

INAUGURAL LECTURE FOR OPENING THE ACADEMIC YEAR 2003/2004

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## **STRATEGIC MANAGEMENT IN TURBULENT CONDITIONS**

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The basic aim of the lecture is to define the consequences of the increasing turbulence of development conditions for strategic management. In particular, we want to answer the fundamental question: is it possible in today's changeable, unpredictable conditions of development of companies, to shape their future, therefore strategic management, and if so, what are its tasks?

### **1. CONDITIONS OF STRATEGIC MANAGEMENT**

The statement that contemporary companies function in increasingly turbulent conditions is not controversial today. Time in the economy flows faster and faster. Products that used to evolve over decades, today age and disappear from the market often within a few months. Whole sectors disappear from the economic map of the world and others take their place in a short time. The situation of the business potentates change surprisingly quickly, new fortunes are created at a fast pace. There is a change in models in business guaranteeing market success.

Who could have predicted not so long ago such a dynamic development of mobile telephones, successes of Dell becoming the leader in the computer sector, development of the pet food sector and energy drinks, the collapse of the development concept of such giants as McDonalds and Coca-Cola, the crash of the tobacco market, aviation and many other similar occurrences.

Today, more than ever before becomes obvious the old famous statement of P. Drucker that 'nothing certain can be said about the future beyond the fact that it will be undoubtedly fundamentally different than the present.'

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Although the mere fact of the extent and intensity of changes in today's economy does not create doubt, however we do not fully understand and accept the range of these processes. In several sectors or companies, they do not acknowledge the commonness of changes. Many entrepreneurs and managers are still convinced that in their sector in their market, time still goes slowly despite everything. They believe deeply that they remain in an enclave, which is not affected by common acceleration, at least not in the nearest future.

Such attitudes can be frequently encountered among Polish companies, which until recently retained strong, often monopolistic positions (such as PKO BP, PZU etc). Such convictions are not infrequent among smaller entrepreneurs, especially those functioning in the traditional sectors of the economy (such as for example the meat trade, retail) that firmly believe that revolution does not threaten them just now. Paradoxically, a typical sector in which they do not want to notice the signs justifying radical changes is higher education. Despite revolution in the means of transmitting information, drastic changes in requirements of the labour market, the appearance of competition, the higher education sector seems to be the haven of conservatism. Disregarding new demands can prove fatal for it, just as happened to many a company and sector of modern economy.

## **2. CAPABILITIES OF STRATEGIC MANAGEMENT**

In new conditions of development of the economy, the problem of planning its future, shaping it and therefore also strategic management, becomes highly controversial.

Above all, if we assume that the future is generally unpredictable, then we can doubt all the formalized attempts at analysing conditions for development, forecasting the future, and planning on such a basis one's activities. J. Trout states that the fundamental disability of strategic planning is assuming that the future can be predicted, foreseeing the future is an ordinary fortune telling from tea-leaves, long-term strategic plans are useless unless they are prepared for one's competitors.

The efforts undertaken in order to foresee the unpredictable can be according to some not just useless but even harmful, absorbing to such a degree that they will impede current observation. P. D'Aveni used a picturesque comparison - looking to far into the future can be like using long

distance headlights in the fog - the lights blind to such a degree that the driver does not see the turn in front of him.

The accusation is that in such a situation, strategic management is a shadow play, formal exercises of very small practical importance. In this vein, B. Quinn comments that, according to him, strategic planning reminds him of the ritual dance during prayers for the rain in which the main aim is not to produce rainfall, but achieving mastery in dancing.

In questioning the sense and capabilities of planning and shaping the future, there are formulated new paradigms of management, mainly orientated on the speed of reaction. The example of such a way of thinking is the opinion of B. Long who says that writing strategy is idiotic – it is not strategies that are necessary, but fast decision making.

The above opinions cannot be ignored because they underline many authentic weaknesses of modern strategic management - besides they come from great academic authorities. On the other hand, accepting such statements has to equal the end of strategic management as a scientific discipline. If we abandon projecting the future, then there still remain concepts of an organisation which is learning, flexible, developing key competences, therefore the issues of modern company management but not strategic management any more.

The demise of scientific discipline especially in today's turbulent times would not constitute a great worry if it were not for the fact that serious problems of modern companies will remain unsolved. All the concepts of flexible reacting do not explain:

- how to catch up with leaders who are getting further away quickly
- how to take the initiative without single-handedly forecasting and projecting the future.

The speed of development of the modern economy causes those particular products, ideas for development function in increasingly shorter periods of time. Simultaneously the time for preparing and launching new solutions with increasing technological and marketing requirements still remains long and in many cases becomes even longer. In effect, the process of preparing new products and concepts of activity more frequently clearly and even many times more exceeds the time of their existence on the market. This means that direct following of the leaders is pointless because on principle it equals permanent delay, frequently by one or more stages of development of the given sector.

In the automotive sector, creating new generations of car models takes from three to five years, while their market attractiveness frequently does not

exceed two to three years time. This means that in car co-operation's, they already today work on products which are to replace those that have not yet been launched on the market. The next microprocessor is being designed twice as long as it can be sold. A similar situation applies to the pharmaceutical industry, IT and electronics. In this situation, the only solution is to look for short cuts. It becomes indispensable to foresee the future position of the pioneers and aiming in the direction in which they will be found in the future. This means however forecasting the development of events, long term projecting of one's own development, therefore strategic management. This corresponds with the so-called W. Gretzky (the greatest hockey player of all time) rule, who, as the recipe for success in hockey, pointed out that not following the puck - which will always anyway be faster than the fastest hockey player - but placing yourself where the puck will arrive in a moment. This requires not just intuition but above all analysing and foreseeing events on the ice.

At the same time taking on the role of pioneers, although still extremely risky, has today become more and more desirable and in the fastest developing sectors, constitutes conditions for achieving serious success. More and more in practice, the advice rings true: if you cannot foresee the future, then shape it.

In reality, companies more and more create the market needs, overtake the expectations of the clients and attempt to get ahead of the competitors. This requires strategic initiative, foreseeing the unforeseeable, using even weak signals announcing new trends. It requires implementing methods of strategic management together with elements of strategic analysis, strategic choices and projecting development. It is difficult to imagine that world telecommunication concerns could allow themselves to abandon long term planning of development in the face of the appearance of the next generations of mobile phones demanding investment worth tens of billions of dollars whose period of return cannot be shorter than several years. Similarly IT or electronic concerns create long term plans in order to impose on others their own standards and solidify therefore their own position. It is not an accident that in Nokia today, they already are working on equipment that may replace today's mobile phones in perhaps ten or more year's time.

In effect, despite the earlier signalled doubt, long-term strategy turns out to be necessary today far more than in times of stabilized development. Despite growing difficulties, strategic management has become today the condition of success in many more sectors of the economy.

This situation is very similar to the requirements of driving a car. The more difficult the road conditions – turns, icy surface, heavy traffic, high speed – the more important are the reflexes of the driver or modern mechanisms in which the modern cars are equipped, but the factor deciding about the safety of driving becomes indisputably the ability to observe conditions on the road foreseeing events and adapting to them. The more difficult the conditions, the greater the conditions demanding analysis. Companies which move faster in more and more difficult conditions have to behave in a similar way.

### 3. FUNCTIONS OF STRATEGIC MANAGEMENT

Strategic management in modern companies have to fulfil two basic functions:

- put the development in order
- discover new opportunities for growth.

In today's economy, success can only be achieved by those who perfectly satisfy selected needs. To this purpose it is necessary to have unconditional concentration on key factors of success, avoiding dispersion of operations and needs. At the same time, the natural state of many companies is chaos. Under pressure of current needs, too many operations are undertaken all of which seem to be indispensable. Particular initiatives are often mutually contradictory. Frequent lack of time or means excluded their simultaneous realisation.

In this situation, strategic management can be an exceptionally useful tool for putting development in order. Progressive thinking allows to prioritize tasks. In the first line, we can put those which have a decisive influence in the company, behind them, those which have a smaller influence in future development even if at present they seemed extremely important. Choosing priorities in development allows to concentrate on them in an optimum way. The other undertakings can be then realized according to the means but not at the expense of priority operations.

At the same time it is important that there are not too many priorities. The choice of a few strategic products, a few basic markets, or segments of the market, define the main competitive advantages, singling out the basic operations which will allow realizing them are the fundamental tasks of the strategy. A good many companies cannot cope with this task.

The inability to give up certain opportunities and operations which are less important leads to wishful strategies. Instead of imposing order they only deepen chaos. This can be observed in several Polish companies such as for example, PKO BP PZU SA, KGHM POLSKA MIEDZ, which cannot make a choice between the supremacy of costs or quality, nor introduce a division into prospective products or markets, and those in decline, nor to select key development programmes.

On the other hand, many examples of companies such as General Electric, Toyota, Dell and in Poland, Nowy Styl, Ambra, Alpinus, and Atlas show that you can make strategic choices of core competencies, main areas of activity, and through coherent strategies put in order their own development, increasing through it the probability of success.

Discovering new opportunities and development prospects constitutes the function of the strategy which is at least as important as putting in order the development. At present, the standard traditional methods of operating do not give even the slightest opportunities for achieving success. It is indispensable to search for still new opportunities for development, innovative in relation to the experiences so far, and at the same time overtaking the competitors.

Discoveries may be of a fundamental nature meaning totally new products, meeting the needs unnoticed so far, creating completely new markets. Innovative can be also even less revolutionary undertakings even if only by modifying the existing methods of operating using new competitive advantages.

Undoubtedly, the revolutionary nature could be seen in the concept of Apple, regarding production of user-friendly computers addressed to amateurs and not professional IT specialists. On the other hand however, the modification introduced by Dell in the ways of distributing computers concentrating on Internet sales turned out not to be any less effective.

A completely innovative idea was probably the production of energy drinks by Red Bull, but not less effective was the concept of drastic cuts in costs by budget airlines.

Innovative ideas and solutions do not rather appear within the current management of development of a company. The pressure of events and current difficulties is usually so great that in the short term it is difficult to do much. The situation completely changes when the point of view changes from short to long term.

Adapting the five or ten year projection we can see that almost everything is achievable which means that only then can we notice completely new opportunities and set the way to use them.

Such possibilities in a good many cases remain only potential. In many strategies, there is not even an attempt to project any innovative activities. They remain satisfied with standard concepts, copying solutions tested by competitors. The practice of strategic management in the decisive majority of Polish companies produces several examples of truly conservative strategy lacking any creative elements. The role of strategies as a concept revealing new opportunities for growth remains in this situation absolutely unfulfilled which completely disqualifies them.

*Creating strategies fulfilling modern requirements is sufficiently difficult so that we do not often come across fully satisfactory strategic concepts. This can certainly discourage undertaking great efforts within strategic management allowing to realize extremely ambitious tasks. However on the other hand, also significant successes of companies are similarly rare. If we assume however that the majority of them is the result of thoughtfully prepared strategic choices then the burden of strategic management is worth bearing. Even if it does not always end with a spectacular success, it is highly probable that lack of strategic management will guarantee disaster. In increasingly turbulent conditions, this seems more certain than ever before.*