Table 6.6 Competitive strategies and control types

Control type	*Overall cost leadership*	*Differentiation*	*Focus*
Output control	High application (e.g. cost control)	Somewhat application (e.g. aim control)	Somewhat application (e.g. quality control)
Bureaucratic control	Somewhat application (e.g. budget control)	High application (e.g. rule control)	Somewhat application (e.g. budget control)
Group control	Low application (e.g. quality control	High application (e.g. culture control)	High application (e.g. norm control)

Source: Buble et al., 1997, *404*.

i.e. whether it is following overall cost leadership or differentiation if it is focused on a particular market segment. Based on this notion, the following three types of control have emerged:

1 Output control,
2 Bureaucratic control
3 Group control.

Unlike bureaucratic control which presents a mechanism outside the group, group control is a mechanism created by the group itself. The system of norms and values in a bureaucratic control is established by the company, whereas the system of norms and values in group control is established by the group. An individual feels he is *forced* to work *the best he can* in bureaucratic control, whereas an individual feels *responsibility* to work *the way he needs to work* in group control. Accordingly, bureaucratic control employees are controlled by an external system imposed upon them, whereas group control employees are controlled by an internal system which they have established themselves.

Following overall cost leadership (Mintzberg et al., 1995) is achieved by creating an economic factory, a permanent cost control, minimising the costs of services and similar. Hence, a complete output control and lower bureaucratic control and group control are applied here (Table 6.6).

Following differentiation (Mintzberg et al., 1995) is achieved by innovating existing products, a developed customer service, product quality control and similar. Hence, bureaucratic and group control is used here to its full extent, whereas output control is used to a lesser degree.

The interaction between the planning and the action component

The association between the planning and the action component is completed through the adoption of the strategic plan. During the process of strategic plan adoption, it is important to understand the management apparatus. In the literature, the role of management apparatus in the process of strategic plan adoption is identified as the main factor of the competitive position of a company.

The aim is to provide the correlation between the purposes of the company with the interests of the owner. A number of recent studies suggest that the management apparatus plays a key role in the process. However, that role is insufficiently realised in practice. Either way, it can be exclusively realised in the partnership between the board (supervising or managing) and the top management of the company.

However, they often hold one or two functions simultaneously: the first being managing (owner's), whereas the second one is executive (top managerial) (Drucker, 1955).

Although the two functions can be observed individually, they are intertwined in practice. Since it is hard to determine the difference between governance and management, terminological ambiguity often emerges when trying to understand these terms. Hence, Anglo-Saxon literature includes the following terms related to governance: *direction*, *governing*, *administration*, *control* and the following terms related to management: *guidance*, *management*, *generalship*, *leadership*. The first author to deal with this issue was Chester Barnard.

The association between the governance (owner's) and executive (top management) function is defined by a set of combinations (Mašić, 2008): (a) The owners can do all the top-managerial tasks themselves, (b) they can hire professional top managers and simultaneously do some top managerial work and (c) they can leave all the top-managerial work to professional top managers.

In addition, this association is defined by a set of contract relations which are known as managerial contracts in the literature. The following two theories explaining the set of contract relations more closely were formed based on these associations.

- Agency theory
- Stewardship theory

The premise of the agency theory (Nyberg et al., 2010) is the economic man who has a rational desire to maximise his own benefit, whereas the premise of the stewardship theory (Davies et al., 1997) is the self-proclaimed man who wants to raise his personal bar in his desire to maximise collective benefit. An individual places personal interests as the goal, whereas the collective interest is highlighted in stewardship theory.

In the agency theory, there is a relationship between the capital owner (the so-called principal) and the professional top-manager (the so-called agent) in which they sign a contract which states that the principal is paid to work in the interest of the owner. In stewardship theory, there is a relationship where the capital owner and the professional top-manager (known as the governor) close a deal which indicates that the governor is motivated to work in the interest of the owner. In other words, when discussing agency theory, if an agent has to choose between the maximisation of personal benefit or principal benefit, he will opt for the maximisation of personal benefit at the expense of principal interest (there is an emergence of the so-called agency cost for the principal), whereas in stewardship theory, if a governor chooses between maximisation of personal benefit or principal benefit, he will opt for the maximisation of principal benefit at the expense of personal interest (there is an emergence of the so-called opportunity cost for the governor).

According to Branislav Mašić et al. (2008), the 20th and 21st centuries are characterised by a tendency to leave the majority of top-managerial work to professionals. It does make sense since there are numerous factors justifying this phenomenon. There has been a revelation that professionals are individuals whose competencies (knowledge, skills and abilities) guarantee that they will do a better job completing top-managerial tasks compared to the owner. The previously stated facts indicate that every owner does not have to be (both) a top manager too to successfully manage his capital, i.e. to generate an income to its invested capital, which is the ultimate goal of each capital investment. However, top managers can participate in the ownership structure of a company where they conduct their top-managerial tasks, which does not influence their position, status, role and behaviour as holders of top-managerial work. The association between the managerial (owner's) and the executive (top-managerial) function observed as an example of private companies (partnership companies) is different compared with the example of corporations (shareholders company).

There are only a few owners in partnership companies whereas there are many owners in shareholder's companies. Owners complete top-managerial tasks in partnership companies too (there is no separation between ownership and top-managerial function), whereas owners leave top-managerial tasks to professionals in shareholders' companies (there is a separation between the ownership and top-managerial function) (Erić, 2000). People can be simultaneously involved in the managerial (ownership) and the executive (top-managerial) level. Our legislation does not allow that since members of the board of directors cannot be members of the board of supervisors at the same time.

Although the separation of the governing (ownership) and executive (top-managerial) function is advocated in the recent literature, companies where both these functions are united in a single person still dominate in practice. Namely, the same person is both the owner and top manager in most companies (Higgins, 1994). Those who oppose the separation and favour the current state of affairs argue that the separation into two functions (owner and top manager) would jeopardise company leadership.

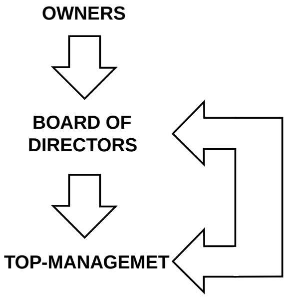

Figure 6.15 The relationship between the governing and the top-managerial position.

Source: Adapted from Manus and Minow, 1995, *104*.

Those who favour the separation and oppose the current state of affairs highlight that the unification of the two functions (owner and top manager) in a single person would make it harder to make changes in a company (Figure 6.15) (Milisavljević, 1999).

To understand their role requires a comprehension of the models (Manus and Minow, 1995) which are a framework of the functionality of different levels in an organisational structure of a company.

The first model is the unitary or the single-stage model: This model includes only the board of directors. The essence of this model is the unification of the governing (ownership) and the executive (top-managerial) level which is comprised of the internal and external members of the board of directors. This model is applied by the USA and Great Britain. Since the chief executive office is a member of the board of directors, and quite often the chairman of the board of directors at the same time, it is necessary to evaluate his work from time to time, particularly by external members of the board of directors.

It is necessary that everyone, external participants in particular, should have the information needed for discussion to make sure it does not end up being dull.

It can be argued that external members of the board of directors are free and independent and have a much more favourable position to evaluate the company business in a more serious way compared to the so-called internal members. External members, in contrast with internal ones, are given priority due to the following (Payne et al., 2009): (a) they use financial performances as central parameters when evaluating the company success, (b) they have a tendency to dismiss the CEO due to bad performance, (c) they have a tendency to carefully scrutinise the work of the CEO to protect their own reputation and (d) they are more objective when evaluating the company business operations since they use financial performances. However, according to Jay Lorsh, giving advice is the one thing a CEO expects most from the external members of the board of directors. In order to maintain the unification of the functions of the president of the board and the CEO in a single person and to increase the system of top-management control, there have been recent suggestion of introducing the so-called leading director, i.e. to assign this role to one of the members of the board of directors. Hence, the role of the board of directors in modern company needs to be strengthened through authorisation. Jay Lorsh states several reasons for authorisation: (a) the owners indirectly pressure the board of directors to influence the top management to work in their interest, (b) increase of public interest through the specification of institutional frameworks for enhancing the work of top managers, (c) it is believed that top managers are overpaid considering their achieved results. According to Momčilo Milisavljević (1999), the degree of authorisation needs to be adapted to the company needs. Hence, authorisation does not mean that the board of directors should take over the role of the top management of the company and govern it directly through its business activities. It is recommendable to have a small-numbered board of directors to constantly monitor the work of top management. The members of the board of directors need to have experience to successfully monitor the work of top management. Jay Lorsh (1995) argues that there are no indicators that a board of directors, in companies where it has the authority to monitor the work of top management, has lost its power to lead the company.

The second model is the dual or the two-stage model:This model recognises the existence of the supervisory board and the management. The essence of this model is to separate the governing (ownership) level from the executive (top managerial) level. This model is applied by the EU and Japan. The role of the board of supervisors is limited to the selection of top managers, monitoring their work and their dismissal if the company performances are not satisfactory. The role of shareholders is to dismiss the board of supervisors if the company has not operated successfully. This means that top managers depend on the board of supervisors and the board of supervisors depends on the shareholders. This model has not been successful since many companies applying it has operated unsuccessfully. It has been discussed that a companies failure is not associated with power distribution, but rather with bad decision-making. The disadvantages can be found in decision making, with the cause being the way in which the board of supervisors and top management make decision and monitor the company development. Accordingly, power reform is not the key for correcting the problem, but it does not undermine its importance. It is common for top managers to have certain power since power is a permanent follower of capital management. The power possessed by top managers today is vast. Branislav Mašić et al. (2005) argue that, here, it needs to be highlighted that the power of top managers has a tendency of permanent growth due to the process of globalisation.

Company capital management autonomy (particularly in big companies since they have huge capital at their disposal) includes the possession of vast power on the behalf of top managers. The possession of power raises the issue of its abuse. This has led to the inauguration of the problem of top-management control, i.e. the problem of controlling the behaviour of top managers to protect stakeholders and owners. The basics of top-manager control can be found in each company. Hence, each company includes the forms and the dynamic of top-manager control in its statute. This includes the need to control the behaviour displayed by the top manager on one side and controlling the results achieved by the top manager on the other. Accordingly, special place and role are assigned to (Manus and Minow, 1995): (a) direct control conducted by the apparatus in relation to the shareholder assembly, board of supervisors and certified auditors and (b) indirect control conducted according to indicators in relation to the growth level, market position and price dynamics. Well-organised companies ensure a timely protection from irresponsible behaviour in terms of the disposition of their capital. However, practically, the existing control system of top-manager behaviour in the area of capital management does not have all the performances needed to successfully control the behaviours of managers. It has been often proven that even top managers, who are often associated with financial and legal consultants, are prone to falsify and tamper business reports and audit companies sometimes give more advice than exercise control which altogether harms the shareholders[3].

Based on model comprehension, we can apply the following two terms (Buble et al. 2007):

1 Governing (ownership),
2 Executive (managerial) level.

The governing (ownership) level consists of company owners and/or their representatives appointed by the assembly to be a part of the board. In the Anglo-American model, the board consists of members of *the board of directors headed by the chairman of the board of directors*. In the European-continental model, *the board consists of members of the board of supervisors headed by the chairman of a board of supervisors*.

The *executives* or those with a share in the ownership structure of the company (major or minor shareholders) are known as *insiders*, whereas *non-executives* or those without a share in the ownership structure of the company (major or minor) are known as *outsiders*. Outsiders are nominated into the governing board or board of supervisors on a temporary basis with a goal of solving financial, legal, investment and other questions. In order for the governing or board of supervisors to function properly, it is recommendable to hold 6 to 12 regular annual meetings with additional meetings depending on the circumstances. The revision of the company business strategy needs to be done at least once a year.

The executive (top managerial) level consists of a manager and/or their substitutes appointed by the board into the top management[4]. In the Anglo-American model, *the top management consists of executive officers headed by the*

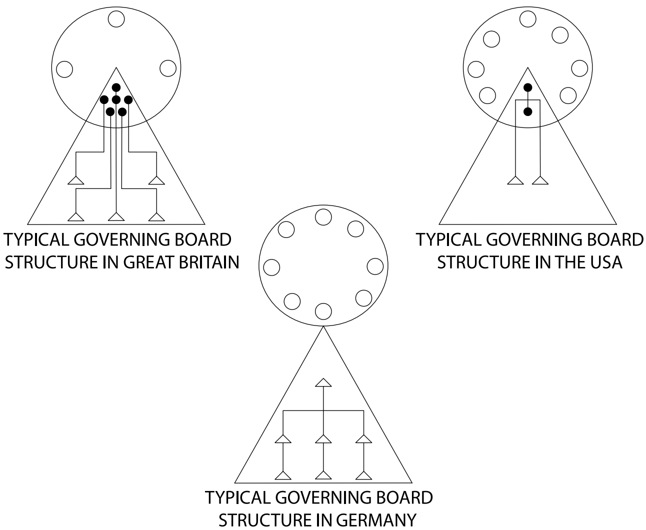

Figure 6.16 Typical board structure (either governing or supervisory) in some companies.
Source: Buble et al., 1997, *32*.

chief executive officers. In the European-continental model, the *top management consists of board members (executive officers) and the board chairman (managing director)*. Top management is responsible for the functioning of the company as a whole. The term top management does not imply a formalised management based on the group system, but rather a constellation of 3 to 10 managers at the top of the organisational structure of a company[5].

Figure 6.16 illustrates a typical board structure (either governing or supervisory) in some companies. As seen in the figure, the outsider chairmen are a minority in companies in Great Britain. It is common for a governing board to have more than one outsider member, but certainly less than half of the total number of members. In sharp contrast, most members of the governing board are outsiders in companies in the USA. Unlike the USA and Great Britain, Germany has completely separated membership in the governing board and top management. Anyway, the governing board consists of an odd number of members, at least three, whereas the main assembly of the company nominates them for a period of 3 years, with the possibility of a reelection.

Priorities must be defined to focus on. According to Momčilo Milisavljević (1999), there are the following three points of view of the increased role of the board (governing or supervisory) in the process of strategic management:

1 First, who is responsible for the minimisation of the management board (governing and supervisory) in the strategic management process and who considers it to be the jurisdiction of the top management of the company

2 Second, who assigned the board (governing or supervisory) with the role of providing an insight and monitoring of the realisation of the strategic management process
3 Third, who is responsible for favouring the partnership between the board (governing or supervisory) and top management in the process of strategic management.

Members of the board (governing or supervisory) are legally obliged to give their vote on some company decisions such as merging other companies, merging with other companies, the division of the company into other companies and similar. The board (board of directors or board of supervisors) can directly influence the strategic planning process by incorporating its members into respective sub-boards (sub-board for strategy, for instance), by indirect suggestions concerning the top-management tasks and by direct supervision over the decisions of the top management.

The board (board of directors or board of supervisors) can directly influence the strategic planning process by reducing the corporation dependency on the resources and the influence of the environment by providing the top management of the company with relevant information.

The role of the board (board of directors or board of supervisors) is narrowed down to the *authorisation of the strategic plan* of the company which is adopted by the *executive officers* headed by the *chief executive officer* in the Anglo-American model or *the members of the board of directors* (executive officers) headed by the *chairman of the board of directors* (managing director) in the European-continental model.

It is recommendable and even necessary to have this document to establish the needed communication between the board (board of directors or board of supervisors) and top management in the strategic planning process, since competitive strategy is put to paper by its application. Disregarding the methodological framework[6] of the strategic plan, the document should be short, a few pages only. It is believed that the best practice is for the initiative to start from the top-managerial level with the participation of all levels of strategic business units with their suggestion and initiatives. The board (board of directors or board of supervisors) which has, in the past, only passively authorised the strategic plan of the company recommended by top-managerial team is now more active in its creation. In addition, strategic business unit managers receive a more important role in the creation of the strategic plan, whereas the role of professional planners is beginning to fade (Babić et al. 2008).

Each manager has clearly delimited authorisation and responsibilities in relation to their function in the company. It is important to clarify the positions of individual top-managers involved in the task to ensure work efficiency. Strategic business unit managers have a narrower area of jurisdiction and responsibility compared with the CEO or the managing director. However, they perform the same activities as them. The difference is that the CEO or the managing directors of the company perform activities referring to the entire