



MANAGEMENT DEVELOPMENT PROGRAM

(LEADING TO THE AWARD OF MBA)

In association with the

CZECH TECHNICAL UNIVERSITY IN PRAHA

ASSIGNMENT

Management strategy

„Effective strategy making should be equally concerned both with content and process“

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Course: MBA Praha

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„Effective strategy making should be equally concerned both with content and process“

Discuss this statement against the background of how you understand strategy is conceptualized and enacted in your own organization.

To discuss this question well you must distinguish as clearly as possible the difference between:

- Content - What the organization actually does or has done
- and

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- Process - How it goes about formulating and implementing strategy.

This will involve understanding approaches to strategy and the nature of strategy at a theoretical and practical level.

The length of the individual assignment is 2000 words and must be submitted to MIAS not later than March 21, 1997.

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1. Introduction

Management strategy - these two words become more and more important in today's turbulent business environment. Without a clearly defined strategy the company has only a small chance to survive in a tough competition.

When we deal with a new strategy, it always has at least two stages, which do not necessarily have to be always clearly distinguished. The first stage is a „design“ process, the second is an „implementation“ process. These two stages usually iterate until an acceptable result is reached, since it appears almost impossible to define a strategy in advance in a way which requires no corrections.

I will try to describe the approach towards defining and implementing the corporate strategy using the case of my company ÈKD - Elektrotechnika.

ÈKD - Elektrotechnika is one of two biggest producers of electrotechnical equipment in the Czech republic. We build rotating machines, both motors and generators, transformers and semiconductor appliances.

Our biggest competitors break down into three major groups:

1. domestic well-established (Škoda Plzeň)
2. foreign well-established (Siemens, ABB, ...)
3. domestic small newly established private companies.

The strategy is simple: to survive in the hostile competition.

2. Starting position

Back in fifties and sixties ÈKD used to be built as a monopolistic machinery manufacturer for the whole Czechoslovakia and for most of the East-bloc countries. It didn't have problems with marketing and the customers had to push hard to get the possibility to place an order. This means that the manufacturing capacity grew incredibly

manufacturing capacity, from industry.

After 1989 everything has changed. Due to the total absence of governmental strategy the Eastern markets disappeared and ÈKD like many others in the country started to have problems with orders. Since the economical policy of the government has not been created until now and, moreover, ÈKD was owned by the government, the results started to be dangerous and since 1992 ÈKD has been in red numbers.

This made to government think about the privatization. Two potential candidates emerged and it took a long time to decide. But they made it and since 1994 ÈKD has had a new, really private owner.

2.1 Market position

ÈKD was badly hit by loosing the eastern markets. Back in seventies these markets made about 70% of the turnover. After 1990 the protection of domestic markets totally disappeared and foreign competition came in. Together with banks unable to provide project financing this means that our struggling is complicated both on domestic and on foreign markets.

Our customers break down into three major groups:

- domestic - industrial customers
- direct export
- indirect export - this means delivering components (motors etc.) to somebody who exports the whole thing (motor with compressor, etc.)

Since the Czech republic is too small, our target territory now is the whole world. Our strategy must count on this.

2.2 Staffing

Second big problem, maybe the worst, is in people. Even though the ÈKD staff started the changes in 1989, the people and namely management were not prepared to act in market environment. Most of the people are useless for managing the company in such a hostile environment like we have now in the Czech economy. The biggest problem is that there is nobody to replace them. The best managers are overpaid by western companies and there is nothing left to choose from. Moreover, the unemployment rate in Prague is about 0.3%. The result is obvious - we must live with those people which we have. The improvement must be done internally.

The biggest problems are in commercial department.

3. Strategy

Each strategy must fulfill two requirements: it must take us where we want to be and it must be executable.

Our target: to be a fully competitive company, both on domestic and on foreign markets.

My private recognition shows that three major actions must be undertaken to reach this goal:

1. reducing the costs of the company

2. activating the marketing and overall commercial policy
3. finding the source of financing.

And here starts the problem between „what we want“ and „what is possible“, in other words between the strategy and its implementation.

3.1 Costs reduction

There are at least three ways how to reduce costs:

3.1.1 Material costs

The first and most important is to reduce the cost of materials purchased for building our machines - like copper, steel, etc. This item is the biggest on our list and a small reduction means a lot in real money. Two ways will be used for this purpose:

- reducing the weight of our machines - required from our construction department;
- reducing the purchase cost - required from our acquisition department.

The time schedule required for this is a medium to long term, since the construction of a new machine takes about 4 months in average. As regards purchasing, this is a much more complicated issue since the insolvency problem is well known and there is hardly any supplier which will deal with us without cash down-payment in advance. But after having a source of financing and improving our credibility we will be able as one of the biggest customers to deal on the raw-materials market.

3.1.2 Other operational costs

Second most important costs are services and other operational costs. The reduction on this field may also bring substantial savings. These cost include all subcontracts, external services provided to ÈKD etc. Some of these may be avoided totally, others may be substantially reduced.

3.1.3 Personal costs

Compared to other similar companies, ÈKD is heavily overstaffed and therefore inefficient. The personal costs had to be reduced substantially. But the downsizing must be carried out very carefully in order not to jeopardize the activities of the company.

My approach to this began with defining the scope of future business activities. This was done in a close team of senior management. As soon as we have had the definition, the necessary personnel could have been derived. This way we reduced the company staff from 1139 down to 825. But - these numbers are not obligatory. They are used only for calculating the budget. Each of senior managers knows his budget and has to follow it. If anyone decides to keep the staff high, than he must reduce his expenditures anywhere else in order to keep his budget. I don't care for exact number of people in his departments, I care for fulfilling the tasks and keeping the budget.

3.2 Commercial policy

In the socialist past, ÈKD has been almost monopolistic supplier in the East-Bloc countries. The orders many times exceeded the capacity and there was no reason to have a commercial policy of any kind. After 1990 and the last

was no reason to have a commercial policy of any kind. After 1989 and the loss of eastern markets the situation changed completely. In these days, having a good commercial policy is absolutely inevitable.

Our strategy is based on „What we are and what do we want to be“. Even though it is hard, we must admit that now we are nothing more than a „price competitor“. This is the first and most important step in defining the commercial policy. It may appear strange for outsiders why this is so difficult, but we must remember that ÈKD has always been a „red ÈKD“, the most communist company and its people used to live with the feeling of some extraordinariness. And these people are still there. They pushed hard on me to define our starting position as „market leaders“ or „technical leaders“. By the way, I agree that there are two items in which we may be defined as technical leaders, but with no commercial outcome. Therefore the starting position is „price competitor“.

The second step was the list of existing and potential customers and their present and future needs. In this case we have implemented the approach „what do the customers of our customers want“. The outcome of this was the reduction of one of our manufacturing programs and creating another one.

3.3 Company financing

Since 1992, ÈKD - Elektrotechnika has had problems with insolvency. Now we are in a situation when no internal measures are sufficient themselves and the company needs external help. This situation was even worse that there was no bank or financial investor willing to negotiate when there was no company strategy available for discussion.

Now we have a business plan for years 1997 - 2004 and we are able to describe our approach and our needs. This plan has its weaknesses as well, but it is acceptable for financial world. I have started negotiations with several potential partners able to invest into ÈKD - Elektrotechnika. If we succeed, the worst years will be over.

4. Implementation

Each strategy has two parts, which influence each other - definition and implementation.

The former required a hard work, but compared with the latter it was quite easy. The worst problems occurred during implementation. I defined two major problems:

1. The economical situation in the Czech republic is no more socialist but not yet capitalist. We are somewhere in the middle. To make the reform acceptable for the population (and keep their offices), the government keeps the unemployment rate artificially low. In Prague we have about 0.3% unemployment rate. This means that we cannot choose our staff and it is very difficult if not impossible to hire some categories of people - namely technical staff. The personal policy must take this into consideration which brings many problems. What we need are massive layoffs in all industries and rise of unemployment rate at least to the level of 9%.
2. The inertia of people`s mentality. As mentioned above, most of ÈKD staff still lives with the idea of „mighty ÈKD“ and a helping hand from above. In the past this worked quite well since most of communist apparatchiks came from ÈKD. But these people still live with these ideas - 7 years after the change. If we talk with them about changes necessary to survive, they generally understand (or better said appear to) but as soon as we come to

generally understand (or better said appear to) but as soon as we come to them personally, no change is necessary. **The most important is to make the people think differently.** And unfortunately some of the definitions from western textbooks on corporate strategy don't work here - see point 1 of this list. The people have different life experience and this makes them different from west Europeans and immune from some approaches which work in those countries.

5. Conclusion

Now I cannot say if my strategy for ÈKD was right or wrong. According to Murphy, each strategy is proved by its practical results. And now we are in two thirds of the way. We have a business plan with reduced costs, we have a new commercial strategy, but we don't have a financing. The results should be know in the first half of 1997.

6. Reference

1. Carnall Colin A.: Managing Change in Organizations, Prentice Hall 1990
2. MBA course handouts

