2. CHAPTER II: LITERATURE REVIEW

2.1. INTRODUCTION

To understand the theoretical fundamentals and the findings of precedent investigations on the topic, this chapter gives an overview of the context of the project revising the existing literature.

Firstly, it describes the results of precedent investigations about the cultivation of beans in Mexico, approaching topic like government support, the productive chain of dry beans, the most important regions of cultivation and the challenges. Based on this, it describes the situation in the state of Puebla: challenges, existing and planned projects and the specific situation of dry bean production in the region of Ciudad Serdán.

Secondly, the theory of strategic management is presented. After explaining in general the concepts of strategy and strategic management in a business context, it is expanded on the different steps companies usually go through to realize the process of strategy crafting and strategy execution. Special attention is paid to the particularities of small companies when applying strategic thinking and strategic management.

2.2. PRECEDENT INVESTIGATIONS: CULTIVATION OF DRY BEANS IN MEXICO

To get a broader idea of the concrete situation and the importance of the production and the consumption of dry beans in Mexico this topic will be treated more in detail in this section.

2.2.1. GOVERNMENT SUPPORT FOR DRY BEANS

For the support of the cultivation and commercialization of dry beans apply several of the government programs mentioned earlier.

PROCAMPO (Direct Support for the Countryside – Apoyos Directos al Campo) has been supporting the incomes of producers since 1994 with payments per hectare. Over the years the amount paid for the summer season has increased: From 375 pesos per hectare in 1994, to 873 per hectare in 2002 and to 963 pesos per hectare (or 1,300 pesos for producers with less than 5 hectare of eligible land) since 2009. (Zahniser, Torres, Cuéllar Álvarez, López, & Bhatta, 2010) PROCAMPO has contributed a lot to the conservation of cultivated land and to binding the farmers to their land as the right to

receive the payments is fixed to the production of certain crops, such as dry beans. It is in summer season when PROCAMPO has its mayor importance as it is the core period of dry bean cultivation: For instance in summer 1999, PROCAMPO supported 67% of all sowings of dry beans in Mexico. (Serrano Covarrubias, 2004)

The Mexican State also has designed programs to facilitate the commercialization of dry beans. It takes over, partially or completely, the costs of storage and financing, transportation to the consumers and improvements of product quality and presentation. (Programs of 2009).

To foster the access to credit for agricultural producers and intermediaries, the Program of Induction and Development of Rural Financing (Programa de Inducción y Desarrollo de Financiamiento al Medio Rural) was established and has gained special importance for producer organizations wanting to sell crops housed in storage centers.

The government uses a framework of product systems (sistemas producto) which serve as mechanisms of coordination between the government, the different states and the municipalities to encourage association and organization of producers. It includes the development of strategies and objectives, activities to enhance competitiveness such as consolidated purchase of input and advertising campaigns to foster dry bean consumption. (Zahniser et al., 2010)

Some producers also benefit from the Program for the Sustainable Use of Natural Resources in Primary Production (Programa de Uso Sustentable de Recursos Naturales para la Producción Primaria), (Secretaría de Agricultura, Ganadería, Dearrollo Rural, Pesca y Alimentación [SAGARPA], 2010) especially in northern dry states where beans are cultivated on little productive land. The main strategies there are the use of improved seeds to increase domestic production and to satisfy demand and reconversion, which means making it attractive for producers to switch to crops with greater demand and/or less environmental impact, especially concerning the use of water. (Zahniser et al., 2010)

Another approach to assist the dry bean sector is to support investments in the productive chain. Since 2007 exists the Strategic Project of Support for the Productive Chain of Corn and Bean Producers (PROMAF - Proyecto Estratégico de Apoyo a la Cadena Productiva de Maíz y Frijol). (Secretaría de Agricultura, Ganadería, Dearrollo Rural, Pesca y Alimentación [SAGARPA], 2010) An important condition for being

eligible for the program is being part of a producers' organization. One of its methods is to provide direct financing for investment projects, strengthening of organizations and newly graduated professionals. The other method supports the implementation of technological packages using a risk-sharing approach. PROMAF has been gaining influence in the sector and the beneficiaries (1 million for 2007 to 2009) usually obtain higher yields and lower production costs per ton thanks to the program. (Zahniser et al., 2010)

2.2.2. Productive Chain of Dry Beans

The productive chain of this leguminous plant all over the country is very complex and diverse. The channels of commercialization mentioned here are the most representative nationwide.

The traditional and most common way of commercialization all over Mexico starts with the producers selling their crop to local intermediaries or to middleman from other regions. In turn, those intermediaries sell the beans on to the big wholesalers, the local, regional or national supply centers (centrales de abasto) or smaller wholesalers. Later on, the crop is sold to the packing companies. A small part of the dry beans handled by the wholesalers are transported to the commercial centers and markets for retail purposes.

There is another channel of commercialization which is still much less important than the traditional one. The commercial societies, comprised by the producers themselves, also participate in the marketing of dry beans but because of the relatively small volumes of crop they handle, they cannot play a very important role. (Alvarado Mendoza, Informe del Proyecto: Transferencia de tecnología sobre variedades mejoradas de frijol y producción artesanal de semilla en el Estado de Puebla, 2009)

Some of the important wholesalers have signalized for years that big parts of the intermediation could be abolished to offer better prices to producers. This cannot be done yet because it requires a system of self-invoicing which has not been established until now. (Serrano Covarrubias, 2004)

Another factor with considerable impact on the commercialization of dry beans in Mexico is the competitiveness of North American producers because of the attractive financial infrastructure they have for commercializing their products. As long as national producers do not succeed in producing at similar or lower costs, Mexican

traders will go on importing beans using the excellent payment facilities offered and taking advantage of lower prices. (Serrano Covarrubias, 2004) The openness and interdependence of markets in the NAFTA (North American Free Trade Agreement) region increase the consequences of the competitive differences between both countries, such as unfavorable price behavior in the Mexican market.

2.2.3. MOST IMPORTANT REGIONS

Most of the Mexican production of dry beans is cultivated in the states of Zacatecas, Durango, Chihuahua, Sinaloa, Nayarit, Guanajuato, Chiapas, San Luis Potosí and Puebla. (see Figure 2.1)

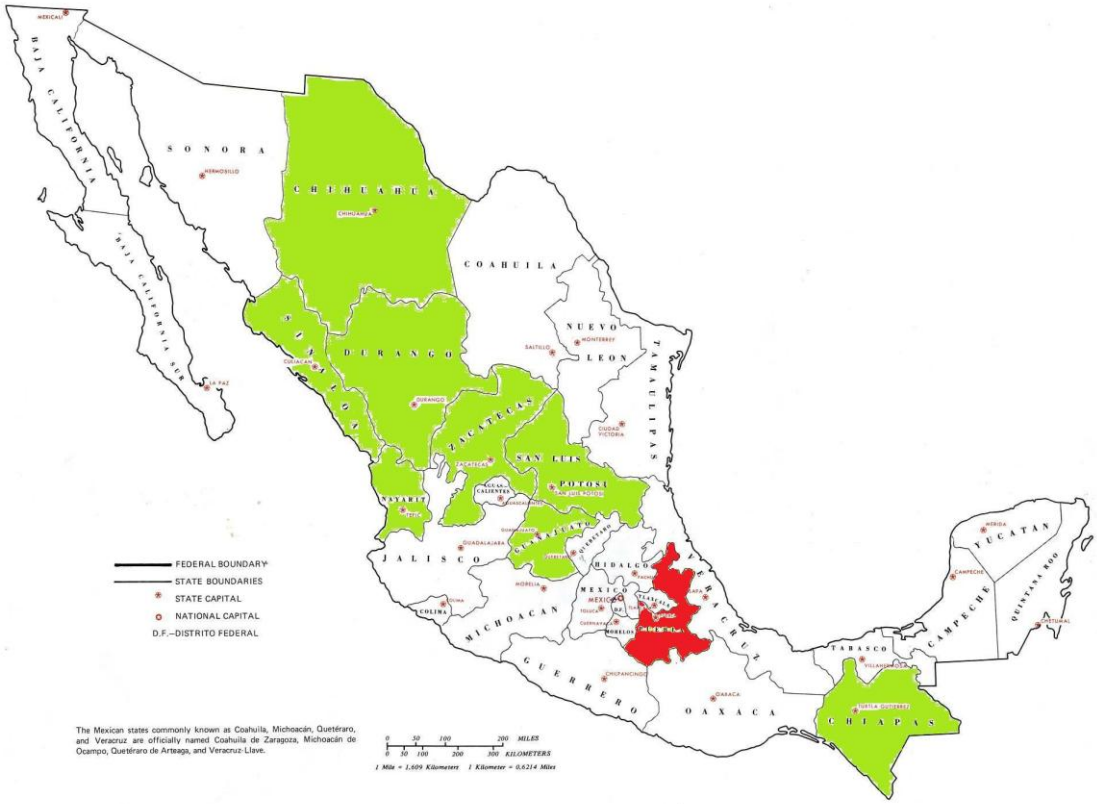

Figure 2.1 The most important Mexican states in dry bean production. The states of Zacatecas, Durango, Chihuahua, Sinaloa, Nayarit, Guanajuato, Chiapas, San Luis Potosí are highlighted with green, the state of Puebla with red . From *States and Capitals* by Board of Regents of The University of Texas System, 1975. Coloring by the author.

The first five states mentioned are the most relevant because of area of cultivation, number of producers and volume of production. Though, the other states also play a very important role. They use smaller areas for dry bean cultivation but accomplish to contribute to internal supply, reducing external demand. Having a small scale local production (even at family-level) reduces costs because of not having to acquire the product on the market. (Serrano Covarrubias, 2004)

2.2.4. CHALLENGES

Dry beans are an essential product for agriculture, economy and population of Mexico but their cultivation faces a list of challenges. The report "Analysis of the Case of Dry Beans" (Análisis del Caso Frijol) by Luis Serrano from the University of Chapingo provides an overview of some of those aspects:

- Many locations of dry bean cultivation are not situated in the regions with good climatic potential, which for example are Los Altos in the state of Jalisco, or El Bajío in the center of Mexico; instead, they use to be situated in regions with **water deficits**, like in the state of Zacatecas or in the south of the state of Durango. On the one hand, there is the approach of official programs to foster crop change to make the producers switch to crops that require less precipitation. On the other hand, systems of drip irrigation, especially in the critical period of growth, have the potential of incrementing the yield by 60%, even if those dry regions have poor soil quality, presence of plagues and diseases and early frost.
- Many producers do **hardly use** the potential of **improved varieties**, even though the responsible institute INIFAP (National Institute of Forest, Agricultural and Livestock Investigations – Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias) releases a wide range of varieties and changing variety because of tiredness of the soil after five or six years is very common. The problem seems to be mainly due to their low economic level which is not sufficient to buy more expensive seed. Furthermore, some of those varieties seem economically attractive for producers at the beginning but problems occur at the moment of commercialization due to the fact that they do not meet the needs and preferences of the consumer. This happened for instance to the promoted and supported variety Manzano in Zacatecas which failed because of missing demand.
- Part of the resistance to change is owing to the fact that the **average age of producers** is about **55 years**. A considerable percentage of the young generation leaves when growing up; i.e. the majority of the producers have already being cultivating dry beans for about 30 years which makes it difficult to leave year-long habits behind. Studies have proved that young producers are needed to put innovations into practice.
- The level of organization of the producers is low. There are **hardly any effective associations** that could serve as a platform to establish better commercialization

schemes and to provide training to facilitate the producers to integrate technical knowledge into their production processes.

- There is a lack of fruitful interaction between agricultural researchers of the respective institutions and the producers as such to procure that their findings are taken advantage of in real life. The **transmission of knowledge** in academic courses is usually mainly theoretic and lacks of practical techniques and research findings directly applicable to the real situations. Until now, mainly the commercializing companies have tried to establish the connection between investigators and producers, but have been only modestly successful.
- Economically, the producers are confronted with **high insecurity** at which **price** they will be able to sell their product, since the regulating government company CONASUPO (National Company of Popular Supplies - Compañía Nacional de Subsistencias Populares) was liquidated in 1999 in the course of market liberalization and together with it the fixed price system for dry beans stop working. Since then, the value of the crop has fallen considerably. From 1982 to 2001 the producers lost 37% of their acquisition power equivalent per ton. Based on the prices in 1980, the loss is even higher.
- Ecologically, the fields suffer from **high erosion** because of inadequate crop recollection technologies and because of the lack of soil recuperation and fertility technologies. Climatic changes make the situation even worse.
- The **decreasing demand** for dry beans which has been already mentioned above is another challenge producers and traders face.
- The **commercial structure** of dry beans is **thin**. There are many varieties, more than a million producers nationwide but only some buyers and traders. Government support only benefits some of the producers and is much less intensive and effective than, e.g. in the USA.

(Serrano Covarrubias, 2004)

The findings of the study reveal that the deficiencies in the Mexican production and commercialization are serious and diverse. To foster progress and to improve the performance of the sector an integrated approach is necessary, because apart from climatic challenges demographic, cultural and infrastructural influences, just to name some, create this specific set of problems.

The same study also mentions cases where some of the challenges are already worked against in different projects and campaigns unevenly distributed all over the country. Thus, in several states, changes principally in technology have already taken place in the past years:

In Sinaloa, imported cultivation and recollection machinery formerly acquired and employed for the production of other crops whose cultivation has decreased in the last years, was adapted to use it for the cultivation of dry beans.

In Zacatecas, Durango and Chihuahua, technological change is mainly fostered by the Mennonite communities living there.

In Guanajuato, innovation has taken place in combatting unfavorable natural conditions, e.g. by improving the sowing process and the use of water. High yields are achieved since the introduction drop irrigation. The last measure could possibly also be applied in the regions of the states of Zacatecas, Durango and Chihuahua that dispose of deep wells for the extraction of water for irrigation.

Despite the described difficulties, there have been some cases of new varieties of beans that have been broadly accepted by producers, traders and consumers, like the variety Pinto Villa occupying 60% of the bean cultivation area of Chihuahua within three years of its liberation.

In the states of Guanajuato and Zacatecas, drop irrigation systems in combination with fertigation were implemented as an initiative of producers counseled by technicians of trade companies. The measure resulted in superior yields of 3.5 tons per hectare.

(Serrano Covarrubias, 2004)

As dry beans are one of the crops most susceptible to plagues, in the states of Durango, Sinaloa, Oaxaca, Hidalgo and Jalisco there are several projects in process with the aim to control and eradicate those. To avoid further pollution of the environment by chemical substances, researchers look for bio pesticides that allow biological control of this problem. (Agencia Investigación & Desarrollo, 2010)

In spite of the long list of deficiencies, we actually see that progress in the improvement of the production process has been made in some regions based on different approaches. Those successful cases can foster the dispersion of the improvement strategies by

showing how it can be done and what may be the results, even providing quantitative data. This appears to be a stronger motivator than results of one of those official investigation projects whose effectiveness in implementation has proved to be low.

2.3. Precedent Investigations: Bean Cultivation in the State of Puebla

Based on some general information of bean cultivation and commercialization presented earlier, this section will give a deeper insight into its special circumstances and characteristics in the state of Puebla, introducing especially the situation in the region of Ciudad Serdán where the target association of this paper is located.

2.3.1. Challenges in the State of Puebla

Compared to the above mentioned general challenges, the list of problems that dry bean production confronts in Puebla looks quite similar, differing in the intensity of each applying aspect and only comprising a few state-specific challenges.

- Average yields of agricultural production in the state of Puebla are relatively low. Researchers came to the conclusion that this is due to two main factors: Only 10% of the cultivated land are irrigated, in bean production this percentage is just slightly higher (13%). Furthermore, the seasonal fields are usually smallholdings. (Fundación Produce Puebla; SAGARPA Delegación Estatal, 2005)
- Unfavorable soils for the cultivation of dry beans.
- Little use of improved varieties (only 1.38% of the area).
- Limited and inadequate use of fertilizers.
- Damages because of plagues, diseases and drought (and other climatic factors).
- Deficient handling of cultivation.

Each of the factors mentioned above, applying alone or in combination with others may reduce yield and depending on its magnitude it may cause total loss of the cultivation. (Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias [INIFAP], 2009)

Thus, the challenges dry bean production faces in the whole of Mexico also affect the state of Puebla. Progress and improved living conditions of the producers depend heavily on overcoming those obstacles.

2.3.2. *Realized or Planned Projects*

To counteract the difficulties mentioned above different institutions and associations have realized investigations, projects and initiatives. Some of them are enumerated below:

- In different places irrigations systems including the necessary water providers like reservoirs or wells have been built. (Fundación Produce Puebla; SAGARPA Delegación Estatal, 2005) One of those examples is an association of dry bean producers in Tenancingo at the border of the states Puebla and Tlaxcala. (García Bueno S. , 2011)
- In 2009, INIFAP, a research institution that has been mentioned earlier, did a project to increase yield of dry bean production. They analyzed the productive potential of the region and developed a technological package with recommendations how to improve each of the steps of cultivation, such as preparing the field, choosing the variety and sowing, fertilization and control of plagues. (Instituto Nacional de Investigaciones Forestales, Agrícolas y Pecuarias [INIFAP], 2009)
- In 2010, the regions of Tlachichuca and Ciudad Serdán received support from the then governor of the state of Puebla Mario Marín. More than 3 million Mexican pesos were invested in the construction of a storehouse for broad and dry beans benefitting 3,160 families. Furthermore, the regions received fertilizer, financial support for projects for the assurance of nutrition and for rural women, seeds for broad and dry beans and authorization cards for backyard production units. (El Heraldo de Puebla, 2010)
- The Foundation PRODUCE in cooperation with investigators from UDLAP are realizing projects focused on the region of Ciudad Serdán to improve the situation of dry bean producers.

2.3.3. *Situation in the Region of Ciudad Serdán*

The circumstances producers are facing in the region of Ciudad Serdán are described in a research paper by Simón Alvarado Mendoza who did a diagnosis of the product system of dry beans there.

First, he states that dry beans are a vulnerable crop susceptible to plagues and diseases, droughts, early frost and excessive off-season rains. This affects the region of Ciudad Serdán to a great extent because 95% of the areas are cultivated seasonally, i.e. without irrigation systems that could compensate climatic irregularities. While the average yield

of the 62,000 ha without irrigation in the state of Puebla is 450 kg/ha, the average yield in the region of Ciudad Serdán for seasonal cultivation is 400 kg/ha. The average area of dry bean cultivation in this region is 4,500 ha, which are farmed in the spring-summer cultivation cycle.

When analyzing the technology applied, Alvarado found in general very little use of technology-supported cultivation methods.

Seeds are usually not treated beforehand to improve their quality and taken from what was left of the harvest of the previous year. In most of the cases, this is not enough so that the producers use the supply of local markets but the seed sold there usually is from other regions and either not adapted to the climatic conditions or already damaged. This causes low yields as well as the use of not certified seeds in general. The bad quality of seeds is reflected in low-quality crops when bringing in the harvest.

This brings up the next weak point of the region: Due to the mentioned reasons as well as bad handling of the crop buyers can beat down prices. Deficient or missing harvesting, cleaning and sifting technology and infrastructure contribute considerably to the quality decrease. Common flaws of the dry beans of the region of Ciudad Serdán are impureness for the presence of soil, stones and other plants mixed with the crop, and disease-damaged or broken beans. In addition, low quantities of seeds (only 25-30 kg/ha) are sown. The resulting scarcity of plants growing favors bad weeds. To control those, regular weeding would be necessary but is usually only done once.

If fertilizers are used, which happens rarely, it is done in an inadequate and inopportune way. Sometimes, organic fertilizer from cows or sheep is applied. Likewise, they do not apply agrochemicals to control plagues and diseases.

For harvesting, traditional methods are applied: pulling up the plants, transferring and threshing and in the end winnowing them. Adequate cleaning of the beans is usually not part of the process, which contributes to low quality and low selling prices.

The cultivation cost per hectare in this region amounts to $ 4,500 MXN. Thus, at a price of $ 10 MXN/kg (price of 2008) yields of 450kg/h were needed just to recuperate the expenses in cultivation. (Alvarado Mendoza, Diagnóstico del Sistema Producto Frijol en le región de Ciudad Serdán, Puebla, 2010)

This amount is only reached on the few fields under irrigation, which indicates that those producers at least do not bring in losses while the vast majority, the producers with seasonal production, does not even cover its costs.

Alvarado points out that in addition to those problems, caused by the lacking use of technology for cultivation, which affects especially on fields without irrigation systems, there are also abiotic factors that entail considerable risks:

- Low amount of precipitation.
- Unfavorable distribution of those rainfalls over the year.
- Early frosts which make late sowing very risky.

Those factors and the lack of technology for harvesting, deficient infrastructure and missing equipment for cleaning and sifting worsen the quality of the beans and by this, their possible selling price.

Furthermore, the soils of the region of Ciudad Serdán only contain little organic material, are thin and in many places they are situated on long ascending hillsides, which exposes them to eolian and hydric erosion.

The research paper also mentions the main commercialization channels of the region. Producers sell their beans to:

- Big wholesale traders (Centrales de Abasto – supply centers).
- Agricultural associations which collect crop from different producers so that by managing bigger amounts they can obtain better prices.
- Intermediaries (local and from other regions) that transfer the beans principally to the supply centers of Mexico City, Puebla, Huixcolotla, Moralillo and Veracruz.
- Final customers at local markets places and street markets. This accounts only for a non-representative percentage because of the small volumes handled there.

From the supply centers, the crop is transferred further to packing companies and after processing the products are distributed to the commercial centers, i.e. shops or markets.

The conclusions of Alvarado's studies contrast the necessary measures to take in the region with the obstacles necessary to overcome for them to be successful. According to the author of the study, producers need to be taught and trained in

- problems of bean cultivation on field,

- the use of inputs (fertilizers, herbicides and pesticides) and improved seeds,
- hand selecting bean seeds,
- handling stored crop and
- cultivation practices to take advantage of the rainfalls.

This will only be possible if the mentioned obstacles are overcome:

- Use of traditional techniques.
- Use of domestic seeds without any selection.
- High dispersion of producers.
- Lack of organization for producing.
- The culture of using seeds from past cultivation cycles.

(Alvarado Mendoza, Diagnóstico del Sistema Producto Frijol en le región de Ciudad Serdán, Puebla, 2010)

Likewise, the researchers of UDLAP and PRODUCE did some investigating to describe the point of departure for future projects realized in cooperation. Based on the results of the above mentioned study by Alvarado Mendoza, the researchers developed a list of questions and interviewed 16 members of the Council of Dry Bean Producers (Consejo de Productores de Frijol) in the village of Las Palmas near Ciudad Serdán. Furthermore, they interviewed representatives of four companies that process and pack dry beans in order to evaluate the opportunities of commercialization of the producers in Las Palmas. The detailed results of this report are not commented here as they are analyzed later on when preparing the strategic plan for those producers. In short, these are the most important conclusion drawn by the investigators:

It became clear that most efforts to improve the situation are focused on what to do with the product to process and to commercialize it more effectively but those measures would face serious limitations: the harvest of dry beans depends almost completely on the amount of rain that falls in this area. Some years, there is enough, but some years, there is no harvest at all. This happened, for instance, in 2009. And even if they can obtain a certain amount of dry beans as harvest, it is little in comparison with the amounts important processing companies use to buy. The producers do not have the means for storage and transportation of crop that would be necessary to do business directly with those processing companies or bigger wholesalers. Furthermore, the

producers lack of basic economic and entrepreneurial knowledge about how to do business effectively and successfully.

Thus, the most urgent needs of these producers that could be identified in those preliminary studies are:

1. Ensuring periodic harvest with a quite constant amount of crop.
2. Increase the amount of crop per harvest and its quality.
3. Increase their flexibility in terms of storage and transportation of crop.
4. Acquire basic knowledge about business (e.g. administration, marketing, finance, strategic thinking…)
5. Applying entrepreneurial principles of planning and operation.

(Rodal Arciniega & Rodríguez Durán, 2010)

According to those precedent studies the situation in the region is challenging. There is a number of necessary improvements to make but projects need to have a holistic approach and will face serious obstacles in implementation.

2.4. THEORY: THE PROCESS OF STRATEGIC PLANNING

2.4.1. INTRODUCTION TO STRATEGIC PLANNING

Strategy is a term used in many different contexts and areas, it is used in daily life, in science, in military and nowadays predominantly, in business. Many articles and books have been written about the concept in general, its components, its variations, analytical tools for its application and the main strategic approaches. Universities offer courses to their business students to acquire strategic management skills.

In the literature there are many different definitions of strategy. The text book 'Strategy' (Thompson, Gamble, & Strickland, 2006, p. 2) presents a list of concise definitions of different people before developing its more extended explication of the concept:

> *'A strategy is a commitment to undertake one set of actions rather than another. – Sharon Oster, professor Yale University.*
>
> *Without a strategy, the organization is like a ship without a rudder – Joel Ross and Michael Kami. […]*

A company's strategy consists of the competitive moves and business approaches that managers employ to grow the business, stake out a market position, attract and please costumers, compete successfully, and achieve targeted objectives.'

The author of a book about strategic thinking for smaller businesses (Lasher, 1999, pp. x, 3) defines strategy as:

'A disciplined, organized way of thinking about running a business in the long run. […] In business, strategy refers broadly to a marshaling of our economic resources to succeed in the competitive struggle.'

In other words, strategy in business is the definition and the management of the activities to carry out in order to get an enterprise from its current situation to a desired future status. To succeed, it is essential to take into consideration the external macroeconomic competitive forces and the internal strengths, weaknesses and resources of the company. The strategy should find the optimum way to combine the external conditions with the resources and competencies of the company to create value and competitive advantage.

But why is it important to apply strategic planning? The concept is logical and one might assume that experienced managers and entrepreneurs should not need specific strategic planning as they consider and follow its principles anyway in daily business. Yet, this is not a correct conclusion; it is improbable that anyone could gain by themselves the insights and understanding of a company's situation and direction obtained by systematic strategic analysis. (Lasher, 1999) So, a strategic management approach helps to deepen the analysis of circumstances and possible alternative solutions and to integrate the measures applied to reach the company's objectives.

An effective strategic plan is a prerequisite for the dedication of the whole organization to the achievement of the set objectives, like competitive advantage and over-average returns. (Hitt, Ireland, & Hoskisson, 2005) Strategic planning helps to define objectives and to maneuver the enterprise into the desired direction without getting lost in daily routine and obligations.

The literature about strategic management in its vast majority focuses on large corporations. Little has been published about strategic planning in small firms. This goes with the lack of strategic management we can observe in many of those

companies. They see it as something that only benefits larger businesses and state that they do not have the time or are too small to develop a strategic plan. Yet, exactly the opposite is true; without a clearly defined strategy, small businesses have no sustainable basis for gaining competitive advantage. Developing a plan obliges them to assess realistically the opportunities the business offers. (Scarborough & Zimmerer, 2006) Another benefit would be the systematic thinking of strategic analysis that can bring a certain amount of order to the usually chaotic small business and replace seat-of-the-pants solutions. (Lasher, 1999)

Strategic planning is the responsibility of the top management. In bigger companies, they use to be supported by a strategy department that takes over the responsibility for some activities and bring in some expertise. Yet, the CEO has to understand the analysis process, participate intimately in strategy development and be involved in strategy implementation to assure that the rest of the organization commits to the strategy and puts the required actions into practice to make it work. (Lasher, 1999) The significant impact of strategic planning on the competitive position and on the financial performance of a company also justifies its priority among the other managerial tasks. (Thompson et al., 2006)

Strategy and strategic planning are key factors for a company's success and carrying it out systematically and diligently improves the probability of success. In the following sections, some approaches and methods for strategy development and execution are presented.

2.4.2. Delimitation: Strategic Plan and Business Plan

A topic that exhibits some characteristics and approaches similar to strategic planning is business plan development. Both are correlated but should not be confused.

A strategic plan and a business plan have in common that they describe the current situation (Where are we now?), the direction of the company and its vision of the future (Where am I going?) and the plan to get from the former to the latter. (How should we get there?)

A business plan is a document entrepreneurs write, describing in detail all the internal and external elements relevant for starting a venture. It is usually required by potential investors, suppliers and even customers. In most cases it includes functional plans for marketing, finance, manufacturing and human resources. (Hisrich, Peters, & Shepherd,

2008) Accordingly, a business plan defines the business model of a company, it is detailed and it is developed when the entrepreneur is about to start this company from scratch.

For strategic planning, the business model defined in the business plan is essential. It is about how and why revenues and costs result in profits and return on investment. (Thompson et al., 2006) Strategies are much more probable to result in increased profitability and competitive advantage if the business model is working. If not, some adjustments may be necessary to bring the concept of the business on the road to success.

Another link between business and strategy are the different functional areas, such as marketing, finance and organization. According to the definition and recommended structures, they are described in detail in a business plan. In strategic planning exactly those areas are taken up for realizing the internal analysis and are also considered in strategy development and implementation as such, as they are going to be the executing forces of strategy in daily business.

2.4.3. The Strategy-Making and Strategy-Executing Process

To develop and to execute a strategic plan the following steps are commonly carried out (based on the proposal of Thomson, Gamble, & Strickland, 2006, pp. 13-14):

1. Identifying the company's mission and vision, i.e. what is its reason to be and where does it see itself in the future.
2. Setting concrete objectives for measuring progress and performance of the company.
3. Internal and external analysis, to collect information about the disposable resources and competencies as well as about the environment, especially the profile of the competition.
4. Crafting a strategy to achieve the objectives and finally the vision.
5. Implementing and executing the strategy.
6. Evaluating the strategy's performance and carrying out necessary adjustments.

Some authors put objective setting after external and internal analysis to have a broader basis of information for decision making; others prefer to do it directly after the

definition of mission and vision, so that the objectives clearly represent concrete measures of the progress towards the desired future.

2.4.3.1. First Step: Vision and Mission

For the success of a business it is indispensable to procure that all employees and managers strive to reach common goals, that they head to the same direction and align all their efforts to this. The formulation and communication of a corporate vision is a starting point to make this idea tangible, by creating a concise and vivid statement that expresses *'where we want to be and what sort of organization we want to be in the future.'* (Davies & Davies, 2010, p. 1) In other words, a vision statement sets the big frame for all of the company's activities by defining where the business is going to, how it wants to be perceived by customers, suppliers, stockholders and the community it works in. (Lasher, 1999).

Formulating effective vision statements is a challenging task as they express complex ideas and considerations but at the same time should be easy to understand and to remember. Thompson, Gamble and Strickland list some aspects that make a vision statement effective: They need to be distinctive and specific for this particular company. Furthermore, it is not enough to make it sound nice and inoffensive just to please stakeholders. The vision statement needs to make a point about the product-market-customer-technology focus so that it can serve as a reference for making strategic decisions. To foster progress and intensify the joint effort of the personnel, a vision should be a bit beyond the company's current reach. (Thompson et al., 2006)

Besides formulating these ideas about the future, it is also essential to make clear what is the 'reason for being' of the business. This is known as mission statement or business purpose. *'Strategic mission is a statement of a firm's unique purpose and the scope of its operations in product and market terms.'* (Hitt et al., 2005, p. 45) It describes 'who we are, what we do and why we are here'. Specifically, it talks about what buyer needs the company is going to satisfy, which customer groups and market segment it is targeting and what resources and technologies it employs to do so. An effective mission statement distinguishes the company from all the other enterprises and provides it with an own identity. (Thompson et al., 2006)

At first sight, vision and mission might seem alike but they are clearly differentiated by their temporal focus: A vision talks about a company's future business scope and

positioning while a mission refers to the here and now, the present business scope and purpose of a company. Together, they form an indispensible foundation for strategic decision making and planning.

2.4.3.2. Second Step: Setting Objectives

When a company has defined its vision and mission, their contents need to be translated into concrete targets which serve to measure how well the organization is doing and progressing.

As objectives are targets for business performance, achieving the goal is defined as success and missing it as failure. Of course, there are degrees of success and failure depending on how well it was achieved or how significantly it was missed. Some objectives may be directly derived from the mission or vision statement but additionally, there are other targets necessary to support those general ones. We distinguish two different types of objectives; company goals which are defined for the company as a whole, such as market share, customer satisfaction and profitability, and lower-level objectives at functional (marketing, finance, manufacturing etc.) and sub-department levels. (Lasher, 1999) One of the most important points to consider here is the interdependence between objectives. Lower-level goals need to be defined in a way to contribute clearly to the achievement of the company goals.

Effective objectives meet certain requirements:

1. The more challenging set objectives are for the personnel the more they can serve as a tool for making the company to capitalize fully on its potential by motivating the employees to give their all. (Thompson et al., 2006)
2. To actually convert strategic vision into concrete performance measures, the objectives need to be measureable (quantifiable). KPIs (Key Performance Indicators) are used to quantify the progress against fulfilling the objective.
3. Goals as well need to have a deadline for achievement.
4. Besides measurable and timely, objectives should be specific, i.e. provide a clear message of what needs to be accomplished, appropriate in terms of being consistent with vision and mission, and realistic, which means challenging but not exceeding what is actually possible to achieve considering the business's capabilities and the opportunities of the environment. (Dess, Lumpkin, & Eisner, 2007)

Knowing exactly how much of what kind of performance needs to be delivered by when fosters the dedication and joint effort to live up to it.

For the definition of objectives a company should consider two groups: There are the indispensable financial objectives that measure financial performance, e.g. revenues, profits and profit margins, cash flows, shareholder value, etc. Traditional management used to focus on those indicators, but nowadays scholars and companies have realized that this is not enough: strategic objectives are essential, too, e.g. market share, quality, customer service and satisfaction, product range compare to competitors, technological leadership, etc. (Thompson et al., 2006) Some authors add environmental, social and legal compliance aspects here, meeting current trends of sustainability, CSR (Corporate Social Responsibility) and globalization, which have become significant success factors. (Alamil, 2010)

The concept of considering both financial and non-financial objectives is reflected in a tool called Balanced Scorecard (BSC) that is used by most of the companies nowadays. Besides the financial perspective it usually contains three additional dimensions: clients (Who are we perceived by our clients?), processes (Which are the processes we need to be good at to be successful?) and learning and growth (How are we strengthening our ability to change and to improve?) To develop a BSC, a company needs to define its vision, its strategy and the Key Success Factors (KSFs), first. This serves to define KPIs. After evaluating the result of the BSC action plans are established and the BSC is constantly monitored and refined. (Niven, 2009) Figure 2.2 is an example of a BSC where we can see the division into four principal perspectives (Finance, Customer, Internal Processes and Learning & Growth), the definition of strategic objectives for each perspective and the assignment of at least two KPIs to each objective to measure the progress that is made in achieving them.

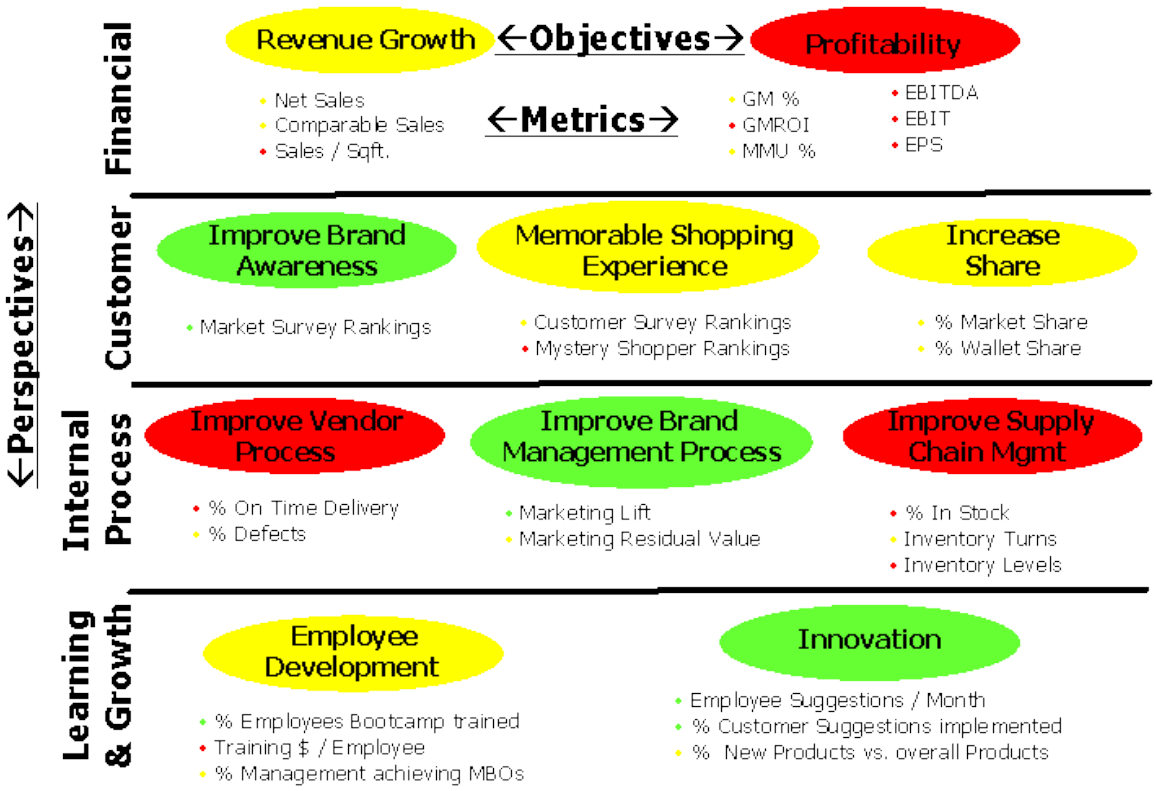

Figure 2.2.2 Example of a Balanced Scorecard (BSC). From *Information Management* by Taylor, July 2004

We see that a BSC is not only a tool for setting objectives but for managing the major part of the strategic management process but its outstanding feature is the comprehensive development of concrete objectives considering all relevant topics, not only financial performance.

2.4.3.3. Third Step: Internal and External Analysis

Analysis of the external and internal conditions of the company is the next step in strategic management. It describes the current position of the organization and is done to know how to make strategy an advantageous match between the external environment and the internal strengths and weaknesses.

A basic, well-known method to start studying those two aspects is the SWOT analysis. It is a simple but powerful tool because it analyses the opportunities and threats, which are external factors that affect the company and the strengths and weaknesses, which are internal factors. (see Figure 2.3)

Figure 2.3 SWOT Matrix visualizing the four dimensions of analysis. From *SWOT Analysis* by Reeves, H., July 2008

A strength is something a company is good at doing or a characteristic that increases its competitiveness. It can be a skill or important expertise, like low-cost manufacturing capabilities, expertise in providing good customer service and technological know-how. Other strengths are valuable assets, tangible ones (modern plants and equipment, ownership of natural resources) and intangible ones (brand name, goodwill, strong buyer loyalty, talented and experienced workforce). Competitive capabilities and advantages that put the company ahead of competitors are also strengths, such as product innovation capabilities, a strong dealer network, relatively low costs or wide geographic coverage. Valuable alliances and cooperative ventures support competitive advantage. (Thompson et al., 2006) Those factors determine to a great extend the performance of an enterprise as these are the resources it confronts competition with. If the mentioned factors are not present or insufficiently developed, this reveals the weak points of a company.

The opportunities a market offers to a company are essential for crafting a successful strategy. They can surge e.g. because of growing demand, unserved customer groups, falling trade barriers and emerging new technologies. Yet, not every opportunity is equally attractive for a company due to the potential of growth and profit they promise and if they match with the company's strengths and capabilities.

Threats are external factors that threaten a company's profitability and well-being. They may originate from the emergence of new and cheaper technologies, the introduction of new, innovative products by competitors, new official regulations or rising interest rates. As well as opportunities, threats can have different degrees of adversity. The most important task of management is to identify the ones that significantly jeopardize the company's future well-being and to counteract strategically. (Thompson et al., 2006)

SWOT analysis provides a good overview of a company's situation and is used to derive strategies taking advantage of the good points and eliminating or compensating the weak ones. It is flexible, simple and popular. Thus, managers need to be aware of the shortcomings of this method: Its efficiency highly depends on the quality of the questions asked and investigations done to capture data because the tool does not provide other specifications than the four dimensions. Furthermore, the interpretation and evaluation of situations and facts is subjective and the found aspects are listed without weighting concerning their importance the company's situation.

To complement the findings of a SWOT, additional investigations are recommendable. The external environment of an enterprise is divided into three areas, general, industry and competitor environment.

The general environment is the broader society that influences the firms within it. It consists of demographic, economic, sociocultural, political/legal, technological and global elements. Firms usually cannot influence those factors but need to understand their impact on the selection and implementation of strategies. (Hitt et al., 2005)

The industry environment directly affects the competitive actions and responses of a company and its profitability in this industry. The most important method for the analysis it the industry environment is Porter's Five Forces Model. (see Figure 2.4)

Figure 2.4 Porter's Five Forces Model of Competition. From the *Five Forces That Shape Industry Competition*, Harvard Business Review, January 2008.

An industry is a group of companies that produces products that are close substitutes. Instead of focusing only on direct competitors, as it used to be done before, Porter widened the perspective and included all companies into its analysis that are competing for the same customers rather than focusing on rigid industry boundaries. The analysis evaluates the attractiveness of an industry for a certain company, evaluating the strength of each of the five forces and its impact. The five forces are:

- **Threat of new entrants:** The intensity of this force depends on the defense measures expected from the current competitors and on the barriers of entry to the industry. High barriers of entry decrease the probability that new entrants can operate profitably. The main factors that create high barriers of entry are existence of significant economies of scale, high product differentiation (uniqueness and customer loyalty), high capital requirements, high switching costs for customers from one product to the other, difficult access to distribution channels, not

duplicable cost advantages of existing competitors and government restrictions (licensing and permit requirements).

- **Bargaining power of suppliers:** Suppliers exert power in companies using price and quality changes of the products they deliver. Suppliers are powerful if: when there are only a few large suppliers that are more concentrated than the companies they supply, if there are no satisfactory substitute products available to industry firms, if the buying firms are not significant customers, supplier's products are critical for the success of industry firms, firms confront high switching costs from one supplier to another and if suppliers have the capability to integrate forward into the buyer's industry.
- **Bargaining power of buyers:** Buyers want to reduce their costs and negotiate for higher quality, more service and lower prices. They are powerful if they buy a large portion of the industry's output, if the product forms an important part of the sellers revenue, it switching costs for buyers are low, if the products of this industry are standardized or undifferentiated and if buyers are well informed about the manufacturer's costs.
- **Threat of substitute products:** These goods are from outside the industry but satisfy (nearly) the same needs as the products the industry produces. This threat is high if there are possibilities of substitution, if switching costs for customers are low, if the substitute has a lower prices or offers relatively better quality/performance and if the products of the industry are little differentiated (customer loyalty)
- **Intensity of rivalry among competitors:** This force is the most powerful one in terms of impact on a company's performance. Rivalry is intense if there are many companies in the industry, if the industry is growing slowly, if there are high fix costs or storage costs, little differentiation, low switching costs, several firms with high performance goals and high exit barriers.

(Porter, Competitive Strategy, 1980)

This analysis helps a company to evaluate its profit and growth potential. An attractive industry has high entry barriers, suppliers and buyers with little bargaining power, little threat by substitute products and moderate or low rivalry.

To complete the picture of the external environment of a firm, each direct competitor needs to be examined carefully as it is necessary to understand them, especially if there

is strong rivalry. Analysis concerns their actions, their objectives, their current strategies, their assumptions about the industry and their strengths and weaknesses. The methods for gathering relevant information about competitors in order to understand them and to anticipate their next steps are called business intelligence. Firms need to evaluate, if these methods are legal in the first place and if they consider them ethical as well. (Hitt et al., 2005)

The major aspects to examine inside of a firm are resources, capabilities and core competencies. Important analytical tools are value chain analysis and financial ration comparison.

For the first part of internal analysis, SWOT analysis provides important basic information about resources and competencies and an overall picture but the data base usually needs to be enhanced by more profound investigations. Resources are divided into tangible and intangible ones. Especially the latter are important as they are hard to identify and to imitate by competitors. Resources as such do not result in competitive advantage but they are the source of a firm's capabilities or competencies. There are different levels of competencies: Basically they are activities the firm has learned to perform well. If there is an important activity the company has learned to perform better than other internal activities, we are talking about a core competency. The highest level is the distinctive competence which is a competitively important activity that the company performs better than its rivals. (Thompson et al., 2006)

To understand how the different activities of a company work together to create value, Porter developed the model of a firm's value chain consisting of primary, value creating activities, and secondary support activities. (see Figure 2.5)

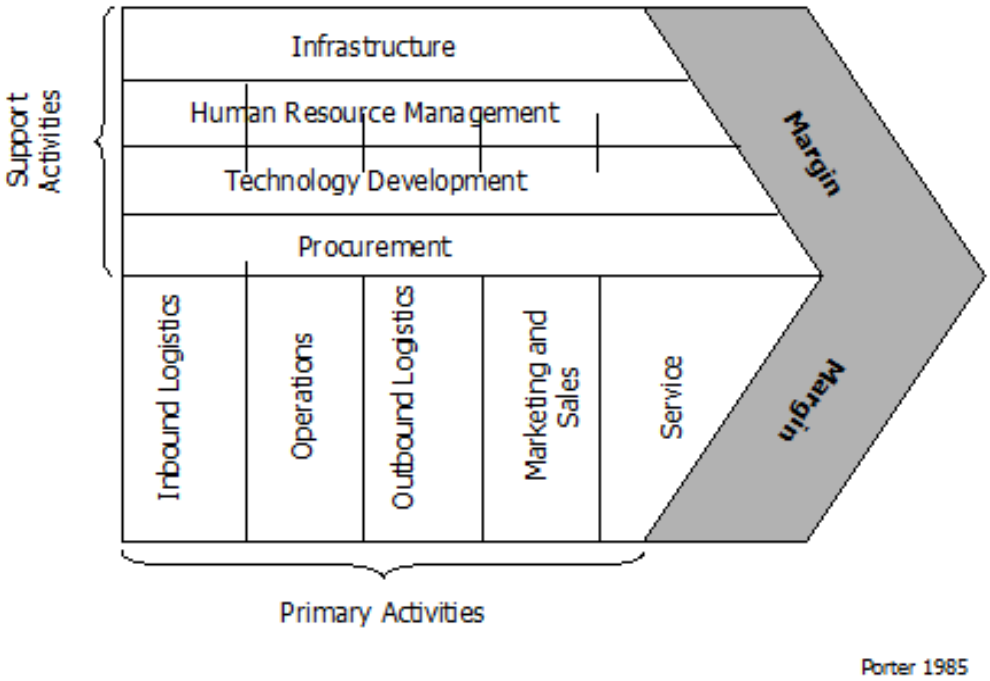

Figure 2.5 The Value Chain of a Company (Porter). From *Value Chain* by Recklies, D., 2001.

These activities are the building blocks of competitive advantage. Value is what customers are willing to pay for what a firm offers them and it is measured as revenue. To earn a margin, value created by the activities of a firm should be lower than their costs. The analysis should not be limited to the boundaries of the firm but also include suppliers, customers and alliance partners to give a complete picture. A firm's primary activities are: inbound and outbound logistics, operations, marketing and sales, and service. Support activities are divided into procurement (purchasing), technology development, human resource management and general administration (infrastructure). (Porter, Competitive Advantage, 1985) The activities should not be seen independently but interrelated, firstly among the activities within the firm, and secondly among the activities within the firm and other organizations around it. In value chain analysis, it is important to evaluate each activity in respect of its value creation potential, relatively to the competitors' capabilities (benchmarking). To realize value chain analysis, judgment capabilities are necessary as there is no specific rule or model available for the process. (Thompson et al., 2006)

All in all, for describing the current competitive situation of a company, there are several complementing methods that in the end provide a quite comprehensive picture. In external analysis, there are tools to capture information about the general environment, the industry and competitors. Internal analysis using the resource-based view and the value chain perspective examines a firm's strengths and weaknesses.

2.4.3.4. Fourth Step: Crafting Strategies

Based on the knowledge gathered in external and internal analysis and keeping in mind vision and mission of the future, the leaders of a company face the task of crafting a strategy. The aim is to take advantage of a fit between the external environment and the internal capabilities of a company. Strategy crafting finds out what a company has to do to satisfy the market's needs. It is not a standardized process where on could apply formulas, it is rather a complex challenge that requires creativity and synthesizing capabilities to develop a unique package of actions to confront the specific situation the company is up against. (Lasher, 1999)

In literature about strategic management, authors distinguish several levels of strategy. Each sub-layer specifies the measures to take to support the achievement of the objectives of the upper layers. The general strategy for the company as a whole is called corporate strategy. The next level is the business-line level, which is the heart of strategic management as it is the level where companies compete directly and try to gain and sustain competitive advantage. Business-line strategy is supported by functional area strategy (e.g. finance, marketing) and operation strategy (e.g. controlling, public relations). (Dess et al., 2007) The last two levels sometimes are called 'policies' instead of 'strategies'. In small businesses, corporate strategy and business-level strategy are often the same as they use to have one single business, at least at the beginning.

For the actual strategy crafting process there are several supporting methods or concepts. Brainstorming is a helpful technique to come up with a number of different, maybe innovative ideas of how to solve this challenging task. Furthermore, there are theoretical concepts, called generic strategies that represent along general lines the different strategic approaches a company can choose.

They were defined by Michael Porter and refer to the business-level, i.e. they represent ways to get competitive advantage in a certain industry. They are categorized according to two characteristics: (1) if they are made for a broad or a narrow market target and (2) if the competitive advantage is pretended to be gained by low cost or by product differentiation. (Porter, Competitive Strategy, 1980) The main generic strategies are presented in Figure 2.6.

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

Figure 2.6 Generic Strategies (Porter). From *Generic Strategies*, MaxInno, 2004.

1. **Low-cost provider strategy (Overall cost leadership):** A company strives to achieve lower overall costs than competitors and to appeal a large customer spectrum and usually attacks by underpricing rival's products. It is recommendable if there is strong price competition in the industry, if the product is a commodity (any other differentiation hardly possible), and if switching costs are low (higher responsiveness to price differences). The risks of this strategy are that a competitor may do better at reducing costs or that the fixation on low-costs reduces the quality of the product and its adjustment to customer needs.
2. **Broad differentiation strategy:** A firm differentiates the product from the offers of competitors trying to appeal a broad target group. The base for differentiation can be, e.g. the quality of the product or a specific attribute of the product or the package it comes with. Differentiation can be based on real features or on perception (boosted by advertising). As it originates costs to the

seller, customers need to be willing to pay more for the strategy to be successful. This strategy increases customer loyalty, and decreases the risk of entry of new competitors and buyer power. Differentiation carries the risk of losing the additional money invested and the advantages of the strategy by being imitated by competitors, not being appreciated by clients or becoming obsolete because of changing customer preferences.

3. **Focused (market niche) strategy based on low costs:** A corporation concentrates on a narrow buyer segment and outperforms competitors by being able to offer the clients in this market niche lower prices because of having lower costs. Focused strategies are attractive because the company usually is the only seller in this niche, it gains expertise in serving the special needs of the niche customer very well and reduces the risk of rivals to enter (expertise necessary and little incentive because of niche size). Nevertheless, if the niche is too successful it may attract new entrants which are especially dangerous if they are major players in the industry with extensive resources that are hard to match.
4. **Focused (market niche) strategy based on differentiation:** A company concentrates in a narrow buyer segment and outperforms competitors by offering niche members customized features that coincide with their tastes and requirements. The above mentioned advantages and risks of focused strategies apply to this one, as well.
5. **Best cost provider strategy:** A company strives to offer customers more value for their money by integrating good-to-excellent attributes at a lower cost than rivals. Its aim is to have the lowest costs and prices compared to rivals that offer comparable features. The strategy offers opportunities in different situations, especially because consumers use to shy away from minimum-quality products so that a best cost strategy in the medium range appears attractive.

(Lasher, 1999, pp. 88-98)

In addition to those generic strategic approaches, there are some more approaches that serve for crafting strategies.

Alliances are a collaborative agreement where two or more companies put together their forces to get mutually beneficial outcomes. They should be selective and focused on particular activities and benefits. Strategic alliances can help to enter markets or to obtain inside knowledge and skills/competencies. They also foster the learning process

and join resources and capabilities of different companies, which opens up broader opportunities.

We talk about vertical integration when a firm decides to expand its scope within the industry, either by taking control over suppliers (backward integration) or towards its clients (forward integration). It is only attractive if it significantly strengthens the company's competitive position and/or improves its profitability. Vertical integration requires capital investment which increases the company's risk because it commits more extensively to the same industry. Furthermore, it may lose flexibility in adaptation to technological change; depend on in-house skills and capabilities and lose effectiveness in capacities as the ideal amount of production for different production steps (e.g. different components) use to differ but now are determined by the capacity of the whole process.

Another strategic option is outsourcing. It means that outside suppliers and vendors are contracted to perform some value chain activities of a firm. The two big drivers of outsourcing are that external providers are often able to perform some activities better or cheaper and that it allows the company to focus its energies completely on its core competencies that are most critical to its competitive and financial success. Firms should consider carefully which activities to outsource in order to avoid losing touch with the important ones and the expertise that are essential for their success. (Thompson et al., 2006, pp. 142-144)

When a company is crafting is strategy, it should also consider diversification, i.e. in which businesses or industries it should compete and how it should manage them altogether to create synergy effects. As this topic applies principally to bigger companies it is not expanded on in this paper.

Strategies can be identified as offensive or defensive concerning their desired impact on the competition. Offensive strategies are applied to increase market share while defensive ones focus on keeping the current market share, i.e. not being defeated by the competitors. (Lasher, 1999) In some cases, defensive strategies simply strive to assure the survival of the company.

2.4.3.5. Fifth Step: Strategy Implementation and Execution

In contrast to the previous steps, strategy implementation is not a creative, intellectual and visionary task but principally an administrative one that requires working with

people procedures, information and the structure of the organization. After the strategy has been developed and agreed on by the top management it needs to be 'translated' into concrete actions and communicated so that each area and each employee understand how it contributes to the achievement of the strategic goals. Implementing strategy is especially difficult because of the resistance to change of most persons. It is hard work to convince them to accept the new strategic direction and to contribute to its success. Furthermore, strategy implementation is a continuous, never-ending process that requires effort, thinking in the long-run and perseverance. (Lasher, 1999)

Organizational structure is one of the major aspects that influence strategy implementation. It specifies the design of reporting relationships, procedures, controls and decision-making processes of a company. When the corporate structure is consistent and its elements are well aligned, it facilitates the effective implementation of strategy. Strategic changes usually require organizational changes but companies normally are slow to change the status quo and the familiar work relationships until it is urgently necessary because of a sharp decline in their performance. The methods companies use to determine the discrepancy between the actual performance and the expected performance, are called organizational controls. Financial and strategic controls are essential for effective strategy execution as they reflect the behavior of the firm: Financial controls do this in a quantitative, largely objective way and strategic controls are largely subjective measure to determine if a strategy contains the correct match between external conditions and internal capabilities. (Hitt et al., 2005)

Staffing is another important base for strategy implementation. Firms need to put together a strong, capable management team and recruit employees with the necessary skills and experiences as the implementation process requires diverse managerial skills and dedication and contribution of all collaborators. Without talented human resources, additional investments in plants and equipment will not be that effective.

One of the important tasks of strategic leadership, besides determining a direction and designing the organization is nurturing a culture dedicated to excellence and ethical behavior. Its corporate culture is the 'personality' of a firm that defines how it perceives itself, its role in the market, what is accepted and what is not and how things use to be done. If culture and strategy complement each other, successful strategy execution is much more probable. (Dess et al., 2007)

In the strategy crafting process, necessary and/or existing core competencies and competitive capabilities are identified. To implement strategies successfully, building and strengthening those competencies that make a company unique and prepare it to conquer and to defend it competitive position, is of great value. (Thompson et al., 2006)

Financial support is what gives implementers the resources they need to get their job done. Thus, it should be logical that a firm's budget provides critical activities with enough money, people and assets. Though, in many cases this does not happen because of conflicts between long-run and short-run thinking, as strategic initiatives usually do no bring bottom-line improvements from the beginning. Especially small firms seem to have difficulties in budgeting with a long-run perspective.

Not least, an adequate supporting infrastructure is of great value. The necessary information systems are essential to achieve strategic aims effectively and to monitor constantly the current performance in order to take the correct decisions.

Finally, incentive systems are one component of successful strategy implementation. If people are rewarded for their contribution to achieving the strategic aims, they will be more motivated and this may probably result in improved performance. General commitment to the company's vision and mission is also important, but if every person takes responsibility of how they contribute personally this counts much more in terms of concrete results. Bonuses, promotions, compensations and recognitions are the most common forms of incentives. Caution is advised when dealing with unexpected external influences that may deteriorate employee's performance as strict removal of incentives may destroy motivation but at the same time, granting of incentives without the agreed performance can be interpreted as favoritism. (Lasher, 1999)

All in all, strategy implementation is a complex, challenging and completely individual task whose realization decides if a promising strategic plan results in improved financial results and competitive position or not, if the enterprise uses its potential effectively to confront external conditions, or not.

2.4.3.6. Sixth Step: Strategy Performance Control and Adjustments

Strategic management is a never-ending process. After the first definition of mission, vision and goals and the consequent implementation of a strategy, efforts need to go on. As the company makes progress and the external environments change, minor or major adjustments of strategy may become necessary. Strategy performance needs to be

monitored constantly to decide whether it is appropriate to continue going into the same direction, having the same mission and objectives and using the same strategy execution methods. If the company's performance is worsening the reasons have to be analyzed and timely corrective measures need to be taken. (Thompson et al., 2006)

Henry Mintzberg, an influentially management scholar, argued that the perception of strategic management as a process of analysis followed by optimal decisions and their diligent implementation was not realistic. Business environment and its development are all but predictive (limiting analysis accuracy) and strategy decisions are usually not based on pure rationale but also affected by political processes occurring in all organizations. He makes an argument for perceiving strategy implementation as a dynamic and flexible process that causes that some parts of the intended strategy are never realized because of unexpected constraints or emerging external conditions. At the same time, new opportunities may be used by managers to modify strategy even if they did not form part of the initial plan. (Mintzberg, 1985)

Constant evaluation and adjustment of strategy and its implementation give consideration to the unpredictability of the environment and the complexity of a firm's interdependence with those tendencies. Being aware of this fact and acting according to this knowledge completes the strategic management process and helps companies to apply it successfully.

2.4.4. Particularities of Small Enterprises in Strategic Planning

Literature about strategic management principally focuses on large business and their needs and characteristics. Small firms can benefit from many of the concepts presented in those books as well, but in some aspects their necessities clearly differ and pointing them out can help to facilitate the application of strategic management in those businesses. William Lasher, a business professor, manager and entrepreneur, saw this need and wrote a book about 'Strategic Thinking for Smaller Businesses and Divisions'. In this book he explains strategic management in general but also goes into the particularities of small businesses. (Lasher, 1999) These are some of the aspects he states:

- Small businesses use to be less organized in strategic planning, partly due to their limited depth of structure and organization in general, because of the dominant role

of the entrepreneur, and because they use to be in the hectic and chaotic phase of survival and striving for growth.

- The most important reasons for the short-run orientation of small firms are that they feel they do not have enough time to think ahead carefully, that they do not consider it important to make detailed plans for the long-run or that they simply do not know how to do it. Many entrepreneurs do have an ambitious vision for their business but they have never thought about the concrete actions to take to reach this aim.
- The general lack of strategic planning in small enterprises offers the companies that still do it the opportunity to get an edge over their competitors. Those companies will be able to react cool-headed and quickly when confronting any problem because they have already thought about the issue before while the competitors will go on making decisions that are not thought out well and more likely to fail.
- Effective strategic analysis and planning before and right after starting a business can avoid many of the entrepreneurial mistakes that are costly and lead to the very high failure rate of entrepreneurial initiatives.
- The formulation of vision and mission is normally much easier because they are much less complex than large enterprises. Though, this should not cause the perception that their formulation is not important for small firms, on the contrary, it helps them to think profoundly, to focus on the long run and to consider issues they would not have thought about otherwise.
- The leaders of small business often consider it unnecessary to do external and internal analysis as they are convinced that they know their company and its environment very well. They are not aware of the fact that an regular and systematic approach to analysis and offers them a much broader base of information and leads them into a defined process of how to translate this information effectively into actions.
- When crafting the strategy, small companies usually do not have to develop that many levels of strategy. The most important one is the business-level; corporate level usually not applies as those enterprises normally do not have different lines of business; the main functional areas normally exist and need policies how to realize the strategy but further division for operational units is probably unnecessary because there are not that many layers of hierarchy.
- Marketing and Sales are the most important activities of a business, especially a small one as it needs to create a market and awareness for its products or services.

Though, especially small enterprises have a hard time creating and financing effective marketing. One of the main challenges is matching media coverage of their advertising with their target markets. As those markets use to be small and regionally limited but media use to cover bigger areas, at least entire cities, most of the investment in advertisement is wasted. Furthermore, small firms struggle with inadequate, little professional contents of ads that do not arouse enough attention and interest.

- Financing is another basic issue when starting or expanding a business. It needs to be approached strategically as the necessary funds for those activities usually are not available in the company but are essential to operate and grow. One hurdle is that managers use to be unfamiliar with the functioning of the financial world, i.e. with main actors, different types of financing, risks and opportunities, and the importance of business plans or investment proposals for attracting investors.

Those issues show that small businesses confront a set of special challenges because of their organizational and operational characteristics. When applying strategic management to this kind of business it is essential to take them into consideration and to adjust strategic planning accordingly.