

## ASPECTS REGARDING FUNCTIONAL STRATEGIES IN ROMANIAN ORGANIZATIONS

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### Abstract

*This paper is a theoretical approach of the importance of functional strategies use by organizations in order to reach set targets. Functional strategies are closely linked to the changing competitive environment. Functional strategies may be the competitive advantage of each company. These strategies contribute to the implementation of the integrated business strategy of the company. They are the foundation for achieving the company's strategic intent. Functional strategies clarify the corporate and business strategies of a company or business unit. In contemporary times, these strategies offer a series of more specific details on the way in which key functional areas shall be managed in the near future by operations managers. Through functional strategies, managers make decisions and carry out actions acquiring higher competencies in different business functions (marketing, financial, operational, human resources) in accordance with corporate strategies and on business level. If corporate strategies and strategies on business level are developed by managers, strategies may be prepared for the functional areas of each business unit. The development of functional strategies may fluctuate from formal to informal. Within larger organizations that carry out complex operations there may be several strategies regarding each major function. Smaller organizations may usually function with lesser policies, and most of them may be informal.*

### Keywords

business; competitive environment; strategies; managers; business unit

### JEL Classification

M10

### Functional Strategy Concept

In specialized literature, the functional strategy concept has been defined by many specialists in the field. A selection of several definitions is presented below.

Thompson A. Jr. and Strickland A.J. (1987), concur that “functional strategy refers to the managerial game plan for a certain functional activity, business process or key department within a business. The marketing strategy of a company, for example,

represents the management game plan for the management of the marketing part of the business. The new product development strategy of a company represents the managerial game plan to maintain the company's product range fresh and in line with what buyer is looking for."

According to Pearce J.A. and Robinson R.B. (1997) „a functional strategy is a short-term game plan for a key functional area within a company. Such strategies clarify the large strategy, offering more specific details on the way in which key functional areas shall be managed in the near future.”

According to Naneş M. (2000), “Functional strategies are more specific than business strategies. They are set on the level of the company's functional areas (marketing, manufacture, financial, research-development, etc.). They target shorter time horizons (1 year or less than 1 year).”

Wheelen T.L. and Hunder J.D. (2000) give the following definition: „The functional strategy is the approach that a functional area has in order to reach the objectives and corporate strategies of the business unit through the maximization of resource productivity. It is concerned with the development and building of a distinctive competence to offer a company or a business unit a competitive advantage. Just as a multidivisional corporation has several business units, each with its own business strategy, each business unit has its own set of departments, each with its own functional strategy.” In this context, we can say that for a business unit that develops through the application of a competitive strategy of differentiation through products with a high quality level, proper functional strategies shall be required:

- In the field of manufacture, to provide manufacture services with expensive equipment and raw materials, that allow the products to be of high quality;
- In the marketing field, to create attractive advertising campaigns for end customers that “draw” products to these customers through the distribution channels;
- In the human resource area, to hire employees and provide trainings for them so that they obtain a higher qualification level.

Corporate and business strategies lay at the base of functional strategies that are functionally and operationally implemented in the organization.

This strategy refers to the functioning with one single function and activities implied by it. This is a level of strategy operation and decisions taken on this level are called tactical decisions.

According to Nicolescu O. and Verboncu I. (2007), “Partial strategies are characterized by:

- They refer to certain activities of the company;
- They are characterized by focusing mainly on the best or on the most deficient components of the company, using relatively limited resources;
- They usually focus on programs or plans on specific areas;
- They are approved either on the level of participative management, or by higher executive management of the organization.”

According to Jones G.R. and Hill C.W.L. (2012), “Functional strategy is an action plan to consolidate functional and organisational resources of an organization, as well as its coordination abilities, in order to crease basic competencies.”

According to Burduş E. (2017), “Partial strategies include derived objectives, options from various fields of the organization's activity, engage a part of the potential the organization has, and in general, only affect the field for which they were prepared.”

Functional strategies indicate the way in which objectives on the level of functional areas will be achieved, as well as strategies that will be prepared on organization and business units' level. Through functional strategies, companies and business units can

acquire a series of distinctive competencies that give them sustainable competition advantages.

### **Key Features of a Functional Strategy**

To better understand functional strategy, we shall present a synthesis of several of the most important features of functional strategy. Among these key features we can list the following:

- Regarding the time frame, the strategy on business level has a long time horizon, while functional strategies target short time horizons.
- The functional strategy has to be in accordance with the global strategy of the organization.
- Functional strategy focuses on what should be immediately for the global strategy to function efficiently.
- Functional strategies should be interconnected, as well as connected to the global strategy of the organization.
- The focus of functional strategy is dictated by the strategy of the parent business unit.
- Functional strategy is conceived to act to reach the corporate objectives of the business unit with the help of all existent resources for profit maximization.
- Functional strategy has a narrower coverage than business strategy. It contains important details of the general business plan by setting actions, approaches and practices that are to be used in the management of a certain functional area.
- Functional strategy is more specific and guides towards action, since it clarifies what should be done in every functional area in order to reach corporate objectives.
- Functional strategy refers to the function, department, division of the organization.
- Functional strategy is the action plan to manage a main subordinate activity within a business.
- Functional strategy targets the development and cultivation of a distinctive competence to offer an organization or a business unit a competitive advantage.
- Functional strategy may be different from one region to another.
- Functional strategies help to implement global strategy. These divide the global strategy in action.
- A functional strategy supports the strategy on business level, which in its turn supports the strategy on corporate level.
- Functional strategies should be subordinate to and consistent with the long-term objectives and global strategy.
- Functional strategies should be synchronized among them so as to contribute together to the achievement of the organization's global strategy.
- Implementation of these strategies involves a large range of decisions that should be taken regarding functional areas.
- Functional strategies are most often focused on the external environment.
- Within functional strategies, there may be several sub-functional areas.
- Functional strategies are detailed statements on the methods or activities that shall be used to reach short-term objectives and set competitive advantage.

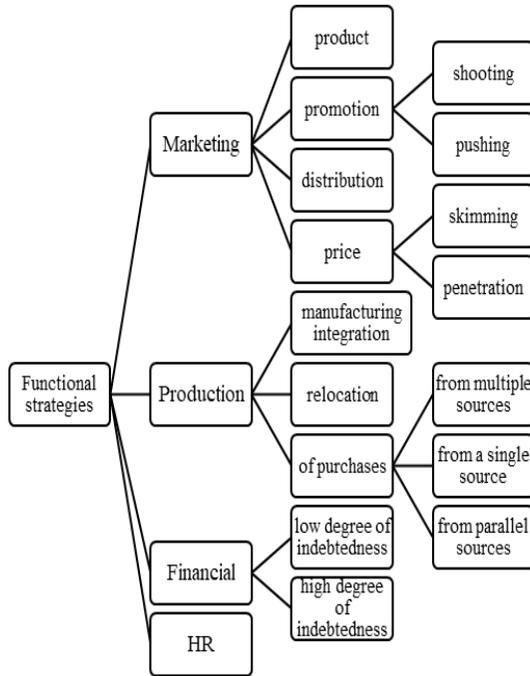
### **Types of Strategies**

Under this title, we shall succinctly approach types of functional strategies existent in Romanian strategies.

The following types of functional strategies can be distinguished in specialized literature:

- marketing strategies;
- production/operation strategies;
- financial strategies;
- human resource strategies.

They are presented as diagram in image 1.



**Image 1 Types of Functional Strategies**

Source: Nica, P., Neșțian, A., Ifțimescu, A., et.al. (2008), *Managementul organizației. Concepte și practici*, Editura Sedcom Libris, Iași, pp. 203

### Marketing Strategies

Through marketing strategies the most important action methods are set for each of the four component elements of the marketing mix, namely price, product, distribution and promotion.

“Representing the essence of the marketing activity of an enterprise or a strategic business unit strongly focused on market, the marketing mix includes the main elements of the *four Ps* namely product/service offered, price or price range, promotion of sales and distribution, namely all wholesalers, retailers, transport and storage system.”

A successful marketing strategy is characterized by the following aspects:

- Flexibility, in the sense that within a marketing plan there can be changes occurring due to various situations that occur and have to be taken into consideration; the plan being a flexible one will be able to adaptation to the needs and situations that have changed along the way.
- Comprehensive – the marketing plan should take into consideration as many details as possible before its implementation

- Consistency – the marketing plan will be successfully used if it has been lined through the marketing strategy with the other functional strategies; therefore the general objective on organization level and on the business unit level can be achieved.

- Rationality – in order to reach general objectives, the marketing plan should run in a logical manner so that the marketing strategy is more efficient.

The formulation and implementation of the marketing mix are the basis of the marketing strategy that comprises:

- product strategy,
- price strategy,
- distribution strategy,
- promotion strategy.

“**Product strategies** represent the main directions on which the enterprise can mobilize its human, material and financial potential in order to reach the economic-financial indicators it has set for itself. Within these strategic directions, the products represents the main object on which all Within these strategic directions, the product is the central object on which all the driving forces of the company and the environment act. As part of the policy, product strategies are at the same time part of the overall strategic arsenal of the company.”

**Product strategy** may occur in an organization in two distinct situations:

- Managers develop the product line by extending the product range, namely adding new articles; these actions contribute to the increase of sale volume, and on the other hand a larger range of products offers the possibility to satisfy more clients.
- Managers reduce the product range, and in the context of increasing the quality, the company addresses more select clients through its products.

**Price strategy** targets on setting the prices for the products created/ services delivered, in order to support the competition strategy selected.

In case the manufacture company introduces a new product on the market, it may choose one of the two basic variants: skimming price strategy or penetration pricing strategy

“*Skim pricing*” is mainly used in case the product is new and competitors are few. By using this strategy the aim is to apply a higher price in the beginning that will gradually decrease for the purpose of winning different market segments.

Skim price strategy is used due to the following reasons:

- In the first phase, demand for the product is not elastic, until the products take a good position on the market.
- In the initial phase, demand for the product is not known, and the high price helps cover production cost.
- In the beginning, there is a high capital demand to manufacture the product that leads to a high production price. Moreover, a large amount is invested in promotion activities that are also added to its cost. When the product is at a higher price, this will easily cover manufacture and promotion costs.

*Penetration pricing* aims to stimulate demand increase for the new product by charging a lower price. This is achieved by attracting a large part of the market from the early stages of the life cycle. Penetrating pricing strategy gives the company the possibility to accumulate significant productivity gains, as a result of demonstrating the experience effect and secure a dominant position over competitors through a market share higher than theirs. Penetration pricing strategy has the result of lower short- term profits; nevertheless higher profits result, as market share increases. The reasons why Romanian organizations use penetrating prices are the following:

- The new offered product of the company is already supplied by other well-known brands and the low price will draw customers to the product, customers who are already familiar with other brands.
- Higher sales of product in short time intervals;
- Restrict the access of newcomers to the market.

**Distribution strategy** consists in Romanian organizations making decisions regarding the channels, systems and types of distribution that will be used to reach the highest possible number of customers. Through the distribution strategy the distribution network that will be used to reach the business sales objectives is designed.

The better these decisions, the more will the company bring products to its customers in the best way possible. This way, the customers will have access to the products in the easiest and most comfortable way possible, which translates into higher sales level and consequently profit increase.

Consequently, the distribution strategy makes it possible to define the main selling points depending on the customers it serves and the type of products it sells. At the same time, it allows the setting of the way in which the transfer and transportation of the product will be carried out. Such a strategy may foresee the organization of an own distribution network, or using specialized distribution channels, with a higher or lower intermediary links.

**Promotion strategy** can be found on the level of Romanian organization either as “pushing” or “pulling” strategy.

“Promotion is a combination of methods used to generate public awareness, identity, confidence, desire and conviction about a product, and ultimately its adoption and usage by the general public.”

“Push” strategy entails that the organization, through the marketer promotes the product only to the following participant to the distribution process that will continue this strategy with the following members of the distribution channel until the products is directly promoted to potential customers.

This strategy is especially used by manufacturers who send their sale staff to discover new sale points and new customers. Therefore, each member of the distribution channel pushes the product to the next participant, until the product reaches the client. The method through which the product is pushed through the distribution channels to the end customers are:

- Discounts offered to distributors,
- Special offers at the sale point,
- Advertising in professional publications destined to distributors.

**Pull Strategy** involves the carrying out of certain marketing activities, especially advertising and promotion on consumer market. Direct advertising campaigns have the purpose to inform and motivate consumers. They will be targeted towards the end user, to determine him to request products from the distributors. In the end the brokers will have to order the products from the manufacturers. Promotional strategy uses promotion techniques and combines them in promotional mixes by using the resources it has in order to fulfil its objectives, while at the same time adapting to the consumers’ needs.

The strategy selected by the company will be found in the promotional action plan, in the promotion budget, and last but not list in the content of the promotional mix.

### **Production/ Operation Strategies**

**Production/ operation strategies** indicate how and where the products or services of the organization will be manufactured/ delivered, as well as the way in which the customized relationships with the suppliers will be set.

**Manufacturing strategy** sets a set of manufacture objectives (cost, quality, delivery and flexibly of products) and action of an industrial organization in order to ensure the sustainable advantage over the organization's competitors. The manufacturing strategy should be compatible with the business strategy.

According to Bohosievici C. (2001) "The formulation of the manufacturing strategy by an industrial organization consists in establishing the manufacturing objectives, identifying and evaluating the major decisions on the expected manufacturing structure (production capacity, facilities, technologies and vertical integration), as well as on the manufacturing infrastructure (quality system, planning and production control, organization, human resources management, information systems architecture).

Manufacturing strategy has a difficult purpose, since it has to:

- provide manufacturing support for product orders on a market segment, at a lever better than the competitors;
- foresee superior manufacture processes that give the company distinct advantages over its competitors.

**Manufacture integration strategy** may be more or less pronounced, depending on the complexity of the manufactured product, or service provided to customers, in the sense that the components of the product /service may be fully created within the organization, or purchased from specialized suppliers for such components.

This type of strategy clearly specifies the degree of vertical integration of production processes.

At the same time, through production/operation strategies the location of plants/offices where the basic operations of the company are carried out, are also clarified.

**Relocation (moving)** is a strategy frequently used by multinational companies, in the sense that these set the locations of factories/offices in countries or regions with an attractive work force potential (concerning cost and qualification level).

**Purchasing strategies** set the long-term relationships with raw material suppliers, suppliers of components and other elements necessary in the production process, that are to be purchased from outside. There are three alternative strategies that can be taken into account, namely: purchase from multiple sources, purchase from a single source, and purchase from parallel sources. Organizations analyse the advantages and disadvantages each of these strategies have, for the purpose of obtaining the best benefits.

"Single source purchasing is a deliberate choice of the company and should not be confused with the strategy generated by the monopoly position of the supplier on the market."

### **Financial Strategies**

The financial strategy is a component of the general strategy of the organization and includes all financial objectives of the company in the medium and long term, the main methods to achieve it, as well as the necessary financial resources.

Financial strategies set the action ways that shall be undertaken in the financial area to support promoted competition strategies. These focus mainly on the obtaining of funds for the financing of investments and dividend management.

The financial strategy aims to align financial management with the overall and business objectives of an organization in order to gain a competitive advantage. The financial strategy seeks to answer the following questions:

- How much funding is necessary?
- When is the fund necessary?

- How should funds be collected?
- What are the means to use and manage funds?

Financial plans and policies cover three important areas: sources of funding, use of funds and management of funds.

*Fund sources* include the owner's capital, loans from the public through shares and bonds and loans from financial institutions. Financial plans and policies are connected to capital requirements, the desired capital structures, reserves and redundancy and relationship with creditors. Fund collection is the first and most important requirement for the set-up of any business that includes a very careful planning. In this context, the answers to the following questions should be found: How much financing should be available for the start-up? When is the financing needed? For how long is the financing needed? What guarantee can be offered to obtain the financing? Can a certain property be offered for the start-up, in exchange for the investment? On the long-run, are there two financing options from internal or external sources?

The financing of the start-up may be done through *internal sources*, the come from within the organization (personal sources – savings or inheritance of the entrepreneur, loans from friends or family and credit cards, profits retained and share capital invested by the founder) and *external sources* such as external fund suppliers (loan capital, share capital and risk capital).

Depending on the weight provided for these sources, a low or pronounced borrowing strategy may result.

Some small and medium companies prefer to limit themselves to internal investment financing options in order to make sure that they have no return problems and keep the family control on the business. The strategy for a higher indebtedness degree strategy is still frequently used by most companies that have a good economic yield and are engaged in major investment programs.

*Fund use* involves that the funds may be used to make investments, offer loans and advances and provide dividends to the shareholders. Funds should be used efficiently. Financial plans and policies assign funds to achieve various strategies related to the extension of business and granting of dividends to shareholders.

*Fund management* contributes to the optimum use of funds. Plans and policies on this level target the management of cash and credits, tax planning and accounting budget.

In conclusion, financial plans and policies are very important, as they determine the sources, use and management of funds that help project implementation.

### **Human Resource Strategy**

Human resource strategy is an integral part of the organization's strategy and a requirement for the success of the strategy on organization level.

The achievement of strategic objectives is based on the efficient use of the resources available to the organization. Human resources – that means the ones that can coordinate, combine and use other resources are very important in the strategic system of the organization.

Russu C., (1999) underlines the importance of human resources and functional personnel strategies. According to him "taking into account the importance of human resources for the level of performance and competitiveness of the company's activities as a whole, no other area of functional strategies and policies is as vital as that regarding the employees of the company. The fulfilment of this role by the personnel function makes it necessary to solve numerous specific problems, based on judicious functional strategies and derived policies."

Functional human resource strategies actually target all activities specific to the staff function. "Several activities can be delimited within the human resource function:

- Staffing forecast;
- Personnel training;
- Personnel selection;
- Personnel employment;
- Personnel assessment;
- Personnel motivation;
- Development of employees' career;
- Personnel improvement;
- Personnel promotion;
- Protection of employees (labour protection and social security);
- Remodelling the culture of the organization."

We selectively present some of the aspects regarding functional policies and strategies related to the activities presented above.

Thus, staffing forecast is the object of extended functional strategies that include the actual assessment of human resources either within the company or outside the business unit, the interpretation of staffing forecasts regarding future development of the organization and defining the development strategies for existent staff and recruitment of new candidates.

Recruitment of staff is done depending on policies that significantly differ from one period to the other, due to the development of the organization, and the occurrence of new activities carried out by it, loss of employees, internal changes caused by the evolution of company requirements.

Policies regarding the integration of new employees aim to harmonize, as much as possible, the personality of future employees with that of individuals and integrating groups within the organization.

Policies regarding staff assessment should be as rigorous as possible, while at the same time insuring a high level of objectiveness to eliminate possible conflicts that may occur between heads and subordinates. These policies aim to determine the real performances of employees, as well as their potential, indicate if progresses or regresses have been registered in comparison to the previous assessment, link the wages to the level of performance, set improvement requirements for the purpose of a possible promotion.

A complex functional strategy regards the training and continuous training of human resources in Romanian organizations. This strategy should cover all aspects related to continuous and accelerated growth of knowledge that is specifically generated by modern technical and scientific progress.

Policies regarding staff promotion include a series of aspects, such as promotion criteria, internal promotion principle, setting promotion plans that clearly indicate what the promotion possibilities and real chances are for individual employees to be promoted, etc.

A functional human resource strategy should consider the syndicate – management relationship, since this is a very important factor that can influence not only functional policies, but also business performance.

Since human resource strategy is part of the general strategy of the organization, it should be agreed on and approved by the general management of the organization.

There are two endorsement and setting methods for the human resource strategy:

- in the case of decentralized organizations - the strategic objectives of human resources are established by the management of the organization and the human resources manager; the human resources manager has full freedom to establish the mode of action and the intermediate deadlines, provided that the

strategic objectives of human resources are met at the desired level and within the established deadline;

- in the case of centralized organizations - all elements of the strategy are established at the level of the organization's management based on the proposals and variants offered by the human resources manager who will implement the selected strategy.

## Conclusions

Functional strategies operationalize the global strategy of the organization (company or its strategic business unit), they specify the necessary details regarding the way the organization should act to implement the strategy selected. Clarifying the corresponding details through functional strategies allows all its members to understand the overall strategy and explain parts of the strategy that target specific areas (fields).

The main purpose of each functional strategy consists in reaching the objective on a corporate and business level, in the specific functional area through an optimum assignment of available resources in order to increase the profit of the organization.

*Functional strategies in the field of marketing* should guide marketing managers so as to profitably sell products /services on the target market in order to reach the objectives of the business.

*Marketing strategies* should be prepared, presented and implemented for each component of the product, price, distribution and promotion marketing mix.

*Production/operation functional strategies* should guide decisions regarding the conversion process of input to output with added value, namely the operational system of the organization, by obtaining an optimum balance between investments and operations, production and location, the planning of installations and planning of short-term processes.

The functional strategies of operations should be coordinated with the marketing strategy and at the same time be integrated with components of the financial strategy such as capital budget and investment decisions, as well as human resource strategies.

*Financial functional*– we should keep in mind that while most functional strategies guide their implementation within a short time frame, in the case of financial functional strategies, the time frame varies since strategies in this field direct the use of financial resources to support the business strategy, long term and annual objectives.

Financial strategies with a longer time frame offer financial managers guidelines regarding long-term capital investments, to use financing through liability, assign dividends and leverage position of the organization. The operational strategies conceived to manage working capital and short-term assets are more immediate.

Long-term financial strategies usually guide capital acquisition in the context that priorities rarely change over time.

Another major financial strategy is the allocation of capital which sets out the priorities and timetable for major investments in facilities, projects, procurement and / or people, as is the case with growth-oriented strategies.

*Human resources functional strategies*– In the process of developing and implementing the functional human resources strategy, it is necessary to verify to what extent the objectives set in the field of human resources are always current and whether the measures derived from them have been properly fulfilled. The implementation of a human resources strategy is important because it defines how well the human resources processes works within the organization and ensures that

they are in line with the organization's objectives. Every organization is unique and therefore its needs are unique.

The integration of the HR strategy with the business strategy is significant for the success of the organization. We can stress that HR strategy that is incorporated in the business strategy of the organization does not only serve to reach organization objectives, but is also a key source for competitive advantage.

There is no "magic recipe" for the success of the human resource strategy; the type of approach should be in accordance with the profile of the organization and its general strategy.

In conclusion, the role of functional strategies is essential because:

- it offers support for the general business strategy;
- it clarifies the way in which functional managers will work to insure a higher performance in their functional fields.

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