

Prof. Volker Gehmlich

SLOVENIA GOES EUROPEAN -STRATEGIC APPROACHES FROM THE PERSPECTIVE OF SLOVENIAN BUSINESS ORGANISATIONS

Introduction

To avoid threats and exploit opportunities Slovenian business organisations have to design their individual strategy. **Strategy** is the *direction* and *scope* of an organisation over the *long term* which achieves *advantage* for the organisation through its configuration of *resources* within a changing *environment* and to fulfil *stakeholder* expectations (Johnson/Scholes 2002). Taking this definition the elements Slovenian business organisations have to consider become evident. Before an enterprise sets out for new areas the present position has to be identified answering the question: *Where are we?* Therefore enterprises have to analyse the environment, the expectations and purposes of their stakeholders and their own resources and competences. Knowing this the next question has to be answered: *Where does the enterprise want to be?* What are the alternatives? To identify these choices the strategies at corporate- and business-level have to be taken into account and various

directions and methods of development to be considered. Having made a decision, one basic question remains to be answered: *How do we get there?* The strategy chosen has to be put into action by working out the most adequate organisation, looking at those support activities which enable success and managing the necessary change.

Although this model suggests a permanent logical process one has to be careful. First of all, enterprises are most likely not to start from scratch. They are active in the market, i.e. they may be in a change process or in looking at alternative routes to success. In other words, an enterprise might start in the middle of this triangle – or, in fact, at any place. Secondly, what appears to be logical to one, may not at all be logical to another organisation. This depends on what Johnson/Scholes call the various lenses: the design, experience and ideas lenses respectively. This implies that not all strategies are based on a clear logical process as the “key three questions” may also be answered in the light of experience the company has gained or on the basis of ideas the decision makers have.

In the following the major orientation is the design lens, i.e. a strategy for Slovenian enterprises is mainly outlined on the basis of a logical approach. This, however, should not exclude to refer to experience made in similar situations or to ideas which creative minds may have.

The Environment of Slovenian business organisations

Applying the PESTEL framework (Johnson/Scholes 2002) Lynch (2000) advises to find answers to seven key questions:

- What is the environment and why is it important?
 - What are the main background areas to be analysed?
 - What is the strategic significance of market growth?
 - How are the more immediate influences on the organisation analysed?
 - How do we analyse competitors?
 - What is the role of co-operation in environmental analysis?
-

- How important is the customer?

This suggests that a general evaluation of the environment has to be made to find out whether it is “turbulent and chaotic” or “placid and predictable”, i.e. what are the general opportunities and threats (Lynch); the factors affecting many industries have to be highlighted and the key factors for success at industry level identified. The relationship between the enterprise and its suppliers and distributors has to be analysed, so have the competitors, potential co-operators and the customer as the final target (Lynch, Porter 1998).

The European Context

For Slovenia *the* issue is the entry into the European Union next year. According to the Financial Times (April 2003) some questions may be raised as regards the ability to change as Slovenia appears to have an inherent conservatism about its way of life. It still seems to opt for familiar politicians and old policies. Slovenia states that it is open to competition but foreign investment is still low. Is there more to it than the statement “Post-communist state ready for tough European conversion” (FT) appears to suggest? The Slovenian government seems to be sure that the state is prepared for the transition. The Financial Times sees the answer linked to three key issues:

- Economy: to transform manufacturers from low-tech to high-tech and improve regional competitiveness
- Banking: there are around 20 banks competing in the market. The big ones have to gain market shares abroad
- Politics: the transition is carried out with “familiar politicians and old policies”

and argues that some setback can be seen in the geographical situation which sometimes seems to have hindered intensive communication

(diversity of dialects) and, although many Slovenians (www.yahoo.com – May 5th 2003) speak several languages, and the country is by far the most prosperous post-communist transition country, the just below 2 million Slovenians sometimes appear to be ambivalent about the wider world. The Financial Times concludes that the key question for Slovenia is how European Union membership will affect the distinctive “way of doing things” (Bower 1966). The Slovenian culture may be one of the major elements which make integration more difficult, highlighted by the Financial Times as “At points in recent years, fear about selling companies to foreigners has verged on hysteria”.

The 2002 Regular Report on Slovenia’s Progress Towards Accession (COM(2002)700 final) summarises Slovenia’s fulfilment of the criteria for membership. In terms of the political criteria it concludes that (since 1997) “the country has made considerable progress in further consolidating and deepening the stability of its institutions and guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities...Slovenia continues to fulfil the Copenhagen political criteria”.

The economic developments made in Slovenia are judged according to the conclusions of the Copenhagen European Council (1993), i.e. that the membership of the European Union requires:

- The existence of a functioning market economy
- The capacity to cope with competitive pressure and market forces within the Union

The EU report arrives at the conclusion that Slovenia fulfils both criteria. The second obligation, however, requires that the reforms under way must be implemented.

From the accession point of view Slovenia’s progression in terms of the 29 negotiating chapters of the “acquis” are decisive, i.e. as regards

- The “four freedoms” characterising the internal market (free movement of goods, persons, services, capital)
- Company law, taxation and the various policies (competition, agriculture, fisheries, social policy, industry, foreign and security and culture and audio-visual policy)
- Infrastructure (Energy, transport, science and research, education and training, telecommunication, consumer and health protection, justice and home affairs)
- Special European integrative elements such as Customs Union, Economic and Monetary Union, regional policy and structural instruments, external relations, financial control and financial and budgetary provisions and statistics.

The Progress Report summarises that Slovenia has continued to advance, in particular in the areas of the four freedoms, fisheries, Economic and Monetary Union, employment and social policy, regional policy, environment and financial control. “Overall, Slovenia has achieved a high degree of alignment with the *acquis* in most areas, and is well advanced concerning the administrative capacity needed to implement the *acquis*, although further efforts are still needed”. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps which - for example - focus on removing “restrictions on foreign direct investment concerning investment funds and management companies”.

Overall it can be said that the environment of the Slovenian industry is “placid and predictable” rather than “turbulent and chaotic” so that both domestic and foreign business organisations can rely on information given and plan ahead “How to do business in Slovenia” (www.tradepoint.si/eng/business - May 5th 2003).

Competences and Capability

In terms of competences and capability it should be stressed that Slovenia has a 99% rate of literacy and a labour rate of more than 40%. The standard of education and training has always been high (e.g. in terms of foreign language speaking as mentioned above), being influenced by EU countries also. To this extent Slovenia has signed the Bologna and Brugges agreements, indicating their willingness to “tune” into the developments in education and training within Europe. For years Slovenia has received Community Assistance (SEC(2002)1411) and been able to participate in PHARE, thus inter alia benefited from the education and training elements organised within TEMPUS. Mobility of students and staff has been on the agenda and the institutions have started to design new structures and instruments to arrive at a life-long-learning concept, introducing learning outcomes and credits to identify and measure results. Knowledge within this context can be defined as “awareness, consciousness or familiarity gained by experience or learning” (Johnson/Scholes 2003).

To which extent can the roots of strategic capability be identified? What are threshold competences and resources which are essential to stay in business and survive within the new competitive situation to come? Do Slovenian enterprises know the threshold product/service features as all potential providers must meet these requirements to stay in business? If they want to know, they have to find out what the customers value – there may be many new customers when joining the EU. To exploit other opportunities and create new ones, however, the critical success factors in a given market have to be revealed which may suit the enterprises or which the companies have to change to be able to attract new customers. “Critical success factors (CSFs) are those product features that are particularly valued by a group of customers and, therefore, where the organisation must excel to outperform competition”, and which are used by the customer to distinguish between potential providers. (Johnson/Scholes 2003). The competences and

resources needed to outperform competitors are core competences or unique resources respectively. Johnson/Scholes define core competences as activities and processes which decide whether an organisation can meet the critical success factors or not. If they do, the enterprise will be able to get and sustain a competitive advantage.

Addressing new customers, however, may lead to failure too. Customers of other European Member States may not value the features of Slovenian products or services. Thus the respective competences become redundant and the resources inadequate. This will lead to an exit, if the organisation realises this in time, otherwise to business failure. Enterprises should enter new market sectors when anticipating this situation, being aware that the threshold requirements in terms of competences and resources are most likely to be different and that this implies a repositioning (Lynch 2000).

Organisational issues have to be discussed in this context too. Going back to Porter (1985), more or less all state-of-the art management literature indicates the importance of the value chain in which the stress is not just on identifying the primary and support activities within a business enterprise but in particular the linkages between them. They even speak of creating a value system or value network in which the benefit is highlighted when linking the value chains of the suppliers and the customers with the value chain of the organisation. Johnson/Scholes summarise these ideas by identifying the type of linkage and the type of activity to achieve competitive advantage. For example internal linkages at primary activity level could be realised by interdepartmental coordination. Or computer-based operational systems would link primary and support activities etc. and managing innovation through people requires a connection between support activities.

External linkages could extend ownership of activities in the supply/distribution chain or may make necessary a reconfiguration of the value chain because some activities have to be deleted. Also the integration

of internal and/or external competences could be essential for getting a competitive advantage. This could, for example, be achieved by combining separate technologies.

Johnson/Scholes relate this to efficiency and effectiveness. They understand cost efficiency as a measure of the level of resources needed to create a given level of value to the customer. Effectiveness on the other hand means that the enterprise is able to meet the requirements of customers in terms of product and service features at a given cost.

These surely are also issues when Slovenian enterprises consider forms of co-operation or concentration, i.e. joint ventures, strategic alliances or mergers and takeovers. The respective competition laws have to be respected, realising that national law is superseded by European law which might be helpful but clearly has to be considered in issues of anti-trust, merger control, state aid control and international cooperation (see Competition Policy Newsletters, published three times a year by the Competition Directorate-General of the European Commission).

The specific protection of Small-and-Medium-Sized enterprises (SMEs) by the EU should be stressed (European Charter for SMEs in the accession countries, April 23rd Maribor). Of late, for example, the Commission has - again - passed several proposals how to support SMEs. Inter alia it is suggested to nominate a SME-counsellor who in particular should co-ordinate those issues concerning these enterprises. Also, a forum "Your Voice in Europe" has been introduced in which the SMEs much better can put forward their opinion about legal and political issues etc. So far it has not been used so often. The bridging function is seen in education and training. The entrepreneurship should be much more encouraged and - in several Member States - it has indeed a high acceptance and reputation (EU Green Paper "Entrepreneurship in Europe" - comments are invited up to June 30th this year). The 6th framework in research respects SMEs explicitly. However, it also becomes evident that - independent of all these initiatives - the

inadequate opportunities to the capital market seem to remain a major barrier for SMEs (NATI - Technologieagentur Niedersachsen, Euro Info Center 2003).

Expectations and Purposes

Expectations and purposes are very much geared towards the accession to the European Union. In fact, in the March 23rd referendum 89% of the voters said “yes” to EU membership (Financial Times April 2003). Therefore it is important that the expectations will be met, e.g. in terms of a decrease of inflation, a strengthening of the competitiveness of the enterprises and an increase of foreign investment without selling the “family silver”. Bostjan Jazbec of Ljubljana University outlines that Slovenian companies are aware of the demands of competing with western European companies and should cope (FT April 2003) but the protection domestic enterprises have enjoyed which heavily depend on the home market should not be forgotten. At the same time opposition groups have challenged the ruling government and asked for change as “the long hold on power of Liberal Democracy of Slovenia...has led to an unhealthy concentration of power among the party’s allies in the economy and the media” (FT).

Slovenian enterprises have to identify clearly their mission and objectives in a highly competitive market. Whom *should* the companies serve and how should purposes be determined? These issues of corporate governance have to be reflected from the stakeholder’s perception: Whom *does* the organisation actually serve? Which purposes *should* be prioritised in Slovenia? If they should at all - and why? Are these issues of business ethics taken on to the organisational level to identify those purposes which *are* prioritised and why? - identifying the cultural context of Slovenian business organisations (Hodgetts/Luthans 2000).

Options and Choices

To work out options Slovenian enterprises could pursue various ways and apply different instruments. On the basis of the analysis of the environment - outlined above - enterprises could adapt their resources and competences in a way they take advantage of them. In literature (Johnson/Scholes) this is called *strategic fit*. It is what many enterprises in Slovenia will most likely do. The question has to be asked whether they can do so. If not on their own, they should try to find an adequate partner or partners in the sense of the value system. Can they do so at national and or European level?

The alternative strategic decision is called *strategic stretch* as it is the “leverage of the resources and competences of organisation to provide competitive advantage and/or yield new opportunities” (Johnson/Scholes). Whereas the strategic fit is environment-led; the strategic stretch is resource-led. It can be assumed that most of the Slovenian enterprises will not have the resources to pursue a “stretch” strategy. However, generalisations are big lies. There may be an organisation which has achieved a competitive advantage through differentiation based on competences suited to or creating market needs. In the case of environment-led fit this means to achieve competitive advantage through differentiation driven by market needs. Yet, before an enterprise could pursue one of these two options it should be aware what its strengths and weaknesses are. On this basis only, the linkage with the opportunities and threats identified from the analysis of the environment can be made (SWOT).

Organisations achieve competitive advantage by “providing their customers with what they want, or need, better or more effectively than competitors”. And respectively a competitive strategy “is the bases on which a business unit might achieve competitive advantage in its market” (Johnson/Scholes). Porter (1989) advises enterprises to decide on their strategy on this background. He proposes two basic strategies to which

he refers as being “the generic strategies”. Considering the *competitive advantage* and the *competitive scope* Porter recommends the companies either to pursue a cost leadership or shape the market by being the differentiator. A cost leader “seeks to achieve a lower price than competitors whilst trying to maintain similar value of product or service to that of competitors” whereas business organisations which want to become the differentiator try to offer products and/or services which are unique or different from those of competitors “in terms of characteristics widely valued by customers”. Later on Porter additionally introduced the focused differentiation as another strategic pathway.

Considering Slovenian industry there may be a few enterprises only which could exploit their potential to become the market leader. However, it is not enough that the business organisation decides what to do, equally - or even more important - is whether the enterprises could sustain what they do. Finally it is up to the customer who decides whether an enterprise is perceived in a position they wanted to be. If the perception of the customers is different from the intention of the company, the company will not be able to achieve its objectives.

Bowman widened Porter's approach and developed the “strategy clock” (1995). His model reflects the perceived added value of the customer explicitly. By considering this value with the price, respecting a range from “low” to “high”, he arrives at 8 different strategic approaches, ranging from the “no frills” strategy (position 1 on the clock) to “low price” (2), “hybrid” (3), “differentiation” (4), “focused differentiation” (5) to the positions 6, 7 and 8 which he considers as strategies destined for ultimate failure, e.g. 8 meaning that there will be a loss of market share because the value of the product/service of the company as seen by the customer is low and the price is more or less at an average level,

It is likely that Slovenian enterprises may find themselves either in a hybrid position (3) or may be perceived as focused differentiator (5). In

favour of the hybrid position may be the relative low cost base which - presently - leads to reinvestment in low price as foreign investment is lacking but which on the other hand allows for some differentiation. This could be in the food sector, in which enterprises of present Member States have positioned themselves successfully (ALDI as a German retailer e.g.). It may also be possible that in some industry Slovenian enterprises may be seen as focused differentiators as they appear to deliver added value to a particular segment of the market, being able to ask for price premium.

Following the idea that enterprises have to grow to be able to stay in the market, Ansoff has designed four routes how enterprises can grow. Although growth in here is used as growing "physically" it should also be stressed that growth refers to "internal" growth, in particular through the acquisition of tacit knowledge. By combining "existing" and "new" markets and products, Ansoff recommends the enterprises to consolidate their position or penetrate the market further (existing market and product) or to diversify (new market and new product). However, it is also possible to develop a market (new market / existing product) or a product (existing market / new product) which may lead to design a market entry strategy. Johnson/Scholes have taken up this model to identify strategy development directions.

In making the decision which strategy should be selected, several techniques could be applied. The "Scenario Technique", for example, details and explains how "the business environment of an organisation might develop in the future based on groupings of key environmental influences and drivers of change about which there is a high level of uncertainty". For Slovenian enterprises one of the decisive elements with a high uncertainty is whether there will be a significant increase of direct investment. The Scenario Technique takes the developments with the "greatest effect" and the "highest uncertainty" which allow for the development of basically three options: benign, industry wisdom and hostile. Normally speaking, industry wisdom reveals the future environment in which the enterprises have to survive.

However, before any implementation of strategy, the business organisation should find out whether the strategy is feasible first of all but also whether it is suitable to the enterprise in its environment and whether it will be acceptable to its stakeholders. Whereas feasibility “requires an emphasis on more detailed practicalities of resourcing and strategic capability” (in financial terms, resource deployment...), “acceptability is concerned with the expected performance outcomes ...of a strategy and the extent to which these would be in line with expectations”, expressed in return (profitability, cost-benefit, shareholder value)...or risk (financial ratio, sensitivity analysis...) Suitability is concerned with whether a strategy addresses the circumstances in which an organisation is operating - the strategic position” (Johnson/Scholes).

Implementing strategy

When implementing the strategy chosen the major role of human resources has to be taken into account. Without “persons” no strategy will be implemented. When accepting this, one does not only have to think about the employee as an individual but also as a member of a group, that is the organisational culture is of major importance. Using the works of Hofstede, Trompenaars and others it becomes evident that cultural management is a decisive element and the knowledge about the business culture “makes or breaks” the success of introducing a strategy. Johnson/Scholes underline this in their model of a cultural web. They understand it “as a representation of the taken-for-granted assumptions, or paradigm, of an organisation and the physical manifestations of organisational culture. The cultural web thus reveals the paradigm of an organisation, defined as “the way we are doing things” (Bower) and highlights its constituents: rituals and routines, stories, symbols, power structures, organisational structures and control systems. The knowledge about these parts and their interrelationship is critical for the success of the new strategy as supportive and blocking elements can be identified (“forcefield analysis”, Johnson 2001).

Johnson lists for example an “ethos of hard work” or also flexibility of the workforce as “pushing” factors. “Overload” or “departmentalism” on the other hand are typical examples of “resisting factors”.

It becomes evident for any enterprise that when cooperating or merging with other business organisations it is not enough to understand the respective national culture in which the various enterprises are embedded, even more so the knowledge about the web is elementary. Unfortunately, most enterprises joining forces in one way or another do not pay attention to this basic fact. The high failure rate of mergers definitely can be traced back to business cultures.

Nevertheless, the various styles in which the implementation of the new strategy is managed have to be carefully thought of. The issue is to which extent employees can be involved and how the whole process can be communicated. Quite well-known are also the various tactics managers and employees can apply to get their various viewpoints through. In this paper this cannot be discussed in detail. Instead, a general guideline should summarise the underlying idea of it: When deciding on their strategy Slovenian enterprises should bear the principle of creating a “win-win”-situation in mind. In the long run only those organisations will stay in business which succeed in achieving and communicating their value added in which their stakeholders will share.

This paper cannot serve as a checklist for Slovenian enterprises what to do in the near future. However, by supplying some background to the seven key questions listed by Lynch (page 2) it is hoped that business organisations may be helped in working out their ideas about the strategy to follow.
