
MANAGING ORGANIZATIONS FOR SUSTAINABLE BUSINESS DEVELOPMENT: INTERACTION BETWEEN VRIO FRAMEWORK AND MCKINSEY 7S FRAMEWORK

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Abstract

In the current global economic context, the concepts of sustainable company development have become the main topics of discussion. To discuss a sustainable development process, companies need to demonstrate their development capabilities through effective actions. The economic environment in which modern organizations carry out their activities is characterized by an interpenetration of economic areas. This strongly influences how companies set their goals and manage their business. Thus, organizations are determined to define, in addition to classical economic objectives aimed at achieving profit, objectives related to solving some of the sustainability problems.

Achieving the economic goals of companies without jeopardizing the general interest of stakeholders and opportunities of future generations has become imperative in the current context. The strategy of a company implies the set of major long-term objectives, the main organizational modalities and the resources needed for future development .

The company's objectives can be: strategic objectives, tactical objectives and operative objectives. The ways to achieve the objectives involves the use of modern methods and techniques to optimize production, processes, maximize profit and reduce production costs. These methods will be chosen according to the economic development of the company, the management system, the influence of the production factors and their costs. The necessary resources refer to their nature, which can be: financial, material and human.

Keywords

Sustainability, Business Development, Strategy, Development Framework, Management Tools Interactions, Business Analysis

JEL Classification

F20, F44, H12, M16, M21, O00, O20, O32, Q01

Introduction

This paper is a first step towards understanding and appreciation of strategic activities within companies, and how they can positively influence their development.

Thus, with a regional and thematic approach, this paper will examine how the strategy becomes a link between business and sustainable development.

The first part of the paper contains two chapters, the first entitled "Business - Sustainable Development" and the second "Business Strategy and Competitive Advantage". The first chapter starts with the definition of the immediate constituents of the title of the thesis, followed by the borderline in detail. I will talk about the role and the reasons for the business approach and the universal principles of sustainability in the business strategy (Pamfilie & Croitoru, 2018). In the second chapter I proposed to highlight how strategic activities can be a competitive advantage.

The objectives of the analysis are to demonstrate the relationship of interdependence of the strategic concepts set in the theoretical part as well as the confirmation of the importance of the strategic activity in the companies.

For the first analysis, when take into consideration to improve the companies, we need to analyze what is its current situation and types of difficulties the companies have in their day to day activities. In this days the rapidly changing environment is the caused for implementing strategic management and to become the primary strategic topics of any organization. This paper explains how to implement a few strategic management tools, its benefits and the concepts of strategic management, etc.

When analyzing strategic management topics the main information taken by a company management are the involvement of internal and external function, and the allocation of resources. This requires to identify the goals, mission of the organization, applications and developing policies for constantly improvement. Recent studies have supported that any company general strategy needs to be in line with stakeholders expectations (Kopia, J., Kompalla, Buchmüller & Heinemann, 2017).

Strategic management needs to be used when designing, implementing and assess cross-functional decisions that will enable an organization to reach its goals. It includes the systematic identification of the company's goals, making available the necessary resources, making policies and strategies to reach these goals.

Strategic management integrates the activities of the various functional parts of a business, such as acquisitions, selling, production, marketing, etc, to achieve organizational objectives.

Research Methodology

The authors used a descriptive research methodology to achieve the research results and conclusions. The information in this paper was studied from specialized literature covering topics like sustainable development, strategic management, strategy, and competitive advantage, mainly specialist books or publications in this fields. Furthermore, an inductive approach is chosen to draw a conclusion on the effects of using the tools upon business processes inducing towards a sustainable business and gaining competitive advantage.

Business - Sustainable Development

The strategic management process, see Fig. 1, is defining the organization's strategy. It is the process used by managers to make a choice of a set of strategies for the organization that will enable sustainable development and to achieve better performance.

Strategic management is a continuous process that appraises the business and industries in which the company is involved and fixes goals to meet all the present and future competitor's and then reassesses each strategy.

According to Sourkouhi(2016) the process of the strategic management includes some steps:

1. The determining of mission and goals of the organization

2. The determining of current strategy
3. Analysis of stakeholders conditions
4. Analysis of the organizations resources
5. It is identified the gap between the objectives and the strategies
6. According to the evaluation criteria we must identify the appropriate strategies
7. After determining the best strategy, it should be implemented, the first step it is performed as testing and after that step by step implement every pillar, and every process discovered after testing needs to be followed by a PDCA process for continuous improvement.

To understand the source of competitive advantage, companies need to analyze their internal and external environment and to use tools like VRIO analysis and McKinsey 7S framework. Through the VRIO analysis it identifies four pillars, that companies resources must have, in order to become a sustainable competitive advantage and to conduct to a sustainable development.

The source of competitive advantage must be valuable, rare, imperfectly imitable and organized to capture value. A capability and the resources of the company that meets all pillars can bring sustainable competitive advantage and to conduct to a sustainable development.

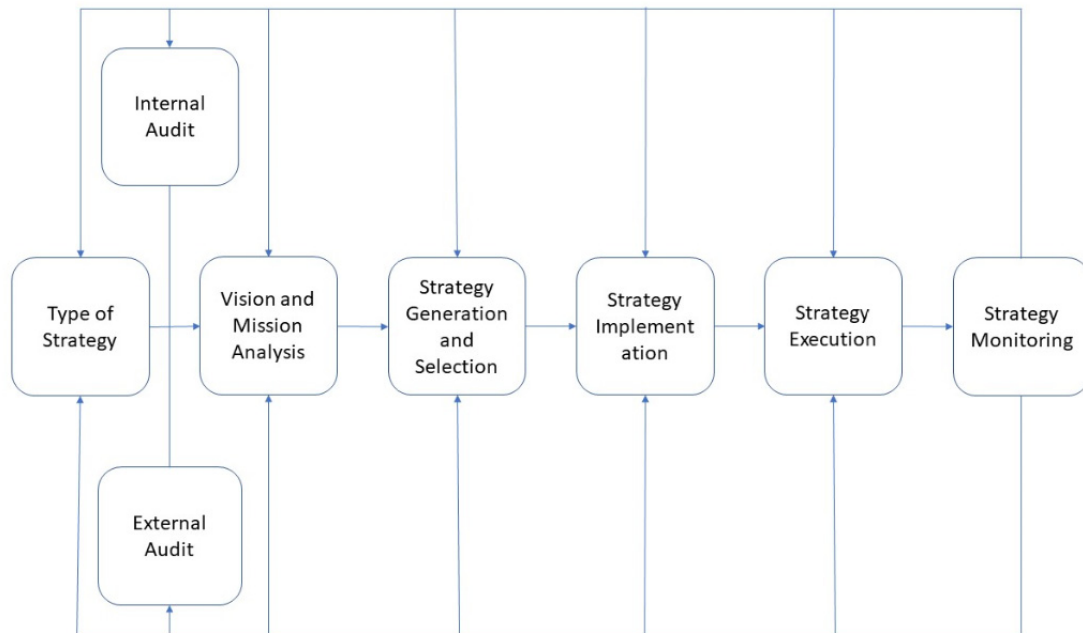


Fig. no. 1 Process of Strategic Management

Source: Fred, D. and Forest, D., 2017. *Strategic Management: A competitive Advantage Approach, Concepts and Cases*

For sustained business development companies must concentrate on intangible assets, assets that can't be acquired so easily, such as: trademarks, unique training systems, brand reputation, innovative ways to perform tasks and intellectual property.

VRIO analysis is an analytical technique for the evaluation of any company resources and to establish the competitive advantage.

The VRIO tool, see Fig. 2, used in combination with other analytical techniques will help organizational management evaluate business resources in a more detailed view and to establish the ways for gaining sustainable development. For financial and operational resources, there are many indicators that evaluate the condition or performance of the

business from different angles of the business. In the same way for human resources, property or information are other indicators of their quality, performance or efficiency. The advantage of a VRIO analysis is its clarity and simplicity.

Difficulties can appear when looking for the resources and a good solution can be by asking some specific questions.

Finding valuable resources:

- Which process brings the same value to customer but with lower costs?
- Which activities increase customer value by product or service differentiation?
- Can we bring in front something that we are recognized, some awards?
- Do we have access to rare materials?
- Do we have good network in the field of business? Do we have integrated systems with our partners?
- Do we have skilled employees and with special capabilities?
- Do we have good brand reputation?
- Do we have some strengths compared to other companies in the field of business?

Finding rare resources:

- Can your resource be imitated easily by other companies or can perform in the same way?
- Can your resource easily be bought in the market?
- Can your resource be obtained in the future, cheaper?

Finding imperfectly imitable resources:

- Can other companies replicate a resource?
- Can other companies develop a substitute?
- Do we have patents for our resources?
- Is it hard to identify the core of the resource, process, tasks, etc.?

After identifying the resources, it is very important to see if the company is organized to exploit them. In the same way, like finding the resources, it can be useful answering to some questions:

- Does the company have a strategic management process?
- Are in the company motivational and reward systems?
- Has the company introduced a reward for innovation?
- Is there introduced a system for using the resource?
- Has the company introduced control systems?

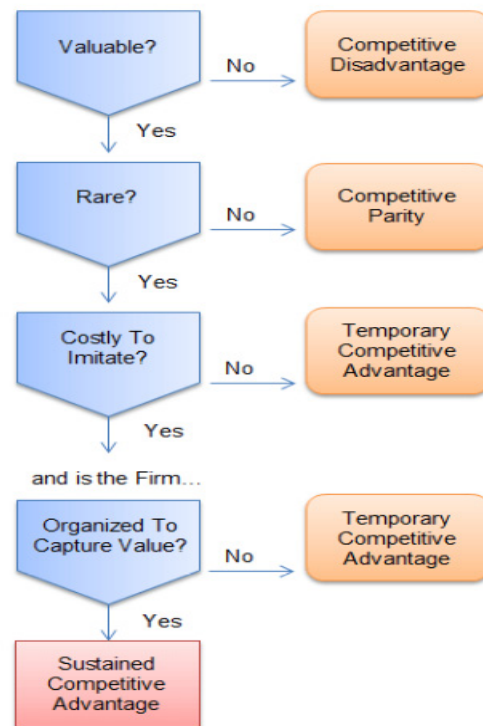


Fig. no. 2 VRIO framework graphic

Source: Rothaermel, F., 2015, *Strategic Management*

Any business to become sustainable in the long run must include in the business strategy the employees. It is very important to have devoted employees with the same moral and business values, prepared according to their career plan. Each employee must understand the business model, leadership style, short, medium, and long-term strategy, and the company must provide them with everything they need to develop a sustainable business, be they software, financial or operational.

Each employee must be involved in the development of the company, each of which is part of a system, a continuous machine. Whether you develop sustained and sustainable development processes or systems, PDCA or Kaizen, every piece in this machine needs to be confident that it knows and what it does is right, and if it is not right, it must have the flexibility to adapt and evolve.

Every company needs with every activity made to try to empower and develop all employees, depending on their evolution and desire for career. The business is made by employee and they need to understand and develop guidelines for a sustainable business, everyone needs to understand what they need, what to do and how to do their activity so that everyone achieves the requests from the company, regardless of which department they belong to.

A guideline for a business sustainability and development is the McKinsey 7S Framework. Through these guidelines every company can have a plan to develop all the soft and hard skills that the employees and the company needs to develop in a sustainable way.

To be successful it is necessary for every company to have a good understanding of the internal organization and to monitor how work is done and what can be done more effectively and efficiently.

In the 7S Framework the hard and soft elements are incorporated, where the hard elements from a company can be influenced directly. The soft elements are not so visible and

influenced directly by the company, they are present in a more abstract way and can be found in the company's culture. The hard elements in the 7S Framework are Structure, Systems and Strategy; the soft elements are Skills, Staff, Style and Shared Values.

The 7S Framework, see Fig. 3, is a tool used to trace performance problems, lack of efficiency in a company to subsequently change and/or improve these. With a clear understanding of these performance problems, several elements need to be implemented in a targeted manner. It is important to compare the present situation with the future goals. The 7S Framework is a good framework, in which possible lack of resources, gaps and inconsistencies can be traced, adjusted and monitored.

Combined the two tools will bring to every company the necessary processes for sustainable development at every level of the company and it will build strong connections in every department.

Strong connections between departments will help any company resist impacts from inside or outside the company, the company's environment can influence business and impact on business, these developed connections will have the flexibility to adapt and counteract these impacts. Any connection within the company that promotes continuous development/improvement and has the power to adapt to market needs will lead to sustainable development and create the premises for innovation.



Fig. no. 3 McKinsey 7S Framework

Business Strategy and Competitive Advantage

The concept of competitiveness associated with a company suggests efficiency, quality, high productivity, safety, adaptability, modern management, success, high quality products and reduced costs. In order to recognize a company as competitive, it is necessary to carry out a thorough analysis of both the company and its sector of activity. The competitiveness of a company is given, to a large extent, the ability to understand and adapt to the current world context.

Michael Porter argued that "the only comprehensive indicator defining the concept of competitiveness at national level is national productivity"; This definition can also be extrapolated to organizations where productivity increases with the establishment of a sustainable development plan.

According to Michael Porter (2002), the fundamental factor of a company's profitability is due to the attractiveness of the industrial branch for economic agents. In any industry, there are five forces that determine its profitability and its structure: the entry of new competitors, the existence of substitutes, the negotiating power of buyers, the power of bargaining of producers and the rivalry between economic agents. The significance of the five forces varies from one industrial branch to another depending on technical and economic characteristics and changes over time.

Michael Porter talks about the existence of three types of strategies that can be addressed by companies to build competitive advantages: cost management, differentiation, and focus. An adequate strategy will allow the camp to capitalize on its strengths and to avoid the adverse effects of the five forces that we have mentioned above.

The same author points out the existence of four stages of competitive and sustainable development:

- the stage of development determined by the factors of production;
- the stage of development driven by investment;
- the stage of innovation-driven development;
- the state of development of wealth.

Evolution from one stage to another implies a transformation of business infrastructure, financial system, technology and quality standards, and strategic management. In this context cultural values must not be forgotten. For successful replication of systems adopted by different companies, it is necessary to thoroughly understand the cultural ethics and social values in the environment. (Porter, M., et. al., 2002, Competitiveness and stages of economic development)

There are many influences on the business purpose and business strategy for sustainable development, see Fig. 4. Each influence must be treated with attention and driven by safety or risk assessment for each impact.

A business purpose refers to an entire range of tasks, activities, often chained or structured conducted by people, software or equipment to produce a specific level of service or product for a user or consumer. Business purposes are implemented to accomplish a predetermined organizational goal and to see all the influences in the business activity. Business purposes occur at all internal levels; some are visible to customers, while others are not.

The term business purpose may also refer to the entire effects of all steps made for progressing toward a business goal.

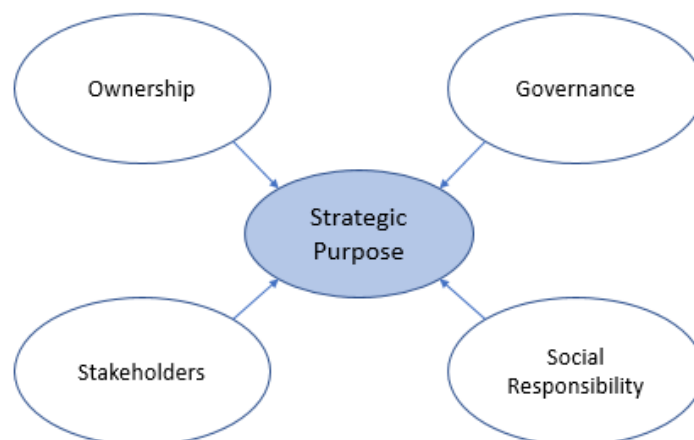


Fig. no. 4 Influences on strategic purpose

Source: Johnson, G., Whittington, R., Scholes, K., Angwin, D. and Regner, P., 2014. Exploring Strategy: Text and Cases

Results and Conclusions

The aim of this paper was to present a possible strategic framework which combines the functions of strategic management with two technical tools used in the process for gaining high performance, for managing organizations more efficiently for a sustainable development. This framework needs to be further defined and need to make plans to become operational excellence. Following this further definition, specific tools can be researched and added to this initial plan, especially from the financial part. The impact of specific tools on the management process and performance at each level in the company can be understood and need to be monitored after implementation. From this understanding, specific information and recommendations for an action plan can be made to managers throughout the company.

In this paper we have defined and briefly reviewed the key concepts of performance measurement and several tools that can be used to improve performance and manage the business sustainably.

The concept of performance refers to a judgment on a result and the manner in which this result is achieved, taking into account the company's mission, goals and conditions, the need for resources. Measurement of performance goes beyond the mere finding, with the objective of making decisions to improve performance conditions, improving performance and improving performance. Management control, performance management systems have to implement performance measurement and performance indicators.

Knowledge of resources is essential for making managerial decisions with implications for achieving strategic goals and achieving performance. This requires the use of specific tools for strategic management. In general, analytical systems assess production methods based on labor and raw materials, and therefore direct costs. Indirect costs related to supply, research, marketing, distribution, as well as those related to the operation of the enterprise are imputed to each product according to variable, but not very relevant, distribution keys, like turnover or working hours, all of which are necessary to include them in the Stage Plan for the analysis and improvement of their most efficient use.

Performance measurement is a system of control techniques designed to ensure that the achievements of the various accountability centers in the enterprise comply with the rules set for each of them and apply positive or negative sanctions if the achievements deviate significantly from the chosen norms. Thus, after they have completed their planning to achieve the goals, managers have to control whether the means have been implemented according to their plans. Then you have to compare the actual results with the ones you have in mind to take the corrective measures that are required. By analyzing deviations, managers can separate effective and inefficient functions within companies so that managers can focus their efforts on areas of activity that need to be improved.

However, we believe that this concept of value creation should not be viewed only from the point of view of the shareholder, but of all the parties involved in ensuring the performance of an enterprise. A primary role in ensuring, maintaining and developing performance is the client.

Taking into account all previous statements, we can say that managers must have at their disposal a set of elements to enable them to carry out their work and make decisions. Therefore, there is a need for a model to help managers identify, understand and manage the performance trend. Of the many models we chose to briefly present two of them, which we considered to be customer-oriented: VRIO framework and McKinsey 7s framework.

From a theoretical point of view, the present paper provides insight into the importance of strategic management activities in companies and aimed at conceptual understanding,

identifying the advantages generated by the use of specific tools for the benefit of the company, but also for the society as a whole, determining the correlation of the efforts made and the effects obtained by the enterprise.

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