

INTERNAL STRATEGIC ANALYSIS AND ITS PARTICULARITIES OF COMPANIES FROM THE REPUBLIC OF MOLDOVA

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ABSTRACT

The article presents the aspects of internal strategic analysis and its particularities of companies from the Republic of Moldova. The author shows how the transition to market economy affects the methodology of strategic diagnostic and suggests that in modern conditions, when companies are limited in scope to extend the resources potential, the analysis of capacities and internal resources of the company should be a starting point for developing the strategy. The logical framework of strategic approach "from the resources to the strategy" appears to be the most appropriate for companies in Republic of Moldova. However, it should seek to meet the requirements of the external environment of the company. It is also underlined that the resources-based approach considers not only the development of existing resources, but also developing a database of potential resources of the firm which should contribute to ensure a sustainable competitive advantage and a high degree of profitability.

KEYWORDS: *strategic diagnostic, internal analysis, resources-based theory, organizational capacities, resources potential*

The importance and the necessity of internal strategic analysis are determined by the changing of the governance paradigm in the transition economy: a gradual shift from production orientation to marketing orientation, combined with changing of the planning logic. In modern conditions, when companies are limited in scope to extend the resources potential, the analysis of capacities and internal resources of the company should be a starting point for developing the strategy. The logical framework of strategic approach "from the resources to the strategy" appears to be the most appropriate for companies in Republic of Moldova.

For companies in the former Soviet bloc countries, including Moldova, the internal strategic diagnostic of the company has always been the greatest share of the overall strategic analysis, referring mainly to: production capacity analysis, financial activity analysis, analysis of investment activity, analysis of the social development of the company, etc. The given situation was subject to two main reasons.

First, for decades, the existing planning practice at the enterprises under the leadership by directives was based on analysis of production activities and the search for reserves to increase the production efficiency; the departments' specialists performed all these analyses, while the top level managers conducted the external economic review. In the conditions of market economy, however, the situation changed dramatically. Companies operating in uncertain and changing conditions require information about the

current situation and prospects of operation, both at macro and regional and sector level of national economy. Without this, companies cannot effectively use their resources potential.

Based on the information provided by complex analysis, the organization can reshape some of its activities, deepen the reorganization process, or change the format of the management system, important prerequisites for strengthening the market position on the long-term basis.

However, the inertia of thought of most specialists in planning departments and managers is so great that it keeps the old approaches used over the years, more or less adapted to the modern economic conditions.

Second, the market infrastructure being still in formation process cannot provide the company with necessary and complex information. Noticeable is that the instability of the national economy does not contribute to the accuracy of forecasts and scenarios of evolution.

The internal strategic diagnostic of the firm is investigating a range of key aspects of organization's activities, such as economic, technical, sociological, legal and managerial in order to identify strengths and weaknesses, the causes that generate them and designing recommendations for improvement and development. The firm can ascertain the content of the analysis wholly for itself, in which case we refer to an overall analysis (recommended in the context of grounding the strategy) or one or more of its procedural or organizational-structural components, in which case the analysis is a partial one.

The internal strategic diagnostic is part of the strategic management, aimed at identifying and understanding in depth the strategic issues related to company's activity. Following such a process, one determines the compatibility of resources and internal capacities with the strategic tasks of ensuring and maintaining the competitive advantage, of meeting the future needs of the industry. However, even if the internal strategic diagnostic has an internal orientation, it should seek to meet the requirements of the external environment of the company.

The internal strategic diagnostic of the company should be based on the following general principles:

- ✓ *systemic approach*, under which the organization is seen as a complex system operating in an open systems environment which, in turn, consists of several subsystems.
- ✓ *principle of complex analysis*, which involves a comprehensive analysis of all elements and components of the organization.
- ✓ *dynamic principle and the principle of comparative analysis*: the dynamic analysis of all components, comparing them, at the same time, with competitors indicators.
- ✓ *company specificity principle* (by activity, geographical area, etc..)

A difficult problem that falls within the methodology to achieve the internal strategic diagnostic for companies in Moldova is to determine the set of indicators subject to analysis. The weak part of the analytical approach to adopting strategic decisions is that people tend to consider only the items that are subject to easy analysis, ignoring other important elements. The informational technology has greatly enhanced the ability of managers to record and analyze a large number of interrelated factors. The number of factors that determine the effectiveness of an organization is so great that, at times, only those relevant to the situation may be subject to analysis. The set of factors taken for analysis is modified continuously due to the internal and external changes. Therefore, we can say that the list of indicators, resources and activities identified for analysis is

constantly changing according to changes in company's activity conditions and its external environment conditions.

Lately, for the strategic approach of firms in Moldova it is highly suggested to use the internal diagnostic resources-based concept. The main idea of this concept is that the organization, in essence, comprises all the resources and skills that are the basic determinants of the strategy and efficiency of company's activity. Thus, the results of this approach show the reasons for the differences between firms and that is how the companies obtain and maintain the competitive advantage.

The origins of the resources-based approach can be traced to the early researches in strategic management (Selznick, 1957, Chandler, 1962, Andrews, 1971). Since the 1980s, management theorists began to develop the concept of resources, trying to explain in what way the resources can help increase business competitiveness (Hoskisson et al., 1999). Another group of researchers have focused on specific types of resources that provide opportunities to obtain competitive advantage. (Barney, 1986, Spender, 1989; Hitti and Ireland, 2000). The resource-based theory has been essentially developed, particularly in the 1990s. Barney presented four criteria for assessing the economic characteristics of resources: value, rarity, inimitability, stability. Supporting this theory, other researchers have gone further and made the assumption about the need for analysis of dynamic links between different types of resources.

Recent studies of the resource-based theory have demonstrated once again that this approach may become the core of the strategic management research paradigm. The resource-based theory is being used for the analysis of several internal aspects of the firm, but also for external issues such as analysis of strategic groups in the activity sector.

A distinction inflicts between company resources and its capacities. Resources are the assets of the firm, while capacities show what the company can do. Company resources alone cannot bring sustainable competitive advantage. It is necessary to identify those capacities that may be the source of competitive advantages. Thus, the internal strategic analysis involves delineation from all the competitive advantages held by the firm of the attribute in which it excels and which corresponds to the combination of the key factors of success in its field of activity.

The internal strategic diagnostic and the resources analysis is done in terms of:

- strategic issues
- organizational capacities/boundaries
- financial capacities/boundaries
- organizational flexibility
- strengths/weaknesses

Strategic issues are awareness, detection and constructive formulation of the problem, involving specific techniques for solving it. Strategic issues can be directed both to overcome the identified weaknesses and to the opportunities for business growth. Strategic issues differ from the weaknesses of the company in the way that the last ones are found in relation to the competitors in different business areas, while strategic issues arise when there is a discrepancy between the objectives for an activity area and its current state.

For companies in Republic of Moldova, a strategic issue is the contradiction between the external environment and production orientation of enterprises. The most important way to solve this problem is to develop a marketing system at local businesses. Other strategic issues relate to organizational management, pricing policy, business competitiveness, etc.

Organizational capacities of the enterprise, such as the structure and management system, the corporate culture and values, the system of motivating the staff, in all the instances can be the sources of strengths and weaknesses of the enterprise.

An important aspect of the internal strategic diagnostic is the *analysis of the financial capacity*. At this stage, it determines the possibilities of the firm in the investment area and cash flow planning. For example, it addresses the issue of redistribution of the investments between the strategic units of the company, payment of dividends, attracting long-term loans, mergers, etc. A realistic assessment of the financial capacity allows a proper choice of possible strategies.

Another factor for choosing the strategy for the company and reducing the commercial risk is the *organizational flexibility*, which can be achieved in several ways. One of these ways is the strategy of diversification as a means of adapting to changes in business environment. Another way - is investing in staff training to increase production flexibility and to ensure the responsiveness of firms to changes in market conditions, formation and evaluation of strategic alternatives.

A key step in analysis is determining internal *strengths and weaknesses* of the company, based on its resources and on areas of strategic importance, which are always relative (relative to major competitors or specific standards). In addition, it is important to note that defining the strengths and weaknesses of the company should start by identifying strengths and weaknesses of strategic business units, after which they are combined at the company level (if possible and appropriate). The rationality of information combination on strategic business units can be determined by the need to reduce the amount of information to some truly decisive factors.

The analysis of company resources unfolds in several stages. This approach follows the assumption that the firm's sustainable competitive advantage is determined by the quantity and quality of its resources. Thus, the following steps are proposed:

1. *Resources identification* - the identification and classification of company resources in terms of strengths and weaknesses.
2. *Capacities identification and assessment* - combining the strengths of the company in a set of capacities. Corporate capacities represent what business can do extremely well. The resource-based theory considers the intangible aspects of company activities as a key source of its capacity. Some authors attributed to intangible assets the copyright, contracts, company image and relations with the stakeholders.
3. *Resources stability assessment* - assessment of the resources capacity to ensure a sustainable competitive advantage and determine their profitability. The resources-based approach highlights some conditions necessary to ensure business competitiveness. Thus, firm resources:
 - must be valuable, in other words they must hold a central place to ensuring productivity and efficiency of the company;
 - must not be present to existing and potential competitors, hardly ever;
 - should be hard to imitate by other firms due to the unique situation in which they were created;
 - should not have some strategic substitutes.
4. *Strategy formulation* - choosing those resources and capacities that offer the possibility to explore the opportunities provided by internal and external environment. The essence of the strategy development in this case is that the chosen strategic option uses in a far more efficient way the resources and capacities of the firm.

It is also necessary to detect the "tight spots" of resources and investing means for their removal. The resources-based approach considers not only the development of existing resources, but also developing a database of potential resources of the firm. Addressing this question includes the replacement of certain types of resources to ensure uniqueness and continuity of resources stocks, which enhances the company's competitive advantages and broaden strategic opportunities.

Concluding, we assert that the internal strategic analysis of firms from the Republic of Moldova should represent a complex analysis of resources and internal capacities, oriented towards assessment of existing situation and that of the future one. It is obvious that the ultimate goal of the firm's internal strategic diagnostic is to provide information to managers and other stakeholders in order to take appropriate strategic decisions and to choose a strategy to ensure a sustainable competitive advantage and a high degree of profitability.

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