

# CHALLENGES IN CREATING COMPETITIVE STRATEGIES- COMPARASION BETWEEN PRODUCTION AND SERVICE ACTIVITIES

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## ABSTRACT

*Setting the strategic direction in a broader sense is determining the image and character the organization wishes to develop over time. It is largely determined by environmental factors that impose by themselves limiting conditions, in terms of capital flows, investment in training and development, lack of resources or forced savings due to bad economic conditions (Popovski, 2009). It is in these terms, top management makes key decisions on which often depends the success / failure of the organization and its sustainable competitiveness in the market.*

*The main objective of the paper is to present the survey results, which are related to the choice of strategy of the organization to achieve greater competitiveness in the market. Based on the studied world literature, the strategies are classified into four categories: strategies towards external environment, strategies aimed at internal environment, strategies for organizational change and innovation strategies. The selection of organizations for the research is made on the basis of their relation in terms of internal capacity, market competitiveness, features of business and size of organizations. The research challenge is to draw a parallel between organizations from manufacturing and service industries, primarily in the way of defining the strategies, strategic direction and treating competition as a phenomenon.*

**Keywords:** *strategy, competitiveness, strategic direction.*

## Introduction:

Setting the strategic direction is the basis for smooth functioning of the organization, and its definition is based on the analysis of the external and internal environment. In essence, strategic leaders and their teams under appropriate tools for strategic analysis, are to determine the direction of the organization and create a strategy that will encourage the growth of all around them (Brady & Kiley, 2005), i.e. will help the organization create value for customers, profit for shareholders and others interested (Prince, 2005). As a result of this process strategic leaders and their teams should get answers to the following questions: in what position the organization is now, where it should be in the future; how to get there, whether the results match expectations, what should be corrected, what the requirements of customers are? ... etc.. In this process,

according to the analysis of environment, strategic teams still give priority to strategies aimed at external environment, as shown by the survey, while not neglecting the financial perspective. However, of particular importance is the adjusted balance of all categories that will allow you not to lose the gained competitive advantage if financial perspective is stressed, or favour any of the strategies related to external, internal environment, innovation or organizational changes. This view is the basis of the concept of balanced card results created by Kaplan and Norton (Kaplan & Norton, 2001).

Finding the best approach to strategy formulation and formulation itself is always a challenge for managers and their teams. Using standard tools in the process of determining the strategic direction must be adapted to the specific context in which the organization operates and to examine their adequacy in terms of the

complexity of the problems. On the other hand, in research or commonly used the so-called McKinsey & Company; “7S Model” indicates that when setting the strategic direction of the organization it is necessary to establish a balance between 7 factors, internally in the organization, including: strategy, structure, systems, management style, staff, skills, culture and common values (shared values). Any new strategy requires a different level of customization of these factors, through a process of organizational changes and innovations primarily for the acquisition of key prerequisites for implementation of the strategy. From here the conclusion that strategic teams should not be overlooked and internally oriented strategies and innovation strategies and organizational changes that are important mainly for higher process efficiency. According to the Porter’s model of addressing competitiveness shown in the picture below, we can clearly recognize the inseparable link between the organization and key factors from the external environment.

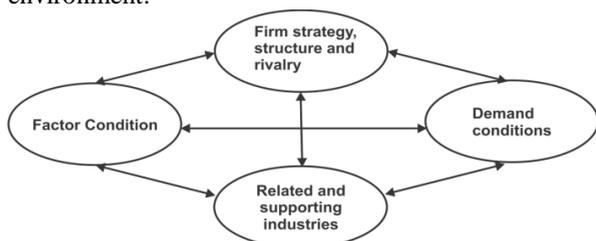


Figure – 1: Porter’s diamond of competitiveness

Source: Radosevic, S.: Competitive Challenge of Croatia - Conceptual experiments and empirical research, Institute of Economy Zagreb, 1994, p.48, taken from Porter M., Competitive Advantages of Nations, 1990

This model, called “Porter’s diamond of competitiveness”, is generally accepted by the world scientific community and is open to strategic managers who create strategic plans and policies of the organization within sustainable organizational competitiveness.

**Organizational competitiveness:**

Many authors believe that competition is a clear issue and is easy to define. Organizations that exist are competitive; those who leave the market are not competitive. However, in reality organizations operate with different costs, technology and human resources, facilities and so on. Some organizations set strategies to lower prices or costs; others are based on innovation and organizational change. Then which organization would be more competitive? Organizations are competitive when producing goods and services with superior quality or lower cost than their domestic or international competition. It suggests that organizations with average costs by definition are not competitive (Aiginger & Pfaffermayr, 1997).

However the framework for measuring the competitiveness set by (Guan et al. 2006) stresses that one of the seven dimensions of the ability of an organization is also the strategic capability. Strategic planning ability is the ability of the organization to understand all kinds of external relations and adapt to the external environment. Thus, once again we highlight the importance of the strategic direction of the organization for its sustainable competitiveness.

Organizational competitiveness draws its roots in possession of special tools and resources that have the characteristic of value, diversity and cannot be imitated or substituted. This will preserve the position of the organization as competitive in the market (Christensen, 1995). It should always be borne in mind that when it comes to organizational competitiveness, then we think of sustainable organizational competitiveness, or as the Dutch organizational strategist Arie de Geus would say “The ability to learn faster than your competitors is the only sustainable competitive advantage”.

The low level of competition is significantly influenced by the slowed process of economic restructuring of the business organizations. According to the survey Blazhevski determined that very few organizations have made staff and organizational strengthening, improvement of technological processes, restructuring of production according to market requirements and enhanced cooperation with foreign partners. Here are some of the answers to the specific questions:

Table - 1: Activities aimed at ensuring sustainable competitiveness

Questions	Answers			
	Intensely	According to forecasts	Slowly	Initially
How are carried out the activities related to:				
Management and professional staffing		X		
Organizational enhancement		X		
Improvement of technological processes				X
Market restructuring				X
Financial consolidation			X	
Foreign cooperation			X	

Source: Dr. Boris Blazhevski, Competitiveness – the most propulsive growth factors, Essays and discussions of the scientific gathering “Competitiveness of the economy of the Republic of Macedonia”, 2003, p. 35

The results in the table clearly point to the conclusion that the surveyed organizations work under obsolete technological process that neither contributes to increasing the competitiveness of organizations in the long term, nor is complementary to the requirements of the European Union and the world market. The same applies to restructuring of the organizations in accordance with international demands, which certainly in turn requires significant financial investments and often credit load of organizations,

which day by day are losing ground to global development. According Radošević competitiveness is multidimensional concept (Radošević, 1994). Such treatment of competitiveness stems from the large number of factors that influence and determine the competitiveness of organizations. These factors are placed in the book by Radošević in ten categories: dynamics of the economy, industrial efficiency and production costs, dynamics of the market, financial dynamics, human resource,; role of the state, infrastructure, external orientation; future orientation, socio political consensus and stability. The holistic approach of treating the ten listed factors suggest that competition in all its complexity in today's market conditions cannot be considered only by partial access to some of these factors.

**Research Methodology:**

This paper posed two research objectives formulated on the bases of problems identified in the survey area. They are based on information obtained from practical application of strategic management as well as theoretical knowledge of domestic and world literature. After the deep study of literature in this area the basic scientific goal is obtained, which refers to the perception of direction in terms of strategic thinking among more firms explored within the Pelagonia region in the Republic of Macedonia. The scientific justification of the research is in terms of generating new scientific knowledge that will find suitable application not only as an intellectual issue, but practical application as well, especially for improving organizational performance.

**Research objective 1:**

To examine the opinion of organizations about the process of creating the strategic direction in terms of: its orientation; ways of creating the strategic direction; treatment of competitiveness.

**Research objective 2:**

To determine whether there is considerable difference in responses between organizations of production and service activity.

**Research instruments:**

The research instruments, primarily for obtaining reliability (safety) and providing real data, a questionnaire has been used with the leaders of organizations surveyed. The survey includes 22 organizations from the Pelagonia region in R. Macedonia, 11 of production activity and 11 of service activity. The survey was conducted in March 2013.

**Results from the survey and discussion:**

The questions from the questionnaire present:

- frequency of responses and percentage values of the same;

- to determine whether there is a statistically significant difference in responses between respondents a Chi square test is applied on two independent samples;
- The limits of each Chi square are calculated at level of 5%. The first question asks whether organizations have a specific strategy of action. The answers to this question are given in Table 2.

**Table 2: To the first question: Does your organization have a specific strategy of action?**

Does your Organization have a specific strategy of action?	Production activities		Service activities	
	Frequency	Percent	Frequency	Percent
Yes	9	81,8	8	72,7
No	1	9,1	1	9,1
Partially	1	9,1	2	18,2
<b>Total</b>	<b>11</b>	<b>100,0</b>	<b>11</b>	<b>100,0</b>

**Chi square test**

fo	ft	fo-ft	(fo-ft) <sup>2</sup> /ft
9	8.5	0.5	0.02
1	1	0.0	0.00
1	1.5	-0.5	0.16
8	1.5	-0.5	0.16
1	1	0.0	0.00
2	1.5	0.5	0.16
			X <sup>2</sup> =0.5

**0.5 < 5.99**

**There is no statistically significant difference**

From the results in the table can be concluded that most organizations of product or service activity act by pre-formulated strategic plan, which in a small percentage (more apparent in organizations with service activities), is partially set. However, the formulation of the strategy as a complex process of strategic management involves a greater level of commitment from different interested parties, mainly to ensure sufficient input of information and knowledge in the mosaic for find way through the complexities Kurtz & Snowdon, 2003). This explains the growth of new tools designed to help managers get impulsive power in dynamic and complex environments where no individual organization has the capacity to achieve unilateral results (Klijn & Teisman, 1997). Often the strategic plans include created strategies that are a little more focused either to the external environment or to the internal environment, or strategies aimed at organizational change and innovation strategies. That is the context of the second question, which will give us the answer to the nebulousity what the surveyed organizations are targeted at Table 3.

Table – 3: To the second question: What are the surveyed organizations targeted at?

What is your organization targeted at? Offered answers	Production activities		Service activities	
	Frequency	Percent	Frequency	Percent
At the external environment (you are only targeted towards customers)	5	45,4	7	63,6
At the internal environment (you consider that investing in internal capabilities will contribute to the image of the organization)	4	36,4	1	9,1
To innovation (you consider that only innovation will win the competition)	1	9,1	1	9,1
To organizational change (you consider that only the changes in the organization will make it attractive in the market)	1	9,1	2	18,2
<b>Total</b>	<b>11</b>	<b>100,0</b>	<b>11</b>	<b>100,0</b>

Chi square test

fo	ft	fo-ft	(fo-ft) <sup>2</sup> /ft
5	6	-1.0	0.16
4	2.5	1.5	0.96
1	1	0.0	0.00
1	1.5	-0.5	0.16
7	6	1.0	0.16
1	2.5	-1.5	0.9
1	1	0.0	0.00
2	1.5	0.5	0.16
			X <sup>2</sup> =2.4

2.4 < 7.81

There is no statistically significant difference

Table – 4: To the third question: “How do you make strategic decisions?”

How do you make strategic decisions? Offered answers	Production activities		Service activities	
	Frequency	Percent	Frequency	Percent
Independently	5	45,4	4	36,3
In collaboration with all employees	4	36,4	3	27,3
There is a team for that purpose	2	18,2	3	27,3
External experts	0	0	1	9,1
<b>Total</b>	<b>11</b>	<b>100,0</b>	<b>11</b>	<b>100,0</b>

Chi square test

fo	ft	fo-ft	(fo-ft) <sup>2</sup> /ft
5	4.5	-1.0	0.05
4	7	1.5	1.28
2	2.5	0.0	0.1
0	0.5	-0.5	0.5
4	4.5	1.0	0.05
3	7	-1.5	2.28
3	5	0.0	0.8
1	0.5	0.5	0.5
			X <sup>2</sup> =5.56

5.56 < 7.81

There is no statistically significant difference

Table – 5: What contributes to the surveyed organizations competitiveness in the market

What contributes to your competitiveness in the market? (Rank starting from 1-the least influential)	Production activities			Service activities		
	Frequency	Percent	Rank	Frequency	Percent	Rank
Low prices	3	27,3	1	3	27,3	1
Human resources	1	9,1	3	2	18,2	2
Service	1	9,1	3	3	27,3	1
Quality	3	27,3	1	3	27,3	1
Diversity	2	18,2	2	1	9,1	3
Defined strategy	1	9,1	3	1	9,1	3
Other	0	0	/	0	0	/
<b>Total</b>	<b>11</b>	<b>100,0</b>		<b>11</b>	<b>100,0</b>	

Chi square test

fo	ft	fo-ft	(fo-ft) <sup>2</sup> /ft
3	3	0.0	0.0
1	1.5	-0.5	0.16
1	2	-1.0	0.5
3	3	0.0	0.0
2	1.5	0.5	0.16
1	1	0.0	0.0
3	3	0.0	0.0
2	.5	0.5	0.16
3	2	1.0	0.5
3	3	0.0	0.0
1	1.5	-0.5	0.16
1	1	0.0	0.0
			X <sup>2</sup> = 1.64

1.64 < 11.1

There is no statistically significant difference

When analyzing the chart you can clearly see that there is no significant difference between the responses of leaders in organizations dealing with production and those offering services. The two types of organizations are almost identically directed towards external environment, i.e. mostly to customers, and then towards investing in internal capacity and organizational changes that would bring better image of the organization. Both types of organizations, base their strategies very little towards innovation. When analyzing the table you can clearly see that there is a significant difference between the responses of leaders in organizations dealing with production and those offering services. Namely, the organizations of production activities are almost identically aimed at external and internal environment, i.e. mostly to customers, then at the investment in internal capabilities that deliver more performance for the

organization. Unlike these, the organizations in service activities are mostly targeted towards customers and meeting their requirements, while both types of organizations very little direct their strategies to innovation and organizational change. The third issue concerns the way of making strategic decisions. The results of the survey are presented in the above table.

From a theoretical and practical point of view, it is advantageous when the experience and competence of staff are used in creating strategic direction. From the table above can be concluded that employees in most of the surveyed organizations have no opportunity to participate in creating the strategic direction because this is done by the leaders themselves. The value of Chi square test indicates that there is no statistically significant difference in responses between organizations from production and service activities. It is therefore recommended that during the creation of strategic direction successful leaders

should not approach alone or decide away from the eyes of employees. Namely, they should create teams, composed of staff from all departments in the organization. They should jointly determine the “faith” of the organization. A clear understanding of the responsibilities of team members helps not only to define the strategic direction, but also to recognize the ways to achieve the strategic goal. Team members must link their personal visions and visions of the different sectors to the organizational vision, i.e. to the organizational goals. Understanding the goal to be achieved, or the understanding of how and why to invest efforts in the realization process actually creates a strong shared vision within the organization. Therefore, the leadership team needs to expand the common vision across the organization, explaining the essential question “where the organization goes”, through clear and visible picture of the future, i.e. by constantly emphasizing the belief in the capabilities of the organization and its employees.

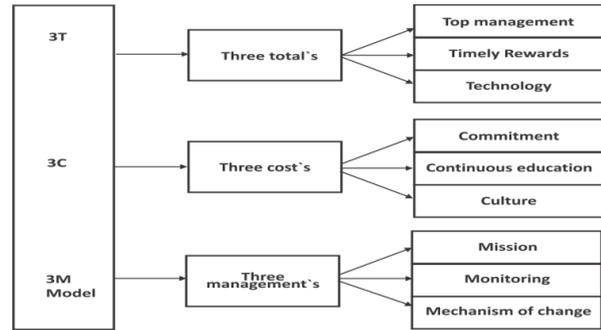
The fourth issue concerns what contributes to the surveyed organizations competitiveness in the market. The results are given in Table 5.

Competitiveness as a separate phenomenon is the basis for the functioning of any market economy. But this competition depends not only on the organization but largely on legal regulations, relationships and processes within firms or companies, competition, defined strategy, the quality of the product / service, which certainly makes this a very complex phenomenon. The value of the chi square test indicates that there is no statistically significant difference in responses between the two types of organizations surveyed. But if we consider the results from the table qualitatively then they point to the conclusion that leaders in organizations of production activity consider the most affective on their competitiveness the quality and the low prices of the products. Organizations in service industries have emphasized low prices, service and quality and then human resources and diversity.

**Total Cost Management Approach as a challenge for sustainable competitiveness:**

The modern approach to cost management TCM (Total Cost Management Approach) is the counterpart of TQM (Total Quality management) and includes capability of organization to manage the invested capital, rationality in the work process and efficient circulation of the available capital. Thus, the organization strives to create products or offer services that will be of lower market prices, which achieves better profits and a step ahead of the competition. To achieve successfully this approach it involves integrated use in all parts of the organization

and by all employees. The groups of authors Fisher, Westney, Gupta, for effective implementation of the TCM approach recommend the model “3PM - 3C - 3M”. The model is shown in the picture below



**Figure – 2: model “3PM - 3C - 3M”**

**Source:** Micic R., Arsic Lj., Cost management as factor of organizational competitiveness, Economic views, 1/2010, p. 39

The approach is comprised of three components, 3T, 3S, 3M. The 3T component generally within its three phases includes: the current situation of the organization, general philosophy, politics, the structure and the creation of the operational strategy (Top Management), timely reward systems, in order to affirm the innovation, creativity and organizational culture (Timely Rewards) and technology that affects the competitiveness of the organization (Technology). The 3C component in all three phases generally includes: control of work, continuous education and stimulating rewarding, which basically covers preventive control, that prevents the occurrence of unnecessary expenditure (Commitment), encouraging innovation in order to achieve low costs and organizational culture which values these efforts (Continuous education, Culture). The 3M component includes: mission and long-term organizational goals (Mission), self-control and control among employees, thus preventing so-called "building" unnecessary costs (Monitoring) and organizational and technological change (Mechanism of change), (adapted by Micic & Arsic, 2010).

The use of this approach explains the cause and effect relationship between top management that through the mission and defined goals and change management, supported by appropriate organizational structure, culture, reward system and continuous improvement ensures effective implementation of set tasks with low cost and retained quality of products / services.

**Conclusion:**

From the analysis of the responses of organizations of production and service activity can generally be concluded that the strategic direction is to the strategies of low prices through low costs and strategies that focus on quality and diversity of products / services.

The results largely support the Porter strategy based on competitive advantage of the organization which is also based on low cost or products and services that in the eyes of customers are different from competitors'. In this context, one can set the following strategies.

**Table – 6: Strategies for the realization of Competitive advantage**

Width of the market	Relative competitive advantage	
	Low work costs	Uniqueness of product/service
Whole market	Leadership in costs	Differentiation
Market segment	Focusing (on the low living costs)	Focusing (with differentiation)

**Source:** Tucic D., G. Jankovich, Sipragic M., 2007, Strategic and operational management, EDA - Agency for Enterprise Development, Banja Luka, p.24

To be competitive in the market with products and services at low prices compared to those of the competition, the strategies should enable the organization work with low cost and still retain the quality of products or services, which would lead to higher sales volume. Generally, lower costs can be achieved on the basis of better utilization of organizational capacity, specific design of products that enables quick and easy output, ability to supply the required resources at low prices (which largely depends on the suppliers), effective distribution etc., (Tucic et al. 2007).

But we must bear in mind that rapid changes in the environment, particularly in the development of technologies can bring at risk the application of this type of strategy. New technologies and improved performances can increase production capacity per unit time and / or lead to improved quality of products or services, causing further decline in prices, and thus the loss of already acquired competitive advantage.

On the other hand, strategies aimed at quality and diversity of products / services require continuous development and creating specific features that are important to customers, yet not in competition. Customers are often willing to pay a higher price for such products or services because they consider them particularly valuable and satisfying to their taste and needs. The difference in price

can be used for adding calculated expenses to create this superior product or service. These organizations usually have a strong marketing orientation and are known for innovation, design and quality of their products, and by continued promotional activities they maintain and enhance the image of unity (Tucic et al. 2007).. The risk of these strategies is seen in the possibility of these products or services to be imitated by the competition. Therefore the changed requirements and desires with the clients must be constantly monitored and all the trends in the environment closely scanned, as a means of protection from competition and its activities in creating products or services that will have greater value for customers.

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