

ELEMENTS AND DETERMINANTS OF STRATEGY OF ENTERPRISE EFFICIENCY

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Dragiša Grozdanović

Faculty of Economics, University of Niš, 18000 Niš, Serbia and Montenegro

Abstract. *The paper deals with the problems of formulating strategy of efficiency as a strategy of business success of enterprise. For enterprise to create competitive advantage it is important to determine both its available capabilities and capabilities it has to build by implementing certain strategies. In that context, the author has analyzed several methodological concepts of quantifying business success dimensions and changes, which should determine the concept of strategy in building and developing capabilities of enterprise.*

INTRODUCTION

The principle of achieving higher economic efficiency or higher span (which, also, means higher difference) between results and investments for their achievement is regarded as the basic principle in the behavior of an enterprise in market economy. Since the level of economic success in accomplishment of such a defined objective is just expressed through the level of economic efficiency of the enterprise, it is evident that the economic efficiency determines the goal of the enterprise's activity. This statement is more important if the attitude toward maximizing the rate of growth and development, as the basic objective of enterprise, is taken into consideration. The statement is equally important if the enterprise's increasing value is regarded as its basic objective, since it is based and projected on the rate of growth and development. The growth and development of the enterprise include growth and development of the productive forces as well as development (improvement and increase) of economic efficiency in their exploitation.

In accordance with the aforementioned statements, it is logical to conclude that an increasing rate of economic efficiency is one of the basic objectives of the enterprise. On the other hand, there is a generally accepted attitude that the enterprise's strategies define appropriate ways of achieving its objectives - through selection and implementation of courses, methods and instruments in performing some of its activities. Hence, it is important

and necessary to determine the elements for formulating strategy of the enterprise efficiency.

I

Accepting the model of the systematic enterprise strategy, which is based on the concept of the systematic enterprise's objectives, it follows that the strategy of efficiency is, in its character, a sub strategy of the enterprise's growth and development (together with the strategy of growth and development of productive forces). Simultaneously, the strategy of efficiency, as a strategy of business success, is a system in relation to the strategies of productivity, economy, and profitability of enterprise. According to the concept of strategic management, it follows that the objectives of strategy of efficiency are sub objectives of the growth and development strategy, as a global strategy of enterprise.

The second moment concerning the concept of formulating strategy of efficiency is related to its temporal framework. Namely, some limits and possibilities that occur in realizing particular changes as well as limits including the determinants of particular resources and factors of the enterprise's economy are expressed in elements of operative (*a*) and long-term (*b*) strategy of efficiency. The additional fact is that business success is a synergetic expression of the enterprise's economic efficiency, so the strategy of business success is just a strategy of the enterprise's efficiency (including, regularly, its effectiveness).

In view of the fact that economic (business) activity of an enterprise is performed in time, the strategy of efficiency has a character of process. Dynamically, that process has also certain dynamics, which is caused and determined by numerous factors. In that sense, it is necessary to apply the elements of concept of strategic analysis (*a*) and choice (*b*) to the process of strategy formulation. Monitoring contributions in achieving business success or some of its sub criteria will be more successful with access (and quantitative expression) to the phases of process from the standpoint of its factors.

According to the principle, we could accept an attitude that the basic objectives of the enterprise's efficiency strategy are in achieving an optimal rate of business success, on the one hand, and, on the other, in defining and building capabilities of the enterprise and their translation into strategic actions. Such basic objectives ensure desired equality between realized efficiency and its optimum. Therefore, in a strategic analysis it is necessary to start from existing and future market and customer needs for products and services inside the respective branch of the industry. Besides, some possibilities for product and service innovation (and, naturally, related needs) deserve special attention, from the standpoint both of concrete producer and, specially, competitors in the branch. In other words, all the flows in an innovative (technical) process are very important, including its range in other branches and activities which can lead to direct and indirect dependence.

The strategic analysis of environment and needs for products and services has to allow the inspection of the market state as well as of the economic potentials and strength of competition (so-called threats and weaknesses), which could be taken into account during the strategy formulation and implementation. The problems of defining and

analyzing the present and future needs include a few very complex questions. First of all, the needs have to be differentiated and segmented on variety of relevant criteria. Secondly, it is important to gather information not only on volume, structure, and dynamics of needs, but, also, on economic (especially payment) ability, priorities, and other relevant determinants of customer.

On the other hand, it is equally important to establish and analyze productive, trading, and overall available economic possibilities and capabilities of an enterprise (*I*) as well as certain changes (*2*) in those conditions - especially in resources and activities, which are required for realizing desired volume and quality of products and services. It is a way of determining and defining elements for so-called chances and threats which are relevant for achieving the optimal rate of efficiency. All relevant factors of those possibilities and capabilities could be differentiated by several criteria. This fact defines a particular perspective of the given analysis. The classification into internal and external factors is the basic one, and, on the same basis, it is possible to differ internal and external analysis of capabilities of enterprise for achieving required and/or desired rate of economic efficiency.

The starting point in those analyses is just the basic determinants of material (*1*), human (*2*), market (*3*), financial (*4*), and intellectual (*5*) resources of enterprise. The characteristics have to be determined separately for each resource (*a*), but in the context of productive or economic system (*b*). This is important both for enterprise and all its business (organizational) units. The information on potentials and related capital investments, as well as the volume of required consumptions and costs, are the basis for defining productive capabilities of the enterprise. For any future analysis of those problems it is necessary to define the mentioned characteristics of all resources as well as inside each of them. Secondly, a comparison with the average enterprise (*a*) and, regularly, most successful enterprise (competitors) in the branch (*b*) will provide relevant information for estimating economic capabilities of the enterprise regarding its activities and survival in the branch.

Since the enterprise' productive or business activity is realized through its direct activities, including all productive factors, it follows that the enterprise's capability to achieve certain level of economic efficiency is just determined by *determinants of that activity*. Sometimes, the activities are analyzed regarding the phases of reproductive process (production, exchange, distribution, and consumption - which has productive character at the level of enterprise) or business functions (marketing, research and development, production, finance) or the role and contribution one has in the process of value creation in the form of so-called value chain (primary activities: entry logistics, operations, exit logistics, marketing and sales, and supporting activities: infrastructure, human resource management, technology development, and supply).

For current period and available resources, the concept and way of performing particular activities regularly include determinants relevant for innovativeness (*a*), entrepreneurship (*b*), and execution (*c*). Of the same importance for the enterprise's ability to realize its activities are *the determinants of its organizational structure*.

II

After the strategic analysis, it is possible to define the enterprise's productive and economic capability. From the economic standpoint, this is necessary in order to determine the objective possible result (R) and the objective investments (U), which an enterprise has to perform for achieving the result. As was stated, the basis of products and services is in market needs and competition, as well as in all limits and weaknesses which almost regularly are contained in internal resources and activities. Simultaneously, this is a way of determining relevant elements for objective possible economic efficiency, which could be achieved within given external and internal limits. The expression of business success (Pu_n), projected on this basis will be

$$Pu_n = \frac{R}{U} . \quad (2.1)$$

Supposing that the problems of expressing results and investments are methodologically solved in an adequate way, relation (2.1), which expresses the capability of enterprise to achieve business success, has to be compared with the average producer (enterprise) in the branch and economy in the whole (I), and, specially, with most successful enterprise in the branch (2). Accordingly, the relations follow:

$$Pu_n : Pu_o \leq 1 , \text{ and } Pu_n : Pu_{gl} , \quad (2.2)$$

where Pu_n = the objective possible business success of concrete enterprise, Pu_o = the objective possible business success of average producer (enterprise), Pu_{gl} = the business success of most successful enterprise in the branch.

The strategic analysis has to provide data needed for adequate strategic decision-making (in this case, the data are related to business success optimization). Therefore, after defining and determining customer needs (1) and threats from competition (2), it is necessary to identify and determine the aforementioned available capabilities of the enterprise. The second step in the process includes the determination of the enterprise's future capabilities which are needed for providing its required competitive capability and market competence. This also means to select and implement the strategy which will be able to realize the given task.

Accordingly, the strategic analysis, besides the other elements, has to include an analysis of the determinants of required capabilities of the enterprise and, in keeping with them, the required changes in particular resources, activities, and concepts of strategy. Since we have in mind the enterprise's business success, the logical conclusion is that it will change with certain changes in the enterprise's capabilities, which, on the other hand, are the function of efficiency of the chosen and implemented strategy of business success.

The methodological procedure includes, at least, two possible basic concepts. The first concept uses data about possible changes in relevant resources, factors, activities, needs, and environment, which are the basis for projecting possible changes in business success. The second concept includes the determination of needed changes in business success as the basic objective, and, after that, the definition of concept of strategy, related to the mentioned elements and determinants (resources, activities, factors, environment, etc.), as well as required changes in them. It is especially important to take into

consideration effects which are manifested in the form of parallel changes in several elements, factors, and activities. The assumptions for that are provided by using elements of the systematic concept of objectives, criteria, and strategy of enterprise.

With the view of getting relevant indicators and parameters for determining the changes, and, consequently, for selecting optimal strategy, it is necessary to project needed and possible changes in: elements, factors, resources, and activities which are relevant for changes in business success and strategy of its achievement. Hence, it is necessary to apply adequate methodological solutions for identifying the changes. Several methodological solutions for projecting changes in business success represent the basis for selecting an optimal strategy of efficiency, that is for business success of enterprise.

III

Considering some significant theoretical-methodological dilemmas about measuring business success, the expression of business success based on *the relation between results (R) and investments (U)* represents a *common solution*. Taking into consideration the problems of expressing results and investments, as the elements of business success expression, it is necessary to analyze: product (Q), revenue (C), and gain (D), as the relevant forms of result, as well as consumptions (U_t), costs (T), and committed (invested) capital (resources) (S), as the relevant forms of investment. Since the revenue is regarded as a function of product volume and price, the gain as a function of difference between revenue and costs, the costs as a function of consumptions and their price, and the committed resources as a function of consumption amount and turnover time, these relations determine the basic elements relevant for business success. Simultaneously, projecting changes in elements of business success ($K_q, K_c, K_d, K_{ut}, K_t, K_s$), as well as in productivity rate (K_p), economy rate (K_e), and profitability rate (K_r) enables us to determine possible rate of change in business success (K_{pu}). Comparison of the achieved business success with the average producer (K_{pu0}) and the most successful enterprise in the branch (K_{pug1}) will give an insight into possible relations in this domain.

However, the problem requires starting from estimated and possible changes in business success of average and most successful enterprise in the branch. Then, it has to define (formulate) and select a strategy able to achieve optimal business success, taking into consideration all mentioned changed and comparisons.

The second methodological solution of business success projection, which has to define required capabilities of enterprise, is so-called *factor's concept of business success projection* (P_{uf}). The concept is based on the assumption that the influence of resources, activities, and entrepreneurship could be projected on the basis of factor conditions (including the effect expressions in certain components of result and investment). This, practically, enables us to project particular perspectives of process of business success achievement.

Here, two concepts of factor condition of business success have a special importance. The first concept is based on classifying factors into internal (*fi*) and external (*fe*) ones. The business success expression on that basis will be

$$Pu_f = \frac{R_o \pm R_{fi} \pm R_{fe}}{U_o \pm U_{fi} \pm U_{fe}}, \quad (3.1)$$

where: R_{fi} and U_{fi} = components of result and investment which are conditioned by characteristics of internal factors; R_{fe} and U_{fe} = components of result and investment which are conditioned by external factors.

The comparison with the most successful enterprise in the branch requires the use of the elements of result and investment conditioned by effect of internal and external factors at that level, instead of values of result and investment at the level of average producer. Secondly, projecting strategy for achieving the desired level and form of the enterprise's capabilities in dynamics regularly includes projections of needed changes in result and investment in relation to the initial period. Understandably, it should differentiate the effect of internal and external factors (K_{ri} , K_{ui} , K_{re} , K_{ue}).

The second concept of the conditions of the business success factors starts from the classification into: social (economic-system and market) (δ), technical (τ), natural (pf), human (wl), and dispositive (wd) factors. Using this factor classification, which is the basis for creating an adequate strategy of business success, the expression of objective possible business success in given period will be

$$Pu_f = \frac{R_o \pm R_\delta \pm R_\tau \pm R_{pf} \pm R_{wl} \pm R_{wd}}{U_o \pm U_\delta \pm U_\tau \pm U_{pf} \pm U_{wl} \pm U_{wd}}, \quad (3.2)$$

where: R_δ and U_δ = components of result and investment which are conditioned by effect of social (economic-system and market) factors; R_τ and U_τ = components of result and investment which are conditioned by technical factors; R_{pf} and U_{pf} = components of result and investment which are conditioned by natural factors; R_{wl} and U_{wl} = components of result and investment which are conditioned by objective human factors; R_{wd} and U_{wd} = components of result and investment which are conditioned by objective dispositive factors (entrepreneurship and innovativeness).

In the initial period, the indicated components of result and investment are consequence of objective factors influence. Accordingly, during implementation of strategy of efficiency and control of its efficiency, it is important to take into consideration the achieved values, which include both objective and subjective components in the domain of purchasing, production, realization, financing, innovativeness, and entrepreneurship. Naturally, the comparison with the most successful enterprise in the branch goes without saying. In dynamics, the initial values of average producer have to be replaced with the initial values of result and investment of concrete enterprise (R_{ni} , U_{ni}).

As already stated, the expression of business success based on its factors' condition has to indicate the enterprise's capability to achieve business success both in the current period and in dynamics. Understandably, in the case of some changes in the enterprise's capability, for each new capability it has to define an adequate strategy of required changes in each group of the given factors. It is important to state that this concept of the conditions of the business success factors takes into consideration certain effect of resources and activities. Simultaneously, this includes certain perspective and efficiency of strategy related to the factors (chain) of value creation and surplus of value.

For instance, the components of business success which arise from the effect of so-called social factors (R_δ and U_δ) express the available capability of an enterprise, which is conditioned by effect of economic-system (1) and market (2) factors. These groups of factors are determined by series of particular subgroups of factors. Thus, the group of economic-system factors includes tax system, tariff system, and foreign exchange regime. In the group of market factors it is important to take into consideration the influence of supply and demand on product market (1), purchasing market (2), and, specially, the domain of customer satisfaction (3).

The previous expressions of the enterprise's capabilities manifested in its business success do not include differentiation according to resources, activities, innovativeness, and entrepreneurship. This differentiation is especially important for formulating and implementing the selected strategy of efficiency. It requires determining the appropriate elements of business success on that basis, which results in so-called *resource-dispositive expression of business success* (Pu_d), that is

$$Pu_d = \frac{R_o \pm R_r \pm R_a \pm R_{in} \pm R_{pz}}{U_o \pm U_r \pm U_a \pm U_{in} \pm U_{pz}}, \quad (3.3)$$

where: R_r and U_r = results and investments which are conditioned by effect of characteristic of resources; R_a and U_a = results and investments which are conditioned by activities (processes); R_{in} and U_{in} = results and investments which are conditioned by innovativeness; and R_{pz} and U_{pz} = results and investments which are conditioned by entrepreneurship.

It is obvious that the components of results and investments have the aggregate character, since they are the result of several subcomponents. Thus, the components based on resources have to be differentiated into those based on material resources (R_{mr} and U_{mr}), human resources (R_{ri} and U_{ri}), financial resources (R_{rf} and U_{rf}), market resources (R_{cr} and U_{cr}), and intellectual resources (R_{ri} and U_{ri}). The strategies of activity could be differentiated with respect to the phases of labor process or the business functions or the participation in value chain. Likewise, there is analogous differentiation in the domain of innovativeness and entrepreneurship.

Recently, when the role of strategic management has become more important, the new proposed solutions for improving capabilities of enterprise and its business success (and productive forces, too) are based on appropriate strategies of enterprise. Certain strategic aspects are presented in the forms of so-called *perspectives*, although with many different indicators, where some of them indicate efficiency of strategies, since the others indicate determinants of particular resources. In that sense, *the strategic model of business success* gets the following elements:

$$Pu_s = \frac{R_o \pm R_\delta \pm R_{ip} \pm R_{in} \pm R_f}{U_o \pm U_\delta \pm U_{ip} \pm U_{in} \pm U_f}, \quad (3.4)$$

where: R_δ and U_δ = components of efficiency of market strategies, especially so-called strategy of customers; R_{ip} and U_{ip} = components based on the internal process strategies; R_{in} and U_{in} = components based on innovativeness; R_f and U_f = components based on the efficiency of financing strategies.

Further elaboration of the denoted components – into a series of partial strategies - creates the system of partial indicators of business success. Secondly, as already emphasized, the effects of strategies or perspectives include building capabilities on the basis of changes in resources (1), activities (2), innovativeness and learning (3), and in entrepreneurship (4). In order to get a complete insight into these effects, within each of the denoted components of results and investments, it is necessary to differentiate the effects based on resources (a), activities (b), and entrepreneurship (c). Within these components, further elaboration into particular strategies is also necessary. Consequently, contribution of each strategy to business success is at the same time its contribution to creating value and surplus value or gain. Such projection has to be also made on the criteria and principles of business success (productivity, economy, and profitability).

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ELEMENTI I DETERMINANTE STRATEGIJE EFIKASNOSTI PREDUZEĆA

Dragiša Grozdanović

U radu se razmatra probematika formulisanja strategije efikasnosti kao strategije poslovnog uspeha preduzeća. Za postizanje konkurentne prednosti značajno je odrediti sposobnost sa kojom preduzeće raspolaže i onu koju treba formirati primenom određenih strategija. U nastavku se prikazuju metodološki koncepti kvantifikacije veličine i promena poslovnog uspeha koji treba da odrede koncept strategije u stvaranju i razvoju sposobnosti preduzeća.