Strategic Management of Networks

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Abstract Strategic management of a network organization is the set of managerial decisions and actions by which network management determines in advance what should be accomplished and how it should be achieved. In the first part of the chapter, different types of strategies at the level of networks and organizations are characterized. Subsequently, the strategic management process which is appropriate for the network is described. Traditional approaches to strategy development place emphasis on enterprise as an object from which the entire process of creation, implementation, evaluation and controlling strategy unfolds. For a network, however, it is somewhat different, as first it is necessary to define the mission and vision of the network, determine its objectives, and consequently—by implementing the necessary steps—to establish its strategies, i.e. overall, business and functional network strategy. It is also necessary to take into account the orientation of the individual network members. Consequently, the individual enterprises of the network have to update their visions and missions to fulfil the strategies of the network.

1 Introduction

As with general management, and the definition of other terms, so in strategic management there are numerous definitions which seek to characterize this concept as comprehensively as possible. We can conclude that strategic management is a concept which is understood differently by different authors. This may be due to the fluidity of contributing factors such as technology, market rules, etc. Similarly, strategy is a dynamic process and as such is never repeated.

The following selected definitions reflect the diversity of views on the content, form, function and other statements of the concept of strategic management. Strategic management theorist William Glueck defines this concept as “a stream of decisions and actions, which leads to the development of an effective strategy or strategies to help achieve corporate objectives” (Kazmi 2002). James Higgins of
Rollins College states that strategic management “is the process of managing the pursuit of the organization’s mission while managing the relationship of the organization with its environment” (Štefa´ nk and Laˇ sshák 1994). In turn, Lesáková et al. (2001) defines strategic management as a process by which companies analyze their competitive environment to identify opportunities and threats. She also claims that strategic management is (1) a process of evaluation of companies’ own resources and skills to understand their strengths and weaknesses, and (2) a process of comparison and finding the intersection of these two analyses to choose the best strategy.

Fleisher and Bensoussan (2003) understand strategic management as a means of running an organization that has as its ultimate objective the development of values, managerial capabilities, organizational responsibilities, and administrative systems which link strategic and operational decision making, at all hierarchical levels, and across all lines of authority. This concept is illustrated in Fig. 1.

According to Dess et al. (2004), “strategic management consists of the analysis, decisions and actions an organization undertakes in order to create and sustain competitive advantage”. These authors have defined four key attributes of strategic management:

- management of the organization towards overall goals and objectives,
- the inclusion of multiple stakeholders in decision-making,
- the need to incorporate short-term and long-term perspectives,
- the recognition of trade-offs between efficiency (doing things right) and effectiveness (doing the right thing).
2 Strategy

The concept of strategy (from the Greek *Strategos*, a general) comes from military operations—such as the art and science of commanding army forces. Generally, strategy is the active implementation of any long-term plan to achieve specific goals.

Strategies are the means by which long-term objectives may be achieved. Business strategies may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures. Strategies are potential actions which require decision-making from top management as well as a substantial proportion of network or organizational resources. In addition, strategies affect an organization’s long-term prosperity—typically for at least 5 years—and thus are future-oriented. Strategies have multifunctional or multidivisional consequences and require consideration of both the external and internal factors facing the network or organization (David 2011).

3 Levels of Strategy

Most academics classify strategies into three levels: corporate, business and functional (operational) (Fig. 2).

If an organization produced a single product or service, managers could develop a single strategic plan which covered everything undertaken by the organization. However, network organizations are in diverse lines of business. Each company within a network must define its own (corporate, business and functional) strategy, where the (overall, business and functional) network strategy is taken into account. Petry (2006) described the meaning of three levels of strategy for networks (Fig. 3).

3.1 Overall Network Strategy

Every network requires an individually tailored, clearly formulated overall network strategy in order to achieve success, and help the companies which are part of the network to prepare their own corporate strategies and to contribute to achieving the goals of the overall network strategy. This strategy contributes not only to the achievement of network goals, but also to the achievement of the individual goals of network members.
If an organization deals in more than one type of business, it follows that a corporate-level strategy will be necessary. This strategy seeks to answer the question: What business or businesses should we be in? or What business are we in? Corporate-level strategy determines the roles which each business unit in the organization will play. Corporate-level strategy pertains to the organization as a whole and the combination of business units and product lines that make up the corporate entity. Strategic actions at this level usually relate to the acquisition of new businesses; additions or divestments of business units, plants, or product lines; and joint ventures with other corporations in new areas (Daft 2010).


3.3 Business Network Strategy

Network strategy at the business level covers that which is related to the focus of the network as a whole. Every member of the network represents a single business or group of related businesses. Each will have its own unique mission, competitors, and strategy at the business level.

The concept of planning separate business units is based on the following principles:

- The network is managed as a ‘portfolio’ of businesses, each network member serving a clearly defined product and market segment with a clearly defined strategy at the business level;
- Each network member in the portfolio develops a strategy tailored to its capabilities and competitive needs yet remaining consistent with the overall network’s capabilities and needs;
- The total portfolio is managed to serve the interests of the network as a whole, to achieve balanced growth in sales, earnings, and asset mix at an acceptable and controlled level of risk.

3.4 Business Strategy

Business-level strategy seeks to answer the question: How should we compete in each of our businesses? or How do we compete? For smaller organizations in only one line of business, or large organizations which have not yet diversified into different products or markets, the business-level strategy is typically the same as the organization’s corporate strategy. For organizations in multiple businesses, each division will have its own strategy which defines the products or services it will offer, the customers it wants to reach, and so on. Business-level strategy pertains to each business unit or product line. Strategic decisions at this level concern the amount of advertising, the direction and extent of research and development, product changes, new-product development, equipment and facilities, and expansion or contraction of product and service lines. Many companies have opened e-commerce units as part of a business-level strategy (Daft 2010).

3.5 Functional Network Strategy

Strategy at this level deals with various functional areas of the network. Once again, we apply the same rule as with the higher levels, meaning that any strategy of the network members at the functional level must be based on functional network strategy.
3.6 Functional Strategy

Functional-level strategy seeks to answer the question: *How do we support the business-level strategy?* For organizations that have traditional functional departments such as manufacturing, marketing, human resources, research and development, and finance, these strategies need to support the business-level strategy. Functional-level strategy pertains to the major functional departments within the business unit. Functional strategies involve all the major functions, including finance, research and development, marketing, and manufacturing (Daft 2010).

4 Strategic Management Process

The strategic management process, as illustrated in Fig. 4, is a process that encompasses strategic planning, implementation and evaluation. Although the first steps describe the planning which must be undertaken, implementation and evaluation are also significant. Even the best strategies may fail in such cases when management neglects to implement or evaluate them properly. At this stage, the various steps of the strategic management process are described in detail. The process of strategic management within an organization in the network differs in that the process must first take place at the network level before businesses gain access. Subsequently, the participation of a business in the network is taken into account at each step.

4.1 Step 1: Identifying the Current Vision, Mission, Objectives and Strategies of the Network or Organization

A mission statement is a key indicator of how a network or organization views the claims of its stakeholders, and represents the starting point of the strategic planning process. Although corporate mission statements vary, the most comprehensive include four main elements: namely, the mission, vision, values, and goals of a network or organization (Hill and Jones 2012).

A vision statement, in general terms, expresses a view of the future status of the network or organization; and is the starting point from which corporate objectives, strategy and other business activities are directed (Hittmár 1999). A vision statement should answer the basic question, “*What do we want to become?*” A clear vision statement provides the foundation for developing a comprehensive mission statement. Many organizations have both, but the vision statement should be established first and foremost. The vision statement should be short, preferably one sentence, and as many managers as possible should have input into developing the statement (David 2011). The vision of a company lays out some desired future
state—it articulates, often in bold terms, what the company would like to achieve. Good vision statements are meant to stretch a company by articulating some ambitious, yet attainable, future state that will help to motivate employees at all levels and drive strategies (Hill and Jones 2012).

Each network or organization requires a mission statement which defines its purpose and answers the question: What is our reason for being in business? The process of defining the network or organization’s mission forces management to carefully identify the scope of its products or services. When defining the mission of the whole network, it is of the utmost importance to take into account the direction of the individual network members. An important first step in the process of
formulating a mission statement is to come up with a definition of the network’s or organization’s business. Essentially, the definition should answer these questions: “What is our business? What will it be? What should it be?” The responses guide the formulation of the mission. To answer the question, “What is our business?” a network or company should define its business in terms of three dimensions: who is being satisfied (what customer groups), what is being satisfied (what customer needs), and how customers’ needs are being satisfied (by what skills, knowledge, or competencies). Figure 5 illustrates these dimensions (Hill and Jones 2012). It is also important for management to identify the objectives and strategies currently being utilized by the organization and the network alike. Objectives are the foundation of the planning process. A company’s objectives provide measurable performance targets which workers strive to achieve. Knowing the company’s current objectives gives managers a basis on which to decide whether or not these objectives need altering. For the same reasons, it is important for managers to identify the strategies currently in use.

4.2 Step 2: Analyzing the External Environment

The external environment is a primary constraint on the actions of a manager. Analyzing that environment is a crucial step in the strategic process, as a network’s or organization’s environment, to a large degree, defines the options available to management. A successful strategy will be one that aligns well with the environment. Managers in every network or organization need to analyze the environment. They need to know, for instance, what the competition is doing, what pending legislation might affect the network or organization, and the specifics pertaining to the labor supply situation in locations where it operates.
Step 2 of the strategic management process is complete when management has an accurate grasp of what takes place within its sphere of influence, and is aware of important trends that might affect its operations. The starting point of an external analysis is to identify the industry in which a network or company competes. To do so, managers must begin by looking at the basic customer needs which their network or company serves—that is to say, they must take a customer-oriented view of their business. The basic customer needs which are served by a market define an industry’s boundaries. It is important for managers to realize this, for if they define industry boundaries incorrectly, they may be caught flat-footed by the rise of competitors who serve the same basic customer needs with different product offerings. Once the boundaries of an industry have been identified, the task facing managers is to analyze competitive forces in the industry environment (Hill and Jones 2012).

The general environment consists of broad trends in the context within which a network or organization operates which may have an impact on the strategic choices they make. As depicted in Fig. 6, the general environment consists of six interrelated elements (Barney and Hesterly 2008):

- **Technological change**: creates both opportunities, as networks and organizations begin to explore how to use technology to create new products and services, and threats, as technological change forces networks and organizations to rethink their technological strategies;
- **Demographic trends**: demographics refers to the distribution of individuals in a society in terms of age, sex, marital status, income, ethnicity, and other personal attributes which may determine buying patterns; understanding this basic information about a population can help a network or organization to determine
whether its products or services will appeal to customers and how many potential customers for these products or services it might have;

*Cultural trends*: culture is the values, beliefs, and norms that guide behavior in a society; these values, beliefs, and norms define what is “right and wrong” in a society, what is acceptable and unacceptable, what is fashionable and unfashionable. Failure to understand changes in culture, or differences between cultures, can have a significant impact on the ability of a network or organization to gain a competitive advantage;

*Economic climate*: is the overall health of the economic systems within which a network or organization operates. The health of the economy varies over time in a distinct pattern: periods of relative prosperity, when demand for goods and services is high and unemployment is low, are followed by periods of relatively low prosperity, when demand for goods and services is low and unemployment is high. When activity in an economy is relatively low, the economy is said to be in recession, and a severe recession that lasts for several years is known as a depression. This alternating pattern of prosperity followed by recession, followed by prosperity, is called the business cycle;

*Legal and political conditions*: the legal and political dimensions of a network’s or organization’s general environment are the impact of laws and the legal system on business, together with the general nature of the relationship between government and business. These laws and the relationship between business and government can vary significantly throughout the world;

*Specific international events*: these include events such as civil wars, political coups, terrorism, wars between countries, famines, and national or regional economic recessions. All of these specific events can have an enormous impact on the ability of network or organizational strategies to generate competitive advantage.

### 4.3 Step 3: Identifying Opportunities and Threats

After analyzing the environment, management needs to assess what it has learned in terms of opportunities which the network or organization can exploit, together with the threats it faces. Opportunities are positive external environmental factors, while threats are negative. Opportunities arise when a company is able to take advantage of conditions within its specific environment to formulate and implement strategies which enable it to become more profitable. Threats arise when conditions in the external environment endanger the integrity and profitability of the company’s business (Hill and Jones 2012).

External opportunities and external threats refer to economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm a network or organization in the future. Opportunities and threats are largely beyond the
control of a single network or organization—thus the use of the term ‘external’ (David 2011).

Threats are characteristics of the external environment which may prevent the network or organization from achieving its strategic goals. Opportunities are characteristics of the external environment which have the potential to help the network or organization achieve or exceed its strategic goals. Task environment sectors are most relevant to strategic behavior and include the behavior of competitors, customers, suppliers, and the labor supply. The general environment contains those sectors which have an indirect influence on the network or organization but nevertheless must be understood and incorporated into strategic behavior. The general environment includes technological developments, the economy, legal, political and international events, natural resources, and sociocultural changes. Additional areas which might reveal opportunities or threats include pressure groups, interest groups, creditors, and potentially competitive industries (Daft 2010).

Keep in mind that the same environment may present opportunities to one network or organization and pose threats to another in the same industry because of differences in their management of resources.

### 4.4 Step 4: Analyzing the Resources of Networks or Organizations

At this point we move from an external viewpoint, outside the network or organization, to looking internally. For example, what skills and abilities do the network’s or organization’s employees have; has it been successful in new product innovation; what is the network’s or organization’s cash flow; how do consumers perceive the network or organization and the quality of its products or services? This step forces management to recognize that every network or organization, no matter how large or powerful, is constrained in some way by the resources and skills it has available.

Resources in the network or organization are defined as the tangible and intangible assets which are controlled by a network or organization, which it can use to conceive and implement its strategies. Examples of resources include a network’s or organization’s factories (a tangible asset), its products (a tangible asset), its reputation among customers (an intangible asset), and teamwork among its managers (an intangible asset). Capabilities are a subset of a network’s or organization’s resources and are defined as the tangible and intangible assets which enable a network or organization to take full advantage of the other resources it controls. That is to say, capabilities alone do not enable a network or organization to conceive and implement its strategies, but rather enable the use of other resources to conceive and implement such strategies. Examples of capabilities might include a network’s or organization’s marketing skills and teamwork and cooperation among its managers (Barney and Hesterly 2008).
Internal factors can be determined in a number of ways, including computing ratios, measuring performance, and comparison to past periods and industry averages. Various types of surveys may also be developed and administered to examine internal factors such as employee morale, production efficiency, advertising effectiveness, and customer loyalty (David 2011).

4.5 Step 5: Identifying Strengths and Weaknesses

The analysis in Step 4 should lead to a clear assessment of the network’s or organization’s internal resources (such as capital, technical expertise, skilled workforce, and experienced management). It should also indicate the network’s or organization’s ability to perform different functional activities (such as marketing, production and operations, research and development, financial and accounting, information systems, and human resources management). Any activities the network or organization does well or any resources that it has available are called strengths. Weaknesses are activities which the network or organization fails to perform do well, or resources which it requires but does not possess at this stage.

Internal strengths and internal weaknesses are a network’s or organization’s controllable activities which are performed especially well or poorly. Such strengths and weaknesses may arise in the management, marketing, finance/accounting, production/operations, research and development, and management information systems activities of a business. Identifying and evaluating strengths and weaknesses in the functional areas of a business is an essential strategic management activity. Networks and organizations strive to pursue strategies which capitalize on internal strengths and eliminate internal weaknesses. Strengths and weaknesses are determined relative to competitors, and any relative deficiency or superiority is information of vital importance. Furthermore, strengths and weaknesses can be determined by elements of being rather than performance. For example, a strength may constitute ownership of natural resources or a historic reputation for quality. Strengths and weaknesses may be determined relative to a network’s or organization’s own objectives. For example, high levels of inventory turnover may not be a strength for a network or organization that never seeks to stock-out (David 2011).

The merging of Steps 3 and 5 results in an assessment of the network’s or organization’s internal resources and abilities and opportunities (Fig. 7) and threats in its external environment. This is frequently called SWOT analysis because it brings together any Strengths, Weaknesses, Opportunities, and Threats in order to identify a strategic niche which may be exploited by the network or organization. In light of the SWOT analysis, management also re-evaluates its current mission and objectives. Are they realistic? Do they need modification? Are we where we want to be right now? If changes are needed in terms of overall direction, this point is where such changes are most likely to originate. If no changes are necessary, management is ready to begin the actual formulation of strategies.
4.6 Step 6: Formulating Strategies

It is of the utmost importance that strategies are established for the corporate, business, and functional levels. Management needs to develop and evaluate strategic alternatives and subsequently select strategies that are compatible at each level and allow the network or organization to best capitalize on its strengths and environmental opportunities. Net creation of business strategy is among the most crucial phases of long-term planning, and is based on the defined mission and vision of the network or organization and set strategic objectives. The strategy development phase requires sufficient information from an analysis of the external and internal environment. From an analytical perspective, the formation of business strategy includes the following activities (Hittmár 1999; Hittmár and Jankal 2013):

- formulation of a basic strategy,
- selection of the type of strategy,
- creation of policy options,
- evaluation and selection of the most suitable alternative strategies.

The processes of strategy analysis and choice seek to determine alternative courses of action which could best enable the network or organization to achieve its mission and objectives. The network’s or organization’s present strategies, objectives, and mission, coupled with both external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies. Unless the network or organization is confronted with a desperate set of circumstances, alternative strategies will likely represent incremental steps which move the network or organization from its present position to a desired future position. Alternative strategies do not come out of the wild blue yonder; they are derived from the network’s or organization’s vision, mission, objectives, external audit, and internal audit, and are consistent with, or build on, past strategies which have worked well. Strategists never consider all feasible alternatives which could benefit the network or organization due to the fact that there are an infinite number of possible actions and an infinite number of means to implement those actions. Therefore, a manageable set of the most attractive alternative strategies must be developed. The
advantages, disadvantages, trade-offs, costs, and benefits of these strategies should be determined (David 2011).

Step 6 is complete when management has developed a set of strategies which will give the network or organization a competitive advantage. That is, management will seek to position the network or organization to gain a relative advantage over its rivals. This requires a careful evaluation of the competitive forces which dictate the rules of competition within the industry in which the network or organization functions. Successful managers will choose strategies which give their network or organization the most favorable competitive advantage; they will subsequently try to sustain that advantage over time.

4.7 Step 7: Implementing Strategies

Implementation is the penultimate step in the strategic management process. A strategy is only as good as its implementation—no matter how effectively a company has planned its strategies, it cannot succeed if the strategies are not implemented properly. The remaining chapters in this book address a number of issues related to the implementation of strategy.

Successful strategies require a properly matched structure. If a network or organization significantly changes its strategy, it must therefore make the appropriate changes to its overall structural design. In fact, it will be demonstrated later in this publication that many of the new organizational structural designs are means by which networks or organizations cope with environmental and strategic changes.

Implementation is arguably the most critical point of long-term planning. A strategy which is not implemented by its very nature cannot be thought of as strategy. Although the implementation phase reflects a follow-up to strategy formulation, a capable manager even begins to consider implementation during the previous phase. It would be erroneous if implementation was understood formally as the administrative implementation of a ready formulated strategy. Fine-tuning of existing strategies alters the focus of the strategic planning process from conception to implementation of the strategy, which represents a shift from the process of formulating the program to specific—sometimes unpleasant—realities, compromise, conflict, and to confusion and errors. The means by which the implementation of strategy is realized, is considered the key to business success.

Implementation is arguably the most important, yet the most difficult, part of strategic management. Indeed, many struggling companies may have file drawers full of winning strategies, but managers are unable to effectively implement them. No matter how brilliant the formulated strategy, the network or organization will derive no benefit if it is not skillfully implemented. The implementation of strategy requires that all aspects of the network or organization be in congruence with the strategy, and that the efforts of each individual be coordinated toward the accomplishment of strategic goals. Strategy implementation involves using several tools—parts of the network or organization which may be adjusted to put strategy
into action. Once a new strategy is selected, it is implemented through changes in leadership, structure, information and control systems, as well as human resources (Daft 2010).

The strategic-management process does not end when the network or organization decides which strategy or strategies to pursue. A translation of strategic thought into strategic action must take place. This translation is much easier if managers and employees of the network or organization understand the business, feel part of the company, and have become committed to helping the network or organization succeed through involvement in strategy formulation activities. Without understanding and commitment, strategy implementation efforts face major problems. Implementing strategy affects a network or organization from top to bottom; it affects all the functional and divisional areas of a business. It is beyond the purpose and scope of this text to examine all of the business administration concepts and tools which may be considered important in strategy implementation. Many networks or organizations tend to spend an inordinate amount of time, money, and effort on developing a strategic plan, treating the means and circumstances under which it will be implemented as afterthoughts. Change comes through implementation and evaluation, not through the plan itself. A technically imperfect plan which is implemented well will achieve more than a perfect plan which never gets off the paper on which it is typed (David 2011).

4.8 Step 8: Evaluating Results

The final step in the strategic management process is evaluating results. How effective have our strategies been? The best formulated and best implemented strategies become obsolete as a network’s or organization’s external and internal environments change. It is essential, therefore, that strategists systematically review, evaluate, and control the execution of strategies. The strategic-management process results in decisions that can have significant, long-lasting consequences. Erroneous strategic decisions can inflict severe penalties and can be exceedingly difficult, if not impossible, to reverse. Most strategists agree, therefore, that strategy evaluation is vital to a network’s or organization’s well-being; timely evaluations can alert management to problems or potential problems before a situation becomes critical. Strategy evaluation includes three basic activities (David 2011):

– examining the underlying bases of a network’s or organization’s strategy,
– comparing expected results to actual results, and
– taking corrective action to ensure that performance conforms to the plan.

Adequate and timely feedback is the cornerstone of effective strategy evaluation. Strategy evaluation can be no better than the information on which it is based. Too much pressure from top managers may result in lower-level managers contriving numbers which they believe will be satisfactory. Strategy evaluation can be a complex and sensitive undertaking. Too much emphasis on evaluating strategies
may be expensive and counterproductive. No one likes to be evaluated too closely. The more managers attempt to evaluate the behavior of others, the less control they have. Yet too little or no evaluation can create even worse problems. Strategy evaluation is essential to ensure that the stated objectives are being achieved. In many networks or organizations, strategy evaluation is simply an appraisal of how well a network or organization has performed. *Have the assets increased? Has there been an increase in profitability? Have sales increased? Have productivity levels increased? Have profit margin, return on investment, and earnings-per-share ratios increased?* Some networks or organizations argue that their strategy must have been correct if the answers to these types of questions are affirmative. The strategy or strategies may have been correct, yet this type of reasoning may be misleading because strategy evaluation must have both a long-term and short-term focus. Strategies often do not affect short-term operating results until it is too late to make the necessary changes (David 2011).

The final stage of working on a strategy at once completes the process and provides feedback relating to previous phases. This will ensure a continuous reaction to factors influencing the internal and external business environment. This phase is not merely an evaluation of the results achieved, but also provides an opportunity to identify the causes of any differences between achieved and expected results. Thanks to the receipt of feedback, it is possible at this stage to make corrections and changes to the previous stages of the process. The entire process of strategic management is therefore continuous.

### 5 Conclusions

Strategic management is mainly a reaction to the current, changing conditions and emerging trends in the development of a market economy. This understanding of strategic management emphasizes in particular:

- the openness of organization as a system,
- a change in the view of the role and work of managers,
- the use of methods and techniques to resolve problems and make changes.

The orientation of enterprise in unstable conditions, finding the right direction in which to take the organization, and the selection of pathways to future objectives are the key tasks of a management company. The changing social and economic environment has brought about a number of new values and expressions, which require the preparation of one’s own ideas for the longer-lasting and more comprehensive functioning of the business. One of the most important tasks for a manager, entrepreneur or business owner is the need to implement ideas for the future, and then—at the stage of its own functioning—to know how to manage their activities.

Theoretically and practically mastered strategic management enables the network to not only survive, but allows the network and its members to achieve success and a leading position in the relevant industry. It encourages the will to win, the
setting of ambitious goals and the choice of brave and surprising strategies. Strategic management is of vital importance in today’s uncompromising times if the network hopes to push through and survive in a changing market environment.

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Management of Network Organizations
Theoretical Problems and the Dilemmas in Practice
Sroka, W.; Hittmár, Š. (Eds.)
2015, X, 266 p. 62 illus., 11 illus. in color., Hardcover
ISBN: 978-3-319-17346-7