

where both low costs and differentiation are inconsistent. Such a situation is only temporary. In the end, one of competitors will start to follow a generic strategy in a well-structured manner. Hence, a company must select a form of competitive strategy which is planned as a long-term solution.

The second situation is when *costs are determined by market share*. In this scenario, a company follows overall cost leadership or differentiation due to high market share rather than product design, technology level or service provision and other factors. However, when a company simultaneously strives for overall cost leadership and differentiation, it is always vulnerable towards competitors following a single generic strategy with a realisation of a high market share. This can be realised when there is a notable industry cross-relation which can be utilised by some companies and failed to be utilised by others.

The third situation is when *companies are the main significant innovators*. Introducing significant technological innovation enables the company to reduce costs or enhance differentiation simultaneously and perhaps follow both generic strategies. However, to follow both generic strategies simultaneously, a company must be the sole main significant innovator. When a competitor introduces an innovation, the company is again positioned to balance the use of the innovation for overall cost leadership or differentiation. A company must have some barriers preventing imitation which results in competitive advantage.

It should be noted that some authors advocate following several generic strategies simultaneously, whereas other authors advocate following a single generic strategy.

An analysis of generic strategies can reveal that they focus more on strategic business units while neglecting the company. This mostly concerns diversified companies while neglecting the undiversified. Considering the fact that one of the criticisms of generic strategies is oriented towards the premature dismissal of the portfolio concept, research the possible portfolio concept that can be applied to the strategic business unit level to realise a transfer of cash follows.

Analyse, in any example, the manner in which a company can end up stuck in the industry middle due to the fact that it does not follow any strategy or the manner in which it ended up stuck in the industry middle since it tried to follow both strategies.

## Notes

- 1 *Boston Consulting Group* – BCG is a global private consulting company and a world leader in consultations on management and business strategy. It was founded in 1963 and it has 81 offices in 45 countries worldwide.
- 2 A recent study on employee practices in small steel plants in the USA indicates that factories tend to have different business strategies using different systems in the practice of employees. Steel plants following overall cost leadership have used systems based on control characterised by strong centralisation, low participation, a low

degree of training, low salaries, low benefits and a highly conditioned pay check, whereas steel plants following differentiation have used a system of employee attachment which is characterised by features opposite the above-mentioned dimensions. A later study of the same factories has shown that the latter steel plants have had higher profitability, lower rate of discarded material and a lower employee fluctuation compared to steel plants following the system of control.

- 3 A compelling evidence to this is the so-called Enron case (America company ranked 7th in size with assets worth 66 billion dollars). Enron declared bankruptcy because of misuse and unethical behaviour of top management and those responsible for the control of their work and due to overall business results.
- 4 Top management as function was first developed by Georg Siemens (1839–1901) in Germany in the period between 1870 and 1880 when he founded Deutsche Bank, a universal bank, which shortly after became the leading financial institution, the strongest in continental Europe. The factor that contributed to such success, according to Siemens himself, was top management, the first practical function of that type back then. Siemens pointed out the importance of top management many years before founding the Bank, stating that a bank without effective top management resembles a pile of office furniture ready for a public auction.
- 5 When Alfred P. Sloan, the president of General Motors back then, invited Peter Drucker, one of the most renowned world experts in management, to offer his solution as a consultant on the way to solve the crisis of the company, he asked for a solution without compromises since every board chairman in the company could offer a compromise without his help. This anecdote reveals that, back then, as well as now, the world's biggest companies have used the intuition of consultants and that it is a specific profession based on knowledge.
- 6 The methodology of creating a strategic plan depends on the planning approach used by the company:: (1) depending on the manner of the planning process conduction, it is possible to differentiate the so-called inside-out and outside-in approach. The inside-out approach focuses on the internal possibilities, i.e. the company strengths. The outside-in approach focuses on external possibilities, i.e. the opportunities of a company, (2) depending on the hierarchical level providing initiative, it is possible to differentiate the top-down and bottom-up approach. The planning begins at highest top-managerial level in the top-down approach. The planning begins at the lowest managerial level in the bottom-up approach. Both approaches (depending on the manner of the process conduction and depending on the hierarchical level providing the initiative) have their advantages and disadvantages. The first approach perceives the company as a whole and some problems can arise due to the lack of interest of the lower managerial levels. The second approach considers the level of interest of lower managerial levels, but problems can arise due to the consideration of the interest of the company as a single entity.
- 7 *Brainstorming* is such a useful method that everyday tasks and problems are most often solved by its use in modern companies. The participants of the process are usually the members of the board and top managers, i.e. strategic business unit managers participating in the discussion on the strategic plan. The main idea of this criteria is that people with different profiles, i.e. positioned at different levels, do not approach the same problem in the same way. The aim of using this method is to reach a strategic plan of the highest quality by spontaneous thinking and associations coming from all participants. The brainstorming method provides additional stimulation and competitive spirit among participants resulting in quality enhancement of the strategic plan.
- 8 A coin is a word created by, usually, two other words.
- 9 If we were, for example, to observe the automotive industry, Mercedes would be positioned at the left, whereas Hyundai would be positioned at the far right end of the U-curve and Fiat, with no competitive advantage based on low cost and