

THE IMPORTANCE OF DEFINING STRATEGY IN THE PRESENT ECONOMICAL CONTEXT

Cătălin GIURGIU¹

Anca BORZA²

ABSTRACT

The purpose of this study is to show how important the process of defining strategy can be for a company in the economical context that we all face now days. This study shows that although the results after a company has defined its strategy can be seen in a longer or shorter period of time, the process is complex and needs managers that can foresee the future. And at the end of every strategy defining the final result should be competitive advantage, this competitive advantage that can bring a company in front of its main competitors, and if the company manages to stay in front of those competitors it can gain sustainable competitive advantage. In fact this should be the goal of every company: to try by all means, off course legal means, to do things better than other companies using the right strategy.

KEYWORDS: *strategy, competitive advantage, objectives, strategy implementation, strategy focus*

JEL CLASSIFICATION: **O18 A1 M1**

1.INTRODUCTION

In the past years the economical context has shown us that many companies weren't able to face the economical crisis, and one reason was that they didn't have a well planed strategy. Of course the process of preparing a good strategy should not occur in difficult moments, it is necessary that it should be stated long before such times, because in difficult times it is very hard to find a suitable solution regarding the context and how quickly things change.

Therefore is important to regard strategy as one of the key elements of a business, and regard that the difference of having a strategy developed and implemented and not having one could mean the difference between managing on the market and bankruptcy.

Managers should also keep in mind all the important factors that can affect a company from inside but also from outside, and develop the means to transform threats into opportunities and in this way having the possibility to deal with all kind of challenges.

2. IMPORTANT

The article hopes to give answers to the following questions: what can be obtained after a good strategy implementation, how can competitive advantage be obtained, what can be the cost of not implementing a strategy, which are the steps for defining strategy in a company. Its aim is to be a theoretical article in which the major aspect of providing a good strategy can be transferred to a company with a brief presentation of an international company that has focused in the past years on a successful strategy: the low cost strategy.

¹ Babes-Bolyai University, Romania, email: giurgiu_catalin@yahoo.com

² Babes-Bolyai University, Romania, email: anca.borza@econ.ubbcluj.ro

3.The process of defining strategy

The notion of strategy is important for a company which operates on a free market and where it confronts numerous competitors, as same as a army needs a strategy before going to war. The war on such a market is fought through price policies or differentiation policies which can put a mark against other companies, and the role of the army commanders is taken by the company managers who have day by day to reinvent themselves and to find new solutions in order for a company to exist on the market and to prosper on that market.

In this context the concept of having and implementing a strategy gains so much sense, a strategy a strategy that fits with the general policy of a company and at the end it will be able to bring success. In this century of speed where everything changes at the speed of light it is important for the managers to find quick and efficient solutions at the problems that a company can deal on a market.

Many contemporary theories treat strategy as the main way in which a company can obtain competitive advantage, and this is quite true, because a good conceived strategy and well implemented can bring the most desired competitive advantage to a company. Although sometimes it is difficult for a respective company, and here we are talking about the managers, who can not say for sure that they are on the write path when it comes to implementing the best strategy, there is the possibility to reduce that risk. The best way in which this can be obtained is through the thoughtful and systematical selection and choosing the most appropriate strategy and applying the strategically management process.(Barney & Hesterly, 2010)

Before obtaining competitive advantage a company has to realize what competitive advantage really is. There are many definitions of competitive advantage which say that a firm has competitive advantage when it is able to create more economic value than rival firms. Economic value is simply the difference between the perceived benefits gained by a customer that purchases a firm's products or services and the full economic cost of those products or services. (Barney and Hesterly, 2010)

Others see competitive advantage as a value that motivates the customers (or end users) to purchase the firm's products or services rather than those of its competitors and poses impediments to imitation by actual or potential competitors.(Christensen, 2010)

The strategically management process is a set of analysis and decisions that can rise the probability of a company to implement a good strategy, a strategy which in the end will generate competitive advantage.(Barney & Hesterly, 2010)

3.1.Defining the company's mission

For companies which are at the start of the road or for which have a long presence on the market, defining the company's mission is an essential criteria and at the same time the first step which must be taken in order for that respective company to have even a chance to obtain competitive advantage. The mission can be formulated in a few phrases or it can be resumed at a few words, but that can give a client that first enters in contact with that company, which in a sense represents a psychological moment, a sense that the respective company really knows what it wants from the market and what it wants to give back to the community where it operates and this psychological moment can create a bond between the company and the client and vice versa.

The mission can be communicated very easy through the company's website, and it can be as simple as: *We try to make your life better every day.* Then a company can try to emphasize the most important principals that the company respects, and were those principals have taken them so far. In such times of crisis the message can be changed to better suit the period, it all consists of the psychological trigger that is submitted to the client, trigger to by the company's product or service.

The process of defining strategy can be a long and challenging process that can take time, also evaluating if the strategy was a success can take even years. In some cases managers have to model the strategy as the company continues its activity, or in some cases to change entirely the old strategy, influenced by market shapes, consumer demands, competition or what the company's owners want.

In other cases stating the mission of a company can be presented through which are the main goal of the company in the next period of time. If a company has clear goals that can be achieved, it can induce to the client the fact that the company is really interested in the future perspectives both in regard of the financial plan but also in the environment issue as well.

For example the computer company Dell have a message: *The core elements of the soul of Dell* , this soul is made up by 5 parts:

1. The clients. Dell believes in the creation of a relationship based on trust with its clients through the providing of a superior experience at a fair value.
2. The employees. Success is based on teamwork and through the offering the opportunity to each employee to learn and to be able to develop his qualities.
3. The direct approach of a problem or challenge.
4. Social responsibility. Dell believes in a responsible participation on a global market.
5. The passion to win at everything that they do. (Barney & Hesterly, 2010)

Schematically the strategic management process can look like this:

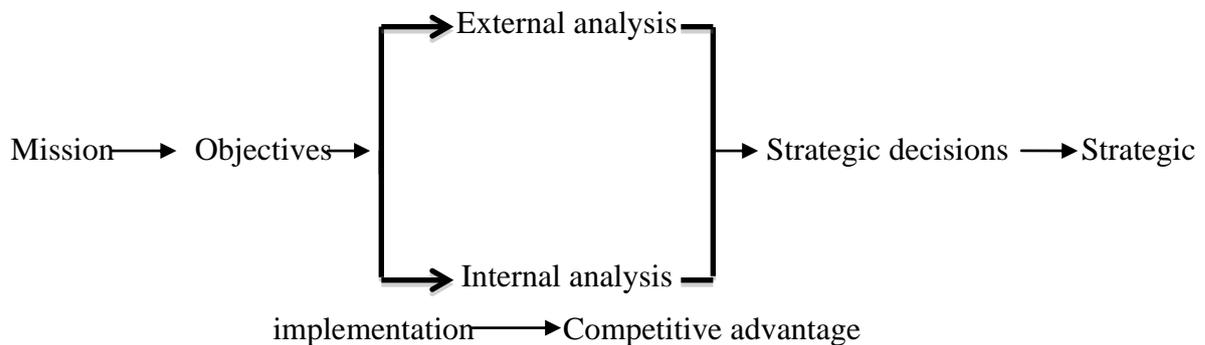


Figure 1. The strategic management process

Source: adapted from Barney & Hesterly (2010, p. 5)

Another aspect regarding strategy defining is the fact that it should consistent with the expectations that the other factors have regarding the company, and here we are talking about factors that affect both the internal environment but also the external environment and these are:

1. Internal stakeholders:
 - Human resources
 - Shareholders
2. External stakeholders:
 - Clients
 - Suppliers
 - Competitors
 - The environment
 - Society

Of course in such a context it is hard it is getting harder and harder for a company to be able to please all these categories of stakeholders taking also into consideration the actual economic context, but in such conditions the managers have to be aware of their global responsibilities and to give the same attention to the all kinds of stakeholders that are necessary in order for a company to conduct its activity. (Nejeti et al., 2010).

3.2. Establishing the company's objectives

Defining the company's mission was the introduction, an introduction of what the company's managers want to achieve in the future or how they want the clients to see their company, the objectives represent the second essential step in realizing the company's strategy.

In this second step the objectives are measurable in the sense that a company can set the goal of achieving the X turnover until the year Y.

Although in many cases the main objective of having and running a business is to have profit, this is the main goal that many shareholders impose to their managers, sometimes this objective can have other ways of fulfilling itself:

- The creation of n number of jobs in the countries in which our company is present
- Activity expansion in other parts of the globe
- Pollution reduction in the factories owned by the company
- Maintaining the same market share in the future

We can see the context in which the objectives are generated through this main factors that play on the market:

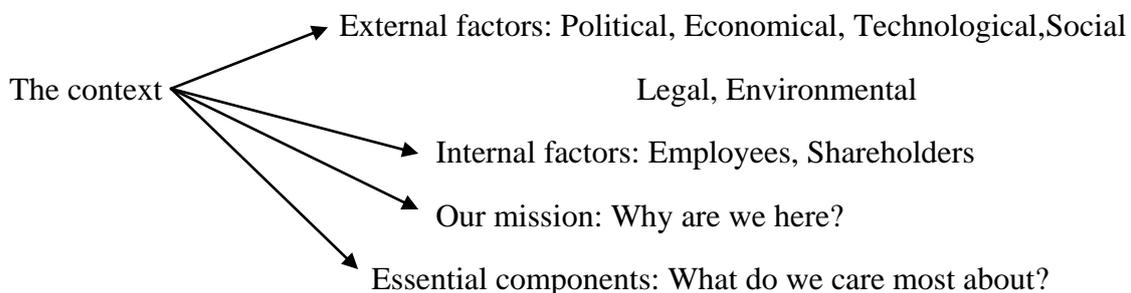


Figure 2. The context of setting objectives

Source: Adapted from Philips (2011)

Also the company's strengths should be mentioned in this process but also the weak points, and creating some scenarios regarding opportunities that can be gained on the market but also threats and what the company want to achieve in the future:

- The vision: What do we want to become
- Long term stability
- Designing the future now in the present
- The conscientious allocation of resources (Philips, 2011)

Strategy should be the force that should action on the company in such a way that it will achieve its objectives, objectives that need to be designed in the present to have effect on the future. The objectives should be formulated only after a detailed analysis of the company's strengths and weaknesses, aspects that regard the internal environment, but also the opportunities that can occur and threats present on the market.

In the opinion of Philips (Philips, 2011), strategy is a simple issue, in which only the right questions should be asked and these are: “what” and “why”, and not “how” or “when” and the question that defines the company’s mission is “why are we here”, this question generates the next important question “what is our main activity”, and the answer reveals itself through the product or the service that the company sells. To make profit represents one of the objectives, and the fulfilling of this objective will enable the company to realize its mission, and being just a means of realizing the mission, not the mission itself.

Also a share of values that the company keeps in mind when presenting their image to the public can have a powerful impact on the customers.

Our values:

- Act with uncompromising honesty and integrity in everything we do.
- Satisfy our customers with innovative technology and superior quality, value and service.
- Provide our investors with an attractive return through sustainable, global growth.
- Respect our social and physical environment around the world.
- Value and develop our employees’ diverse talents, initiative and leadership.

Earn the admiration of all those associated with the company’s image. (<http://www.3am.com.tw/exec/msg.php?mid=2&cid=2&lg=E>)

As suggested in Abrahams(1995) the values that a company tries to respect can be expanded to include specific objectives:

Satisfy our customers with superior quality and value:

- Providing the highest quality products and services consistent with our customers’ requirements and preferences.
- Making every aspect of every transaction a satisfying experience for our customers
- Finding innovative ways to make life easier and better for our customers
- Providing investors an attractive return through sustained high-quality growth.

Our goals are:

- Growth in earnings per share averaging 10 percent a year or better.
- A return on capital employed of 27 percent or better.
- A return on stockholders’ equity of between 20 and 25 percent.
- At least 30 percent of our sales each year from products new in the last four years.

Respecting our social and physical environment:

- Complying with all laws and meeting or exceeding regulations.
- Keeping customers, employees, investors and the public informed about our operations.
- Developing products and processes that have a minimal impact on the environment.
- Staying attuned to the changing needs and preferences of our customers, employees and society.
- Uncompromising honesty and integrity in every aspect of our operations.

Being a company that employees are proud to be a part of:

- Respecting the dignity and worth of individuals
- Encouraging individual initiative and innovation in an atmosphere characterized by flexibility cooperation and trust.
- Challenging individual capabilities
- Valuing human diversity and providing equal opportunity for development.

3.3. The external and internal analysis

The next step that must be taken in order to fulfill a good strategy decision and implementation is to realize the external and internal analysis. Opportunity and threat identification can be realized through the help of the SWOT analysis, this analysis enables the company also to find its strengths and weaknesses.

This is a good opportunity for all those who compose the management team to have the same view regarding a problem that affects the company, and to find a solution to it using the SWOT analysis. The participants are asked to say which are in their opinion the weak points and the strengths of the company, regarding aspects that come inside the company, the structure, the processes technologies but also aspects that come from outside the company. And a good way to identify strategic opportunities is to link the results obtained using the SWOT analysis and to ask every member of the management team to suggest a strategy, which must start with a verb, this will help the company to strengthen its valuable points, to repair its weak ones, to capitalize opportunities and neutralized its threats by turning them into opportunities. (Philips, 2011)

The whole idea behind this SWOT analysis is to create a pleasant ambiance, as in the case of using the brainstorming method. The participants must feel as comfortable as possible, without having any fear of repercussions if they don't give the right answer. In this case good results are directly linked to a relaxed atmosphere created during the process, the idea is to try to position the company in present times, and identify the right actions that must be taken in the future.

Then there should take place a segmentation of each compartment regarding the external factors that can affect the company using the PESTEL method. This method analyses the 6 elements that create the external ambiance: politics, economics, social factors, technologies, environment, laws and regulations.

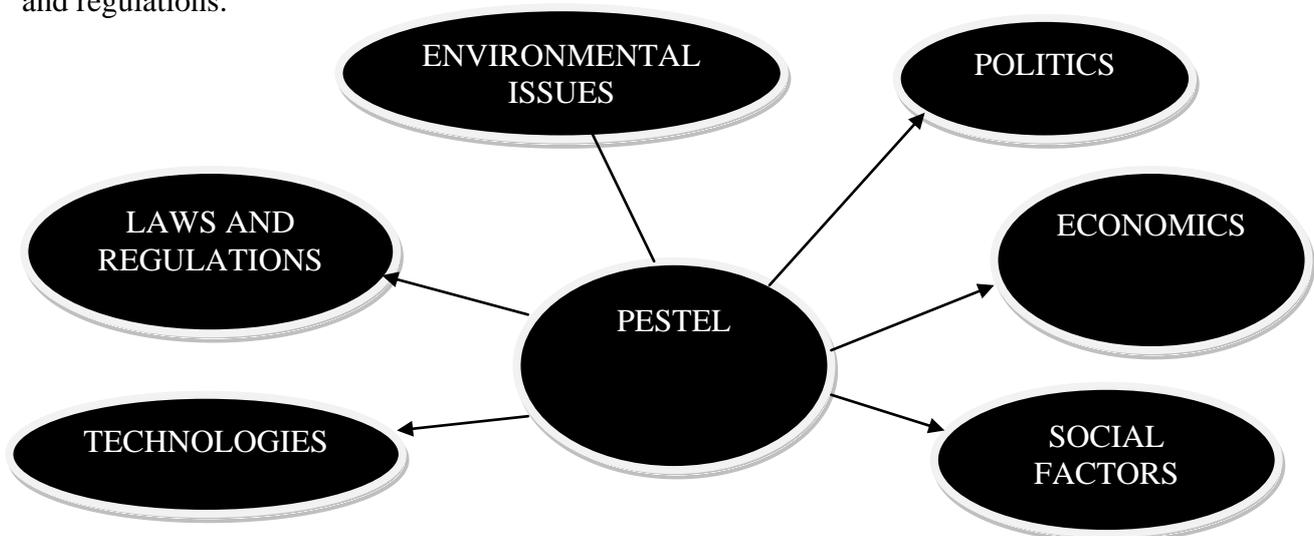


Figure 3. The PESTEL elements

In the upper figure the 6 elements are placed in an order that resembles the hours from a clock, where 12 o'clock represents the beginning of the analysis and 11 o'clock the completion of it. And the other parts that compose the clock are:

Politics can influence the activity of a company through government measures, for example tax increase, excise increase, resource allocation for public investments, protectionist measures regarding a sector of the economy, or the listing of a public company on the stock market.

The domain of economics is probably the wastes sector that can influence the activity of a company, and the most recent example is the financial crisis felt back in 2008 and which is still haunting sectors of the economy today in 2014.

Social factors have the capacity to influence the activity of a company on a long term, and here the best example is the demographic factor which in our country is possible to create, because of the low natality, a crash of the pension system, this could be speculated by insurance companies.

Technology affects both companies that are in the production field, but also those which are concentrated on services. Those which produce goods can improve their line of production, and the others can use informatic programs to help ease the work of their employees, and to help them to be more efficient at work.

Environment factors have gained more and more importance in the past 20 years, with numerous decisions taken in this field and that can impose a certain amount of concentration of CO₂ in the air, or other substances in the water. Often sanctions and fines are given to companies that do not align to the regulations in this field.

As in regard of the laws and regulations, they can influence directly the activity of a company, and they must be put immediately in practice.

The crowning of all the efforts of analysis can only come after the achievement of the internal analysis of the company. The SWOT analysis offers an image of the strengths and the weak points that a company holds, the anchorage in the present and the projection in the future can only come after analyzing the internal components. This should regard the company's employees, both the management team and the workers, the resources that the company holds, material resources, financial resources and how far the company can go using those resources that it has in the present.

This involves also analyzing the human resources and how far the company can go using the people that are now in the company. This analysis should reflect if that respective company should invest in the human resource that it has in the present, or should consider recruiting new people in the organization to improve performances. This should be also considered in the case of the technological resources that a company has, but these factors are influenced decisively by the economic resources owned by the company and spending money with thrift.

3.4.Choosing the right strategy

After designing the mission, establishing the objectives and realizing the internal and external analysis a company can be a little more certain about the environment where it undergoes its activity, and can have a perspective at least about the near future, because strategy is a term that comes from the military field, we can associate this steps to a soldier who is going at war, that has been trained, has been given equipment and established the main objectives on the battlefield, and now is ready to face the enemy.

There are 2 kinds of strategies from which a company can choose:

- business strategies and here are 2 subcategories:
 - the leadership through cost strategy
 - differentiation strategy
- corporate strategies, this kind of strategies are used by big companies to obtain competitive advantage in two or more industries or markets. (Barney & Hesterly, 2010)

3.4.1. Low-cost strategy implementation at Ryanair

The recent spread of low-cost strategies beyond the American domestic market, where Southwest started operating in the seventies, has brought low-cost pricing to the forefront of research. The success of low-cost airlines in Europe has been astonishing. Low-cost carriers offered almost 20% of all European flights in the first half of 2007 (Eurocontrol, 2007).

The most eloquent example when it comes to present the leadership through cost strategy is the airline company Ryanair. Headquartered in Dublin, Ireland, Ryanair flies short flights throughout Western Europe. In 1985, Ryanair's founders started a small airline to fly between Ireland and England. For six years, this airline barely broke even. Then in 1991, Michel O'Leary, current CEO at Ryanair, was brought on board. O'Leary traveled to the United States and studied the most successful low-cost airline in the world at that time: Southwest Airlines. O'Leary became convinced that, once European airspace was deregulated, an airline that adopted Southwest's model of quick turnarounds, no frills, no business class, flying into smaller regional airports, and using only a single kind of aircraft could be extremely successful. Prices in the European air market were fully deregulated in 1997.

Since then Ryanair has become an even lower-cost airline than Southwest. For example, like Southwest, Ryanair only flies a single type of aircraft: a Boeing 737-800. However, to save on the cost of its airplanes, Ryanair orders them without window shades and with seats that do not recline. This saves several hundred thousand dollars per plane and also reduces ongoing maintenance costs. Both Ryanair and Southwest try to make it easy for consumers to order tickets online, thereby avoiding the costs of call centers and travel agents. However, just 59% of Southwest's tickets are sold online, 98% of Ryanair tickets are sold online.

This focus on low costs allows Ryanair to have the lowest prices possible for a seat on its airplanes. The average fare on Southwest is \$92; the average fare on Ryanair is \$53. But, even at those low prices, Ryanair is still able to earn comfortable margins.

However, those net margins don't come just from Ryanair's low costs. They also reflect the fact that the fare you pay Ryanair includes only the seat and virtually no other services. If you want any other services, you have to pay extra for them. If you want any other services, you have to pay extra for them, for example if you want to check bags, it will cost \$9.95 per bag.

Finally to further increase revenues, Ryanair sells space on its planes to advertisers. When your seat tray is up, you may see an ad for a phone from Vodaphone. When the tray is down you may see an ad from Hertz.

All these actions enable Ryanair to keep its profits up while keeping its fares as low as possible. And the results of this strategy have been impressive, from near bankruptcy in 1991, Ryanair is now the largest international airline. (Capell, 2009)

If we take into consideration that the market where Ryanair is undergoing its activity was affected first by the events that took place on 9/11 2001 at the World Trade Center towers, and second by the economic crisis starting from 2007, the company's success is even greater, and this success can be linked to applying the cost leadership strategy.

Going on the other side of the Atlantic we can see that the company from where Ryanair has been learning business management achieved the 39th year with profit, and taking into consideration that this industry is in many ways brutal with no time to take air, and quick decisions are needed.

This performance of Southwest Airlines is impressive and some of the strategies presented on the previous page about Ryanair are used by Southwest with the mark that the American company used them first but also strategies that are constantly putting the company in front of this industry: it uses only one airline type the Boeing 737, it doesn't assign seat numbers, it doesn't charge for check bags, Southwest's flights are generally point-to-point. The plane lands, goes through turnaround, and often heads right back where it came from. With less interdependence, the network can survive a problem at a single airport. The system is designed to facilitate short-haul flights, not international travel—Southwest targets the domestic business commuter, not the globetrotting jetsetter. (http://www.slate.com/articles/business/operations/2012/06/southwest_airlines_profitability_how_the_company_uses_operations_theory_to_fuel_its_success_.html)

Financial Highlights:

Tabel 1. Ryanair financial highlights

	2013/€ M.	2012/€ M.	Change
Operating revenue	4,884.0	4,324.9	+ 13%
Net profit after tax	569.3	560.4	+2%
Adjusted net profit after tax	569.3	502.6	+13%

Source: adapted from Ryanair financial report 2013, p. 2

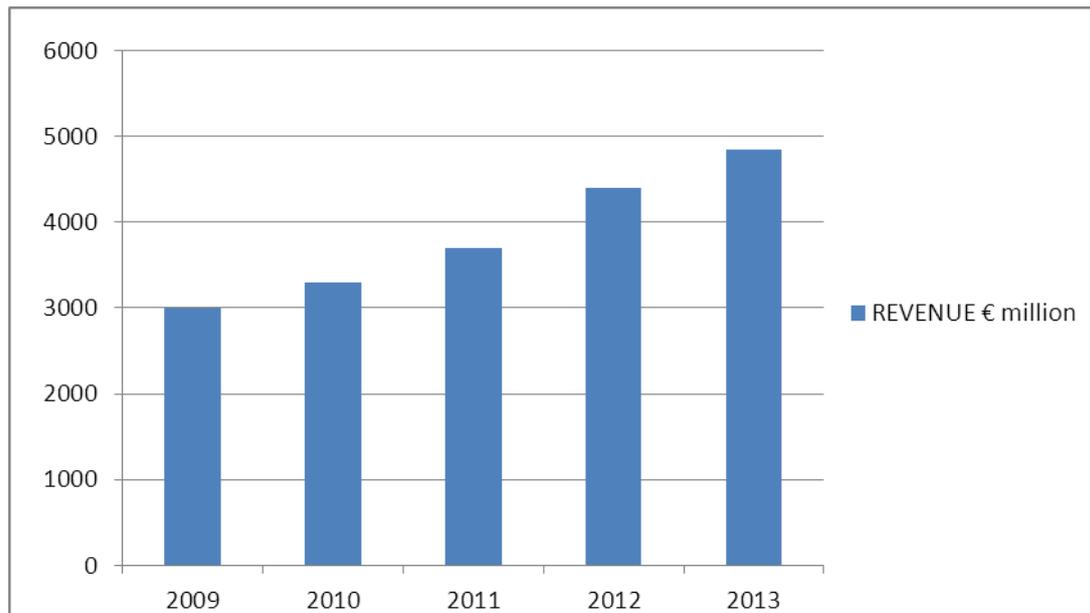


Figure 4. Ryanair revenue 2009-2013

Source: adapted from Ryanair financial report 2013, p. 2

Profit after tax increased by 13% to €569.3 million compared to €502.6 million in the year ended March 31, 2012 primarily due to a 6% increase in average fares and strong ancillary revenues, offset by an 18% increase in fuel costs. Total operating revenues increased by 13% to €4,884.0 million as average fares rose by 6%. Ancillary revenues grew by 20%, faster than the 5% increase in passenger numbers, to €1,064.2 million due to a combination of improved product mix and the roll out of reserved seating across the network. Total revenue per passenger, as a result, increased by 8%, whilst Load Factor remained flat at 82% compared to the year ended March 31, 2012.

Total operating expenses increased by 12% to €4,165.8 million, primarily due to an increase in fuel prices, the higher level of activity, operating costs associated with the growth of the airline, and the strength of UK pounds sterling to the euro. Fuel, which represents 45% of total operating costs compared to 43% in the prior year, increased by 18% to €1,885.6 million due to the higher price per gallon paid and increased activity in the year. Unit costs excluding fuel increased by 3%, including fuel cost per passenger (—unit costs) rose by 8%. Operating margin increased by 1 point to 15% whilst operating profit increased by 16% to €718.2million. (http://www.ryanair.com/doc/investor/2013/final_annual_report_2013_130731.pdf)

This strategy can be applied by other companies in other industries, for example companies that operate in the field of goods transportation and has a fleet of several trucks can reduce its cost applying some techniques used by Ryanair. In the sense a manager from such a company can purchase the same kind of trucks reducing therefor maintenance costs, and can choose from the standard model which has the lowest cost.

It also can develop a strong relationship with its consumer through a well design web site where clients can have an image about the company's services and even make orders. As in the case of airplanes, trucks can be used for advertising spaces, enabling that company to increase its profits.

3.5.Strategy implementation

The last stage in this process of defining strategy is the implementation stage, this stage can differ from one company to another when it comes to the duration of the implementation, which depends on the complexity of the strategy, and this period can vary to a couple of months to even years.

What is important is that at the end, the results to be seen in the financial reports of the company, but also in the satisfaction of the company's clients and all the components of the internal and external environment.

This strategy implementation can only occur if that respective company adopts policies and regulations that consistent with the company's entire philosophy. There are 3 particularities regarding this policies and regulations, which are very important when it comes to a successful implementation: the organizational structure, the informal and formal structure, and the employee bonus system. A company that adopts a organizational structure that fits best its principals, that can manage the difficulties regarding a informal structure, and which knows how to motivate its employees has better chances to survive on the market and to obtain competitive advantage.

4.CONCLUSIONS

These aspects regarding strategy show that a company must take very serious the facts and the forces that can come from a powerful strategy. In this period when competitive advantage can not appear just out of nowhere it is very important for the management team to have a clear direction and this can only come from a coherent analysis made from present elements in the company.

As shown in the upper examples a good strategy must fit the company like a glove, and must be suitable for the company in the near and far future. Future analysis will try to see the sources of competitive advantage and how they are able to influence the strategy of a company, a backward process considering that a company has established a strategy and it is able to obtain competitive advantage, is it necessary to change the strategy or should the company only try to adapt to new conditions.

Circumstances on the market show how difficult is for a company to adapt to new conditions, and a fact regarding strategy is that in order for a company to implement a good strategy it must have stability in the organizational team both in the management team but also a low fluctuation of employees.

As we could see the road from defining strategy to obtaining competitive advantage is a long road, full of spaces where a manager has to take decisions, to assume risk , and the final goal of the competitive advantage can be seen in months maybe even years, the goal is to bring the company into a better position, to improve the position in which it is now, or to benefit from a better market position.

The goal of well based strategy is competitive advantage. This term can be seen as a perception, this is grounded in facts and data, as often the case with business-to-business products and services, primarily in emotion-based branding, as with cola-based soft drinks, or in some mixture of the two. And in recent years it seems that competitive advantage focuses attention on the customer's decision to purchase. This happens whether the business generates high levels of current profits, or foregoes profit to build share, whether its distinctive competences are highly relevant to its competitive advantages or less so, the bottom line is that competitive advantage must be enable a satisfactory or better level of sales.(Christensen, 2010)

In the end it all goes on the level of sales, and all expectations are that they can go to an upper position than they are now. Preparing your mark on the market first by implying a good and well implemented strategy is the antechamber of gaining competitive advantage. Because it can be a perception the managers have also the task to assure that the perception does not easily fail away.

This is done, in case if the competitive advantage is obtained through technology, by having a well protected system regarding that technology. If the competitive advantage is made through

innovation, then a good R&D team must be kept in the company, and if the answer is price, a firm has the objective to look for the best report between quality and price in order to maintain its price competitiveness also having the suppliers that meet this kind of expectation and having the technology that can give the company the lowest price on the market.

In conclusion, three are the most important aspects when regarding strategy:

1. Good preparation, consider what the company's strengths and weaknesses are, and consolidate the strengths, while trying to minimize the weaknesses.
2. Time, a good strategy requires time, from the first statement to implementation it can take even years to see the benefits of a strategy.
3. Strategy is the first step and an imperative one, a step that must be taken in order to obtain competitive advantage.

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