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THE IMPORTANCE OF CORPORATE STRATEGIC PROCESSES IN MANAGING EFFICIENCY OF ENTERPRISE

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Abstract. *Transitional character of our economy requires flexible and adaptive forms of organizational structure and management system, resulting in complex corporate business arrangements. The focus of new corporate strategy is on corporate strategic processes of restructuring or patching business portfolio and coevolving its elements. This is a guarantee for efficient business activities.*

1. INTRODUCTION

In actual processes of business transformation the managerial transformation has a critical role from the standpoint of enterprise internal organizational potentials. Its primary task is to create managerial competences for answering equirements of turbulent transition and realizing an optimal level of economic efficiency. This primarily means to affirm managerial techniques with numerous elements, including reorientation of business portfolio toward changing the business scope and structure of enterprise as well as repositioning its business units. Success in corporate management of an enterprise and its efficiency supposes creating and accomplishing the new concepts of corporate strategy which are focused on corporate strategic processes, creating an effective set of business units, and allocating the resources to those business areas and units where are the best possibilities for creating competitive and corporate advantage.

2. RECONCEPTUALIZING THE TRADITIONAL APPROACH TO CORPORATE STRATEGY

The key element in managing corporate enterprise is an adequate formulated corporate strategy. Comprising both business portfolio conception and determination and allocation of sources for creating competitive advantages, the corporate strategy contributes to business performance enhancement as well as shareholder value added [1, p. 310]. The imperative of market oriented corporate enterprise has become to formulate and

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accomplish so-called disciplined corporate strategy, unique for all parts of enterprise. If contrary, it will be exposed to the unpredictable caprices of the market competition.

Traditional corporate strategy emphasizes strategic positioning and acquiring or building valuable resources as the basis of creating sustained competitive advantage and superior, long-term performance. However, in dynamic and turbulent markets particular strategic positions are quickly eroded, so the traditional concept of corporate strategy has become inadequate for better corporate performance. In these markets it is impossible to predict which competences or strategies will be successful and for how long. Therefore, it is more important to build corporate-level strategic processes that enable dynamic strategic repositioning of enterprise and reconfiguration of corporate resources. The implication is that the new corporate strategy focuses on *strategic processes*, as a modified and more flexible form of traditional corporate processes [2, p. 76]. These new corporate strategic processes are directed toward different changes for creating economic value added and sustaining obtained competitive advantages through more successful mobilization and reallocation of corporate resources. The key corporate strategic processes are restructuring (restitching or patching) business portfolio and coevolving its business units. While patching and coevolving are distinct corporate processes, the other two are often intertwined, influence and condition each other, and they are vital components of the new corporate strategy content.

One of the prerequisite for successful implementation of new corporate strategy lies in its formulation as *simple rules* which regulate flows of strategic processes and define desirable course of action [3, pp. 107-116]. The concept is based on picking a small number of strategically significant processes and craft a few simple rules to guide them. The key strategic processes should place the enterprise where the opportunities for obtaining competitive advantage are swiftest and deepest. In turbulent markets, the opportunities for advantage lie just in market confusion, so the enterprises probe for opportunities and seize them, with flexible and successful adaptation to existent market conditions. Simple rules establish a strategic frame in order to help managers seize fleeting opportunities successfully. Each enterprise has its own simple rules which poise it on what's termed in complexity theory "the edge of chaos", providing just enough structure to allow the enterprise to capture the best fleeting opportunities [3, p. 111]. Hence, in traditional strategy, advantage comes from exploiting resources or stable market positions. In strategy as simple rules, by contrast, corporate advantage comes from successfully seizing fleeting opportunities. Strategy as simple rules makes sense for all kinds of enterprises - large and small, old and young - in fast-moving markets like those in the developed economies.

Different types of rules help managers manage different aspects of seizing opportunities. The rules have universal meanings, of course including certain modifications and adaptations to particular types of enterprises and business situations. Over the course of studying a great number of enterprises, the simple rules could fall into five broad categories [3, p. 110]:

- *How-to rules* - spell out key features of how a business process is executed,
- *Boundary rules* - delineate boundary conditions (center on customers, geography, or technologies) that help managers sort through many opportunities quickly and efficiently,

- *Priority rules* - help managers rank the accepted opportunities (mostly for resource allocation),
- *Timing rules* - set the rhythm of key strategic processes and help synchronize an enterprise with emerging opportunities and coordinate the enterprise various parts to seize the opportunities on efficient way,
- *Exit rules* - help managers decide when to pull out of previous opportunities.

Obviously, it is crucial to write the right rules, mostly on the basis of managerial experiences. But, it is also important to have the optimal number of rules. Small number of rules can keep managers from seeing opportunities and moving quickly and efficiently enough to seize them. On the other hand, too many rules can confuse managers about which opportunities to seize and which to ignore. So, the optimal number of rules is usually somewhere between two and seven. The optimal number of rules for a particular enterprise can shift over time, depending on the nature of the business opportunities. When the opportunities are predictable and focused by the enterprise, it should have more rules in order to increase efficiency. When the opportunities are less predictable and more diffuse, it makes sense to have fewer rules in order to increase flexibility in seize them.

Simple rules establish only a strategic frame to help corporate managers efficiently seize fleeting opportunities. It is very important for enterprises to follow the logic of opportunities or the concept of simple rules consistently in order to overcome temptation for changing them too often. A consistent strategy enables to choose most attractive fleeting opportunities on efficient and quick way and obtain short-term competitive advantage, which leads to long-term business success of enterprise.

3. ELEMENTS OF STRATEGIC PROCESS OF RESTRUCTURING BUSINESS PORTFOLIO

Restructuring business portfolio, as one of the key strategic processes which are in focus of new corporate strategy, means the frequent remapping or patching structure of enterprise in order to fit changing market opportunities [2, p. 73]. Namely, new technologies, which mostly include developing the existing and introducing novel products and services, and market development create new, "fresh" opportunities requiring change in corporate "repertoire" as a prerequisite for enhancing business efficiency. As a result, individual parts and even the whole enterprise are closed, the new ones are established, have a growth or they are closed again. Those continuous fluxes require from corporate management to continually remap their businesses according to market opportunities. Patching is the best way to tackle this crucial task. "Restitching" business portfolio according to changes in market requirements allows corporate managers to focus on the best market opportunities. By dynamically adjusted businesses in order to match changing market opportunities, managers are directed toward high-potential businesses, activities or products, uncovering the profit levers that drive effective strategy of those businesses, and creating economic value for the corporate enterprise.

Restructuring can take the form of combining, adding, splitting, exiting, or transferring the businesses (but, also, business activities, and elements of product assortment). One of the efficient form is to split the enterprise into several parts (segments, units), focusing on target markets and occasionally make new splitting, according to the changes on target markets. An efficient form could be addition of new units to the existing portfolio, taking well-defined market of products in assortment of enterprise. An efficient way is, also, to create a flexible mix of related products, on the basis of core products, knowledge, and experience. Internal transfer of knowledge and products from one unit to another enables better use of knowledge and capabilities of enterprise and optimal scale of product. Combining products inside the product assortment leads to creation of their critical mass and increase cash flow in order to drive new growth.

At first glance, the strategic process of restructuring seems to be just another name for reorganizing of enterprise, since it includes the change of its organizational structure. However, while reorganization assumes relative stable structure with rare but completely and overall changes, the process of restructuring treats structure as an inherently temporary element with continual and standardized flow of changes. Patching changes are usually small in scale and made frequently, having rather evolutionary character than revolutionary one. (See the scheme 1)

Managers at so-called patching corporate enterprises pay extraordinary attention to the size of their business units, which should be small enough for flexibility and large enough for efficiency. Managing the size of business units which are resulted from the process of restructuring is very important both for relative new ventures and big corporations, trying to respond with agility to dynamic markets. The right size of units mostly implies their effective management, based on a complete understanding of their business logic. So, small business units allow managers to focus on the specific demands of key customer segments and make it easy to pursue fragmenting markets. However, units that are too small may result in inefficiencies and bad results since they may have potentially excessive overhead, require too much coordination (because of insufficient technical and financial resources), and involve loss of scale economies or market power. On the other side, having bigger business units would make it possible to develop larger more complex production program, but it would lower motivation by distancing employees from their products.

Scheme 1. Reorganization Versus Restructuring [2, p. 74]

	Reorganization	**Restructuring**
Role of Change	Change as defensive reaction	Change as proactive action
Scale of Change	Changes are sweeping	Changes are mostly small, some are moderate, a few are large
Frequency	Changes are rare	Changes are ongoing
Formalization	Every change is unique	Change process is routine and follows standard form of restructuring
Driver of Change	Get business unit focus right	Get business unit focus and size right
Precision	Optimal reorganization at specific point in time	Roughly right realignments over time
Metrics	Collect metrics only for infrequent reorganizations	Regularly track extensive metrics on modular business units
Compensation	Not relevant	Enterprisewide parity

Restructuring won't be functional unless the corporate enterprise's infrastructure supports the process, which requires modularity, detailed and complete analytical system of performance measurement, and consistent compensation in all parts of enterprise [2, p. 78]. Modularity is the most important segment of infrastructure. It means that the units resulting from restructuring could completely incorporate into existing structure. Complete and detailed performance metrics that are comparable across enterprise and units (on revenue, costs, income, customer preferences) are also essential for effective restructuring. Such metrics and their trends give corporate managers detailed information on business activities and values of certain efficiency indicators of enterprise and its parts and can help them predict and plan future flows of restructuring. Incomplete or inaccurate metrics make the process of restructuring impossible to do well and decrease its performance, requiring added efforts from the managers in information gathering. The final component of infrastructure which influences effectiveness of restructuring business portfolio is parity of employees' compensation and motivation throughout the whole enterprise, since change in organizational structure requires the adaptation of personnel structure. Efficient quantitative and qualitative personnel restructuring leads to obtain advantage based on economies of scope as well as to greater value for enterprise and its owners.

It is obvious that restructuring is unique for each enterprise, according to its determinants and aims of remapping business portfolio. But, some common principles of successful restructuring could be formulated and the most important are the following ones:

1. *Do it fast.* Restructuring decisions are best made quickly, because fast choices reduce indecision and politicking. Minimization of politics further contributes to the speed and efficiency of the restructuring process.
2. *Develop multiple options, then make a roughly right choice.* Developing several alternative enables their quick analysis for two reasons: it is cognitively easier to compare several alternatives than to analyze a single alternative in depth, and the crucial factors like business model are usually clear.
3. *Take an organizational test-drive.* Making a right final decision is easier if it is possible to prototype new business portfolio through organizational test-drive which speeds up analysis and lowers the chances of major errors. One common tactic is to create temporary "shadow organization" within the existing business infrastructure. This approach lets managers test how well various aspects of new portfolio will work.
4. *Get the general manager right.* Selecting the appropriate general manager for the business unit is also important for effective restructuring. Choosing the wrong manager or having no appropriate manager available can affect bad results of restructuring.
5. *Script the details.* After making decision on restructuring, successful manager follows a script with a detailed plan, sometimes even specifying day-by-day activities. The script helps to coordinate number of tasks and people involved in restructuring.

Even the best corporate managers could make restructuring mistakes. A common one is to violate the modularity of enterprise (units or products). It mostly happens when responsibility for tackling a particular product or market area is allocated on more than one units resulting from restructuring, so complete responsibility for new product does not exist and, consequently, chances for its success are lower. Another common mistake is in possibility to favor one business unit (usually the largest one), which could result in dysfunctional decision-making dynamics in portfolio and endanger business success of enterprise as a whole. Those mistakes and others do occur, taking into account complexity of the strategic process. A solution could be in fast reaction of corporate management toward correcting and eliminating the mistakes.

4. Determinants of Strategic Process of Coevolving

Creating cross-business synergy in corporate enterprise is at the heart of corporate strategy and a prime rationale for the existence of the multibusiness corporation. As the ability of two or more business units to generate greater value working together than they could working apart, synergy has its sources in shared resources, knowledge and skills, coordinated strategies, vertical integration or establishing internal alliances in enterprise [4, p. 133]. The right choice of source of corporate synergy enables efficient structuring business portfolio and creating corporate advantage on target markets. The corporate advantage expresses the way an enterprise creates value through the configuration and coordination of its multibusiness activities. Its essence is in making efficient connections between the interrelated parts and activities as well as efficient connectedness of corporate resources and business units through an adequate organizational form [5, p. 72].

An efficient way of achieving corporate synergy is creating the web of collaborative links and relationships among the enterprise and business units - everything starting from exchanging information on shared assets to creating the corporate strategy. It is realized through managing a corporate strategic process called *coevolving* [6], based on the principle of natural laws of shared survival and development of individual related species.

The term *coevolution* originated in biology and it refers to successive changes among two or more ecologically interdependent but unique species and intertwining their evolutionary trajectories. By adapting to their environment and to one another, the species form an complex adaptive biological ecosystem. Their coevolving development results in symbiotic (each species helps to the other), commensalist (one species uses the other) as well as competitive interdependence. Interdependence can change, too, such as when external factors like the climate or geology shift.

Biological coevolution is just one kind of complex adaptive system. Recently, computer simulations have uncovered general laws of how these systems work, including social systems such as multibusiness corporate enterprise. The laws regulate the effects of system functioning, indicating primarily how the quantity and quality of links and relationships in the system could affect its agility. The system becomes more effective if it is managed on decentralized way. More generally, these laws are consistent with the notion that multibusiness corporate enterprise are coevolving ecosystems, with flexible and temporary links among the units. Besides the quantity of links, the quality is also important for efficiency of corporate enterprise. In essence, the multibusiness corporate enterprises need take some principle of functioning from nature and approach cross-business synergies with a very different mind-set from traditional corporate managers focused on collaborative links and relationships between the business units. (See the scheme 2).

Scheme 2. Traditional Collaboration Versus Coevolution [6, p. 92]

	Traditional Collaboration	Coevolution
Form of Collaboration	Frozen links among static business units	Shifting webs among evolving business
Objectives	Efficiency and economies of scope	Growth, agility, and economies of scope
Internal dynamics	Collaborate	Collaborate and compete
Focus	Content of collaboration	Content and number of collaborative links.
Corporate role	Drive collaboration	Set collaborative context
Business role	Execute collaboration	Drive and execute collaboration
Incentives	Varied	Self-interest based on individual business performance
Business metrics	Performance against budget, the proceeding year, of sister-business performance	Performance against competitors, in growth, competition

Coevolving is a subtle strategic process in successful corporate enterprises, including creation of flexible business portfolio with both collaborative and competitive units and a superior corporate strategy based on cross-business synergies in performing business activities. The process of coevolving turns the corporate enterprise into an ecosystem with corporate strategy in the hands of business-unit managers. It, however, implies enough contradictory elements. Namely, it emphasizes the importance of multibusiness teams at the corporate level - the group of business-unit managers that oversees synergies among the units. The team's primary task is to manage the shifting collaborative web among the units. The multibusiness team is powerful because it can add significant value to the corporate enterprise beyond the sum of the units. However, the individual interests of units are emphasized which, consequently, stimulates better results on this level. Enterprise efficiency could get secondary importance, and stimulating the individual results often is not in complete interest of an enterprise as a whole. But, just such business logic based on the principles of biological adaptive ecosystems (symbiotic, commensalist, and competitive interdependence of species or business units) leads to corporate advantage and greater efficiency of enterprise.

5. Conclusion

The process of transition results in discontinuity of business activities, growth and development of enterprises, which requires flexible and adaptive forms of organizational structure and management system. This implies making complex corporate business arrangement. At the same time, there is the process of creating dynamic and unpredictable markets, immanent to developed market economy. These markets always change opportunities and capabilities for creating competitive and corporative advantage and business success of enterprise. Adjustment to market possibilities for performing efficient business activities changes the corporate "repertoire" of corporate strategy. The new corporate strategy focuses on corporate strategic processes of restructuring or "remapping" business portfolio as well as on coevoluting its elements, on the basis of simple rules for its application. These are a guarantee for performing business activities on more efficient way.

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ZNAČAJ STRATEGIJSKIH PROCESA ZA UPRAVLJANJE EFIKASNOŠĆU PREDUZEĆA

Vesna Sekulić

Tradicionalni karakter naše privrede zahteva fleksibilne i adaptive forme organizacione strukture i sistema upravljanja, što za rezultat ima stvaranje složenih korporativnih poslovnih aranžmana. U fokusu nove korporativne strategije nalaze se strategijski procesi restrukturiranja odnosno "remapiranja" poslovnog portfolioa i koevoluiranja njegovih elemenata, koji postaju garancija efikasnog obavljanja poslovnih aktivnosti.