has to be aimed on the business strategy of the strategic business unit. Acronym is SBU and will be further used. First we must understand what exactly SBU is in this theoretical part to be able to answer to the following question in the practical part: “Is ESS department a SBU?” We can find several definitions of SBU that will be our base for the practical part.

In [35] it is defined as: SBU is understood as a business unit within the overall corporate identity which is distinguishable from other business because it serves a defined external market where management can conduct strategic planning in relation to products and markets. When companies become really large, they are best thought of as being composed of a number of businesses (or SBUs).

These organizational entities are large enough and homogeneous enough to exercise control over most strategic factors affecting their performance. They are managed as self contained planning units for which discrete business strategies can be developed. A Strategic Business Unit can encompass an entire company, or can simply be a smaller part of a company set up to perform a specific task. The SBU has its own business strategy, objectives and competitors and these will often be different from those of the parent company. Research conducted in this includes the BCG Matrix.

This approach entails the creation of business units to address each market in which the company is operating. The organization of the business unit is determined by the needs of the market.

In [36] it is defined as: SBU is a significant organization segment that is analyzed to develop organizational strategy aimed at generating future business or revenue. Exactly what constitutes an SBU varies from organization to organization. In larger organizations, an SBU could be a company division, a single product, or a complete product line. In smaller organizations, it might be the entire company. Although SBUs vary drastically in form, they have some common characteristics. All SBUs are a single business (or collection of businesses), have their own competitors and a manager accountable for operations, and can be independently planned for.

The source is in addition mentioning two tools relevant for the SBU. First one is to clearly identify the SBU by a given common characteristics and the second is a matrix of SBU model where two main factors (competitive position and industry maturity) are playing role in further development of the SBU. Depending on the level of factors we can build, maintain or liquidate certain SBU as you can see on the Figure 2. Of course it is only an analytic tool and the final decision is always to us.

Characteristics of Strategic Business Units (SBUs) [36]:

1. It is a single business or collection of related businesses
2. It has its own competitors
3. It has a manager who is accountable for its operation
4. It is an area that can be independently planned for within the organization

Competitive Position	Leading	Build	Build	Build	Build
	Strong	Build	Build	Build	Maintain
	Favorable	Build	Build	Maintain	Liquidate
	Tenable	Build	Maintain	Liquidate	Liquidate
	Weak	Maintain	Liquidate	Liquidate	Liquidate
	Nonviable	Liquidate	Liquidate	Liquidate	Liquidate
		Embryonic	Growth	Maturity	Aging
		Industry Maturity			

Figure 2: SBU actions model, Source: [36]

In [37] is SBU considered as an organizational entity of a company that is given the responsibility to serve the particular demands of one business area and therefore has its own mission, objectives and business strategy. Contrary to the use of the word “business unit” in everyday life, an SBU in the strategic management sense is normally an entire division in large corporations. The SBU is the subject of Business (level) Strategy while the entire corporation is the subject of Corporate (level) Strategy.

Another SBU definition in [39] says: From a strategy formulation point of view, diversified companies are best thought of as being composed of a number of businesses (or SBUs). These organizational entities are large enough and homogeneous enough to

exercise control over most strategic factors affecting their performance. They are managed as self contained planning units for which discrete business strategies can be developed.

Typically SBU contains several cost centers. In our case it is consisting from five cost centers. The definition of the cost centre in [41] is as follows: Cost Centers are responsible for producing an agreed level of output (quantity + quality). Their efficiency is measured and rewarded according to how fully it achieves that objective. In a Cost Centre inputs or expenses are measured in monetary terms, but output is not. Managers of these units are typically evaluated by means of productivity measures that relate the quantities of inputs used to generate the required outputs. They are evaluated on the cost efficiency with which they use a mix of inputs (labor, materials, and outside services). Because these managers are not held responsible for selling the company's products or services, they are not judged on revenues or profits. Typical examples of these organizational entities are manufacturing departments and Shared Services departments.

3.3. Strategic Thinking

This work is not primarily aimed on explaining the theory of the strategic thinking so only the most relevant issues will be addressed here based mainly on work of Jeanne M. Liedtka and Eton Lawrence ([13], [14]). Nevertheless it is important to understand that strategic thinking together with strategic planning are as Ying and Yang as it is well described in [13]:

“Without achieving the kind of detailed understanding of strategic thinking that we have today of strategic planning, we risk introducing yet another appealing concept to the strategy lexicon that has little relevance to practicing managers”.

3.3.1. What is it?

There is a lack of clear understanding of just what is meant by the term strategic thinking and this, in turn, has lead to considerable confusion in the strategic management arena. Thus there exists a clear need to precisely define strategic thinking so that this

management paradigm can be objectively embraced and appropriately situated within the strategic management context [13].

There are several definitions collected in [14] and these two are most describing: For Ralph Stacey [15], strategic thinking is “. . . using analogies and qualitative similarities to develop creative new ideas . . . (and) designing actions on the basis of new learning.” This differs from strategic planning which focuses on following preprogrammed rules. Raimond [16] follows a similar line of reasoning by dividing strategic thinking into two modes: “strategy as intelligent machine” (a data-driven, information processing approach) and “strategy as creative imagination.” The former would be what we would generally consider strategic planning, while the latter would be strategic thinking.

Finally Eton Lawrence defines his own understanding of strategic thinking that I consider as contributive: “In general then, it can be argued that strategic thinking involves thinking and acting within a certain set of assumptions and potential action alternatives as well as challenging existing assumptions and action alternatives, potentially leading to new and more appropriate ones.”

3.3.2. Strategic Thinker

Liedtka [13] followed the Mintzeberg model and developed it into a model that defines strategic thinking as a particular way of thinking. At the end he defines a term strategic thinker based on these elements. It has specific and identifiable characteristics and consists of five elements illustrated on the Figure 3.

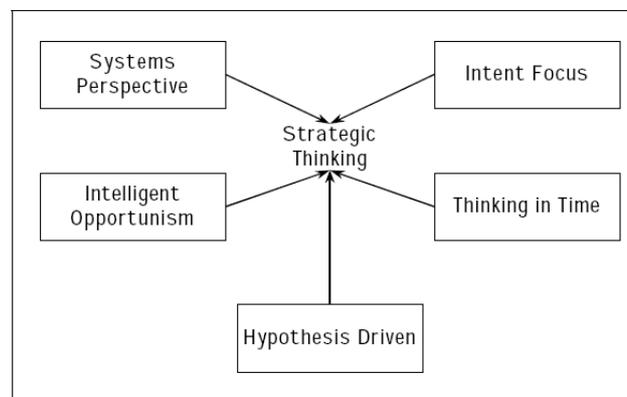


Figure 3: The Elements of Strategic Thinking, Source: [13]

The first element is a **systems perspective**. A strategic thinker has a mental model of the complete system of value creation from beginning to end, and understands the interdependencies within the chain, and he is able to map all internal as well as external factors [14]. There are several troubles that are occurring at this point. According to Peter Senge new insights fail to get put into practice because they conflict with deeply held internal images of how the world works images that limit us to familiar ways of thinking and acting. According to James Moore these mental models must lead to the perception of a business in a context larger than that of the industry in order to facilitate innovation.

So the first element can be summarized as in [14]: The systems perspective enables individuals to clarify their role within the larger system and the impact of their behavior on other parts of the system, as well as on the final outcome. This approach addresses, therefore, not only the fit between the corporate, business, and functional levels of strategy, but very importantly, the person level. Thus, from a vertical perspective, strategic thinkers see the linkages in the system from multiple perspectives and understand the relationship among the corporate, business, and functional levels of strategies to the external context, as well as to the personal daily choices they make. From a horizontal perspective, they also understand the connections across departments and functions, and between suppliers and buyers.

The second element is **intent-focused** strategic thinking and exact definition is provided in [13]: Strategic intent provides the focus that allows individuals within an organization to marshal and leverage their energy, to focus attention, to resist distraction, and to concentrate for as long as it takes to achieve a goal. In the disorienting swirl of change, such psychic energy may well be the scarcest resource an organization has, and only those who utilize it will succeed.

The third element of strategic thinking is **intelligent opportunism**. The essence of this notion is the idea of openness to new experience which allows one to take advantage of alternative strategies that may emerge as more relevant to a rapidly changing business environment. In practicing intelligent opportunism, it is important that organizations seriously consider the input from lower level employees or more innovative employees who may be instrumental in embracing or identifying alternative strategies that may be

more appropriate for the environment. For example, Intel's predominant role in the microprocessor industry was largely the result of a renegade band of scientists acting in defiance of senior management's stated strategic objectives. Given this, one can well imagine the loss to industry if the focus is only on rigidly defined and mandated top-down strategies to the exclusion of other emerging strategies and voices of dissent [14].

The fourth element is presented as **thinking in time**. According to [17], strategy is not solely driven by the future, but by the gap between the current reality and the intent for the future. Strategic intent implies a sizeable stretch for an organization. Current capabilities and resources will not suffice. This forces the organization to be more inventive, to make the most of limited resources. Whereas the traditional view of strategy focuses on the degree of fit between existing resources and current opportunities, strategic intent creates an extreme misfit between resources and ambitions. While having seen the future that we want to create, what must we keep from that past, lose from the past, and create in our present, to get there.

The fifth element of the strategic thinking recognizes the process as one that is **hypothesis-driven**. Like the "scientific method" it embraces hypothesis generation and testing as core activities [14]. According to [13] this approach is somewhat foreign to most managers: Yet in an environment of ever-increasing information availability and decreasing time to think, the ability to develop good hypotheses and test them efficiently is critical . . . the ability to work well with hypotheses is the core competence of the best strategy consulting firms.

Finally Liedtka [13] states in his work that: Taken together, these five elements describe a strategic thinker with a broad field view that sees the whole and the connections between its pieces, both across the four vertical levels of strategy and the horizontal elements of the end-to-end value system. The strategic thinker remains ever open to emerging opportunities, both in service to the defined intent and also in question as to the continuing appropriateness of that intent . . . Firms who succeed at embedding a capability for strategic thinking throughout their organizations will have created a new source of competitive advantage. Their whole (holistic) system perspective should allow them to redesign their processes for greater efficiency and effectiveness. Their intent-focus will make them more

determined and less distracted than their rivals. Their ability to think in time will improve the quality of their decision-making and speed of implementation. A capacity for hypothesis generation and testing will incorporate both creative and critical thinking into their processes. Intelligent opportunism will make them more responsive to local opportunities.

When there is a will to become a strategic thinker and combine it with the strategic planning we will receive as a result a capability of:

1. Creation superior value for customers
2. Hard imitation for competitors
3. Making the organization more adaptable to change.

3.3.3. Applying Strategic Thinking and Planning

Traditional notions of strategic planning have come under severe attack by many in the business community. Strategic planning often takes an already agreed upon strategic direction and helps strategists decide how the organization is to be configured and resources allocated to realize that direction. Because of this, one of the most common critiques of strategic planning is that it is overly concerned with extrapolation of the present and the past as opposed to focusing on how to reinvent the future (also referred to as “strategic intent” or “strategy as revolution”) [17].

Also by being too over focused on analysis and extrapolation rather than creativity and invention, strategic planning tends to create the illusion of certainty in a world where certainty is anything but guaranteed. Strategic planning is normally used to denote a programmatic, analytical thought process carried out within the parameters of what is to be achieved, but does not explicitly question those parameters, and is therefore, analogous to *single-loop learning*. Strategic thinking, by contrast, refers to a creative, divergent thought process. It is a mode of strategy-making which is associated with re-inventing of the future, the creation of new competitive space as opposed to struggling over slow growth or shrinking markets, for example. A significant deviation from strategic planning, strategic thinking questions the strategic parameters themselves, and thus is analogous to *double-loop learning*. The elements of each strategic approach are summarized in Figure 4.



Figure 4: Strategic Thinking and Planning, Source: [18]

The essential point here is that strategic thinking and strategic planning are both necessary and none is adequate without the other, in an effective strategy making regime. The real challenge is how to transform today’s planning process in a way that incorporates, rather than undermines, strategy thinking [14].

According to Heracleos [18]: . . . strategic thinking and strategic planning are interrelated in a dialectical process, where both are necessary for effective strategic management, and each on its own is necessary but not sufficient. The tools that one uses at each stage of the strategic management process are not important in themselves but as the means of encouraging the creative and analytical mind set. There ideally needs to be a dialectical thought process of being able to diverge and then converge, being creative and then seeing the real-world implications, and being synthetic but also analytical.

Careful review of the emerging body of thought on this subject, however, is that strategic thinking, properly defined, is not only critical to the survival of the organization in these times of rapid and accelerating change, but more importantly, can be effectively accommodated within a progressive strategy-making regime to support strategic planning. Therefore, what is being proposed in large measure is a dialectical framework within which strategic planning and strategic work in tandem, rather than one in which strategic planning impedes the flourishing of strategic thinking [14].

3.4. Process of Strategy Creation and Implementation

The practical experience of operating in small and medium firms shows that managers lack of importance of the strategy. This is because that "they don't know". It's not that "they would not want to know." Only so far they did not find anyone who would explain them the need of strategy.

3.4.1. Theoretical Concepts in the Strategic Management

There is a lot of theoretical strategic management concepts presented in the professional literature. Nevertheless there are two most used ones. They will be briefly presented and a recommendation of the most authentic for our certain conditions will be made.

The currently dominant view of business strategy – resource-based theory or resource-based view (RBV) of firms – is based on the concept of economic rent and the view of the company as a collection of capabilities. This view of strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision making.

Traditional strategy models such as Michael Porter's five forces model focus on the company's external competitive environment. Most of them do not attempt to look inside the company. In contrast, the resource-based perspective highlights the need for a fit between the external market context in which a company operates and its internal capabilities.

In contrast to the Input / Output Model (I/O model), the resource-based view is grounded in the perspective that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than is the external environment. Instead of focusing on the accumulation of resources necessary to implement the strategy dictated by conditions and constraints in the external environment (I/O model), the resource-based view suggests that a firm's unique resources and capabilities provide the basis for a strategy. The strategy chosen should allow the firm to best exploits its core competencies relative to opportunities in the external environment [22]. These approaches are compared on the figure below.

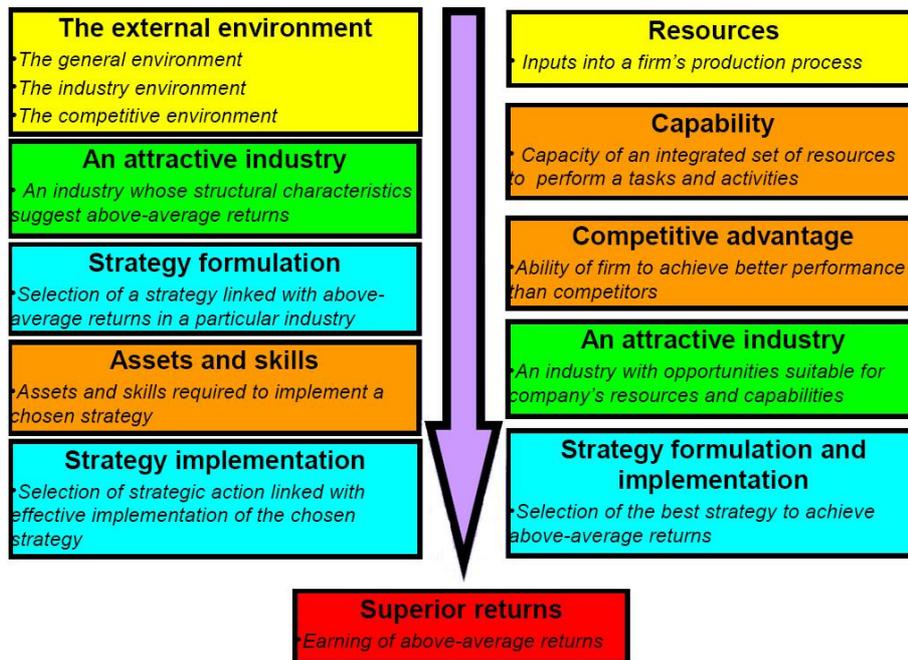


Figure 5: I/O and RBV approaches comparison, Source: [12]

We cannot say that one method is better or worse. The more straightforward I/O approach is more effective in the manufacturing concern where lot of things is given or can be measured. On the other hand the RBV approach gives a better opportunity to develop resources and capabilities but it is fuzzier. Nevertheless for the aggrieved subject can be applied both depending on the factors that we want to monitor – production of hours or building of unique know-how. While the first is most straightforward we will try to keep the first approach but every time there will be a possibility to apply approaches from the second method they will be used locally to create a unique, non-imitable, rare and valuable competitive advantages.

3.4.2. Strategic management process

Strategic management is a combination of four main processes which are being processed in the following order:

1. Current state analysis
2. Strategy formulation
3. Strategy implementation
4. Strategy evaluation

Their characteristics will be described in further subsections. These processes are usually not covering themselves except of two last ones that should come hand in hand to achieve a good result. Results that are collected during the evaluation are usually used as an input for the next analysis.

The strategic management process can be in praxis in different life cycle depending on the will and wisdom of the management. Different life cycle steps can be described as “stairs of knowledge”:

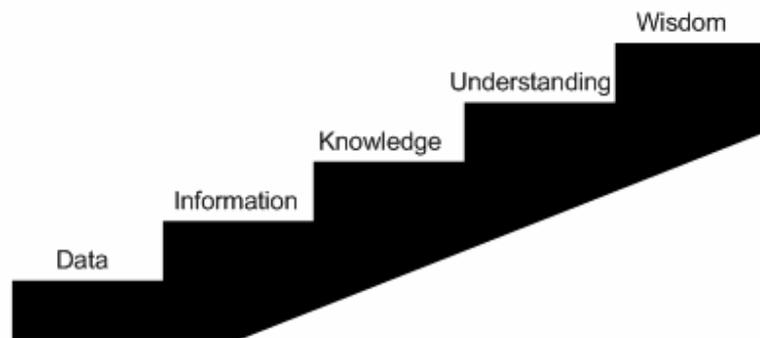


Figure 6: Stairs of knowledge, Source: [2]

Where:

Data are just simple symbols without a meaning.

Information are data that are giving answers to where, who, what questions.

Knowledge is application of data and information. Answer to how question.

Understanding is comprehension of why question.

Wisdom is valued understanding.

Firms are in general on the level of the first stair in making the strategy. The more and the sooner managers will be able to mount stairs up, the more efficient and effective the implementation of the strategy will be.

3.4.3. Current state analysis

Analysis entails using data to determine trends, projections, and cause and effect -- that might not be evident without analysis. Data and analysis support a variety of company purposes, such as planning, reviewing company performance, improving operations, and

comparing company performance with competitors' or with 'best practices' benchmarks. Steps of the analysis were already described in the section 2.2 and shown on the Figure 1 therefore we will abstract the following step – strategy formulation. The result of the enterprise analysis has to answer following questions:

- Where we are today?
- How did we come here?
- Where will we stand in the future?

3.4.4. Strategy formulation

Strategy formulation process is based on the analysis that is determining where you are now. The formulation is then consisting of two steps – determining where you want to go, and then determining how to get there.

- Concurrent with this assessment, objectives are set. This involves crafting vision statements (long term view of a possible future), mission statements (the role that the organization gives itself in society), overall corporate objectives (both financial and strategic), strategic business unit objectives (both financial and strategic), and tactical objectives.
- These objectives should, in the light of the situation analysis, suggest a strategic plan. The plan provides the details of how to achieve these objectives.

Strategic analysis and formulation are together the essence of strategic planning nevertheless this is not enough to have a benefit from the strategy. The most important and critical part is the strategy implementation.

3.4.5. Strategy implementation

The criticality was mentioned while this part of the strategy management process is at most dependent on the people that have to bring the strategy into life. Strategy implementation skills are not easily mastered, unfortunately. In fact, virtually all managers

find implementation the most difficult aspect of their jobs – more difficult than strategic analysis or strategy formulation. U.S. managers spend more than \$10 billion annually on strategic analysis and strategy formulation. Managers themselves report that less than half the plans resulting from these efforts are ever implemented. Outside observers put the success rate even lower: less than 10% [23].

Strategies that are not implemented constitute little more than academic exercises. The ability to implement strategies is one of the most valuable of all managerial skills. Managers intent on implementing strategy must:

- master systems thinking to be able to coordinate a broad range of interconnected efforts aimed at transforming intentions into action, and
- take care of the factors impeding strategy implementation

Factors impeding strategy implementation [24]:

- **The Organizational Immune System.** Strategy implementation is inextricably connected with organizational change. All organizations resist change and try to maintain the status quo, sometimes even if it yields unsatisfactory results.
- **Numerous Complex Variables.** To translate planned intervention activities into actions that bring desired organizational outcomes requires incorporating numerous variables: individual behavior, social factors, organizational arrangements, physical settings, and technology.
- **The Interconnectedness of Elements Affecting Change.** Changing one organizational element has a ripple effect that impacts other parts of your organization, which in turn have their own ripple effects, and so on.
- **The Need to Change "Everything at Once".** Changing only one or two things seldom brings any significant overall organizational change. There are no "magic bullets" that would change entire organizations. To redirect your organization, you must address many overlapping and related issues, and the resulting impression of needing to change "everything at once" can be overwhelming.

The concrete steps for the implementation can be summarized into several points:

- Allocation of sufficient resources (financial, personnel, time, technology support)
- Establishing a chain of command or some alternative structure (such as cross functional teams)
- Assigning responsibility of specific tasks or processes to specific individuals or groups
- It also involves managing the process. This includes monitoring results, comparing to benchmarks and best practices, evaluating the efficacy and efficiency of the process, controlling for variances, and making adjustments to the process as necessary.
- When implementing specific programs, this involves acquiring the requisite resources, developing the process, training, process testing, documentation, and integration with (and/or conversion from) legacy processes.

3.4.6. Strategy evaluation

Strategy evaluation lies in the effective measuring of the organizational strategy so that actual performance can be compared with desired performance. The process of strategy evaluation consists of three activities:

1. Review the basic factors on which strategy was formulated and check that does there is any change in those factors.
2. Compare the actual performance with budget performance.
3. Take corrective actions according to requirements.

3.5. Specificity of the SBU Strategy

SBU strategy concerns how to create competitive advantage in each of the products/markets it competes with. The business-unit-level strategy is determined by the three Cs (customer, competition, and company). The competitive position of an SBU should depend not only on market share but also on such factors as capacity utilization, current profitability, degree of integration (forward or backward), distinctive product advantages (e.g., patent protection), and management strength (e.g., willingness to take risks). These factors may be studied for classifying a given SBU in one of the following competitive positions: dominant, strong, favorable, tenable, or weak. Determining strategic competitive position is one of the most complex elements of business analysis and one of the least researched. With little state-of-the-art guidance available, the temptation is to fall back on the single criterion of market share, but the experiences of successful companies make it clear that determining competitive position is a multifaceted problem embracing, for example, technology, breadth of product line, market share, share movement, and special market relationships. Such factors change in relative importance as industry maturity changes.

To bridge the gap between broad guidelines and specific strategies for implementation, further analysis is required. A three-stage process is suggested here. First, using broad guidelines, the SBU management may be asked to state strategies pursued during previous years. Second, these strategies may be reviewed by using selected performance ratios to analyze the extent to which strategies were successfully implemented. Similarly, current strategies may be identified and their link to past strategies established. Third, having identified and analyzed past and current strategy with the help of strategic guidelines, the management, using the same guidelines, selects the strategy it proposes to pursue in the future. The future perspective may call for the continuation of current strategies or the development of new ones. Before accepting the future strategic course, however, it is desirable to measure its cash consequences or internal deployment (i.e., percentage of funds generated that are reinvested). Different product/market plans are reviewed at the SBU level. The purpose of this review is twofold: (a) to consider product/market strategies in finalizing SBU strategies and (b) to approve product/market strategies. The underlying

criterion for evaluation is a balanced achievement of SBU goals, which may be specified in terms of profitability and cash consequences.

At times, the SBU may require a product/market group to make additional changes in its strategic perspective before giving its final approval. On the other hand, a product/market plan may be totally rejected and the group instructed to pursue its current perspective. Industry maturity and competitive position analysis may also be used in further refining the SBU itself. In other words, after an SBU has been created and is analyzed for industry maturity and competitive position, it may be found that it has not been properly constituted. This would require redefining the SBU and undertaking the analysis again. Possible revelations may require further refinement in formulating SBUs. This may continue until the SBUs represent the highest possible level of aggregation consistent with the need for clear-cut analyses of industry maturity and competitive position [38].

4. ANALYSIS OF THE CURRENT STATE

Each analysis should be well-balanced in description and in critique. It should be above all aimed on the development trends applied on the SBU in certain timeframe in the case of analysis focused on the strategic management. The maximal timeframe of the aggrieved subject strategy will be three years while the company is situated in the dynamic IT environment.

4.1. Basic Characteristics and Development History

4.1.1. Company

This section contains classified materials according to aggrieved subject decision.

4.1.2. SBU

This section contains classified materials according to aggrieved subject decision.

4.2. Current Strategy State

To be able to propose a new strategy to the department we will need to do an analysis. As a base for it we have to map what is the current strategy state in the company and in the aimed SBU.

4.2.1. Company

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4.2.2. SBU

This section contains classified materials according to aggrieved subject decision.

4.3. Organization and firm culture

This section contains classified materials according to aggrieved subject decision.

4.4. Company Corporate Strategy

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4.4.1. SBUs Detachment

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4.4.2. Basic forms of competitors fight and SBU development

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4.5. SBU Analysis

We have gone through the company history, characteristics, current strategy state and we tried to estimate its strategy and expectations. While we know at least more concrete direction for our SBU we can begin the SBU analysis that can be due to mentioned facts more concrete. In this analysis it is important to gather relevant facts that will help us to elaborate the company strategy estimation into concrete form for the given SBU.

Start of the SBU analysis follows from the next section until the end of the chapter. In the analysis we will try to reveal mainly those trends that can prevent us from achieving

goals outlined for the SBU in the corporate strategy. Eventually we will identify those trends that may be helpful in achieving those goals. There will be mentioned also certain global factors that are important due to nonexistence of the up-to-date company strategy. Not always they could be taken into account during estimation of the company strategy (due to limited scope) but they will be identified as important not only for the company but in consequence also for the aggrieved subject SBU.

4.6. External environment analysis with SLEPT

4.6.1. Technological factors

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4.6.2. Legislative factors

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4.6.3. Political factors

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4.6.4. Economical factors

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4.6.5. Social factors

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4.7. Industry environment analysis with Porters' five forces

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4.8. Internal environment analysis

The goal of this analysis is to find out and evaluate areas where the department has its weaknesses and on the contrary where it is strong. Depending on these results we will see opportunities of the department that are worth of evolving and we will see measures that have to be taken to remove defects that are decreasing its competitive strength.

4.8.1. Marketing and Distribution Factors

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4.8.2. Production and Production Control Factors

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4.8.3. Scientific and technical development factors

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4.8.4. Human resources Factors

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4.8.5. Financial and Budget Factors

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4.9. Evaluation Summary of the Company Position

Now the SWOT analysis of the SBU can start on the basis of all above mentioned facts. It will be considered especially for the aggrieved subject in the area of threats and opportunities in external environments and strong and weak points from the internal environment. SWOT is conceived as a summary of the most important relevant conclusions from the previous particular analysis. It will serve as a base for creation of the relevant goals with the help of the extended marketing mix.

	<p style="text-align: center;">Useful for reaching goals</p>	<p style="text-align: center;">Harmful for reaching goals</p>
<p>Internal source (attributes of the organization)</p>	<p style="text-align: center; font-size: 2em;">S</p> <p style="text-align: center;">This section contains classified materials according to aggrieved subject decision.</p>	<p style="text-align: center; font-size: 2em;">W</p> <p style="text-align: center;">This section contains classified materials according to aggrieved subject decision.</p>
<p>External source (attributes of the environment)</p>	<p style="text-align: center; font-size: 2em;">O</p> <p style="text-align: center;">This section contains classified materials according to aggrieved subject decision.</p>	<p style="text-align: center; font-size: 2em;">T</p> <p style="text-align: center;">This section contains classified materials according to aggrieved subject decision.</p>

Table 1: Most important SWOT analysis conclusions

5. PROPOSALS

There is now a place for proposals after a wide analysis. Lot of goals, measures and words can be further generated without a remarkable effect. We have collected a lot of items that are worth of action. The key factor to not get lost in so much information is to use some structure and to stick to the goals of this thesis that were defined in the chapter 2.1. For remembering the main goal is to identify proposals for the further SBU development in the form of strategic goals.

Although vision and mission are usually formulated on the corporate strategy level the department will have one its own. It will help with better identification of employees with the department and it will send a positive signal to our partners. Then there will be a set of long-term strategic goals. Goals that are usually not easily measurable but we want to achieve them in the long-term time scale. We will then continue with operative goals based on these vision/mission/goals principles and they will be conducted mainly from the SWOT analysis findings. Some of the operative goals will be merged together while the will cover the same area. All the operative goals will be distributed among the extended marketing mix groups. For each “P” in the mix will be mentioned a connected goal to the analysis so that implementing these goals will move the SBU further and it will contribute in reaching the corporate goals as well. There are two types of goals shown further. On one hand there is a most important summarization of goals for each “P” in the mix. At the end of each subsection is then listed more exact goals and appropriate measures.

The goal will be treated in a different manner depending on its position in the SWOT analysis. Generally saying in ideal state Strengths will be reinforced, Weaknesses will be removed, Opportunities will be expanded and Threats will be avoided. Each goal will be tried to achieve with at least one measure.

Further will be used always a common part and a division to a smaller parts while the department is divided into two sub departments and each of them to three sections.

5.1. Vision/Mission

Vision and mission has been formulated by the department leader while he is the further department development driver. It was reviewed by the author and by all section leaders. It has been formulated for each sub department.

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5.2. Long-term strategic goals

Long-term strategic goals were already defined by working groups in the department and reviewed by the author. They are shaping a more long-term outlook of our further efforts. They are more abstract but clear in their meaning and each sub-department or section will try to achieve them mainly through further defined operative goals.

Both sub-departments have their own general long-term strategic goals that are common for both sections. The business in the aggrieved subject sub-department is from the long term point of view very similar therefore there is no further division into section goals. On the other hand aggrieved subject sub-department is working in three very different areas of products. Therefore each section there has also its own goals. Nevertheless the general part remains as well while there are several common factors – professional and skilled people, dynamic projects, real HW products on the customer side at the end of the project.

This section contains classified materials according to aggrieved subject decision.

5.3. Product

This section contains classified materials according to aggrieved subject decision.

5.4. Price

This section contains classified materials according to aggrieved subject decision.

5.5. Place

5.5.1. Working environment

This section contains classified materials according to aggrieved subject decision.

5.5.2. Company branch offices dislocation

This section contains classified materials according to aggrieved subject decision.

5.6. Promotion

This section contains classified materials according to aggrieved subject decision.

5.6.1. Universities cooperation

This section contains classified materials according to aggrieved subject decision.

5.6.2. Propagation in cooperation with specialized PR agency

This section contains classified materials according to aggrieved subject decision.

5.7. Process

This section contains classified materials according to aggrieved subject decision.

5.8. Planning

This section contains classified materials according to aggrieved subject decision.

5.9. People

This section contains classified materials according to aggrieved subject decision.

5.10. Implementation

This section contains classified materials according to aggrieved subject decision.

5.11. Prerequisites

This section contains classified materials according to aggrieved subject decision.

5.12. Critical Factors

This section contains classified materials according to aggrieved subject decision.

5.13. Expected contributions

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6. CONCLUSION

It is not good when we are trying to obtain the largest possible market share. While it is not directly visible, mainly raising of the productivity increases our competitiveness. The company in general will be well when all company departments will be raising it. In the light of long-term future the increased competitiveness can guarantee to the department to stay in the industry sector and it will reduce the threat of our customers leaving into lower-quality low-cost locations.

Although this work affects a large number of areas, which somehow affects aggrieved subject, it should be noted that there is still room for further work. In particular, it can be a deeper development of the individual steps, greater coverage of project areas and improved networking strategies of each department within the defined horizontal strategy (when available). Therefore is still valid: "Plans are nothing, planning is everything." For further work I can also recommend treatment of this subject in one continuous block of work without undue interferences, because of various themes interconnection. This comprehensive view and understanding of the links in the department and the company then allows a much better definition of concrete steps, particularly in such a large moloch as multinational corporation.

Lot of goals and measures were defined but still the main work remains – implementation and evaluation of results. Important conclusion is also that the strategy must live during the year and must be taken every time some strategic issues occur. Only then can be this proposal useful for the further SBU development and growth.

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LIST OF ABBREVIATIONS

This section contains classified materials according to aggrieved subject decision.

IT	Information Technology
RBV	Resource Base View
I/O	Input/Output
SBU	Strategic Business Unit

This section contains classified materials according to aggrieved subject decision.

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APPENDIX A – ASSIGNMENT IN ENGLISH

Thesis title in Czech: Návrh strategie rozvoje SBU

Thesis title: Proposal of Strategy of SBU Development

Leader: Ing. Robert Zich, Ph.D.

Institute/Department: Institute of Management

Type of work: master's thesis

Status: assigned

Goals that should be reached:

Propose strategy of the department development on the basis of an analysis. Department will operate as a standalone SBU.

Characteristics of assignment steps:

Introduction – basic theme definition

Goals and methods – clear definition of the goals for this work, characteristics of used elaboration methods, working schedule

Theoretical base – specify basic terms, strategic business unit, process of creation and implementation of the strategy, specificity of the strategy for the SBU

Analysis of the current state – basic company characteristics, analysis of external and internal factors, evaluation summary of the company position

Proposals – proposal of the SBU strategic development, procedure of the implementation, prerequisites evaluation for the realization, identification of critical factors, specification of expected contributions

Conclusion – summary of the whole work

Bibliography

Appendixes – according to needs

Basic sources of information:

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APPENDIX B - PROCESS OF STRATEGY DEVELOPMENT

Properly functioning dynamic strategy creation has also its formal status within the organization, as defined in the organizational directive. Directive is defining relevant information and management processes, defines the responsibilities, powers and other essential aspects. The contents of this organization directive are described in this Annex A.

B.1 Introduction

This section contains classified materials according to aggrieved subject decision.

B.2 Description

B.2.1 Roles

This section contains classified materials according to aggrieved subject decision.

B.2.2 Process description

This section contains classified materials according to aggrieved subject decision.

B.2.3 Evaluation steps

This section contains classified materials according to aggrieved subject decision.

B.3 Current strategy focus, groups definitions

This section contains classified materials according to aggrieved subject decision

APPENDIX C - METHODS THEORY

C.1 *Global Environment – Company International Environment*

Company external environments are being influenced by the global environment. Global trends and changes are having direct impact on many companies and they have to count with them. For instance can be mentioned an extraordinary growth of the Chinese textile industry and its impact on the European textile companies that are being closed. Unfortunately lots of people are thinking only in the scope of their own company environment while being blind to matters that are changing the world.

I didn't find some common method for the global environment analysis but the main message is clear. In the following general environment analysis we have to think sometimes more abroad then just to another "village". It might happen one day that somebody from a big town will come to our "village" to buy or destroy our complete business. For instance in a big corporate company it is very far to see some direct effect when the CEO is defining three new verticals instead of current ten divisions. But after some months you can just watch as your main internal customer is being sold to your competitors and that your main market segment is being in fact lost in next few months. While we will be able to predict or at least be prepared for such global change we will be able to gain those some months at the beginning to prepare ourselves to the better position.

C.2 *General Environment Analysis – SLEPT*

Before creating strategy plans or when evaluating existing ones it is important to 'scan' the general environment. This takes the form of a SLEPT analysis, i.e. an investigation of the Social, Legal, Economic, Political, and Technological influences.

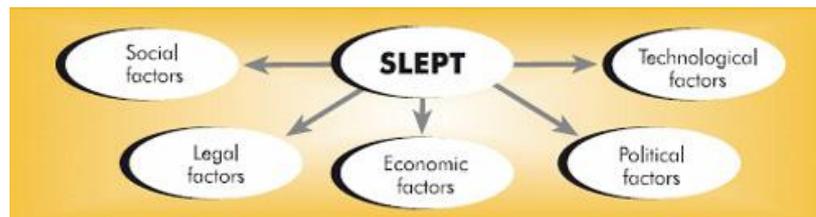


Figure 7: SLEPT analysis, Source: [21]

SLEPT is focused on analyzing current state with the prediction for future. Results are opportunities and threats, which could influence the analyzed strategy in the future. By using this method all aspects in each category that have an impact on the formulation of the strategy can be identified. Definitions of categories are defined in [10] and [20] as follows.

Social factors relate to pattern of behavior, tastes, and lifestyles. A major component of this is a change in customer behavior. The age structure of the population also alters over time (currently we have an ageing population). An understanding of social change gives business a better feel for the future market situation. In addition demographic information is well predictable.

Legal factors refer to the government legislation that places constraints or obligations upon a business; businesses must adapt to changes in the law quickly in order to avoid prosecution. Laws are continually being updated in a wide range of areas, e.g. consumer protection legislation, environmental legislation, health & safety and employment law, etc.

Economic changes are closely related to social ones. The economy goes through a series of fluctuations associated with general booms and falls in economic activity. Other economic changes that affect business include changes in the interest rate, wage rates, and the rate of inflation (i.e. general level of increase in prices). Businesses will be more encouraged to expand and take risks when economic conditions are right, e.g. low interest rates and rising demand. Other economic factors are tied in with legal issues, for example a change in the minimum wage.

Political factors are similar to legal changes, except that this relates to changes in government influence in general. In recent years these changes have been particularly significant because as members of the European Union we have to adopt directives and regulations created by the EU which then become part of the Czech law.

Changes in *technology* have also become particularly significant in the post-millennium world. This is particularly true in terms of modern communication technologies. The creation of databases and electronic communications have enabled vast quantities of information to be shared and quickly distributed in a modern company enabling vast cost reductions, and often improvements in service. Organizations need to be aware of the latest relevant technologies for their business and to surf the wave of change.

All industries are influenced by SLEPT factors. For example, some of the SLEPT factors affecting the airline industry [10] and other sectors [2] in recent years include:

Social: increased popularity of foreign travel leading to a boom in demand for air travel. However, this has been adversely affected by international terrorism.

Change of the lifestyle leads to increasing fast food industry. Another example is need of changes in craftsmanship according to the current lifestyle needs.

Legal: there are increasingly tight rules about the materials that need to go into aircraft construction in order to make them safer and more resistant to fire hazards. This has had the impact of raising costs.

Environment laws are now more pushed through. As a result e.g. we have to pay a recycling fee for each electronic device.

Economic: lower interest rates have meant that people have more disposable income to spend on luxuries like long distance air travel.

Weakened Czech crown in 1997 had a good impact on our export but on the other hand it was more difficult to import modern technologies from abroad.

Political: the development of freedom of movement and trade in the European Union has led to greater levels of competition on European routes coupled with increased movement of people.

Conflict between Israel and Arabic countries has lead in 60s to several petroleum crises, resulting into foundation of the OPEC cartel.

Technological: modern aircraft are safer and more economic to run than in the past making possible cheap air travel.

Procter and Gamble Company influenced prosperity and existence of the classical textile nappies companies.

C.3 External – Industry Environment analysis

External environment analysis covers everything that is related to the company but it is not part of the company. It is often called industry¹ analysis in the literature. This analysis covers three main sectors: customers, suppliers and competitors. Nevertheless M. Porter saw more than three but five factors that are influencing this environment and his Five Forces model is being used for the external environment analysis.

A business has to understand the dynamics of its industries and markets in order to compete effectively in the marketplace. Porter in [27] defined the forces which drive competition, contending that the competitive environment is created by the interaction of five different forces acting on a business. In addition to rivalry among existing firms and the threat of new entrants into the market, there are also the forces of supplier power, the power of the buyers, and the threat of substitute products or services. Porter suggested that the intensity of competition is determined by the relative strengths of these forces [26].

These forces – more concretely described – are:

- The rivalry between existing sellers in the market. Competition leads to the need to invest in marketing or R&D, or to price reductions. These will reduce profits.
- The power exerted by the customers in the market. If customers have bargaining power they will use it. This will reduce profit margins.
- The impact of the suppliers on the sellers. Given power over you, suppliers will increase their prices adversely affect your profitability.
- The potential threat of new sellers entering the market. New competitors necessitate some competitive response, which will inevitably use resources and reduce profits.

¹ It is a bit complicated to find an English equivalent when studying Czech materials and vice versa although both language versions are well describing. The Czech translation is then „Analýza oborového prostředí“.

- The threat of substitute products becoming available in the market. If there are viable alternatives to your product or service in the marketplace, the prices you can charge will be limited.

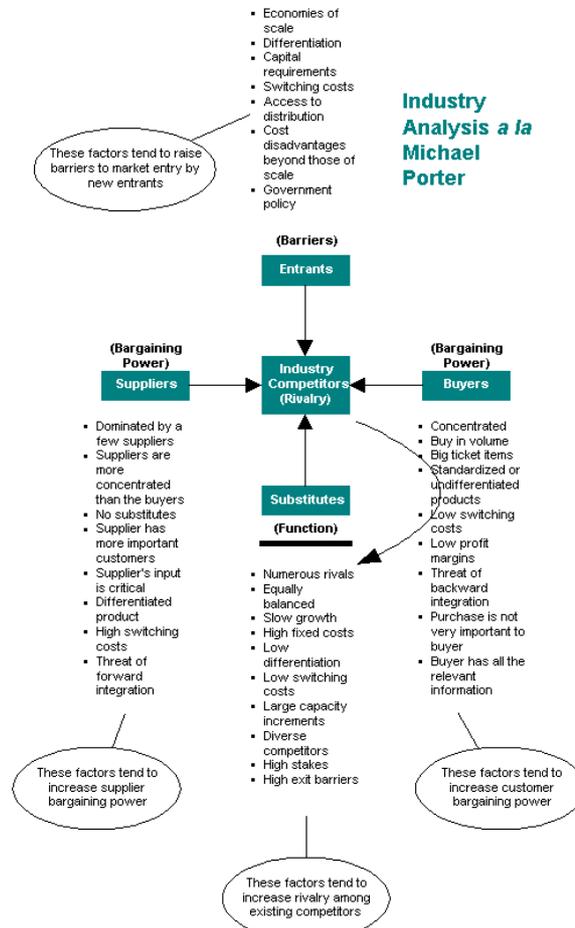


Figure 8: The Five Factors or Forces Affecting Competition in an Industry, Source: [25] based on [27]

Important application of this model is to the current competitors and the ongoing task of staying competitive in markets where they already operate. The most important thing to keep in mind is two supplements factors. It is concerning the relationship between profit margins or returns and the competition:

1. As the productivity in company goes up, competitive advantage goes up and margins and returns are driven up as well.
2. As the intensity of competition in the industry goes up, margins and returns are driven down.

This can require changes in the competitive strategy. It can conduct a new wind in productivity of the company or on the other it can force the company to leave the industry and use resources for the more profitable industry where it is possible to gain better competitive advantage.

There should be identified not only possible threats but new opportunities as well on the output of the analysis. Threats have their main source in new entrants and opportunities have to be used to eliminate these threats.

To assure feasibility of the strategic measures there are several questions that have to be answered positively [2]:

- Are intended measures decreasing negotiating the power of firms' customers?
- Are intended measures decreasing negotiation the power of firms' suppliers?
- Are intended measures increasing barriers for new entrants to the industry?
- Are intended measures decreasing the threat of substitutes?
- Are intended measures improving the company position against competitors eventually do they decrease rivalry in the industry?

The Porter's Five Forces model is a simple tool that supports strategic understanding where power lies in a business situation. It also helps to understand both the strength of a firm's current competitive position, and the strength of a position a company is looking to move into. Despite the fact that the Five Force framework focuses on business concerns rather than public policy, it also emphasizes extended competition for value rather than just competition among existing rivals, and the simpleness of its application inspired numerous companies as well as business schools to adopt its use [29].

C.4 *Internal Environment Analysis*

The main purpose of the internal environment analysis is to evaluate current company position. It is clear that it includes evaluation of internal factors. The main aim is to identify on them in which area can the company build and what is not a strong point.

Strengths refer to core competencies that give the firm an advantage in meeting the needs of its target markets. Any analysis of company strengths should be market

oriented/customer focused because strengths are only meaningful when they assist the firm in meeting customer needs. Weaknesses refer to any limitations a company faces in developing or implementing a strategy. Weaknesses should also be examined from a customer perspective because customers often perceive weaknesses that a company cannot see. For instance a big corporation has a lot of money when comparing to the small company but on the other hand it is not so effective and slower in changes.

Being market focused when analyzing strengths and weaknesses does not mean that non-market oriented strengths and weaknesses should be forgotten. Rather, it suggests that all firms should tie their strengths and weaknesses to customer requirements. Only those strengths that relate to satisfying a customer need should be considered true core competencies.

Internal factors are considered as firm factors that are being structured for the purpose of internal analysis on [2]:

- Enterprise and human resources factors
- Scientific and technical development factors
- Financial and budget factors
- Production and production control factors
- Marketing and distribution factors

Enterprise and human resources factors

These factors can significantly influence the competitiveness of the company and therefore we must analyze:

- Image and prestige of the company
- Affectivity of the organizational structure, culture and working climate and their harmony with the company strategy
- Size of the company in the scope of the industry including evaluation of the outputs size from the optimal production costs perspective
- Staff subdivisions structure and work effectiveness
- Management staff experience and motivation and their ability to work as a team
- Quality of employees

- Relationship with labor unions
- Economy and efficiency of the human resources policy
- Strategic management system effectiveness
- Information system effectiveness

Scientific and technical development factors

Scientific and technical development factors have an important role in helping the company in developing its core competencies and competitive advantages. The main contribution is either in bringing up an innovated product to the market and thus satisfying the customer or in lowering the costs of the production and thus ensuring a better profit. The main driver of these factors is innovation.

Innovation in praxis means observing and analysis of several sources of the innovation opportunities that are represented by changes in some areas (unexpected events, variances, improvement of the current, changes of the business structures, etc.). We can select three main approaches for the innovation [2]:

- Offensive innovators
- Defensive followers
- Defensive imitators

Even if the company is not realizing research and development activities we have to add this point to the strategy while such a company cannot survive too long. To answer the question which approach should be used by the company there are following criteria that must be analyzed:

- Ability and capability of the research in the company
- Ability to adjust developed products with customer needs
- Possibilities in innovation of old products and possibilities in defining new ones
- Equipment of the test-rooms
- Skills and experience of the scientific and technical employees
- Working environment and its suitability for the creativity and innovations
- Scientific and technical management process inside of the company

Financial and budget factors

In this area we are considering the status of the company financial management. Financial status of the company is the most important competitiveness indicator. It is an interest of the stakeholders, creditors and management of the organization. Following ratio indicators are helping us to pose correct questions but they won't answer them [4]:

- *Net profit margin* – ratio comparing net profit after taxes to revenue

$$\text{Rentability} = \frac{\text{Net Income After Taxes}}{\text{Revenue}}$$

Analysis:

- Compare with other companies in the industry to find out if the company is making the profit as it should
 - Track the monthly status. Is it the same at each month? Is it improving or making worse?
 - Are revenues big enough to create acceptable undistributed profit?
 - Monthly trends can show you how good are you managing operational and overhead costs
- *Return on equity – ROE* – measures a firm's efficiency at generating profits from every crown of net assets (assets minus liabilities), and shows how well a company uses investment dollars to generate earnings growth

$$\text{Return On Equity} = \frac{\text{Net Income After Taxes}}{\text{Average Stockholders' Equity}}$$

Analysis:

- Compare return on equity with other investment alternatives (e.g. current account, shares, obligations)
 - Compare evaluated index with the other companies in the industry
- *Return on assets – ROA* – shows how profitable a company's assets are in generating revenue.

$$\text{Return On Assets} = \frac{\text{Net Income After Taxes}}{\text{Total Net Assets}}$$

Analysis:

- Shows return on every invested crown
 - Yearly trends could be indicative nevertheless be careful on total assets changes due to amortization of assets
- *Current liquidity* – ratio evaluating whole company liquidity from the total current assets. The good current liquidity is achieved with ration between 1,7 to 3.

$$\text{Current Liquidity} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Analysis:

- Ratio 1:1 means that company is covering one crown of current liabilities by one crown of current assets. It is recommended to have better ratio.
 - The problem of current liquidity is that it ignores the time of income and expense while some assets cannot be used directly.
- *Fixed-term liquidity* – the most important liquidity indicator that shows if company can pay its short-term debts

$$\text{Fixed - term Liquidity} = \frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$$

Analysis:

- It shows how quickly firm can pay its short-term debts without selling its own inventory. 1:1 ratio is generally good.
 - The problem with ignoring time still persists although it is a bit better.
- *Absolute liquidity* – shows instant paying of short-term debts ability

$$\text{Absolute Liquidity} = \frac{\text{Present Money}}{\text{Current Liabilities}}$$

- *Average collection period* – their liquidity depends on how quick it is possible to get paid for accounts receivable

$$\text{Rentability} = \frac{\text{Accounts Receivable}}{\text{Revenue}} \times 365$$

Analysis:

- Look at trends that are showing changes in payment behavior of your customers
 - Compare payment days and company payment conditions
 - Compare with payment standards of the industry
 - Evaluate debts ageing and look out for changes that can signify any problem
- *Creditors ratio* – shows average time of the company short-term debts

$$\text{Creditors Ratio} = \frac{\text{Revenue}}{\text{Current Liabilities}}$$

Analysis:

- Company is able to pay only if creditors ratio is higher than 1. Continuing liquidity is a company primary objective.
- *Debt to equity* – shows ratio of long term liabilities to average stockholders' equity

$$\text{Debt To Equity} = \frac{\text{Long Term Liability}}{\text{Average Stockholders' Equity}}$$

Analysis:

- Compare the proportion of the stockholders' equity and credit company funding
 - The more the ratio is the more is risky for current and future creditors
 - Take care about ratio of stockholders' equity between 1:1 and 4:1
 - Every creditor has its own evaluation methods and limits of long-term debts (2:1 ratio is acceptable for small and average loans)
- *Debt coverage* – shows organization ability of covering fixed fees

$$\text{Debt coverage} = \frac{\text{Earnings Before Income Tax}}{\text{Interests Costs}}$$

Analysis:

- Shows how much from cash earnings can be used for paying of debts
 - Creditors takes a look at this parameter to see if adequate cash for paying the loan exists
- *Total asset turnover* – shows how effectively uses organization its sources more concretely usage of asset in turnover creation

$$\text{Total Asset Turnover} = \frac{\text{Turnover}}{\text{Asset}}$$

- *Fixed assets turnover* – shows how effectively uses organization its sources more concretely company fiscal asset in turnover creation ratio

$$\text{Fixed Asset Turnover} = \frac{\text{Revenue}}{\text{Average Net Fixed Assets}}$$

- *Stock turnover* – shows how often is inventory exchanged

$$\text{Stock Turnover} = \frac{\text{Revenue}}{\text{Inventory}} \times 365$$

Analysis:

- Take a look at trends showing level of inventory changes
- Analyze inventory turnover and cycle of inventory
- Compare inventory turnover with standards in the industry

Production and production control factors

During the production analysis should be considered mainly following factors determining the main development within the industry [2], [4]:

- Level of production costs in comparison with the competing business
- Sufficiency of the production capacity in light of meeting the needs of market
- Flexibility of production in light of customers' demands
- Solidity and stability of the production systems
- Production equipment economical and effective utilization
- Efficient usage of electricity and materials
- Availability of resources
- Size of the production plant
- Quality of the production control
- Purchasing, structure and conditions of purchasing
- On what base is the production process standing? Is it able to compete in the current rivalry?

Flexibility of producers is becoming very important aspect measured for instance by the time that producer needs to satisfy demand for the product. Another aspect is shortening of the product life cycle thus more frequent demand for new products earlier than expected. This is making troubles mainly to the big corporations that are not so flexible. So before this we were talking about economies of scale that was decreasing costs but nowadays we are talking rather about diseconomies of scale. Big complexes are being replaced by new and small ones that are being more flexible.

Marketing and distribution factors

The importance of the marketing factors can be different for individual companies. Those that are delivering their products to a small number of customers that are specifying requirements precisely don't need to have a strong marketing. On the other side are companies that are producing consumer goods with a great share on the market. In the area of marketing and distribution factors we have to analyze following basic factors [2]:

- Competitive structure of the market, overall and relative company market share eventually in specific market segments
- Market research system economy and effectivity
- Effect of the price strategy for products and services
- Relations with the key customers, vulnerability in case of some few customer sales concentration
- Products lifecycles of key products
- Quality of products and services
- Strength of leadership position at the key products
- Economy and quality of the product packing
- Feeling tone
- Economy and effect of other marketing activities other than advertisement

C.5 SWOT Analysis

SWOT is much known method and in literature almost every time appearing topic. Its algorithm is clear therefore the main theory in this subsection is based mainly on [31] and on extension of SWOT based on [12] and [32].

If SWOT analysis does not start with defining a desired end state or objective, it runs the risk of being useless. A SWOT analysis may be incorporated into the strategic planning model. Strategic Planning, including SWOT analysis, has been the subject of much research. Basic elements of SWOT are described as:

- **Strengths:** attributes of the organization those are helpful to achieving the objective.
- **Weaknesses:** attributes of the organization those are harmful to achieving the objective.
- **Opportunities:** *external* conditions those are helpful to achieving the objective.
- **Threats:** *external* conditions those are harmful to achieving the objective.

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective may be derived from the SWOTs. First, the decision makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.

Extended SWOT

The basis of the method lies in the classification and evaluation of each factor that is then divided into the one of the four mentioned groups. Extension of the SWOT analysis is based on the mutual interaction these groups. We will obtain new qualitative information with their relevant combination as it is indicated on the Figure 7. Due to the raised complexity this approach was not completely used in this work and it is worth of further development of this strategy.

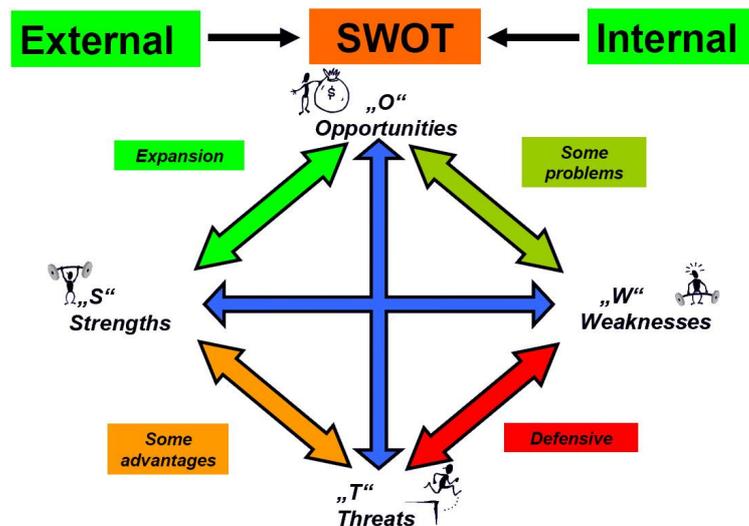


Figure 9: Extended SWOT analysis, Source: [12]

Thus we can identify these new criterions:

- Expansion: Development of new methods that are suitable for the development of the strong aspects of the company
- Some advantages: Usage of strong aspects for avoiding threats.
- Some problems: Elimination of weaknesses for the creation of new opportunities.
- Defensive: Development of strategies that are helping us to restrict possible threats that are threatens our weaknesses.

Creative Use of SWOTs: Generating Strategies

If, on the other hand, the objective seems attainable, the SWOTs are used as inputs to the creative generation of possible strategies, by asking and answering each of the following four questions, many times:

- How can we Use each Strength?
- How can we Stop each Weakness?
- How can we Exploit each Opportunity?
- How can we Defend against each Threat?
- How can we Support each Expansion?
- How can we Gain each Advantage?
- How can we Avoid each Problem?

- How can we **Defend** each Weakness against Threats?

Ideally a cross-functional team or a task force that represents a broad range of perspectives should carry out the SWOT analysis. For example, a SWOT team may include an accountant, a salesperson, an executive manager, an engineer, and an ombudsman.

Internal and external factors

The aim of any SWOT analysis is to identify the key internal and external factors that are important to achieving the objective. SWOT analysis groups key pieces of information into two main categories:

- Internal factors – The *strengths* and *weaknesses* internal to the organization.
- External factors – The *opportunities* and *threats* presented by the external environment.

The internal factors (based on internal analysis) may be viewed as strengths or weaknesses depending upon their impact on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses for another objective. The factors may include all of the 4P's; as well as personnel, finance, manufacturing capabilities, and so on. The external factors (based on the SLEPT analysis) may include macroeconomic matters, technological change, legislation, and socio-cultural changes, as well as changes in the marketplace or competitive position. The results are often presented in the form of a matrix.

Avoiding Errors

1. SWOT analysis is just one method of categorization and has its own weaknesses. For instance, it may tend to persuade companies to compile lists rather than think about what is actually important in achieving objectives. It also presents the resulting lists uncritically and without clear prioritization so that, for example, weak opportunities may appear to balance strong threats.

2. It is prudent not to eliminate too quickly any candidate SWOT entry. The importance of individual SWOTs will be revealed by the value of the strategies it generates. A SWOT item that produces valuable strategies is important. A SWOT item that generates no strategies is not important.
3. Conducting a SWOT analysis before defining and agreeing upon an objective (a desired end state). SWOTs should not exist in the abstract. They can exist only with reference to an objective. If the desired end state is not openly defined and agreed upon, the participants may have different end states in mind and the results will be ineffective.
4. Opportunities external to the company are often confused with strengths internal to the company. They should be kept separate.
5. SWOTs are sometimes confused with possible strategies. SWOTs are descriptions of conditions, while possible strategies define actions. This error is made especially with reference to opportunity analysis. To avoid this error, it may be useful to think of opportunities as "auspicious conditions".