

Change Management of Business Strategy and Internationalization of Trading Company

Diploma Thesis

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Abstract

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The main objective of the diploma thesis is to create a complex methodology for the change of business strategy when a company wants to internationalize which will be applicable and utilizable in SMEs. The principles of the theory of change management and project management will be used. The change management will be based on Lewin's Three-Stage Model of Change completed by the project management and risk management, and the situation analysis will help the identification of the company's position. A partial purpose of this thesis is to define conditions of internationalization for enterprises specified above which is closely connected with the change management of business strategy within the European Union. The last part of the thesis is focused on the application of the methodological proposal to a real company under real market conditions.

Keywords

Change management, business strategy, internationalization of SME, project management, risk management.

Abstrakt

Nekvindová D. Řízení změny obchodní strategie a internacionalizace obchodní společnosti, Diplomová práce. Brno: Mendelova Univerzita v Brně, 2017.

Hlavním cílem diplomové práce je vytvořit komplexní metodiku pro řízení změny obchodní strategie, když podnik chce vstoupit na nový zahraniční trh, která bude aplikovatelná a využitelná obecně v MSP. Budou použity principy teorie řízení změny a projektového řízení. Řízení změny bude založeno na Lewinově modelu změny doplněném projektovým řízením a řízením rizik, a pro identifikaci pozice podniku pomůže situační analýza. Dílčím cílem této práce je definovat podmínky internacionalizace pro MSP, která je úzce spjata s řízením změny obchodní strategie v rámci Evropské unie. Poslední část této práce je věnována samotné aplikaci metodického návrhu na skutečném podniku, který působí na trhu v reálných podmínkách.

Klíčová slova

Řízení změny, obchodní strategie, internacionalizace MSP, projektový management, řízení rizik.

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1 Introduction

Nowadays, when people live in an age of unlimited opportunities and in a constantly developing environment, starting a business is quite easy. The European Union and other associating partnerships allow companies to undertake in various business spheres, territories or districts. It is also related to saturated markets, high competition and broad-spectrum of goods and services supply which is available on the world markets in general.

The issue for a company which handles the pressure of competition and gains a sufficient number of customers can be whether to extend its field of activity. There are two possibilities of a business extension – extension in the current country where the company already operates or entrance into a new foreign market. The entrance into a new foreign market is a chance to penetrate a new country and acquire new opportunities. European companies which want to internationalize within the European Union are situated in a favorable environment to extend its sphere of activity. The EU's Internal Market offers a free movement of goods, people, services and capital. This goes hand in hand with the Freedom to Conduct a Business (Article 16 of the EU Charter of Fundamental Rights).

A trading company which considers its potential in an entrepreneurship and in an enlargement of its business activity abroad has a new concept of its business strategy. If the subject has free financial resources that enable starting the process of internationalization, it can generally speculate about the change while supposing its ideas and vision to be considered as potentially successful outside of the country where the company presently operates. Small and medium enterprises (SMEs) are often under pressure and worry about their failure, therefore remain conservative and stick to being engaged in further growth on the current, more or less successful market.

If a company wants to enter a foreign market, an important thing is to come up with a business strategy and plan its change management so that the company is prepared for a variety of risks which can occur, anticipate them and pay attention to them by risk management methods. On that account, it is relevant to know the procedures which can be used to start company's decision-making processes related to the introduction to new foreign market and follow them. A complex process method of entering a new foreign market could be a good tool to overview about the actual situation at the chosen market and to establish future company's plans. It entails various types of analyses to go through before the change initiation is executed, as well as considering what models and steps are to be taken leading to those analyses and what could help during the decision-making processes.

The business strategy is composed of many components and factors that need to be examined, considered, and used with the purpose of having an accomplished strategy to endure the entry to the new competitive environment without significant failures. Hereby the new opportunities will be opened to the company,

and, simultaneously, new competitors will appear. It is necessary to be familiar with the competition within the given field of industry where the company operates, to know what kind of competitors' behavior is generally applied on the new market. To sum up these aspects, it is important to have a plan for a change management of a business strategy during the internationalization process, i.e. the entrance to a foreign market.

To learn the required materials, theoretical proceeding recommendations and model situations is one thing, nevertheless, the particular application reveals other challenges as well. It is necessary to be interconnected within the company, determine clear goals related to what the company exactly wants and how the change will be executed in reality.

2 Objectives and Methodology

2.1 Objectives

The objective of this diploma thesis is to design a complex methodology for the change of business strategy as a general model on the basis of which a company will proceed during intended internationalization. The general model will be applicable and utilizable in SMEs. The principles of the theory of change management, project management and risk management will be used. The main objective will be completed by following partial objectives.

A partial purpose of this thesis is to define conditions of internationalization for enterprises specified above which is closely connected with the change management of business strategy within the European Union.

Another partial purpose is to perform a comprehensive situation analysis, examining the internal and external factors of changes influencing the decision-making process concerning the business strategy of a SME.

The last partial purpose of this thesis is focused on the application of the methodological proposal to the chosen real company which wants to change its current business strategy and internationalize to a chosen real foreign market.

2.2 Methodology

The diploma thesis is composed of three main parts. These parts are divided into smaller sections. The first part is dedicated to Literature Review which collects information about the given topic. In the Literature Review, a synthesis of findings from monographs, scientific articles and studies relevant to the topic will be elaborated. In this part, a method of comparing particular problems, opinions, hypotheses and other findings will be used as well. The comparison method will be utilized mainly in the change model approaches. This chapter is therefore focused on collecting secondary data from literature sources.

The second and third parts apply methods of analysis and synthesis. By using the method of analysis the explored phenomena will be divided into smaller parts. This method will be utilized in a situation analysis. The aim of the method of synthesis is to unify a train of thoughts in order to achieve an overall unity, consistency and integrity.

In the second part, a comprehensive Methodological Proposal will be created. First of all, a situation analysis of the general environment of the new market where the company wants to internationalize will be performed based on PESTL Analysis, followed by the analysis of the field environment of a company on the basis of Porter's Five Forces Model of competitive environment, and then the analysis of internal factors will be performed on the grounds of a source audit (of physical, human, financial and intangible resources). The final résumé will be clearly processed in SWOT Matrix for the future employment. After that will be

utilized a method of Force Field Analysis which will detect the forces which are either driving moment toward a change (driving forces) and blocking movement toward a change (restraining forces), where each of them will be evaluated on the scale of 1 to 5 for driving forces and -1 to -5 for restraining forces (where 5 and -5 have the highest value).

Further ahead, a risk management will be performed which will consist of the risk identification establishing the risk name, group of risk and the cause of the risk, and of risk analysis determining the risk occurrence probability and the scope of its impact. On the basis of these data, the risk value using the Risk Matrix will be established. After that, precautions will be created for individual risks.

The change management itself will take place subsequently after the risk management. The change management will be based on Lewin’s Three-Stage Model of Change completed by the principles of project management. Specifically, the created methodology will be organized into Logical Framework of the Project for a clear general overview. How to correctly read the logical framework is depicted below in Fig. 1.

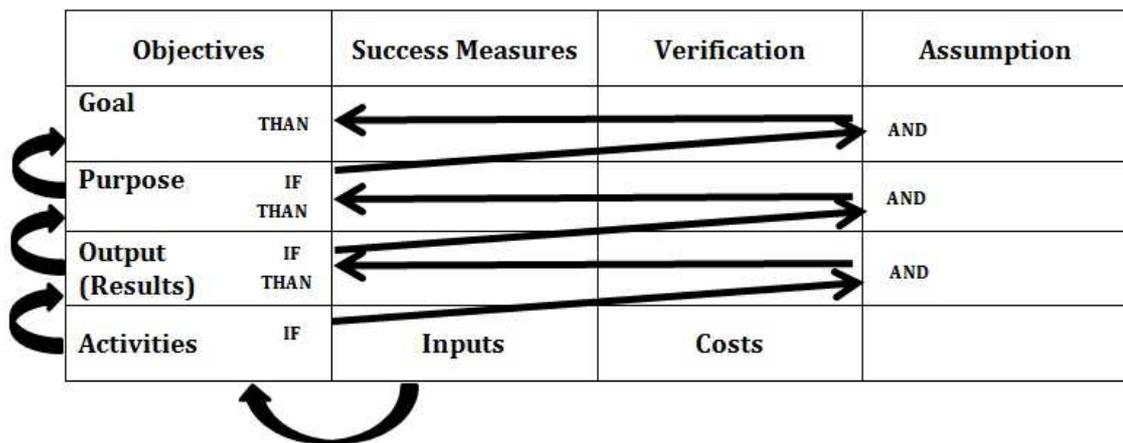


Fig. 1 Reading instruction of the Logical Framework

Source: Doležal, et al, 2009; adapted by the author.

The third part of this thesis is devoted to the direct application of the Methodological Proposal onto real chosen company under real conditions. The chosen company’s goal is to change its current business strategy and internationalize to a chosen foreign market.

Finally, the conclusion and discussion parts will present and evaluate the findings and results of the whole diploma thesis.

3 Literature review

The literature review offers a necessary overview about the diploma thesis topic and its literature requisites which are later on used as a theoretical base for the comprehensive methodology proposal that will form the analytical part of this thesis.

3.1 Strategy Management

Strategy management is highly complex activity that requires following enormous amount of information describing external environment, competences of the company and its internal resources. However, with new highly performed systems of information technologies it is possible to simplify this process. Nevertheless, it is necessary to adopt approaches with attention and to understand it as a medium of business development with all its requirements. In the course of strategy formulation and its successful implementation it is necessary to find a balance between protection and expansion strategies, between decisions on the central level and autonomous decisions on the regional level, between standardization and adaptation. Even though no manual how to achieve this complex balance exists, it is evident that companies must react to the incentives coming from outside flexibly and fast, even in maximal utilization of their resources and skills. (Dedouchová, 2001; Hill, Jones, 1992)

3.1.1 Strategy

Modern definitions see a strategy as readiness for company's future. Strategy includes a long-term objectives of the organization, progress of singular strategic operations and arrangement of the organization's resources imperative for the fulfillment of given objectives so that this strategy comes out of the organization needs, takes into consideration changes of its resources and abilities, and simultaneously reacts in an appropriate manner to the changes in the company's surroundings. It is seen in the Fig. 2. Formulation and implementation of a strategy are generally done steadily hand in hand in small steps, therefore this strategy approach is called an *incremental approach* in general.

The difference between a planning approach and incremental approach is that *planning approach* can be described as "*think, and do then*" while the incremental approach can be defined as "*think, convince, argue, discuss, learn, think, and so on*". For many managers both approaches have the same meaning. But the difference is crucial. The planning approach sees the strategy as a plan which is formulated explicitly and rationally and implemented consequently. Generally, managers prefer and promote their own objectives and thoughts during the mission and the objectives of the company formulation processes. Also, they disconnect formulation of strategy from its implementation, thus the whole process is frequently seen as too bureaucratic. The incremental approach perceives the

strategy as a model of different activities within the company, when the strategy is formulated, implemented, tested and adapted, sometimes rationally, sometimes a bit off, but always in small steps and continuously. The border between the formulation and the implementation is not generally clear-cut. A problem can occur when managers do not understand the keystone of running changes in the company's surroundings and can search, for example, mistaken conclusions of strategic analysis that lead to wrong strategic decision-making, which can lead the company to a wrong direction. It is called a *strategic shift*. The correction of wrong decisions ex-post can be financially exacting in terms of money and time and it not always leads to preserving development of the company. (Dedouchová, 2001)



Fig. 2 Relation between company mission, its sources and competences, and surroundings

Source: Dedouchová, 2001.

Effectively implemented strategy is a result of the managers' abilities to solve conflicts between what needs to be maintained and not to be changed, and what is, on the contrary, necessary to modify. (Hill, Jones, 1992)

The general characteristics of a reasonable strategy can be summed up in the following items by Charvát (2006):

- Strategic decisions influence the long-term direction of an organization.
- Strategic decisions try to achieve an advantage.
- Strategic decisions attend to the whole range of organization's activities.
- Strategy can be considered as an adaptation of activities to certain environment.
- Strategy can be consulted as a proceeding from resources and as a qualification of an organization or its extensions for the purpose of opportunity creation.
- Strategy can require a change in the main resources of the organization.

- Strategic decisions influence operational decision-making.

Strategy is a long-term direction which the organization follows, it is not a plan. There is a danger that managers can start to think that they lead a strategy because they go through a planning process. For the first phase of strategy creation process it is necessary to go along with the fact that strategy is a vision, not a plan, and that strategy is not mainly and only about economic indicators. When the strategy is comprehended as a plan, it can never become a part of the company's culture. (Charvát, 2006)

For the formulation of qualitative strategy, it is necessary to apply the principles of strategic thinking and compliance to the precept for the processing and implementation of strategy the CEO¹ is responsible. (Dedouchová, 2001)

The initial point for strategy formulation is an exhaustive recognition of the company's environment, in addition to the recognition of its own sources and competences. The main environmental analyses are Macro Environmental Analysis (PESTE) of political, economical, socio-cultural, technological and ecological factors, and Micro Environmental Analysis including Sector Analysis and Competitive Analysis (Porter's Five Forces from 1985). (Kislingerová, Nový, et al, 2005)

The main types of a firm's strategy defined by Smejkal and Rais (2003) are depicted in Fig. 3. They are rising from Porter's approach² (The Porter's Five Forces) where the fundamental idea is that the nature of each strategy is a concrete competitive advantage. Each (successful) firm must choose a type of competitive advantage which it will strive for and with which it will exist on the market.

¹ CEO = Chief Executive Officer.

² His well-known work: Porter, M. E. Competitive Strategy. Macmillan, NY, 1985.



Fig. 3 Hierarchy of company's strategies

Source: Smejkal, Rais, 2003.

3.2 Business Strategy

If a company does not clearly define its business strategy and just follows an entrepreneur's and business leader's personal goals, the company will have a problem to develop and achieve business growth in the future. The important thing the entrepreneurs and managers should realize is the realistic view to the situation of the company. It means they know their existing resources and analyse what opportunities the market can offer them. The core fact is to focus on the strengths of the company and find how to use them and push out the competitors, absorb the weaknesses. That is where the business strategy helps to gain the growth.

What does a business strategy define? What needs to be done to meet business goals, decisions about resource allocation, decision-making processes related to hiring and firing human resources and ensuring that there is no conflict between departments even if each of them works independently and innovatively. It settles business plans how to achieve goals and how to sustain and improve a position in the industry. It means there is necessary to define a business purpose, target market, strengths of the entrepreneurship and product line-up.

A business strategy is also important for making a business plan to get customer loyalty and to retain customers rather than to look for new ones. With non specific business guidelines, the company can easily be overtaken by the competitors by better emphasizing on customer service. It follows that the communication with customers and complying with the customers' needs are one of the most fundamental issues of a business strategy. (Kislingerová, Nový, a kol, 2005)

Another importance of a business strategy should be the focus on the business expansion by setting detailed expansion goals to explore new opportunities out of the standard business practices. These goals described in detail should facilitate company expansion. This is related to hiring specialists and analytics to make a market research, collect data, compare them and make recommendations and advice for the company.

When the business goals are created and the business strategy how to achieve them is specified then it is necessary to determine the realistic time frame in which the company can expect the outcome.

Importance should be given to the maintenance of balance between planning and action in view of the possibilities to operate in a competitive environment. The core thing is to learn to make the right decisions and implement them accordingly. If these plans and actions do not work properly and correctly to help to achieve specified goals, it is essential to change the business strategy (how to achieve business goals). (Pestle Analysis Contributor, 2015)

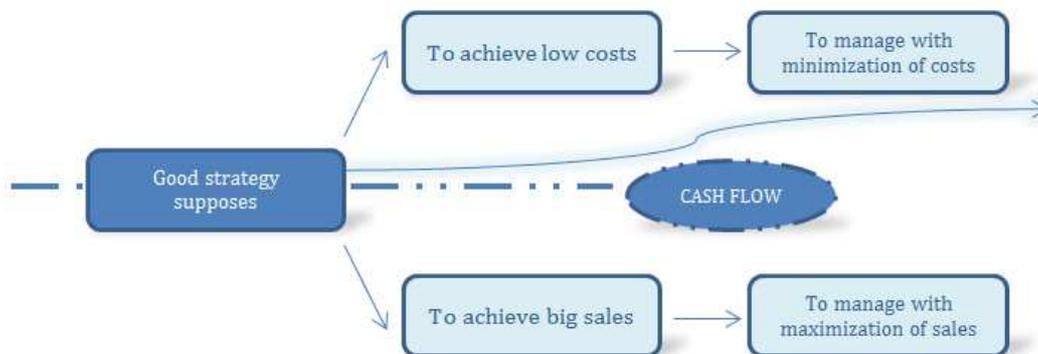


Fig. 4 Finances and Strategies Relation Schema

Source: Charvát, 2006.

It is certain that financial sources are the fundamental part of creating a strategy process. In this connection we will talk about financial sources as the sources needed for providing inputs (materials, energies, personal costs, etc.) and sources for providing outputs (dividends, shares on profit, which is one of the firm's existing objectives). Their relation to strategies is depicted in the Fig. 4. The

management of finances consists of: management of costs (the objective is their minimization), management of sales (the objective is their maximization) and management of cash flows (the objective is the increment of financial sources). Those three conditions must be in harmony with the defined strategy, in other words, they must secure objectives fulfillment, respectively fulfillment of measurable indicators that have to be stated.

3.2.1 Business strategy in the European context

In Europe, huge changes have been implemented that have created new competitive environment. These changes are mainly the elimination of physical barriers, fiscal barriers and technical barriers, and the liberalization of the competition without clear rules of the free competition. Those changes enable to the governments of each country and the enterprises to look for new forms of protectionism. Due to the changes mentioned above, the companies are pushed to increasing their efficiency. On the other hand, they are pushed to higher competence to adjust to raising market segmentation thereby to higher differentiation. All these changes have to be taken into account in the formulation of the strategy for companies that run their business within the European Union.

The EU caused that companies had to evaluate their position and develop new strategies within which they are able to employ new opportunities and defend their current positions simultaneously. (Kislingerová, Nový, a kol, 2005)

For creation of good-quality business strategy it is important that the business management knows the legislative changes within the EU and has appropriate information about other countries, markets, industries, competition, culture and business practices, products, demography and customers who affect the nature of the European opportunities and threats and who influence the character of each industry market. It is necessary to say that for the creation of the good-quality strategy, the nature and amount of information is not as crucial as the way the information is processed and interpreted.

The initial point for business strategy creation is the process of collecting the information about the situation at the market. The information should include characteristics about the market statement and existing competition, but also should include the forecast of the future changes of demography, culture, politics and technologies that determine important conditions for the strategic decision-making processes. (Charvát, 2006)

Tab. 1 Elementary factors of analysed environment

Elementary factor	Nature of information
Country	General economical growth, size of population and its growth, age structure, size of GDP per capita, inflation, unemployment, productivity, average wages
Industry	Key industry, its size, trends of development, main producers, suppliers, conditions of demand
Market	Main competition of each market where the company competes, in which country, its market shares and demand on the market, levels of competition and distribution channels
Product	Prices, promotion, nature of differentiation, technologies
Customer	Purchasing customs, sensibility of customers to prices

Source: Dedouchová, 2001.

All the information mentioned in Tab. 1 is available in EU documents, annual reports of organizations, banking information, catalogs, newspapers, magazines, etc. It may be difficult to obtain the information about the company's culture, politics and technological development yet all this information has direct impact on the future decision-making and the company's position.

For companies that are operating within the EU opportunities and threats arise imminently from the changes creating the European Single Market (i.e. Internal Market). The Fig. 5 shows the key changes and clarifies the form how these factors affect the European business environment. The elimination of barriers between member countries offers a huge potential to negotiation within Europe and also at the domestic market. This opportunity enables to increase output capacities and thereby lead to economizing, and to creating a more effective position. But in reality, these opportunities are deceptive because they generate threats at the same time that can limit full appreciation of the enterprise on the liberalized market. All enterprises are threatened after the removal of barriers by increasing competitive activities on the domestic market. Therefore, it is very important that an enterprise utilizes new opportunities during the creation of its strategy and, at the same time, carefully contemplates threats that are related to the keeping the position on the domestic market. The threats are also related to the concealed barriers between member countries. Whereas the existing legislation eliminated the physical, fiscal and technical barriers, a high level of heterogeneity still remains between member countries. The covered barriers are apparent in the area of culture differences, from which the purchasing behavior, behavior of customers, perception and taste are derived. Notwithstanding the

agreed upon conditions of the game rules within the EU, the governments focus their attention on defending their domestic business activities against foreign competitors.

The next important threat that influences European companies is the overrun of the production capacity. It happens because organizations that are entering new territory enlarge the production capacity and increase the amount of output. The impact of the overrun of the capacity is probably different in each industry. The organizations are balancing between attack and defence (between pursuing opportunities and protecting their own business activities). Distribution of limited resources between a large number of companies within EU leads to difficulties in the course of decision-making processes.

Aggressive competition between all member countries of the EU requires that each market which the company enters offers sufficient resources (financial, management and human skill) to create an appropriate competitive position. When the main competitors are more successful in exploiting new opportunities for the growth and expansion of the basic business activity, then attack is probably better than defence in this sense. A company is not able to take advantage of new opportunities that causes a vulnerability of the company. (M. Dedouchová, 2001)

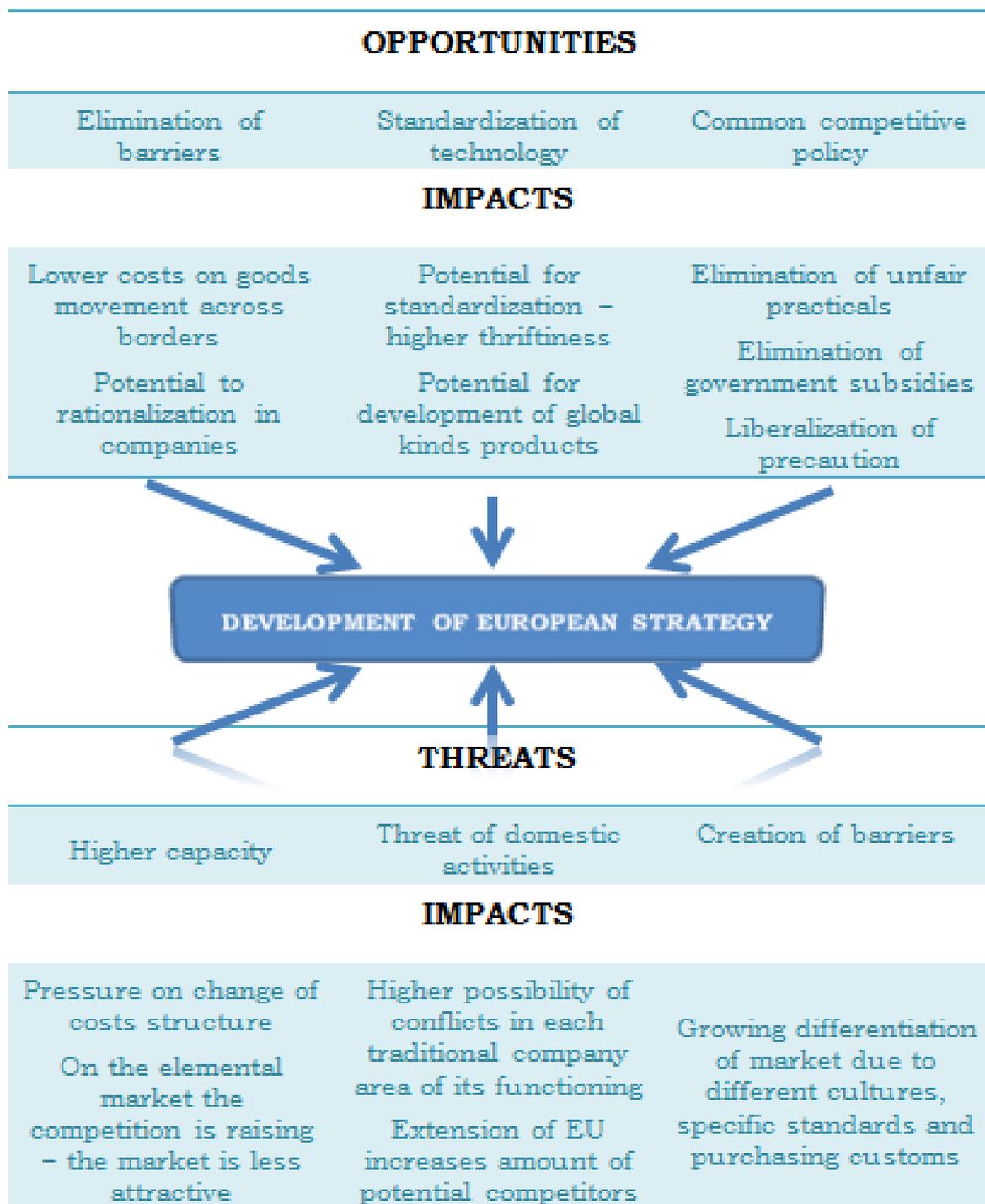


Fig. 5 Opportunities and threats within Eropcean region and their impacts

Source: Dedouchová, 2001.

3.3 Change Management

The change management system undergone a huge spectrum of changes during last decades. Let's start with the past. Let's consider a large company and its senior executive who had just one own goal. This goal is stability. Most of the markets were closed or undeveloped, therefore, the leading companies could just deliver most-modest modifications to their strategic plans. With time, this stable situation has been transformed into much more difficult one. The comfortable and steady scenario came to an end mainly owing to the following factors:

- market transparency,
- labour mobility,
- global capital flows,
- instantaneous communication.

The main global competitors started to concentrate the strategic management on something that was absent in the past. That is called "change" and successful companies had to set the mode of functioning that created a culture which keeps moving all the time and which can adjust to the change. (Jones, et al, 2004)

There are 10 principles of the change management by Jones, et al (2004):

1. *Address the "human side" systematically* – dealing with any transformation creates new requirements that are needed to adopt. Change of jobs, new skills, development and also new leaders will have to be addressed. Development of formal approach for managing change should be done early and should be adapted often as change moves through the enterprise. Addressing the human side is related to the data collection and analysis requirements, planning and implementation of decisions made to design strategies, systems and processes within the organization. The full integration of the change-management approach into decision-making processes can help to inform and enable strategic direction. The capacity to change, culture and organization's history is a base for decision-making concerning the change-management implications.
2. *Start at the top* – if the executive teams work well together it is one of the most important things ensuring success. The leaders should speak with one voice, they must embrace new approaches and motivate and challenge all the members of their team. They must display the unity of performing in the public, understand the company's culture thoroughly, know exact direction of the change and have the know-how in order to model those changes. The CEO should offer the team strength, support and show them the direction of the change.
3. *Involve every layer* – the change inherently involves all organizational levels but the transformation program must set targets to design and implement influences at different levels of the organization. Plans for identifying leaders

and delegating the responsibility for design and implementation are main points of the change process. It can be described as cascading changes through the whole company. Leaders of each layer of organization must be trained and aligned to the organization's vision and must be motivated to make the change happen. The cascading leadership methodology and the supporting and training teams is also a good way to identify the company's next generation of leaders and executives.

4. *Make the formal case* – because team member will have many questions about what is needed to imply the change, how they will do it, which directions should they follow and others, they will ask the leadership and they will want answers. The easiest way to answer all these necessary questions is a formation of a formal case for change and also a written vision statement that would help to compel the leadership-team unity. Steps of the formal case are the following:
 - to confront reality and articulate a persuasive need for change;
 - to demonstrate faith that the company has a viable future and the leadership to get there;
 - to provide a road map to guide behavior and decision making.

This message has to be adapted for specific internal audience and has to describe the pending change in terms that matter to the individuals.

5. *Create ownership* – the transformation and direction of change demand ownership by the leaders who are able to accept responsibility for the change management to make it happen in all areas where they influence and exercise control. When the change program is extensive, the leaders must be enthusiasts who create a critical mass among all team members in favour of the change. This can be reached by rewards and incentives such as financial reward, et al.
6. *Communicate the message* – the change leaders often make a mistake believing that the others understand properly the change issue and see the future new direction in precisely the same way as they do. The core message should be transferred to other team members to reinforce the change program and it should be done by timely advice that is practicable and inspirational. If the employees obtain right information at the right time the communication flow concerning the change management will be correctly managed. The feedback is, therefore the second core thing the employees should get from leaders and vice versa.
7. *Assess the cultural landscape* – the critical thing for change programs is that leaders properly understand and account for the culture at each level of organization. For successful change management proceeding and implication of the change, it is critically important that leaders can assess the readiness to change the organization, bring major problems to the surface, identify conflicts and core values, beliefs, behaviours and perceptions. For a

successful change realization, these values must be taken into account. A frequent mistake is that a company evaluates its culture elements either too late or not at all.

8. *Address culture explicitly* – the company culture is defined by explicit values, common attitudes, habits, beliefs, behaviors, communication and also by shared history. The change programs can involve the company's culture in its creation period or in combining cultures when the merger or acquisition is formed or in reinforcing cultures. The culture change is a very difficult process and if there is a cultural center of common thoughts, activities, personal identifications and influence identified, it is an effective path to begin the culture change. If the culture is understood it should be addressed and the leaders should be explicit about the crucial and essential behaviours and about the culture in general.
9. *Prepare for the unexpected* – the continual reassessment is necessary for effective management of the change. The impact of the change and the ability of an organization to adopt the consequent step of transformation should be observed and evaluated continuously because no change program goes according to the designed project plan. Collection of real data and information is a core thing to make decision about adjustments that are inevitable to overcome the inertia and get needful results.
10. *Speak to the individual* – the team leaders should be as explicit as possible and should be honest about the change program and the expectations. They should provide concrete and explicit information to team of individuals about the future change, how it can change their work proceedings and content, what exactly is expected and what is estimated to occur during and after the change implementation, how exactly they and their performance will be measured and what achievements and failures will mean for them and their teams.

The question is how to lead the change management? The CEOs believe that the communication, training and change in the internal system it is enough to move the organization to the new and better situation. However, they are wrong. The critical thing is the culture to succeed in the change management program. It means how things get done inside of the organization. Many change management systems deal with formal aspects of the organization very effectively. The aspects such are decision rights, process flow, structure, performance management system. The culture is much more influenced by informal aspects like acts, behavior, feeling, attitude to the culture and organization than by the formal aspects, to impact the change in the way the CEOs want.

The most important thing in the culture issue is to create the ideal change management team. The first thing to do is to unleash the power to managers and believe in them. People who trust the company and who are motivated. Secondly, it is necessary to create the organization environment and make it coherent – every speech, message, press interview in a town hall, etc. should be coherent and

comprehensible. The CEOs and the leading change management should understand the change management program. They need to start acting in different ways. The other participants of this change management team should be respective middle managers and supervisors of the project. The last participants are experts. Those experts provide advice to manager's help when the program does not work properly, make predictions and needful analysis. (Jones, et al, 2004)

3.3.1 Change management in the European context

In an organization that wants to expand abroad, what is important is the management department and functioning of all the internationalization process. The management of an organizational change must be mentioned because it is related to the European strategy about process of re-engineering in business and its position in the implementation strategy. The current conditions are characteristic by increasing complicatedness of organizational structures for which there are typical different types of subdivisions and a lot of business relations. The strategic research in the majority of companies proves that most of problems do not arise in the strategy formulation phase but in the implementation phase. A successful implementation of the strategy depends on the processes that the company uses, and on the functions it operates. Therefore, a concept of the re-engineering process in the course of the past few years came into existence.

The re-engineering processing could be defined as a management of tasks that are determined to realize the business objectives through processes within and across the company. (Dedouchová, 2001)

The nature of change management in this sense is the management of business architecture so that the manner of strategy hand over could be simplified. It does not mean to improve the processes on the functional level of the management, but it is necessary to review the company as a sequence of complex processes that require closer coordination and integration. For example, a company can not improve only production process by re-engineering, the company should be able to sell the produced product effectively as well.

There are two crucial mental processes that refer to the mutual relation between re-engineering process and implementation strategy according to Dedouchová (2001):

- the re-engineering process is usually carried out by teams within the project in non-dependency on the process of a strategy formulation,
- in the majority of re-engineering processes in entrepreneurship, defenders claim that it is a policy of mass structural change; in this sense it actually does not fit the models of strategic change would be based on the learning and incremental changes.

The re-engineering process is a system that should provide a prerequisite for easy implementation of a business strategy. It is considered as an important complement for management of strategic change but not as a process of strategic change by itself. Without any other change in the architecture it is very probable

that relatively high number of companies will not be able to implement successfully the types of strategies that are necessary for achieving competitive success within the EU.

The changes that proceed in the European and global environment pressure companies to think about their strategy. Traditional factors of success such as patent protection and others are overcome together with acceleration of change pace and development. Therefore, companies must look for new ways to maintain position on the market and consolidate their competitive position. (Charvát, 2006)

3.3.2 Models of Change Management

The key of a successful change management is a thriving entrepreneur of the company and managers responsible for the change processes within the company. Changes allow adjust to the external environment of the company and hereby create much better position on the targeted market. The process of change is dependent on the willingness to perform that change by the subjects involved. All the change management procedures should be continuous, uninterrupted and unbroken, and the organization should react in a natural way. The core issue why changes within organizations are really needed and required are factors such as globalization of the markets and, of course, fast growth of technology development throughout the world. (Smejkal, 2010)

The best known models of the change management used in business environment are Kotter's Eight-Step Process for Leading Change and Lewin's Three-Stage Model of Change. These two models are described in more detail below.

KOTTER'S 8-STEP PROCESS FOR LEADING CHANGE

The Kotter's 8-Step Process for Leading Change is one of the most important models made for understanding the change management system and then for easier implementation of the change within the company. The 8-Step Change Model was created in 1996 by John P. Kotter (American professor at Harvard Business School and a specialist in change management and leadership) and is described below in the list and later presented in the Fig. 6. (Kotter, 2012)

1. Create sense of urgency – in the first step the market and the competitive environment should be examined together with the identification of critical points, potential crisis and major opportunities. After that it is necessary to discuss the findings with all the team members, motivate employees (team members), assure them that things are moving, and answer their questions.
2. Build powerful coalition – in the second step the stakeholders should form a group of people who are willing to support the idea. It should include experts, leaders, managers of the organization, and a responsible team should be created. It can make highly effective precondition for the change implementation.

3. Form strategic visions – here it should be explained what the values of the change process are, a shared vision should be created, and the people who will be a part of the change management team should be inspired. New strategies should be developed to achieve the vision.
4. Enlist volunteer army – it is very important to keep communicating the vision. It should be communicated frequently and powerfully. The same applies to talking about the change, new strategies and visions.
5. Enable action by removing barriers - remove any obstacles on the path, focus on the places where obstacles are recognized, prepare the change system and company's structure for a transformation process, and support non-traditional ideas, activities and procedures.
6. Generate short-term wins – planning and achieving visible performance improvements are the main objectives of the sixth step of this Change Model. The important thing that the company should do is to motivate people for making the change happen, value and reward them for a visible planned achievements.
7. Sustain acceleration (=Build on the Change) – the seventh step is focusing on the acceleration of the change. It includes hiring, promoting and educating people who are responsible for the transformation process, also point out structures, change systems and procedures that are not really consistent with the transformation and should be changed. And renew those processes that are related to new projects, ideas and components.
8. Institute change (=Anchor the Changes in Corporate Culture) – last but not least is the eight step which is oriented at embodiment of changes in the corporate culture environment. It helps achieve better results in customer behavior and hereby increase the productivity and efficiency of the management and leadership.



Fig. 6 Kotter's 8-Step Change Model

Source: Kotter, 2012.

LEWIN'S THREE-STAGE MODEL OF CHANGE

The second best known and one of the oldest change models is The Lewin's Three-Stage Model of Change presented in 1947. Mr. Kurt Lewin was an American social psychologist of German origin; his research was focused on factors that influence people to change and he determined this change model which contains these three stages:

- Unfreezing stage
- Change stage
- Freezing stage

The first stage is dedicated to the preparation and getting ready to change. It is considered the most important stage. The core thing is to identify the needed change and getting out of comfort zone to start the change process and implement the change itself. The more the need of change is pushing, the more urgent it is, the more we are motivated to make the change happen. Mr. Lewin presented the basis

for *unfreezing* and getting motivated and called it as **Force Field Analysis** (see the Fig. 7). It is a powerful strategic tool to decide what is really needed for change on the personal as well as on the corporate level of decision-making. It is about decisions that are 'pro's' and 'con's' and about setting their weight. By listing these factors (forces) we know which factors are for and which are against the change. If the factors for change prevail, we should make the change, if not, there is a low motivation for the change and we should not start the change process. This *Unfreezing* stage involves moving individuals, departments or the whole companies and businesses towards the change.

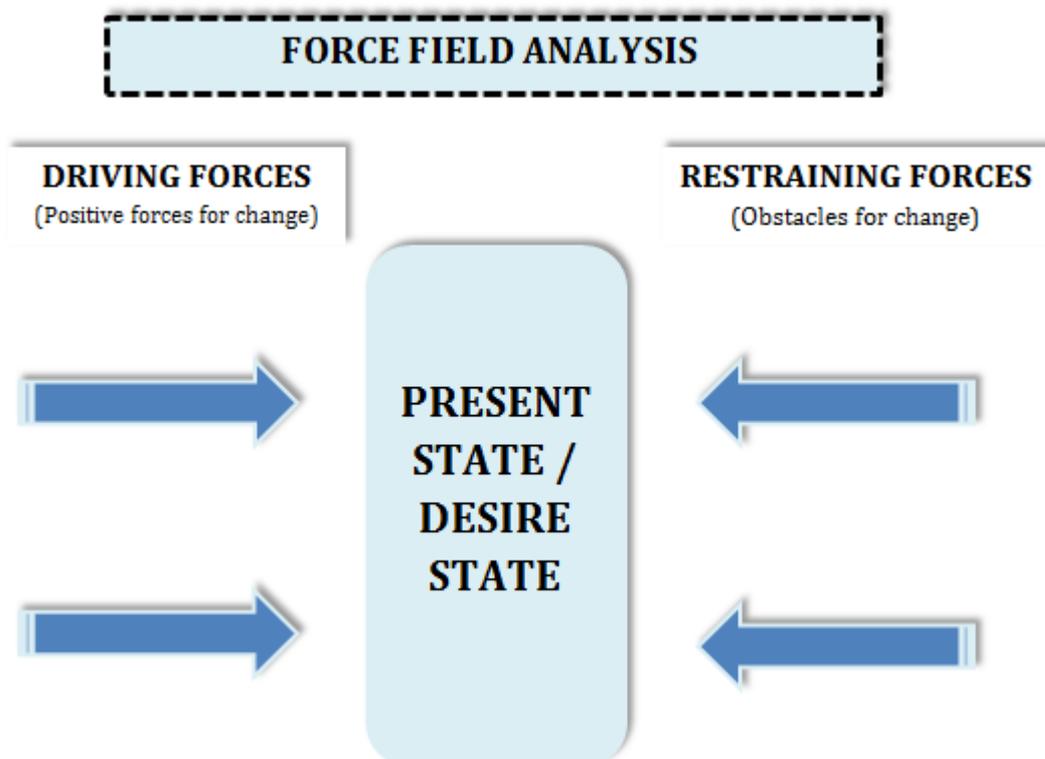


Fig. 7 Force Field Analysis

Source: Connelly, 2016.

The Force Field Analysis seen in Fig. 7 shows that the change is in equilibrium between forces that drive the change and those that resist the change. It is called as 'quasi-stationary social equilibrium'. For change occurrence the equilibrium is suspended by increasing driving forces. The successful change is achieved when the driving forces are strengthened or restraining forces are weakened. This analysis is mainly used to differentiate between the factors that drive a person towards (within the organization/situation) or away from the intended state and the factors that resist it.

The second stage is called *Change* and is dedicated to the change process – to *transition*. The transition is an internal movement that an individual or a company makes in reaction to the change. It occurs when a company or an individual decides on making a change. A very important part of this stage is the support in the form of coaching, training, and expecting mistakes which are an inherent part of the process. The core thing is the development of the company's solutions, using role models, clearly communicating the design of the desired change. It includes also benefits for people who are implementing the change and who are responsible for the whole process.

The last stage of Lewin's Change Model is *Freezing* (or *Refreezing*). This concept is about reinforcing the change and also about maintaining the accepted change into the future. Without this freezing part people tend to go back and keep doing what they used to do prior to the change. That is what Lewin saw as a freezing stage – the support of the desired change to make sure that the change process continues and it is not lost.

The Lewin's theory was highly criticised for being too simplistic, especially the third stage. Nowadays we know that the change process can not be rigid but has to be exactly the opposite, i.e. flexible. High flexibility is necessary to make the change happen. This stage is in fact the integration of the new values, visions and processes into the community (of individuals or of an organization), but also a new tradition. The main purpose of refreezing stage is to stabilize and ensure the new equilibrium which is the result of the change. It should to be done by balancing both the driving and restraining forces (from Force Field Analysis). (Connelly, 2016)

3.4 Project Management

Project Management is a very important part of the management of processes within the organization. It is described as a form of approach to the design and realization of the change process (i.e. project) in a way where it is necessary to achieve presumptive objective in a planned time period, within given budget, with disposable resources, to create a successful project (i.e. the change realized does not evoke undesirable side effects).

The main principles of the project management according to Doležal, et al (2009) are:

- system approach (phenomena considering in contexts);
- systematic, methodological procedure;
- problem structuring and structuring in time;
- appropriate resources;
- interdisciplinary team work;
- using of IT support;
- application of fundamentals of permanent improving;

- integration.

The project management includes a set of norms, recommendations and experiences that describe how to manage a project. The general proceeding of management of project is *planning, organization, observation* and *control* of all project aspects, then management and leading of all interested parties to achieve the objectives of the project safely and under agreed conditions (i.e. time, costs, volume, performance, and quality). It is desired to understand it as a whole unit created by co-ordinating and leading assignments, organizing, techniques and measurements for the project realization. The inherent part is the optimization of time, cost and risk parameters, and other requirements, and the organization of the project within the given constraints. (Doležal, et al, 2009)

According to PMI (2008), the knowledge of the project management can be divided into 9 fields:

- project management integration;
- management of project range;
- time management of project;
- cost management of project;
- quality management of project;
- human resource management of project;
- project communication management;
- risk management of project;
- purchase management for project.

Many authors try to discover new streams besides the classical, already mentioned, definitions and divisions of a project management. For example, Mr. Laufer (2009) tries to bring new dynamic approaches and defines 5 principles of a project management focused on a result. The first is green principle which is focused on planning and managing change management, the second is brown principle which consists of result targeting, the third principle is yellow principle focusing on the development of the will to win, the red principle is fourth one and it is about the collaboration with mutual dependency and confidence. The last, fifth principle is the grey principle which is based on the interconnection through intensive communication.

The following project procedures by Doležal, et al (2009) can be considered as the main project phases:

1. Determination of the objectives and project purpose, including the analysis of benefits (i.e. *what* and *why* should the project be realized).
2. Specification of the activities needed for the project realization (i.e. description, task, assignment of resources and time for realization).
3. Specification of the links between individual activities.

4. Determination of responsibility for individual activities and simultaneously authorities needed for the realization of these assignments (i.e. who, what, when and how to make it).
5. Risk analysis.
6. The realization of project plan itself.
7. Evaluation and analysis.

These authors also describe the following five fundamental areas of a project management:

- initiation (determination) – determination of the project objectives and intentions, initiation of activities;
- planning – make a plan how the requirements and objectives will be accomplished; specification of implementation, timing and financial budget;
- execution – application of managerial style of human resource management that leads to employees and team members doing their job effectively, in time and in keeping with the plan;
- monitoring – control of a statement and proceeding of project works to detect deviations from the plan and to revise them in time (i.e. it often leads to plan corrections and changes);
- termination – verification that the finished activity corresponds to the actual definition and specification of the task, and termination of all incomplete work (e.g. a documentation including evaluation of the project process).

The division to five managerial areas covers all needed activities and presents a useful conceptual sequence. Thereby it is possible to consider the complete project management proceedings or its particular stages, including the specific activities.

	EXTERNAL ACTIVITIES	INTERNAL ACTIVITIES
YIELD A PROFIT	New/innovative product delivery	X
		Offer preparation R&D
SUPPORT	Guarantee service	Organizational changes Investments Outsourcing/insourcing

Fig. 8 Relation of the project management and company's activities

Source: Korecký, Trkovský, 2011.

Listed in Fig. 8 are the company's activities suitable for project management by Korecký and Trkovský (2011). They are divided between external and internal activities.

The external activities are new/innovative product delivery which embraces development, purchase, production, examination and tests, commissioning and handover to the customer. The other external activities is the service in the form of *full service* (i.e. on a contractual base that guarantees a defined operability to the customer of the service products for contractual payment). The character of the project is mainly the preparation and implementation of the full service.

The internal activities are composed of the project research and development (i.e. R&D), purchasing of investments (i.e. immovables, machines and facilities, IT), the change of organizational processes, outsourcing of chosen activities (only if it is possible to purchase it favourably), eventually the insourcing of chosen external activities.

The consideration whether a project management is successful or nor it is another important issue. The criteria of success and failure are relative but potentially independent. A successful project management of organization represents, first of all, coordinational and organizational activities in relation to the project objective realization. Usually there are several areas that should be managed together within a project, such as time management, resource management, and so on. (Doležal, et al, 2009)

3.4.1 Methodologies of Project Management

Professional organizations or organizations that publish standards and offer certifications for managers deal with project management on internal level. The best-known ones are Project Management Institute (PMI), International Project Management Association (IPMA) and AXELOS Limited (PRINCE2). Those

organizations are simultaneously considered as the most widespread methodologies in project management on the world-wide scale.

International Project Management Association (IPMA) is a competence framework that offers project managers and project consultants to be certificated and educated in the project management field. Those certificates are international. (Project Management, 2016)

PRINCE2 by AXELOS Limited

This methodology defines a project as a “*temporal environment*” that was created with the purpose of realizing one or more products in the same way as is defined in the Business Case. The project is characterized by having a start, an end and clearly defined parameters, such as schedule, financial budget, quality and output.

PRINCE2 is used in more than 200 countries over the world and is popular especially because it is a general methodology applicable to any project regardless of its extent, type, organization, place and culture. It contains a set of principles, themes and processes. Thanks to that, it adjusts the project according to the actual requirements and environment. (PRINCE2, 2016)

PMBOK by PMI

PMBOK (Project Management Body of Knowledge) is an international standard in project management that is issued by Project Management Institute and is the most widespread in the USA. PMBOK is the oldest and the most general methodology. It primarily focuses on companies that deliver their products or services by the projects. This methodology is mostly used in the IT industry and in extensive IT projects. (PMBOK, 2016)

3.4.2 Logical Framework Matrix

The Logical Framework Matrix is designed to assist during the definition of the project objectives and to help achieve them. Works on main principles are team work, systematic approach to the project and an important thing is that all project parameters are mutually connected in the matrix (Tab. 2).

Tab. 2 Logical Framework Matrix of The Project

<i>Project title: Change Management of Business Strategy</i>				
	Project description	Objectively verifiable indicators of achievement	Sources and means of verification	Assumption
Goal	What is the overall broader impact to which the action will contribute?	What are the key indicators related to the overall goal?	What are the sources of information for these indicators?	What are the external factors necessary to sustain objectives in the long term?
Purpose	What is the immediate development outcome at the end of the project?	Which indicators clearly show that the objective of the action has been achieved?	What are the sources of information that exist or can be collected? What are the methods required to get this information?	Which factors and conditions are necessary to achieve that objective? (external conditions)
Outputs	What are the specifically deliverable results envisaged to achieve the specific objectives?	What are the indicators to measure whether and to what extent the action achieves the expected results?	What are the sources of information for these indicators?	What external conditions must be met to obtain the expected results on schedule?
Activities	What are the key activities to be carried out and in what sequence in order to produce the expected results?	Means: What are the means required to implement these activities, e.g. personnel, equipment, suppliers, etc.	What are the sources of information about action progress? Costs: What are the action costs?	What preconditions are required before the action starts?

Source: Doležal, 2009.

3.5 Internationalization

In the term of internationalization, there have recently been some discrepancies of meaning in expert literature. It is frequently interchanged with the term of globalization. These terms are very similar in their meaning, but there are significant differences between them. According to Daly (1999), the internationalization is a process of increasing participation to international trade, international relations, agreements, and collaboration. These international issues are considered a basic unit in the international process between particular countries. Globalization is explained by Daly (1999) as a general economic integration of national economies to one global economy mainly owing to free trade, free movement of capital, but also because of liberal migration of people that are significantly related to the elimination of national borders for economic purposes.

Internationalization of enterprises is denoted as a connection to the international environment and higher participation in international operations. It is a process of operation adaptation of enterprise such as its strategy, structure and sources in the international environment. (Welch, Luostarinen, 1988)

3.5.1 Conditions within the European Union

European expansion – when the company wants to expand across borders it should answer a few questions:

1. Why would customers in foreign countries change their purchasing behavior and do the purchase in our country?
2. What is the competitive advantage of the company between foreign subjects (competitors)?

To answer these questions is harder than it might seem. The competitive advantages developed in one country need not be transferable to other countries automatically. Therefore, is important to analyse the degree of transferability of each competitive advantages before any decisions about the expansion are made.

The table Tab. 3 presents some information about the character and field of activity of each type of the competitive advantages and the level of difficulty with which it can be transferred between EU member countries. From the table it is obvious that many advantages are completely improper or very difficult from the international expansion point of view, or can provide opportunities only in the short-term prospect. The expansion could be recommended only if the opportunities were unequivocally given for the utilization of competitive advantages. (Dedouchová, 2001)

Tab. 3 Portability of competitive advantage

Source of advantage	Range of portability
Product protected by patent	Wide, but can be imitated or improved together with the product changes and improvements. High dependence on time.
Technology of processing	Wide, but again, dependent on time. Limited range of usage through export activities because of the capacity of production units. To construct these capacities in abroad is very difficult from resource point of view.
Complex systemic and quality control in production	Can lead to an advantage gain in the area of costs although additional transportation costs of export activities can weaken this advantage. Abroad, there would have to be developed systems just-in-time on the basis of local suppliers instead of foreign investment which can be time-consuming and hardly achievable in a situation where relations between customers and suppliers are fixed.
Productivity	Can be related to the location of production therefore portable only by exporting. That can weaken the advantage due to high transportation costs.
Marketing knowledge	Often one of the hardest portable advantages to achieve because the decision about the brand, targeting the market, distribution and support of the purchases must often be adjusted to the conditions of the local market.
Services	Services and relations with customers are unportable and their implementation in foreign markets requires knowledgeable information sources.

Source: Dedouchová, 2001.

3.5.2 Models of internationalization process

In connection with the international process controversy it is necessary to explain clearly why some firms get involved in the global trading slowly, and others faster and why some firms are literally tailor-made for the global market. The issues of

the pace of involvement in the internationalization processes are explained by many theories. Many authors carry out research related to the internationalization processes and they provide many theories that are based on two models that are different in its concept:

- IMODEL = Innovation-Related Internationalization Model by Cavusgil (1980)
- UPPSALA MODEL by Johanson and Vahlne (1977) – the oldest model dealing with internal process of company (Kubíčková, et al, 2015)

UPPSALA MODEL

The Uppsala Model is the oldest model dealing with the internationalization process (IP) of enterprise. This model connects two different approaches to IP and is applicable to large corporations as well as to small and medium enterprises.

The Uppsala Model is generally based on four core concepts where the following four key factors are considered seen below:

- market commitment,
- market knowledge,
- current activities,
- commitment decision.

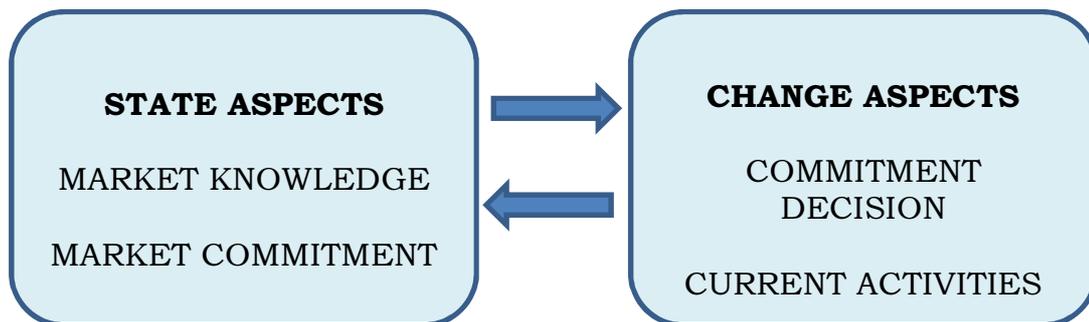


Fig. 9 Four core concept of Uppsala Model

Source: Johanson, Vahlne, 1977; adapted by the author.

These four key factors seen in the Fig. 9 are divided into two groups related to the state of the company and factors involving changes in the company – state aspects and change aspects. The state aspects are determined by the market commitment that requires to know which sources become involved in foreign markets, and by market knowledge where it is necessary to identify what information about the foreign market is available to the company. The change aspects are determined by the commitment decision and by current activities.

Nowadays, the Uppsala Model is often criticized. The critics point out that this model is not applicable to very big multinational enterprises and to firms with extended international experience or firms with high-technologies. (Kubíčková, et al, 2015)

Models engaged in internationalization are divided into 3 groups by Antoldi and Cerrato (2012):

1. Traditional approaches – eclectic models and models based on learning and innovation.
2. Network approaches – these models are stemming from Uppsala Model.
3. Resource based approaches – the main idea is described as the approach when a company is considered as a set of unique sources creating a competitive advantages.

Frinas and Mellahi (2011) applied the network approach that is rising from Uppsala Model and defined development of internationalization effort as a development of business-relation networks. The development can proceed in 3 stages depicted in Fig. 10.

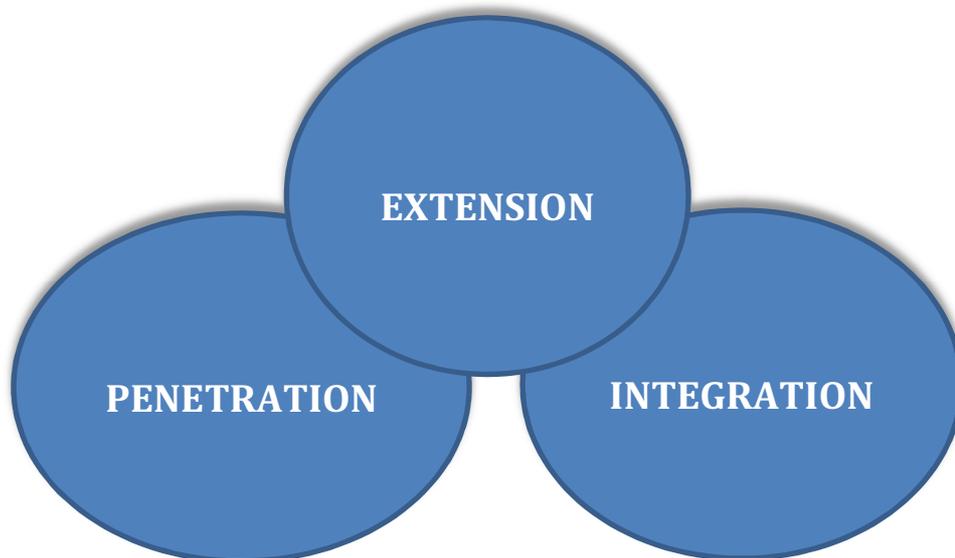


Fig. 10 Three stages of internationalization development

Source: Frinas, Mellahi, 2011.

In the stage of extension the company invests and takes part in new networks. In the stage of penetration the company enlarges its activity in the already existing networks. The stage of integration comes about as a cooperation of different national networks.

3.5.3 Motives of internationalization

In relation to the definition of internationalization process it is necessary to find the answers to the following questions: why do companies opt for internationalization, what leads them to this decision and if it is possible to generalize these factors. Among the main factors that initiate the

internationalization process in a company are, according to Rodriguez, et al (2010) these following reasons:

- searching for new customers, crisis of sales compensation on domestic markets,
- reduction of risks by diversification into different countries,
- balancing losses from revenues in specific regions by the possibility to make a profit somewhere else,
- cost reduction in production, R&D, distribution or purchase by economies of scales,
- obtaining higher profitability of bigger investment,
- compensation of shorter products' life-cycle on higher level by utilization of relatively homogenous markets advantage,
- obtaining prestige and competitive advantage by world-wide extension of its activity,
- increase of revenues on high-barrier markets,
- cost reduction in production by transferring chosen operations to countries with cheaper work force.

Czinkota, et al (2004) divided internationalization motives into proactive motives and reactive motives. Proactive motives are resulting from internal decisions of company (e.g. a stimulus for strategic change performance in the company), and reactive motives are actually passive reflections of the company negotiations (e.g. stimulus that flow from changing conditions on domestic and foreign market where the company reacts to them by developing internationalization activities). The most frequent proactive and reactive motives are listed in the Tab. 4.

Tab. 4 Proactive and reactive motives of internationalization

PROACTIVE MOTIVES	REACTIVE MOTIVES
Growth of profit by addressing customers	Domestic market saturation
Special technological advantage	Excessive capacities (full resource utilization)
Uniqueness of the company's products or services and R&D investments	Existence of overproduction (e.g. because of the decrease of the product interests on domestic market)
Exclusive information about customers or market environment that other competitors do not know	Decrease of sales on domestic market because of the decline phase of the product life-cycle
Tax advantage – used mainly in the past (WTO ³ prohibited subsidising of export activities except for those in the Third-World countries)	Competitive pressure (loss of market share on domestic market due to foreign competition entering the domestic market)
Opportunity of economies of scale achievement by increase of its market share	Contiguity with customers (physical and psychical contiguity)

Source: Czinkota, et al, 2004.

On the grounds of the research executed by Kubíčková, et al (2015) that was based on the obtained information from the Czech SMEs is possible to state that SMEs in different industries and sectors have the same motives to enter foreign markets, only their order is changing. The most frequently presented motive is the foreign demand for products or services of the enterprise, insufficient demand on domestic market, enlargement of customer portfolio, effort to increase the company's turnover, effort to increase sales and also contacts abroad. In comparison with the internationalization motives that are listed in the reference literature, in the Czech SMEs the reactive motives prevail, i.e. enterprises make their decision on the grounds of an opportunity or threat that has emerged from the market changing conditions.

3.5.4 Barriers of internationalization

For many SMEs, the possibility of participating in an internationalization process is limited in some manner. According to Onkelinx and Sleuwaegen (2008) the barriers are divided into internal barriers, related to the sources and abilities of the enterprise, and external barriers, stemming from the business environment on

³ WTO = World Trade Organization.

domestic and foreign market where the enterprise operates or where it wants to operate.

The **internal barriers** are divided into partial groups. In the first group there are informational barriers connected with the identification and selection problems related to the foreign market. In the second group there are functional barriers which are especially the shortage of human resources, in production and in financing. The third group represents marketing barriers that are related to the components of the marketing mix, i.e. products, price, distribution and promotion, for example the low quality of products, wrong price policy in consideration to the competition on foreign markets, the lack of product diversification, incompetence to find convenient distribution channel on the foreign market, etc.

Among the **external barriers** there are process barriers arising from the ignorance of necessary procedures and legislative restrictions connected with an entrance on foreign market that are caused by different law and regulative framework in specific countries. The external barriers are also government obstacles that result from low export support and from the absence of incentives to enter the foreign market for domestic companies, or on the contrary protectionist provisions of foreign markets, e.g. tariff and non-tariff obstructions. Among the external barriers there are environmental barriers such as those related to economical, legal, political and social environment of the particular foreign market, and, last but not least, the barriers that originate from the foreign market customers and competition. (Onkelinx, Sleuwaegen, 2008)

The study realized by OPEC⁴ in 2009 in collaboration with APEC⁵ dealing with an international study of SMEs in the worldwide context focused on the main barriers and motivation factors of internationalization established that the majority of SMEs perceive the external barriers of the internationalization process as less significant and attribute higher importance to the internal barriers. An important aspect to consider is the difference between the companies that appear on the foreign market and those that are inactive there. The SMEs that do not appear on the foreign market put significant emphasis on the risk of financial barriers, i.e. internal barriers. On the contrary, the companies that are already connected to the internationalization process consider the main threatening barriers to be those that are related to the general business environment including the business barriers, i.e. external barriers. (OECD, 2009)

The main external barriers identified by the *European Commission* are the following ones:

- lack of capital;
- lack of information;
- lack of proper public support / subsidies;

⁴ OPEC = Organization of the Petroleum Exporting Countries.

⁵ APEC = Asia-Pacific Economic Cooperation.

- transportation and administration costs;
- legislative provisions and law regulations on foreign markets, tariff and other business barriers;
- cultural differences. (EIM Business & Policy Research, 2010)

BARRIERS OF THE CZECH SMEs

According to the research of the Czech SMEs from 2012 it was detected that factors restraining the internationalization process are both internal and external barriers and thus the Czech companies⁶ perceive the same obstacles of internationalization process as the worldwide companies just their order differs. The comparison of the barriers of the internationalization process perceived by worldwide and Czech SMEs is listed in Tab. 5.

Tab. 5 Ten main barriers of internationalization process – comparison of the Czech and worldwide SMEs

Order	Worldwide SMEs' barriers	Order	The Czech SMEs' barriers
1.	The lack of working capital to finance export.	1.	Difficult search for foreign business opportunities.
2.	Identification of foreign business opportunities.	2.	Difficult to get in touch with foreign customers.
3.	Restricted amount of information to discover/analyse markets.	3.	The lack of employees or employees insufficiently trained for the entrance to foreign market.
4.	Incompetence to get in touch with potential foreign customers.	4.	Oversized transportation costs of goods to the foreign markets.
5.	Acquisition of reliable foreign delegation.	5.	Difficult acquisition of reliable foreign delegation.
6.	The lack of managerial time to preoccupation with internationalization.	6.	The lack of information for foreign markets analysis.
7.	The lack and/or untrained employees in internationalization.	7.	The lack of managerial time to search and analyse the possibility to enter foreign markets.
8.	Difficulties in price comparison with competition.	8.	The lack of support (financial or other) from the government.
9.	The lack of help/incentives from the domestic country government.	9.	The lack of capital to finance export.
10.	Prohibitive transportation costs.	10.	Difficulties in price comparison with foreign competition.

⁶ The data was collected from 91 different companies across all the industries in 2012.

Source: OECD, 2009; Kubíčková, Toullová, 2013.

3.5.5 Risks of internationalization process

Risks can be classified from many points of view. Among frequent classification belongs the classification of risks according to Fotr and Souček (2011). They have divided risks into following:

- Speculative risks – related to the possibility of realizing losses, profits; these risks are connected with managerial decisions in the company (for example decisions about entering a foreign market).
- Clear risks – connected only with the possibility of losing resources (for example the risk of property ownership losses).
- Systematic risks – affect all entrepreneurial subjects and are caused by the conditions of common business environment (i.e. it is not possible to be ensured against them by activity diversification because these risks are related to the overall market situation).
- Non-systematic risks – these risks affect only some companies, are related to the entrance of the new competitor to the market and it is possible to be ensured against them by diversification of company's activities.

Other possible division of risks is internal risks and external risks. The internal risks are those related to the factors inside the company, i.e. human resources, while the external risks come out of entrepreneurial environment of the concrete company (i.e. related to the suppliers, purchasers, and so on). (Fotr, Souček, 2011)

Bříza and Svoboda (2007) divided risks into strategic, investment, financial, organizational, business, supply, project, operational, technological, security, accident, risks of breakdowns, risks that are not according to provisions and regulations.

RISKS OF INTERNATIONALIZATION OF THE CZECH SMEs

According to the research performed by Kubíčková, et al (2015) on the Czech SMEs across all industries, these key risks of internationalization process were identified:

- risk of conclusion of mistaken purchase contract,
- risk of back out of foreign purchaser,
- risk of insolvency creation of foreign purchaser,
- risk of exchange rate loss creation.

Other important risks are:

- risk of substitute creation to company's product,
- risk of change of total business cycle on foreign markets,

- risk of legislative regulation changes in the given country,
- risk of good non-takeover by foreign purchaser,
- risk of price relation change between purchase contract conclusion and its fulfillment.

For clear description of the key risks with which the Czech SMEs are wrestling, each risk was divided into exchange rate risk, market risk, commercial risk, territorial risk, transportation risk and inflation risk. According to the research performed by Kubíčková, et al (2015), the Czech SMEs that are not connected to the internationalization process perceive the transportation, territorial, market and inflation risks much more intensively than those SMEs that are already active on the foreign market. Only the exchange rate risks had opposite results. An important role can be played by the domestic government and state administration organs that should inform the SMEs about the possibilities and should decrease the subjective feeling of intensity of each risk.

3.5.6 Internationalization process of the Czech SMEs

In the **ANNEX I.** is demonstrated the influence of motives and barriers of internationalization and functioning of the whole process during decision-making process of the company with effect of subjectively perceived and objectively observed risks and the key factors of success on the new (foreign) market. Companies can expect economic benefits from the internationalization process, for example, an increase of sales and profit, or improvement of its market position. Also, a negative impact of the internationalization process could be the growth of administration related to the increasing operational costs that can be a key factor when considering if the company will enter the foreign market in the future, or not. (Kubíčková, et al, 2015)

3.6 Risk Management

Generally, the risk management is a very wide issue and according to its division it is very diverse. The elementary areas of risk management according to Smejkal and Rais (2003) are:

- Natural disasters and breakdowns (technological risks).
- Risks of environmental protection.
- Financial risks that can have a individual categories such as:
 - investment risk (estimation of reliability and rentability of investments),
 - insurance and security risk (estimation of the risk, that the insured event occurs).
- Project risks.

- Business risks that can have individual categories such as:
 - marketing risk (creation of product that nobody wants or nobody understands how the product works and does not know how to sell it),
 - strategic risk (creation of product that does not fit to business strategy of the company),
 - risk of management (loss of project support from side of leaders as a result of change of specialization or change of individuals),
 - budgetary risk (nonobservance of budget, nonachievement of profit).
- Technical risks (risk of all types of engineering constructions, including materials and buildings).
- Organizational risks (arisen from non-performed or unfavourably performed changes in organization).

Risk management is a process where the subject of management tries to avoid the influence of the already existing risks and the future ones, and suggests solutions that help to eliminate the effects of undesirable influences while enabling to use opportunities of positive effect influences. An important part of the risk management process is the decision-making process that stems from the risk analysis. A component of the risk management is spreading information about the risks (i.e. a risk communication) and risk perception. The critical phase of the process of risk management is the selection of optimal solution. (Smejkal, Rais, 2003)

Besides the risk analysis, the risk management usually comprises of:

1. Selection of countermeasures.
2. Cost/benefits analysis.
3. Countermeasure implementation.
4. Countermeasure testing (complex verification).

Six phases of risk management described by Korecký and Trkovský (2011) are these following:

1. **Determination of risk management context** – the objective of the first phase is to define the key goals of the project, its connections with internal and external environment, to accumulate materials and information for a project and experiences with similar projects. Then is necessary to determine the scale of risk management and participants of risk management process according to character of executed project.
2. **Identification of risks** – the main objective of the second phase is to find as many as possible project risks, to understand their essence and describe them correctly. In this phase is important the quantity of founded risks,

therefore is better to find more risks that will be suspended later as an inadequate, than to overlook some important risks. This phase is concentrated to both threats, that can spoil the project, and opportunities, that can improve the results of the project. Very important rule is to engage as much interested parties on the project as is possible, important parties are considered e.g. customers, direct user of the project results, key supplier of the project, internal experts (i.e. managers of projects, experts of risk management, field specialists – technique, finance, etc.) and external experts to evaluate the project from another side of view.

3. **Analysis of risks** – the third phase is focused on range in which the identified risks can influence the project objectives and evaluate priorities their next treatment. From practice is dependably verified the rule 80 : 20 (or 90 : 10), where 80% (or 90%) of impacts is caused by 20% (or 10%) of risks. Thus it has a sense to dedicate 80% of time to risks with the highest impact on project objectives and start to solve them as first ones. The objective of the analysis of risks is to analyse risks and their mutual connections in more detail, to evaluate each risk *qualitatively* (by scales) and *quantitatively* (numerically), evaluate the total risk of project and set priorities for risk treatment, in particular to set aside risks of the highest priority (so called *TOP risks*), tolerated risks where the treatment is not necessary, and others that will be closely analysed and treated afterwards the TOP group. In practice, the qualitative methods are used more frequently.
4. **Risk treatment** – the risk treatment phase uses all data and results of identified risks analyses collected up to now to prepare project risk treatment strategy and actions needed for its realization. In this phase will be performed preventative actions for risk treatment, also, and prospectively set decisions about strage changes of the whole project. The treatment of risks is necessary to prepare for threats that have to be excluded or relented, and for opportunities that is reversely necessary to support and strengthen their effects. The main objective is to find and evaluate possible strategies of risk treatment and prepare a plan of effective risk treatment (preventative intervences, but also reserve and rescuing plans). Then succeeds the evaluation step of actual expected risks of project when the suggested risk treatment is used and managers decide if the proposed treatments are sufficient, or is necessary to re-evaluate them, or eventually is needed to remodel all projects.
5. **Management of risks** – this phase is different from all previous phases and is dedicated mainly to continuous monitoring and management of risks during realization processes of project. Before the inication of this phase are already risks of project identified and analysed, treatment plans are prepared and preventive actions for risk treatment performed. The binding schedule is approved, also the budget, rezerves and project risks. Inthis phase is necessary to secure that the risk impacts do not exceed bounds and

the project can be finished with fulfilled objectives, or eventually can be improved the expected results.

6. **Final evaluation** – this last phase is focused on evaluation of the project after its realization and also after termination of guarantee operation. The objective of this phase is primarily to draw new experiences and register obtained knowledges and guidance related with all risk management process performance. The evaluation of risk management success and how successfully were the risks managed will be evaluated.

The occurrence probability evaluation that falls within the risk analysis process could look as follows. (Smejkal, Rais, 2003)

Tab. 6 Threat occurrence probability

Occurrence probability		
Level	% per year	Statement
1	<0;5>	Unlikely
2	(5;20>	Less likely
3	(20;50>	Occasional
4	(50;70>	Likely to frequent
5	(70;100>	Very frequent

Source: Smejkal, Rais, 2003.

The size of the damage impact is depicted in the following table. The value and the verbal statements should be determined by the company's size. For a small enterprise the existence threats could start with the figure of 100.000 CZK (i.e. ca 3.700-3.850 EUR).

Tab. 7 The size of damage impact with value statement

Size of damage impact			
Level	Verbal Statement	Value Statement [in thousands CZK/EUR]	
1	Whithout impact	till 100	till 3,7
2	Minimal impact	101 – 500	3,71 – 18,5
3	Possible financial loss	501 – 1.000	18.51 – 37
4	Serious financial loss	1.000 – 5.000	37 - 185
5	Existence problem	over 5.000	over 185

Source: Hnilica, Fotr, 2009.

The ability to recognize risks in time and effectively manage them becomes an integral part of the strategic management, especially in case of entrepreneurial subjects (but not only entrepreneurs, but also state organs or any other subjects – from citizens' organizations to individuals, natural persons or non-entrepreneurs). If the subjects do not realize the range and intensity of the impact of the related risks soon enough and if they do not create effective mechanisms for their

management, they hazard with their stability, decreased interest and confidence of investors (sponsors, the public) and with the increased costs as far as financing is concerned. (Smejkal, Rais, 2003)

After the company has established the size of damage impact and threat occurrence probability, it can get on with the risk matrix composition.

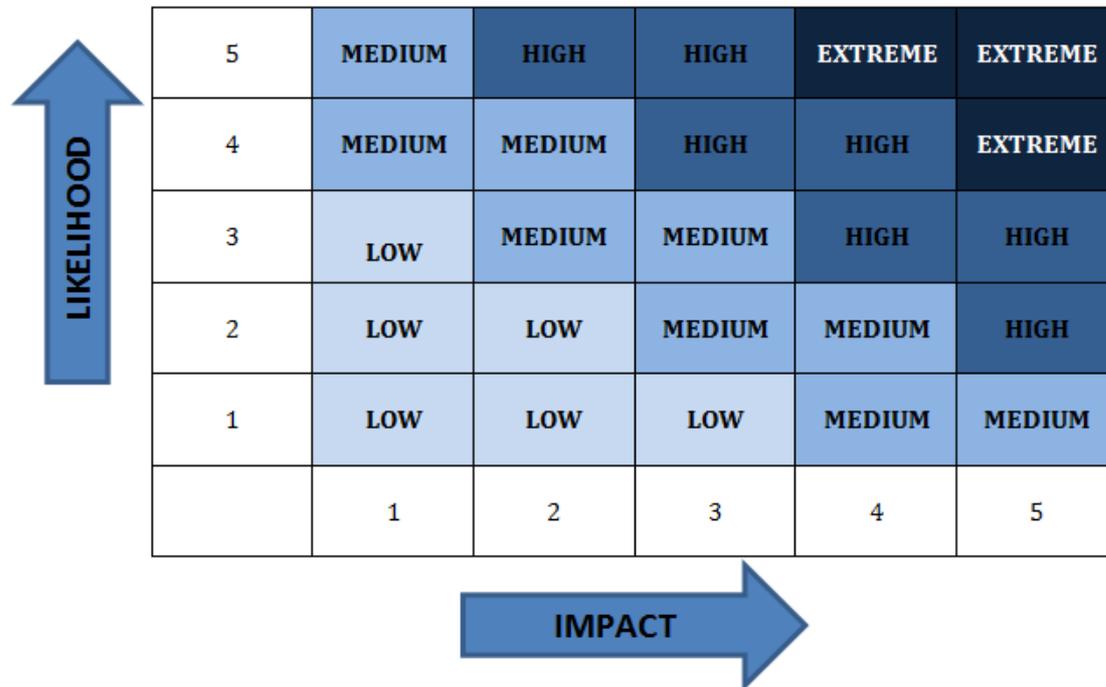


Fig. 11 The Aggregate Risk Matrix

Source: Smejkal, 2010.

In Fig. 11 is depicted the aggregate risk matrix by Smejkal (2010) where is visible the probability of risk and its occurrence and its scale in range from 1 to 5. The rate of risk is a sum of likelihood (probability of occurrence) and the impact of the risk. In Fig. 11 are levels of the risk. The risk matrix evaluates a rate of each single risk. It can be effectively used when the company determines the level of impact of the damage and its likelihood of threat occurrence. The risk matrix should be regularly updated.

The *low level of risk* represents the range between 2 to 4 and presents an acceptable risk which the organization (or manager) should adopt. Therefore, there are no any needs for risk elimination required. This type of risk has a small impact on the organization.

The *medium level of risk* represents the range between 5 to 7 and is more important. Company should take into account that this type of risk can appear, thus can prepare appropriate precautions.

The *high level* and the *extreme level* have the range between 8 to 10 and represent a critical risk area that needs an immediate correction. These risks should be considered as the most important because their impacts on organization can threaten the existence of entire organization. Managers should eliminate these types of risk immediately.

3.6.1 Risk Management of Internationalization Process of Czech SMEs

Although there are many methods how the firm can manage its risks, the Czech small and medium enterprises, however, do not push ahead with the risk management of internationalization process, equally with the risk management in general. According to the research executed by Kubíčková, et al, (2015) where they inquired about 91 Czech small and medium companies from all industries, they found out that more than half of the responding companies (55) declared they are not engaged in risk management at all, 1/3 of the responding companies are solving the risk management as a complement of their ordinary working operations and just 5 of the responding SMEs stated that they manage the risks systematically and have even internal organizational unit that is occupied with the risk management directly. More than 1/5 of responding SMEs declared they manage the risks only intuitively.

3.6.2 Risk Management in the European Union

Each strategy is related to a financial risk. Companies are usually very discreet in different mechanism selection available to decrease financial risks that usually arise from exchange rate fluctuations and insolvency problems. There are other risks that have been ignored so far such as the political risk.

According to Ing. Charvát J., MBA (2006) the EU remains without political unification, there is only a group of member states with different political interests and objectives. Although, the evidence clearly shows higher overall harmony in political objectives between the member countries in the EU, there are specific differences in opinions about the factors such as:

- inflation,
- interest rates,
- import and investment approaches,
- access to foreign companies in connection with covered barriers,
- income per capita,
- skills and abilities of local workers,
- efficiency of public administration.

There is also a particular level of distrust between the EU countries. When looking back to European history, it is evident that it was full of wars and long-time conflicts. Some aspects and conflicts still persist until now. From the foreigner

point of view it can be really hard to achieve the same level of dealing and manipulating in different member countries within EU when the foreign subject wants to implement its strategy abroad and extend its field of activity.

It can be proved for example by:

- distrust of customers to the foreign subject ability to provide good-quality service,
- bad relationships with a government that lead to harder investment negotiation,
- problems with obtaining the access to some orders and purchases,
- priority that is given to local companies by suppliers.

Overcoming those barriers lead to raising efficiency together with implementing single strategies which can result in company integration with the local government, local companies and organizations, and customers. For example, the change of brand name whose sounding is locally more acceptable, money investments to local city projects such as beneficent events, procurement of raw materials and components from local companies, production as a larger part of the product if possible locally, employment and training of local staff, etc. These processes can assist perfectly during fair dealing within the concrete location and make it easier when accessing the market. (Dedouchová, 2001)

4 Methodological Proposal

In consideration of the main objective of this diploma thesis such as the proposal of comprehensive methodology of the change management of business strategy and internationalization of a small and medium trading company formation, the following part of this thesis is focused on a concrete procedure with which the SMEs could operate when the decision about the change of business strategy and entrance to the foreign market is made in the European environment.

For the purpose of this thesis it is expected that the company is of the Czech origin and wants to entry to the foreign market within the European Union or has already been operating there. The subject of this part is not an analysis and subsequent decision-making about which market is the most convenient to enter, but the choice of the European market is taken as a determinant. It is designed what way to use when the company is entering into the European (foreign) market and what proceedings they should get through during the formation of a new business strategy.

For the particular methodological proposal how to proceed when the company wants to change its business strategy and enter the foreign market, the theoretical knowledge of the current expert literature that are cited in the literature review part of this thesis was used.

The application of the proposed methodology in the real conditions of a specific company is the subject of this part of the diploma thesis.

The proceeding is demarcated in the following six recommended steps:

1. **Situation Analysis**
2. **Entering the Foreign Market Strategy Proposal**
3. **Risk Management**
4. **Change Management of New Business Strategy**
5. **Change of Strategy - Evaluation of Results**
6. **Evaluation of the New Strategy Implementation**

The individual steps of the process formation and implementation of the new strategy are elaborated in more detail in the following text including recommendations for the proceedings during the strategic process realization.

4.1 Situation Analysis

The initial point of the process formation of entering the foreign market strategy and the change management of the business strategy is a detailed situation analysis of the relevant company's environment – internal and external, as is the case of any other strategy creation. The objective of the situation analysis is to define the core of the environment from the uncertainty point of view, to identify the key factors of the internal and external environment of the company and to

perform their detailed breakdown. Specifically, it means to analyze the company's strengths and weaknesses and also those strengths and weaknesses that are in direct relation with entering the (chosen) foreign market, it means, to find those the foreign market offers in general and in the company's business field.

When a company plans to enter the foreign market within the EU, for the particular situation analysis I would recommend the following proceedings described in detail below.

4.1.1 Analysis of general environment

The first step of the situation analysis is the identification and critical breakdown of general environment forces in the company. It is important to look into the past key influences, but it is also necessary to focus on those factors that can have a strong influence in the future. The subject of the analysis will be the chosen market (a foreign country within the EU) where the company wants to internationalize. The core thing is to define the competitive advantage area correctly for the company entering the foreign market. Therefore, it is necessary to analyze the chosen market in detail paying attention to the identification and breakdown of potential socio-cultural, economic, political and technological differences. For the analysis of the general environment ("Macro Environmental Analysis") I recommend using the model of the **PESTL Analysis** where it is necessary to analyze the political, economic, socio-cultural, technological and legislative factors. It is convenient to set down the importance of each of the factors within the framework of concrete groups and for the evaluation of their relative significance, it is important to assign them values on a number-scale.

The main economic factors that should be analyzed are the rate of growth of gross domestic product, unemployment, inflation and trade balance. Within the socio-cultural factors, it is essential to analyze the cultural differences of the chosen market (in the foreign country) that reveal, above all, different attitude to work, to authorities, to the perception of competition, different material needs or different approach to time and risk conceptions. Among the political factors are the government attitude to import and direct foreign investments and the general political stability of the country. During the analysis of the legislative provisions it is helpful to look at norms that are related to the legal arrangements, such as the Civil Code, Business Code, Trade Law, but also the laws that are related to the entrepreneurship field of the company.

4.1.2 Analysis of field environment (industry analysis)

In the second step of situation analysis is the attention focused on detailed explicit consideration of the actual field environment of the company ("Micro Environmental Analysis"). For evaluation of all relative determinants I suggest to use the **Porter's Five Forces Model** for analyzing the level of competition within an industry and business strategy development. This analysis is related with suppliers, purchasers/customers, current and potential competitors and

simultaneously are analysed the substitutes' possibilities and threats. For analysing of the target market I would recommend to use the **6-D Model by prof. Geert Hofstede** who studied deeply cultural consequences in several different countries among the world. This model gives a good overview of the countries' culture relative to other world countries.

4.1.3 Analysis of internal factors

The success of entering the foreign market strategy is dependent on company's external factors, but also on those of internal environment, i.e. on the company's strategic competence.

For the detection of **strengths and weaknesses** of the firm, it is necessary to analyze internal factors. I recommend that the physical, human, financial and intangible resources be analyzed separately. For the additional analysis the **Porter's Value Chain Analysis** to detect the strengths and identify the competitive advantage of the firm can be used.

4.1.4 Summary of particular analyses

For the summary of particular internal and external environmental analyses of the firm the application of the **SWOT Analysis**, which enables to create the outline of the company's strengths and weaknesses, as well as the opportunities and threats, can be used.

4.1.5 Force Field Analysis

The last step in the situation analysis could be the definition of that drives the change (driving forces) and that restrain the change (restraining forces), the proposal of concrete provisions for the elimination of restraining forces and for the development of factors that are positively inclined towards the change process (driving forces). In decision-making, the **Force Field Analysis** helps to clarify which factors need more attention during the change strategy process and how to affect their orientation. The Force Field Analysis will be accomplished in the following five steps:

1. Specification of the area and definition of situation
2. Goal specification – definition of the new status quo
3. Force analysis – forces having an effect for and against the change
4. Strategy proposal and action plan development – strategy that support the forces oriented for the change and plan to weaken forces against the change
5. New steady state assignment

4.2 Entering the foreign market strategy proposal

Sf In the second step it is necessary to propose the form of entering to the foreign market, to choose competitive strategy, decide which strategic alternatives and variants the company will use during the entrance process. When it is known how and to what degree the foreign market is globalized in the given business field or industry, the company has to decide if it will apply one of these approaches:

- global strategy,
- transnational strategy,
- international strategy,
- multinational strategy.

After the company chooses its international strategy, the key question is what form of entrance to the foreign market is the most appropriate one. This decision depends on many aspects. The most important of them are the market factors, internal factors of a concrete firm, such as the size of the company, period of functioning on foreign markets (if the company acts on the foreign market and plans to change its entrance strategy), period and range of functioning on domestic market, attitude to risk, attitude to delegating responsibilities and powers, and other factors.

The forms of entrance to the foreign market are the following:

- indirect export,
- direct export,
- licence supplying,
- shared entrepreneurship and direct investments.

4.3 Risk Management

Nowadays, when firms are motivated to continuous innovations and product improvement by customers and also competitors, the risk management is an important and indispensable instrument during the project preparation process. It enables to identify the risks and their consecutive analysis that helps firms to react rapidly and flexibly. Risks are not considered as the only threats, but also as opportunities that can bring a significant competitive advantage to the company.

4.3.1 Risk identification

The first phase of the risk management process is the risk identification. In this phase the company has to decide which risks will be analyzed and which not. The risks that should be included in the risk analysis should be those that are related to the change management of business strategy and internationalization process.

A selected responsible employee or a team of employees will choose the risks, divide them into groups, and select a method for risk identification phase. I recommend using the already created *SWOT matrix* and the *Force-field Analysis* that identify threats of macro environment, field environment and internal environment. These areas will create groups as a basis for risk classification. The risks of business strategy change process should be included in the identification phase as well. These methods can be supplemented by *brainstorming* methods.

For the purpose of risk identification, their list (risk register) should be established that will serve as an initial point during the risk analysis phase.

Tab. 8 Risk identification

Number	Group of risk	Name of risk	Description

Source: Created by the author.

It is really important to realize the cause of a specific risk and try to solve it. If we deal with the consequences only, there is a danger of the whole problem recurrence.

4.3.2 Risk analysis

The second step of the risk management is the risk analysis. The firm should determine which risk is a threat to its existence. Those risks should have the highest priority.

During the risk analysis process, the firm must classify the occurrence probability and the magnitude of the impact. I recommend creating tables where the firm subjectively defines evaluating scales and lines up single risks according to these scales. After each risk has been assigned the occurrence probability and the magnitude of the impact, the firm can evaluate the risk on the basis of the risk matrix. My recommendation for SME's is using the following tables to carry out the risk analysis.

Tab. 9 Threat occurrence probability for SME's

Occurrence probability		
Level	% per year	Verbal Statement
1	<0;30>	Low probability
2	(30;70>	Medium probability
3	(70;100>	High probability

Source: Created by the author.

Tab. 10 Greatness of impact for SME's

Greatness of impact		
Level	Verbal Statement	Description

1	Low unfavourable impact	Project is not endangered
2	Medium unfavourable impact	Project can be endangered
3	High unfavourable impact	The project existence is endangered

Source: Created by the author.

Tab. 11 Value of the risk determination

Number	Group of risks	Name of risk	Cause of risk	Occurrence probability	Greatness of impact	Risk value
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Source: Created by the author.

Tab. 12 Risk matrix

High probability	Medium risk value	High risk value	High risk value
Medium probability	Low risk value	Medium risk value	High risk value
Low probability	Low risk value	Medium risk value	High risk value
	Low impact	Medium impact	High impact

Source: Doležal, et al, 2009; adapted by the author.

4.3.3 Risk precautions

In this step, what matters is the position of singular risks in the risk matrix. Each of the risk values should have determined its own specific strategy. My suggestion of the solution form for each risk value is the following:

- *Low risk value* – if the risk has low risk value it is not necessary to accept any provisions. It is possible to accept the threat. But it is recommended that a crisis scenario be prepared in advance, i.e. a plan how the firm will react to the given risk when it occurs. The acceptance takes its place when provision costs against the risk do not exceed revenues that the threatened asset brings.
- *Medium risk value* – when this value occurs, the firm should accept a proportionate provisions and watch the threat closely and regularly. The best solution is to prevent the occurrence of this threat by proactive prevention.
- *High risk value* – this value expresses that the threat is found in the critical field and requires immediate attention and remedy. When the impact is really high and the probability is low, it is convenient to employ a risk transmission to the third party (e.g. insurance company). Those risks should be eliminated because their impact can have the character of an existential problem for the company.

When the strategy for each risk is defined, it is convenient to archive those strategies for the future application.

4.4 Change Management of the New Business Strategy

In keeping with the change management model activities related to the respective implementation of the new strategy is divided into three partial stages:

- 1st stage: change agent identification,
- 2nd stage: identification of intervention area,
- 3rd stage: proper intervention.

The important thing is that the entrepreneurs and managers should view the situation of the company realistically. It means they should be aware of their existing resources and analyze what opportunities the market can offer to them. The core fact is to focus on the strengths of the company and find a way to use them, push out the competitors and absorb the weaknesses. That is where the business strategy helps to gain the growth.

The business strategy is also important for making a business plan to get customer loyalty and to retain customers rather than to look for new ones. With non specific business guidelines, the competitors can easily take them over by better focusing on customer service. It follows that the communication with customers and taking customers' needs into consideration provide one of the most fundamental issue of business strategy.

When the business goals are created and the business strategy how to achieve them is specified then is necessary to determine the realistic time frame within which the company can expect the outcome.

4.4.1 Change agent identification

In the first stage of the strategy change process, it is necessary to define an internal or external worker or a group of workers that would ensure unruffled change proceeding. When a team is selected as a change agent, it is required that it has sufficient powers, with each team member having sufficient experience and respect within the firm.

4.4.2 Identification of intervention areas

This stage is orientated to the specification of change subject. As the managed change is a change of business strategy of the company, the change subject specification is possible to realize with the aid of strategic implementation goal assessment.

When the main goal is a successful business strategy implementation and internationalization, the main intervention areas of strategy change are as follows:

- human resources and their management,
- organizational structure,
- technologies,

- organizational processes,
- communication and information flows.

Within the framework of each single intervention area, it is desirable to specify the key parameters of the given firm subsystem, i.e. concrete steps of intervention.

4.4.3 Proper intervention

The proper intervention, as the third stage of change management of new business strategy, is composed of three stages that are defined by *Lewin's Three-stage Model of Change*. The three mentioned stages are Unfreezing, Change and Freezing Stage and are described below.

UNFREEZING STAGE

In the first stage of *Lewin's Three-stage Model of Change*, it is necessary to open an implementation problem of entrance strategy to the foreign market and prepare it for its application and solution. It means to prepare available information, call attention to defects and shortages, perform a necessary partial analysis and other imperative provisions. During this stage, it is needed to prepare the very change process of the new strategy implementation in the company, it means to inform all employees about the new entrance strategy to the foreign market, minimize their possible resistance to the planned change of strategy, perform a technological and tangible securing of the change process, create a financial, material and personal reserves, and suchlike.

It is more than needed to present the new business strategy to all groups of employees. The top and intermediate management has to be informed in-depth about the reasons and content of the strategic changes, the informal communication is recommended, i.e. personal negotiation. On the other hand, it is recommended that a given issue interpretation be handled using the method of formal meetings or sessions with employees.

The basis for this stage is the *Force Field Analysis* that was done in the first step of this methodological proposal, i.e. in the Situation Analysis. By listing these forces we know which factors are driving forces and which are restraining forces of the change. We know that if factors inclined favourably towards the change prevail, the change should be performed. However, if not, there is low motivation for change itself and the company should not start with the process of strategy change.

In the unfreezing stage it is recommended that functional strategies be specified. The change of business strategy is related to the change of particular functional strategies. It means it is necessary to create a plan how to perform the singular functional strategies such as marketing strategy, production strategy, personal strategy, and other strategies that are created by the entrance to the foreign market.

CHANGE STAGE

The change of strategy represents particular interventions into concrete areas of the company environment and its realization is performed by the agent of change. At this stage the company enters the foreign market in conformity with the proposed strategy.

Generally, it is not possible to recommend one singular, most convenient method how to realize the change of strategy in a company. In view of the fact that the change is performed by the agent of change, it is useful to think about his leading style suitability. For convenient determination of the leading style of the implementation process, it is necessary to take into consideration in what way the proposed strategy is formulated. If the strategy is created from the top downwards, i.e. if it is formulated on the highest organizational level and then dictated to other levels, the leading style corresponds to the directive leading style. Nevertheless, for a successful realization of strategy implementation process, it is more suitable to employ participative implementation style.

FREEZING STAGE

For change implementation (after entering the foreign market or after the insertion of a new business strategy related to the entrance to the foreign market) it is necessary to stabilize the final state. It is necessary to have in mind the constantly changing unstable environment which surrounds the company, and stabilize the achieved results in order for the company to avoid an easy target of competitors' attacks immediately after entering the foreign market and to prevent its vulnerability after the executed change.

LOGICAL FRAMEWORK MATRIX

The logical framework matrix represents a basis for change management of the business strategy in view of the fact that the approach to the change itself is considered as a project. The key activities, goals, its outputs and tasks are stated. It serves as a general presentation of the intended change and simple presentation of what and how it should be performed and where the information is to be found. My suggestion of the matrix when the SME wants to change its business strategy in case of internationalization is depicted below in Tab. 13.

Tab. 13 Logical Framework of the Project

<i>Project title: Change Management of Business Strategy and Internationalization</i>				
	Project description	Objectively verifiable indicators of achievement	Sources and means of verification	Assumption
Goal	New business strategy	New market, new customers, new division	Business plan	
Purpose	Find new opportunities on the market. Push out the competition. Focus on company strengths. Satisfy the customer's needs. Support the company's development.	New customers. Content and constant customers. Market extension. Competition comparison. New opportunities application.	Researches and surveys. Business main goals achievement.	Satisfaction of new customer's needs and positive evaluation of finding favour with new market.
Outputs	1. Factors influencing a general and field environment of the company. Source audit. SWOT matrix. Breaking and moving forces. Strategy how to strengthen moving forces and limit the breaking ones. 2. Chosen strategy (approach) and form of entrance to foreign market. 3. List of risks with its values, provisions against each risk. 4. Agent of change, intervention areas, changes in intervention areas and manner of their application. 5. Control of firm's strategy change. 6. To find out if it is dispensable to modify new chosen strategy or even completely change it.		Written document with situation analysis, SWOT matrix, Force field analysis. Decision about form of strategy and form of entrance. Analysis of risks and changes. Agent of change appointment. Visible concrete changes in intervention areas. Results of implemented change.	Project realization in desired time. Ensuring of project sustainability. Ensuring of qualified employees. New labour force. Estimation of planned costs.

Activities	1. Situation analysis – general environment, field environment and internal factors, SWOT matrix, Force Field Analysis. 2. Entrance to foreign market strategy proposal. 3. Risk Management - identification, analysis, measures facing the risk. 4. Change management – identification of agent of change, intervention area identification, proper intervention (unfreezing, change, freezing). 5. Change of strategy – evaluation of results. 6. Evaluation of strategy implementation.	<u>Resources/inputs:</u> Human, material and financial resources. Top and intermediate management support.		<u>Risks:</u> Securing of financial sources. Loss of management support. Employee non-acceptance of the project. <u>Precondition:</u> Well prepared new business strategy.
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Source: Created by the author.

4.5 Change of Strategy – Evaluation of Results

The fifth step of the proposed proceeding is the evaluation of the results and achieved status. Achieved results are compared with clearly specified parameters that were stated at the start of the change process. The comparison of the real status with the model values has to be performed with respect to the time horizon of the planned realization of specific steps and with respect to the estimation of the planned costs.

The strategic control is not the only subsequent control, but it is concentrated to particular strategic operations and theirs progress. The control of the firm strategy change results can take place in the following four steps:

- Control of the elemental objectives of entrance to foreign market strategic concept.
- Control of the specific provisions and partial projects with respect to costs, deadlines and results – their comparison with the plan.
- Control of the external and internal risk factors.
- Control of the operative results, evaluation of partial operative results and their deviation from the chosen strategic concept.

4.6 Evaluation of the New Strategy Implementation

The last step of entering the foreign market as a new firm's strategy is to evaluate the new strategy if it is really representing the best possibility of strategic objectives achievement on the foreign market. It is necessary to find out if it is dispensable to modify new chosen strategy or even completely change it when there are detected binding changes or new circumstances in external or internal environment that was missed in the realization phase.

During evaluation of the new strategy implementation, i.e. new strategy of entering the foreign market, it is appropriate to focus on two main problem ranges:

1. To focus on observation of fundamental strategic prerequisites and observe if the initial strategic hypotheses are valid – to verify initial strategic premises.
2. To verify strategic productivity continuously and systematically, and check if it is not necessary to adjust the entrance strategy to the new circumstances, or to modify it, or change it, and at the same time it is necessary not only to state the difference between the implemented results and the plan, but to suggest and accept concrete provisions to correct them.

4.7 General model design

All the proposed steps in the Methodological Proposal chapter are summarized and depicted in this general model design below (Fig. 12) for overall and general awareness. This manual shows in simplified and clear form how to proceed and what steps should be performed when a SME wants to change its business strategy and enter the foreign market within the European Union.

GENERAL MODEL DESIGN

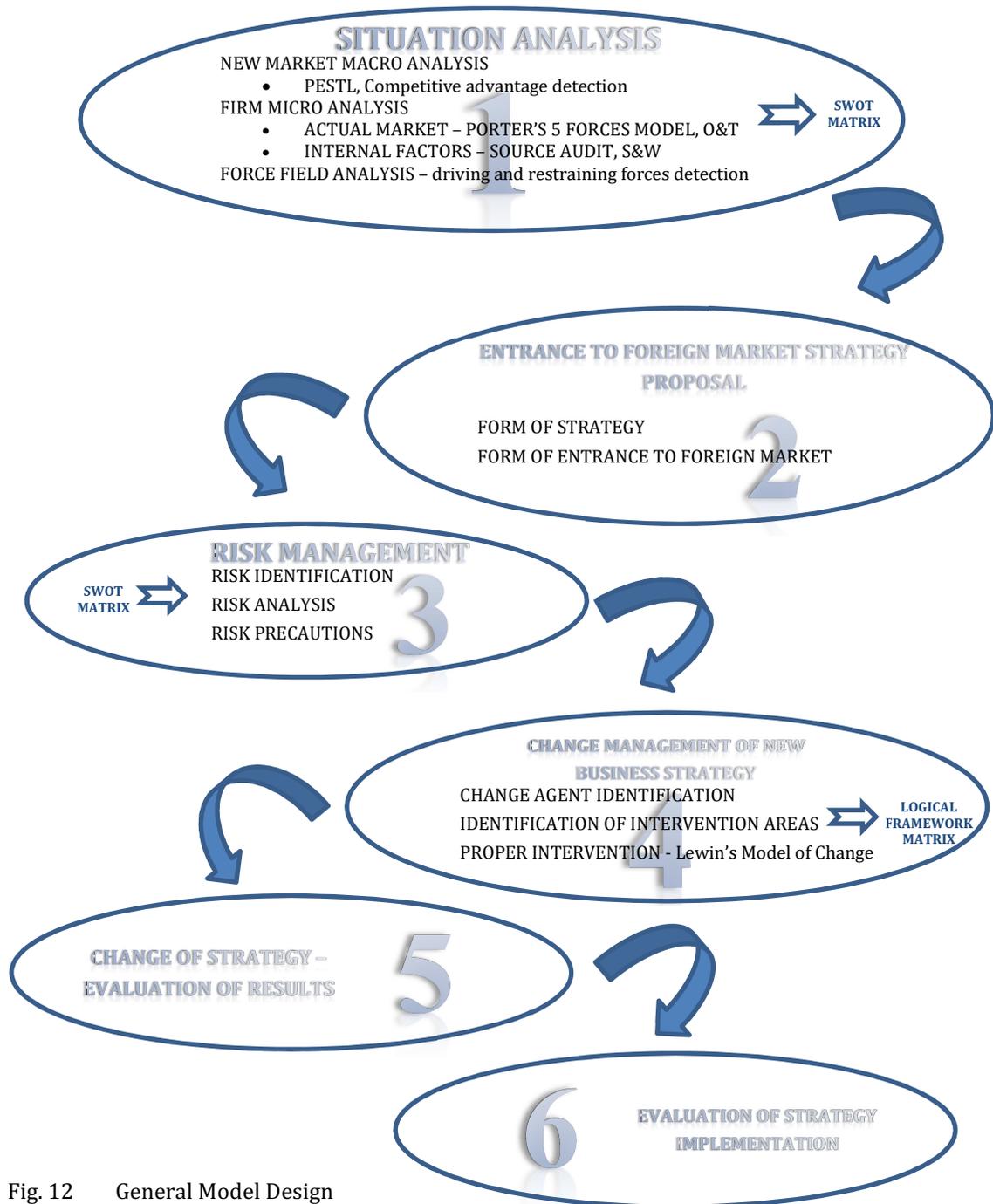


Fig. 12 General Model Design

Source: Created by the author, 2017.

5 Application of Proposed Methodology

In this part of thesis will be performed an application of the proposed methodology in the real conditions of chosen Czech company. The presumption of this chapter is that the company is of the Czech origin and plans to internationalize to foreign market within the EU, which means, wants to change its current business strategy and enter the selected foreign market. First of all, the chosen company will be introduced briefly and after that the whole proposed methodology from the previous chapter will be applied under real conditions of the company. The application will be performed on a base of the company's information about their plans, strategies, sources, and other data.

5.1 Introduction of chosen company

For the application of the proposed methodology a Czech publishing house named Nakladatelství JOTA, s.r.o. (further „JOTA“) was chosen. The subject was founded in 1990 in Brno, thus having been active on not only the Czech book market for almost 27 years, but in Slovakia as well. Its concentration is focused on publishing books of various series and genres. In its infancy, the subject was focused on regional literature by Moravian authors. In the course of time it started to extend its product portfolio related to both book themes and the country of their origin, and has become a truly nationwide publishing house. Books by foreign authors have been translated from several world languages (from English, Spanish, Russian, German, French and Nordic languages) by the company. JOTA also publishes a production of Czech authors regardless of their region.

The company began as a small regional publishing house in an old Brno factory area, however since 2007 it has its own renovated spaces. JOTA employs 28 employees, therefore it falls into the category of small enterprises.

In 2009 the marketing team was enlarged and specialization of each marketing and communication channels was divided. It helped and increased the efficiency of the company's marketing environment, since it had a positive impact bringing about significantly better results.

The JOTA's portfolio is really wide. The company collaborates with famous authors, translators, artists, travellers and explorers, among others. Their book spectrum is multicoloured, every reader can choose a book of their interest. The publishing house has already published over two thousand titles. It is classified in 30 biggest publishing houses in the Czech Republic. Each year it publishes approximately 80 new books and tens of successful and favourite book reprints. Products offered by the publishing house are in the form of regular printed books. These books are split up into groups of editions. Other forms of JOTA products are electronic books, i.e. e-books, and audiobooks.

JOTA has decided to change its business strategy and internationalize, i.e. enter new foreign market. They considered many aspects and among the intended countries such as German speaking countries and Poland, the Polish market was

chosen as the most convenient. The main aspects are high interest in cultural environment in Poland, such as art, theatre, literature, etc. The country is still in a developing phase in all aspects and there can be a potential to act on the book market for a chosen company, as well as the Polish population of 38 million people can be considered as almost 4 times bigger potential than the Czech Republic is. The whole strategy change has been planned to start in January 2018 and the end up date is settled for 2019.

5.2 Situation Analysis (Step 1)

5.2.1 Analysis of the general environment in Poland

The population in Poland is over 38.5 millions (2015), therefore it is the 34th most populous country in the world and 6th the most populous member of the EU. In order to synchronize the Polish economy with the developed economies, a large number of business companies invest into R&D activities in Poland.

The general environment analysis will be performed by PESTL Analysis that will chart the key factors in political, economic, socio-cultural, technological and legislative field in Poland. The analysis of the general environment in Poland is attached in the **ANNEX II**.

5.2.2 Analysis of the field environment - the Polish book market

This analysis will serve the industry structure identification and competition analysis will help to determine a new business strategy. It is needed for detecting the opportunities and threats and for establishing the profitability and attractiveness of the chosen market. The analysis of field environment – the Polish book market is completed in the **ANNEX III**.

5.2.3 Analysis of JOTA's internal factors

Analysis of internal factors is related to physical, human, financial, intangible resources by *the source audit* for detection of strengths and identification of competitive advantage. The analysis is further described in the **ANNEX IV**.

5.2.4 Summary of the particular analysis (SWOT MATRIX)

The SWOT Matrix depicted in Tab. 14 is used as an outline of all the previous analyses. It serves as a basis for the Force Field Analysis, too. The matrix is divided into four quadrants by their concentration to strengths, weaknesses, opportunities and threats.

Tab. 14 SWOT Matrix for JOTA

<p>STRENGTHS S</p> <ul style="list-style-type: none"> • Financially independent – no loans, debts, rent; great position in banks for potential loans if the company would like to develop • Great position on the Czech book market • Powerful, creative and permanent team of employees • Excellent and long-term relationships with printing companies in the CZ – high quality, collaboration, speed, no changes • One of the 10 most favourite publishing houses in the CZ • High-quality books with many national awards • Long-term relations with book agents 	<p>WEAKNESSES W</p> <ul style="list-style-type: none"> • Absence of bigger warehouse to store the books – right now still in rent and long distance of the warehouse from company's headquarters • Not really high financial resources for book promotion • Not enough space if the company wants to become larger • No bank loans – financing from its own resources is much more expensive than from liabilities 	INTERNAL FACTORS
<p>OPPORTUNITIES O</p> <ul style="list-style-type: none"> • New customers • New market penetration • Higher profitability • EU projects – possibility of grant gaining • Enlargement of company's portfolio and field of activity • New distribution channels development (supermarkets, newspaper kiosks) • Much more literary events in Poland 	<p>THREATS T</p> <ul style="list-style-type: none"> • Threat of substitutes (e-books): not efficient or profitable enough in relation to the publishers' expenditure • High and powerful competition • Difficult administrative processes • High initial cost • New customer's needs unknown to the company • Exchange rate fluctuations of Polish currency (appreciation/depreciation) • Lack of untrained and expert employees on the Polish labor market in book field 	
POSITIVE	NEGATIVE	

Source: Created by the author.

5.2.5 Force Field Analysis

It is necessary to detect factors that are pros and that are cons to the planned change, make a proposal of provisions for elimination of the restraining forces against the change, and support of driving forces that are in a positive position of the change process. This analysis will help to decide about factors that need more attention during strategy change and it helps to decide whether it is possible to

involve their orientation. The following Tab. 15 depicts the Force Field Diagram with listed restraining and driving forces.

Tab. 15 Force Field Diagram

RESTRAINING FORCES					DRIVING FORCES				
-5	-4	-3	-2	-1	1	2	3	4	5
No previous experience with entrepreneurship in Poland					Favourable selection of the new market				
High initial costs					Possibility to obtain subsidies and grants				
New information system adoption					Long-time experience of the company's leadership (directors, managers, holder)				
Lack of untrained and expert employees on the Polish labour market in the book field					Easy accessibility of high bank loans in cooperation with the banks for future activities				
Difficult administrative processes					Portfolio enlargement				
High competition					New market penetration and new customers				
Threat of substitutes - modern contemporary channels (movies, etc.)					Higher profitability				
Changes in exchange rate of Polish currency (appreciation/depreciation)					Much more literary events in Poland				
					Union of publishers and union of booksellers decide separately in Poland				
IN TOTAL: - 23					IN TOTAL: + 34				

Source: Created by the author.

From the diagram obviously follows those driving forces (of score +34) which support the change predominate over restraining forces (of score -23) against the change. Therefore I recommend performance of the business strategy change which represents for Nakladatelství JOTA, s.r.o. the entrance to the book market in Poland.

PROPOSAL OF PROVISIONS FOR REDUCTION OR ELIMINATION OF RESTRAINING FORCES AGAINST THE CHANGE

It is not possible to influence all restraining forces, unfortunately, such as high competition, high initial costs and threat of substitutes. On the other hand, some of them it is. None previous experiences with entrepreneurship in Poland is possible to influence by deep researches of the Polish book market focused on customers' needs, product portfolio supplied on the Polish book market, distribution channels, and other data and statistics related to this issue. New information system adoption is just a matter of time when employees and management of the company will become accustomed to it. Lack of untrained and expert employees on the Polish labour market in book field is one huge restraining force but can be eliminated by hiring expert and experienced employee who knows the Polish book market very well and who will be able to negotiate with Polish business partners. Difficult administrative processes can be eliminated by hiring experienced employee with administration performance in Poland, preferably in publishing industry. The threat of changes in exchange rate of Polish currency can be reduced by making investments in Poland, then there would not be included the threat of appreciation or depreciation of Polish currency (zloty).

5.3 Entering the foreign market strategy proposal (Step 2)

FORM OF STRATEGY

The company is in a situation when it does not speculate about the global approach while it sees its own competitive advantage in the possibility of flexible adaptation to foreign market specifics. Therefore, I recommend selecting the **multinational strategy** as a form of foreign market entry. This option is based on the fact that the new organizational unit doing the business on the foreign market will not be dependent on other units in case of its market activities.

FORM OF ENTRANCE TO FOREIGN MARKET

For this company, there are three possible forms of entrance – licence supplying, indirect export, or shared entrepreneurship and direct investments. The direct export is out of question, because if the company chooses any country to internationalize, there is no sense in exporting the books in Czech language there.

The licence supplying is possible in the form of selling the company's books copyright and the foreign publisher would publish the book in their respective country. This form of entrance is really hard to implement because the Czech book market is really not so attractive for foreign subjects – actually this form would be applicable only to those book titles that are written only by the Czech authors.

The second form, indirect export, means that JOTA would buy the copyright for a book (i.e. buy the copyright for the language of that book) and publish it in the Czech Republic. Then it would arrange all distribution channels and deliver the book to the foreign country. This form is not suitable for JOTA because they would

not have any control over the selling process, promotion, and actual awareness about the foreign book market and demand for books.

The third form of entering a foreign market (i.e. Poland) is the **shared entrepreneurship and direct investment**, which I consider to be the most suitable one. Even if this form is the most expensive one due to the establishment of a foreign company, building of facilities and creating a completely new working team that knows the foreign book market and has experience there, for JOTA, it is the most convenient way. The direction, management, editorial board, marketing, wholesale management and publishing process would be under the control of this new foreign division abroad. The direction, financing and the most important strategic decisions will be still performed from the Czech Republic by executive director.

5.4 Risk Management (Step 3)

The risk management enables to identify risks and their analysis before the change management process. It can help to company to reach its competitive advantage and avoid risk situations or face them.

5.4.1 Risk identification

Marketing director, managing director and JOTA's executive director should be responsible for risk identification. The basis for risk identification will be the analysis of internal and external environment, force field analysis and process of business strategy change management and internationalization. The identified risks are listed in Tab. 16 below.

Tab. 16 Risk identification

Number	Group of risk	Name of risk	Cause of risk/description
1.	External risk (general)	Change of political situation and market conditions in Poland	Government fall, influencing of market conditions, Poland push out from EU mainstream issues
2.	External risk (general)	Risk of exchange rate fluctuation	Change on international currency market, ER fluctuations, change of macroeconomics indexes or behaviour of central banks
3.	External risk (general)	Risk of legislative regulations' changes in Poland/EU	Legal framework for intellectual property, book market restrictions, Business Code, change of business conditions in Poland
4.	External risk (field of industry)	Entrance of new successful competitor to the Polish book market	Still profitable book market, successful competitor with new approach and ideas
5.	External risk (field of industry)	Low demand for published books	Growing e-book industry, decrease of printed book sales in last years even though the book production is still increasing
6.	External risk (field of industry)	High prices of suppliers	Change of input resources' prices, change of pricing policy in Poland, therefore increase in suppliers' prices
7.	Internal risk	Risk of insolvency High prices of suppliers	Wrong economic management, secondary insolvency
8.	Change process	Risk of conclusion of mistaken purchase contract	Deceptive contract conclusion
9.	Change process	Inappropriate change management experience	Lack of project management skills, low experience in business strategy changes
10.	Change process	Non-acceptance of change by employees	Unsuitable communication with employees, incorrect preparation of needed materials and data

Source: Created by the author.

5.4.2 Risk analysis

The risk analysis is the second part of risk management which the company should perform after risk identification.⁷ At first, JOTA determines an occurrence

⁷ Besides the risk analysis the risk management usually comprises of cost-benefits analysis.

probability of the risk and greatness of its impact. During this determination JOTA will work on the base of two following tables. The final risk value will be read from the risk matrix (Tab. 19). The occurrence probability of risk (Tab. 17) and greatness of its impact (Tab. 18) are evaluated with respect to time horizon of one year.

Tab. 17 Threat occurrence probability

Occurrence probability		
Level	% per year	Verbal Statement
1	<0;30>	Low probability - LP
2	(30;70>	Medium probability - MP
3	(70;100>	High probability - HP

Source: Created by the author.

Tab. 18 Greatness of impact

Greatness of impact (size of impact)		
Level	Verbal Statement	Description
1	Low unfavourable impact - LI	Project is not endangered – costs are quantified <i>below 1 mil. CZK</i>
2	Medium unfavourable impact - MI	Project can be endangered - costs are quantified <i>between 1 to 5 mil. CZK</i>
3	High unfavourable impact - HI	The project existence is endangered costs are quantified <i>above 5 mil. CZK</i>

Source: Created by the author.

Tab. 19 Risk matrix

High probability	Medium risk value MRV	High risk value HRV	High risk value HRV
Medium probability	Low risk value LRV	Medium risk value MRV	High risk value HRV
Low probability	Low risk value LRV	Medium risk value MRV	High risk value HRV
	Low impact	Medium impact	High impact

Source: Created by the author.

Tab. 20 Value of the risk determination

No.	Group of risk	Name of risk	Cause of risk/description	Occurrence probability	Size of impact	Risk value
1.	External risk (general)	Change of political situation and market	Government fall, influencing of market	MP	LI	LRV

		conditions in Poland	conditions, Poland push out from EU mainstream issues			
2.	External risk (general)	Risk of exchange rate fluctuation	Change on international currency market, ER fluctuations, change of macroeconomics indexes or behaviour of central banks	MP	MI	MRV
3.	External risk (general)	Risk of legislative regulations' changes in Poland/EU	Legal framework for intellectual property, book market restrictions, Business Code, change of business conditions in Poland	MP	MI	MRV
4.	External risk (field of industry)	Entrance of new successful competitor to the Polish book market	Still profitable book market, successful competitor with new approach and ideas	HP	MI	HRV
5.	External risk (field of industry)	Low demand for published books	Growing e-book industry, decrease of printed book sales in last years even though the book production is still increasing	HP	MI	HRV
6.	External risk (field of industry)	High prices of suppliers	Change of input resources' prices, change of pricing policy in Poland, therefore increase in suppliers' prices	MP	MI	MRV
7.	Internal risk	Risk of insolvency	Wrong economic management, secondary insolvency	LP	HI	HRV
8.	Change process	Risk of conclusion of mistaken purchase contract	Deceptive contract conclusion	LP	MI	MRV
9.	Change process	Inappropriate change management experience	Lack of project management skills, low experience in business strategy changes	MP	LI	LRV
10.	Change process	Non-acceptance of change by employees	Unsuitable communication with employees, incorrect	LP	LI	LRV

preparation of needed
materials and data

Source: Created by the author.

5.4.3 Risk precautions

In this step I work on presumption of each risk position in the risk matrix. For each risk value the company should determine risk precaution strategy (solution form).

Tab. 21 Overview of a risk position in the risk matrix

LRV – low risk value	Risk no.	1, 9, 10
MRV – medium risk value	Risk no.	2, 3, 6, 8
HRV – high risk value	Risk no.	4, 5, 7

Source: Created by the author.

Risks with low risk value (LRV) come under competence of no need to accept any provisions or precautions. It is possible to accept the threat but it is recommended to be prepared (to have a plan) in case the crisis scenario occurs. The acceptance takes its place when provision costs against the risk do not exceed revenues that the threatened asset brings. These risks have mainly low or medium occurrence probability and low impact.

Medium risk value (MRV) determines risks that should be prevented by acceptance of proportionate provisions and should be watched closely and regularly. Mainly these risks have medium occurrence probability and medium impact.

Risks with high risk value (HRV) should be immediately rectified by close attention and remedy. These risks are in critical field and their impact is high and simultaneously their probability of occurrence is low (mostly), or there is high probability of occurrence and medium impact. These risks should be eliminated, their impact can have existence problem for the company.

PRECAUTIONS OF RISKS WITH MRV

Risk of exchange rate fluctuation – caused by change on international currency market, ER fluctuations, and by change of macroeconomics indexes or behaviour of central banks. JOTA can not influence actions of institutions which have impact on macroeconomic indexes, i.e. central banks (Czech and Polish) or European Central Bank (ECB). The possible way how to avoid a risk of the exchange rate fluctuations might be diversification on other currencies, involve also Czech based subjects which can issue invoices in CZK currency (printing companies, authors, and other suppliers).

Risk of legislative regulations' changes in Poland/EU – caused by legal framework for intellectual property changes, book market restrictions changes,

Business Code and business conditions changes in Poland. This risk JOTA can not influence. The only possible way how to decrease this risk is to be prepared to quick change and adaptation to new imposed conditions in Polish legal and legislative environment.

High prices of suppliers - caused by change of input resources' prices, of pricing policy in Poland, therefore increase in suppliers' prices. The possible strategy how to decrease the occurrence probability of this risk is precise comparison of offers from more suppliers and by price bargaining. The cost of this strategy is mainly the time which must be sacrificed for offers' comparison and bargaining process.

Risk of conclusion of mistaken purchase contract - caused by deceptive contract conclusion. This risk can be avoided by hiring a lawyer of high-quality and who is familiar with legal regulations in company's field of industry.

PRECAUTIONS OF RISKS WITH HRV

Entrance of new successful competitor to the Polish book market - caused by still profitable book market, successful competitor with new approach and ideas. This risk is evaluated by high occurrence probability because in recent years the number of new publishers has been growing in Poland. The impact on JOTA would be visible in possible price wars and very high cost of promotion, advertisement, and marketing analyses. Therefore, it is important to develop a loyal and stable clientele which depend on good-quality product supply and skillful staff.

Low demand for published books - caused by growing e-book industry, decrease of printed books sales in last years even though the book production is still increasing. The reason is growth of households' savings in Poland caused by recent political situation and uncertainty in Polish society. JOTA has to struggle for consumption of households by creative promotion or by distinct discount or loyalty events. Costs of this risk will correspond to promotion costs and costs of other activities and events for customers' interest boost.

Risk of insolvency - caused by wrong economic management and secondary insolvency of company's customers/purchasers. This situation can influence a capability of repay to company's suppliers, bank loans and company's obligations pay back. This risk can be partially avoided by advance payments request. When the impact is really high and the probability is low, it is convenient to employ a risk transmission to the third party (e.g. insurance company).

5.5 Change Management of the New Business Strategy (Step 4)

JOTA will work on the assumption of Lewin's Three-stage Model of Change during the change management execution. During the change management of business strategy will be put emphasis not only on technical change performance, but on team cooperation aspect, also.

5.5.1 Change agent identification

As a change agent will be selected the executive director of the company who has wide experiences as successful manager and who is absolutely identified with the change together with managing director who ensures a rapid progress and who is daily in touch with interested partners. This selection will minimize the risk of failure of the performed change. The company finances the change from its own internal resources and from external capital from bank resources to raise an effectivity of capital used.

For successful change management proceeding and implication of the change are important many aspects. Nevertheless the critically important is that change agent can assess the readiness to change of the organization, brings major problems to the surface, identifies conflicts and core values, beliefs, behaviours and perceptions.

5.5.2 Identification of intervention areas

When the main goal is successful “*New business strategy of entering the Polish book market*“, the main intervention areas are subsequent:

- human resources and their management,
- management of organizational change (organizational structure, organizational processes),
- management of finances (cost, sales, cash flows)
- communication and information flows.

These areas will be integrated to the business and functional strategy and will be widened by other partial parameters listed below which are needed to be intervened, as well:

1. **Business strategy** – business purpose, market targeting and segmentation, strengths of the entrepreneurship, product line-up, partnership model, communication with customers and customers’ needs, organizational structure, expansion goals.
2. **Functional strategy** - branding, marketing strategy, communication inside the company, information flows, human resources management, management of finances.

Within the framework of each single intervention area it is desirable to specify and describe the key parameters of JOTA’s subsystem, i.e. concrete steps of intervention.

5.5.3 Proper intervention

The proper intervention will be performed on the *Lewin’s Three-stage Model of Change* base. The three stages are Unfreezing, Change and Freezing Stage. In this step it is necessary to work on intervention areas identified above. The company

will analyse all intervention areas and its sub-areas and establishes those areas where the change will be performed and a way how the intervention will be performed.

UNFREEZING STAGE

In stage of unfreezing will be agent of change the main instrument for persuasion of other workers, who might use the analyses that already have been made (e.g. force field diagram, financial analysis, SWOT matrix, etc.) for better communication with them and minimization of their possible resistance. The ideal situation will occur if the agent of change causes a dissatisfaction of workers with the current state and opens an implementation problem of entrance strategy to the Polish book market. Agent of change will be focused on workers at first and second level of company's organizational structure.

The next step for agent of change is preparation of available information and creation of plans for single intervention areas. It has to be discovered which areas will have to be change within the change process and how these areas will be changed. Agent of change should identify resources which will be used in every area.

1. Intervention area – Business strategy

In this area will be analysed important chosen business strategy sections.

Business purpose

The existing business purpose of the company will be changed. As we know, JOTA is focused on the Czech book market and partially on the Slovakian. The decision is to enter to the foreign market within the EU. According to many aspects the chosen country is Poland. This change management will be related to entrance of the company to the Polish book market. JOTA will represent there a new individual unit directed from Brno from the Czech Republic, but managed from its own new headquarter in Poland. The new business purpose is to open a new division in Poland, complete new team of employees that will cooperate with the Czech base but in operational, marketing, HR, production, management sphere will be self-contained. The strategic management and the most important decisions will be still directed from Brno by executive director. Therefore, the JOTA will apply a new multinational strategy as a form of entrance to the foreign market. It means the new division will be independent in market activities on any other unit. The new division will be financed by direct investment from the current own financial resources of the company and from bank loan.

Market targeting and segmentation

The target market is a book market in Poland which covers the e-book market and audiobook, as well. The chosen segments are Polish bookstores (book retrails), book wholesales, internet bookshops, e-book and audiobook portals, huge e-shops with wide sortiment offer, libraries and end customers (readers).

The great emphasis will be placed on supermarket distribution chain, that is significantly growing in Poland and sales of books in supermarkets are still more popular there. Deeper specification of end customers can be performed according to future supply of book copyrights, i.e. which genre of book titles will be available on the book market in Poland, Czech Republic and other countries. As the company has already developed structure of contacts of literary agents in the Czech Rep. and agencies abroad, they can buy copyrights for Czech and Polish language for the same book title simultaneously from them. However, the price of copyrights for these languages might be different.

Strengths of the entrepreneurship

JOTA has a long-time developed company's culture. Their main values are wide experiences in book and publishing industry in the Czech Republic. As we know, the book market structure in Poland is similar to the Czech, alongside in Poland is similar cultural environment and characteristics of end customers. Their values are discreet but can be transmitted to the new division as well. The core thing is to create functional team of people that will follow the culture, work by using all their strengths and will push the company into high competitive environment in Polish book industry higher. JOTA is one of the 10 most favourite publishing houses in the Czech Republic, publishes high-quality books with many national awards and has a great position on the Czech book market. Company has high chance to utilize these strengths and apply its practices and forces on the Polish book market as well-known publishing house.

Product line-up

The product line-up will be the same as in the Czech Republic is, such as printed book titles, e-books and audiobooks. The difference will be the one that with each published printed book will be simultaneously published the e-book. E-book industry is still growing over the whole world, as well as in Europe. This fact should be considered as a new challenge for the company in general.

Partnership model

The important thing is to negotiate contracts with new Polish literary agents or agencies. This partnership will be one of the crucial. Other partnership that should be negotiated will be a new network of printing companies supplier in Poland. The fact is that many Polish publishing houses print their books in the Czech printing companies, but it is necessary to analyse actual supplies that are available at the book market in general. JOTA has profoundly interconnected chains with printing companies in the Czech Republic and can manage the production processes for Polish division in the Czech Republic, too. All depends on actual price supply.

Communication with customers and customer's needs

With non specific business guidelines the competitors can easier “take the customers” by better emphasizing on customer service. That is a reason why the communication with customers and their needs is the core thing. The advantage for JOTA is that the customers' needs in Poland are similar to the Czech. As we have similar cultural environment and our nations are resemble in specific factors, the customers' needs could be easily identified. Communication channels will be social networks that are popular in Poland, attractive advertisements, discount events that are promoted on websites that will be newly created for the Polish division and adjusted to the Polish market conditions to have upper hand over the competitors. Other communication channels are book fairs, autograph session, talk shows with popular authors that are planned in course of the all calendar year.

Organizational structure

The core issue is to build completely new working team that knows the Polish book market and has experiences in publishing industry. It is the most convenient possibility for JOTA. The management, editorial board, marketing, HRM, wholesale management would be under control of this new division. The most important strategic decisions, direction and financing will be still performed from the Czech Republic by JOTA's executive director. In companies that wants to enter to foreign market is important the management department. The organizational structure will be consisting of managing director who will manage the new division, processes of publishing and overall functioning of the division, editorial board (1-2 people) that will be responsible for copyright management and communication with literary agents and agencies, commerce manager (sales representative) who will be in charge of purchasing channels, marketing team (minimal 2-3 people) who will be responsible for promotion, price policy, distribution and social networks administration, and warehouse keeper who will perform a logistic issues and warehouse management.

Expansion goals

Other importance while business expansion is planned is setting detailed expansion goals to explore new opportunities out of the standard business practices. These goals should facilitate company's expansion. This is related with hiring specialists and analytics to make a market research, collect data, compare them and according to their observations make concrete recommendations and advices for the company. The agent of change should be absolutely straight and should be sincere about the change process and its expectations. After that can be determined the expansion goals properly and purposefully.

2. Intervention area - Functional strategy

In this area will be analysed important chosen functional strategy sections.

Branding

Branding as a complex of all operations that lead to construction of successful brand has to be created for new division. Leaders of the company decided to keep the same brand which is in the Czech Republic but they require some improvements. Thus the name of the division will be just JOTA (instead of Nakladatelství JOTA, s.r.o.), the logotype they want to remain the same as in the Czech Republic for better identification and because of reinforcement competitive position on the Polish book market and Czech book market, as well. The colors (red, white, black) still will be the colors that identify this publishing house. The catchword and story should be clear, simple and attractive for customers. The catchword will be made after proper analysis of customers' needs and market researches. All of this should create a concept how customers will perceive the company and with which values they will associate the company.

Marketing strategy

The marketing strategy should come to the fore in Poland. This will be standing on creative marketing team structure, their ideas and financial limits given to the division for promotion issues. The product focus will be similar but not equal as in the Czech Rep. Orientation to travel guides, travelogues, strong personal stories, biographies and books written on base of movie templates (or the opposite) are core genres which are popular world-wide. The price policy will be determined equally as JOTA is habituated. The distribution will be managed in exactly same way as in the Czech Rep. However, the distribution channel will be extended by chosen networks of supermarkets and newspaper kiosks for chosen book titles, this distribution channels have started to be very strong and favourite in Poland.

Communication inside the company

New division will have its own new internal system, similar to the Czech one. At the start the internal system will be simplified and adapted to the size of division. With its growth will be the system improved and widened. The internal system will interconnect all departments of division and will allow share needed information and data.

Information flows

The information flows will be executed by internal system mentioned above, it will be related with sensitive data and internal knowledge of the company. Weakly will be organized editorial board meeting where will be planned and discussed new book titles, events, promotion, news. Daily will be organized meetings where will be discussed organizational issues and the most important operation issues. Every week will be created a week report in form

of presentation, document or skype meeting with executive director to discuss and manage the most important steps to be performed.

Human resources management

New team as a basement for the new division in Poland has to be managed. The managing director who will be responsible for all new division's department will delegate assignments, tasks and guidelines of future proceedings. Each of employees will primarily pass training programme made for his position, will have needed information available and after each month will be properly evaluated. Company will provide to individuals concrete and explicit information about the future change and plans, what is exactly expected end estimated to occur during and after the change implication, how they and their performance exactly will be measured. And also, what achievements and breakdowns will mean for them and their teams. The financial benefits are good motivation for employees and their future work performance quality.

Management of finances

It is certain that financial resources are the fundamental part of planned change of business strategy. Company should ensure a financial resources needed for inputs (materials, energies, personal costs, graphical corrections, etc.) and resources for outputs (promotion, logistic, storage, distribution, etc.). The management of finances is comprised of management of costs (the objective is their minimization), management of sales (the objective is their maximization) and management of cash flows (the objective is increase and improvement of financial resources). These three financial components must be in harmony with defined strategy, in other words, must secure objectives fulfillment. The fulfillment should be done by measurable indicators that have to be stated by top management (executive director and managing directors).

CHANGE STAGE

In this stage the change is in motion in all identified intervention areas. The change will be realized and managed by agent of change – by executive director and managing director. The company is now in stage of unfreezing and the change is planned to be executed at start of year 2018. Until then should be done all market researches, additional analyses, customers' needs analysis, and so on, to determine the expansion goals which are very important for further change proceeding and to act in compliance with the business plan.

FREEZING STAGE

For the change of business strategy implementation the stage of freezing is taking its place. This stage is important for executed change preservation. This stage should start on July 2018. It is needed to have in mind constantly changing unstable environment which surrounds the company. Therefore the stabilization of achieved results is needed in order to avoid becoming an easy target of

competitors's attacks immediately after entering the Polish book market and to prevent its vulnerability after executed change.

5.5.3.1 Logical Framework of the Project

The goal of the project is new business strategy of entering the Polish book market. This goal comes from the JOTA's requirements, its willingness to change its current business strategy and enter the new foreign market. JOTA will follow this logical framework of the project to control all needed parts of planned change implementation depicted in Tab. 22.

Tab. 22 Logical Framework of JOTA's new project

<i>Project title: Change Management of Business Strategy and Internationalization</i>				
	Project description	Objectively verifiable indicators of achievement	Sources and means of verification	Assumption
Goal	New business strategy of entrance to the Polish book market	Polish book market, Polish purchasers/ customers, new division in Poland.	Business plan Internal analysis External analysis	Willingness for change, well prepared materials.
Purpose	Find new opportunities on the Polish book market. Push out the competition. Focus on JOTA's strengths. Satisfy the JOTA's customers' needs.	New customers. Content and constant customers. Market penetration in Poland. Competition comparison. New opportunities application.	Market researches, data analyses and surveys. Business main goals achievements.	Satisfaction of Polish customer's needs.
Outputs	<ol style="list-style-type: none"> Factors influencing Polish general and field environment. Source audit. SWOT matrix. Driving and restraining forces. Strategy how to strengthen driving forces and limit the restraining ones. Chosen strategy (approach) and form of entrance to Polish book market. List of risks with its values, provisions against each risk. Agent of change, intervention areas, changes in intervention areas and manner of their application. Control and evaluation of JOTA's strategy change. Find out if it is dispensable to modify new chosen strategy or even completely change it. 		<p>Written document with situation analysis:</p> <p>General environment in Poland (ANNEX II.) Polish book industry (ANNEX III.) JOTA's internal factors (ANNEX IV.) SWOT matrix, Force Field Analysis. Analysis of risks. Agent of change appointment. Change management of the new business strategy. Visible concrete changes in intervention areas (business strategy and functional strategy areas).</p>	<p>Project realization in desired time.</p> <p>Ensuring of project sustainability.</p> <p>Ensuring of qualified employee.</p> <p>Free labour force.</p>

Activities	1. Situation analysis – general environment, field environment and internal factors. 2. SWOT matrix. 3. Force Field Analysis. 4. Risk management – identification, analysis, measures facing the risk. 5. Change management – identification of agent of change, intervention area identification, proper intervention (unfreezing, change, freezing).	<u>Resources/inputs:</u> Human, material and financial resources. Top management support and experiences. Employment of current JOTA's contacts (printing companies, distribution channels, literary agents).		<u>Risks:</u> Securing of financial resources. Loss of management support. Employee non-acceptance of the project. <u>Precondition:</u> Well prepared new business strategy.
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Source: Created by the author.

5.6 Evaluation of Results (Step 5)

After termination of all planned project JOTA should evaluate its results, i.e. achieved situation (status) and its results and make comparison with its plan. To clear comparison company specified parameters at the start of change process and according to them the comparison should be performed. It means, the real status (achieved situation) will be compared with model status and its values. This step will be performed with respect to time horizon of planned realization of each step and also with respect to planned costs estimation.

The control will be executed in these following three items:

- Control of elemental objectives of entrance to the Polish book market strategic concept.
- Control of specific provisions and partial analyses and researches with respect to costs, deadlines and results – their comparison with plan.
- Control of external, internal and change process risk factors.

5.7 Evaluation of the New Strategy Implementation (Step 6)

A successful implementation of strategy depends on processes that the company uses, and on functions that manages.

The last step is the new strategy evaluation in sense of if it is really representing the best possibility of strategic objectives achievement on the Polish book market or nor. There has to be found out whether the new strategy is needed to modify or even completely change it, or the new strategy implementation was successful. Even though there can be detected a binding changes or new circumstances in external or internal environment that came to pass in the realization phase of the change. There should be verified the initial strategic

premises (whether the initial strategic hypotheses are valid or not), verified the strategic productivity, and suggest and accept a concrete provisions to correct differences between plan and implemented results.

6 Discussion

While working on my thesis I had no problems concerning the scope of literature resources. Many local and foreign authors have devoted their attention to the chosen topic. Thematic areas such as a change management, risk management, project management and internationalization have been analysed in plenty of publications. Nevertheless, a complex methodology how to proceed while a company wants to change its current business strategy and internationalize through entering a foreign market has not been described yet. The thesis is specific in applying the perspective of a business strategy change approach which is dealt with as a project where the methods of both strategic and project managements are applied at the same time.

The proposed model of a change management of a business strategy of a company that wants to enter a foreign market within the EU is designed for small and medium enterprises. For practical reasons, the model has been simplified. That is the reason why it can be utilized precisely by SMEs. This model facilitates a change of a business strategy and internationalization process of a trading company. Companies should not deal with a change management and with a risk management intuitively as they unfortunately in the majority of cases do, but they should use systematic approaches and appropriate methods to analyse all parts needed for a successful change performance. As mentioned above, the model is designed for SMEs, and therefore it can not be applied to large corporations and organizations or to large multinational companies. Decision-making processes of large companies have a different development and progress within the change of business strategy and internationalization process.

Methodology of a business strategy change management proceeds from a situation analysis. It is possible to execute the situation analysis using various methods. Therefore, the most suitable methods had to be selected for the situation analysis processing. The basic instruments of general and field environment analysis were applied. It is comprised of macro-environment and competitive environment analysis using a method of the PESTL Analysis and the Porter's Five Forces Model. These methods are most frequently suggested by the majority of authors. Alternative methods which can be utilized are for example a method of benchmarking for analysis, evaluation and comparison of competing goods and services, or the 4C method for situation analysis, or the method of scenarios for understanding the nature of the company's environment, and others.

During the phase of a change management the Lewin's Three-Stage Model was applied consisting of unfreezing, change and freezing stages. The other model which I could apply was the Kotter's 8-Step Process for Leading Change. However, this model is more complicated to apply for SMEs in the course of a business strategy change management. Therefore, I prefer and recommend the application of the Lewin's Model which offers a more simple approach and proceeding, i.e. it includes only three stages and enables an uncomplicated comprehension of the model for SMEs.

As the limiting factor in the process of change I would point out the lack of information needed for the execution of some analyses that are outlined in the Methodological Proposal chapter of the thesis. Therefore, I recommend getting a more information about the new foreign market, field of industry, competition acting on the new market, and internal information related to human, physical, financial and intangible resources of the company.

The final part of the thesis, the Application of Proposed Methodology, is dedicated to the performance of a company's analysis of doing business in a book publishing industry. The company could not provide me with all the needed data in great detail. Thus, I would recommend further development of the proposed analyses mainly linked to the internal environment of the company. It could help make a significantly detailed and much more complex analysis needed for important decision-making processes connected with the change management of the company's business strategy and internationalization.

During processing the thesis, I did not encounter any serious problems except for the lack of information from the investigated company. I found the conclusion of the thesis to be suitable for companies which are dealing with a change of business strategy and want to enter foreign markets within the EU environment. I also consider the thesis, to be a source of theoretical inspiration for further research and studies related to its topic.

7 Conclusion

The objective of this diploma thesis titled "*The Change Management of Business Strategy and Internationalization of Trading Company*" was to design a complex methodology for the change of business strategy as a general model on the basis of which a company will proceed during intended internationalization. The proposed general model is applicable and utilizable in SMEs. The principles of the theory of change management, project management and risk management were used. The main objective was fulfilled and was completed by the following fulfilled partial objectives.

A partial purpose of this thesis was to define conditions of internationalization for SMEs which would be closely connected with the change management of business strategy within the European Union. This part is theoretical and was described in the literature review chapter of this thesis to create a general overview.

Another partial purpose was to perform a comprehensive situation analysis, examining the internal and external factors of changes influencing the decision-making process concerning the business strategy of a SME while the enterprise plans to enter the foreign market within the EU. This partial purpose was supplemented by the risk management which was composed of three steps, i.e. the risk identification, risk analysis and risk precautions, by the change management which worked on Lewin's Model of Change composed of three stages of change: unfreezing, change and freezing stages. The whole change process was considered as a project. Therefore, the whole process of change was inserted to the Logical Framework Matrix for general overview creation, thus the project management elements were used as well.

The complex methodology how the SME can proceed during the change management of business strategy and the intended internationalization process was designed. The complex methodological proposal consists of six steps showing how to manage the change during the business strategy change in case a company wants to enter the foreign market and extend its field of activities. These steps represent the recommended procedures and are the following: situation analysis, entering the foreign market strategy proposal, risk management, change management of the new business strategy, evaluation and results, and evaluation of the new strategy implementation. For a better and more comprehensive inclination a schema called "General Model Design" was created which is considered to be the main output of this thesis. The model simplifies, in general, the internationalization process to the EU's SMEs, and it is recommended for using in case when a company wants a comprehensive methodology how to proceed while entering the foreign market and changing its business strategy.

The last partial purpose of this thesis was focused on the application of the methodological proposal, i.e. of the General Model Design, to the chosen real company which wanted to change its current business strategy and internationalize to a chosen real foreign market. For the application the Czech

publishing house Nakladatelství JOTA, s.r.o. was chosen. Thanks to the application of the model to the real company I have verified that the model is applicable and utilizable under the real market conditions. Entering the foreign market is a significant change for any type of company. The complex methodological proposal applied significantly helped to create a concept and vision what the company should do and to what it should generally pay attention during changing its current business strategy. The chosen company finds itself in a phase of unfreezing stage of the Lewin's Model. Therefore, the real change has not been performed yet. The official start of the change process as a real implementation is planned for January 2018. Until then the company has enough time to carry out a deeper market analysis and further development of the proposed analyses mainly linked to the internal environment of the company before the change process will be initiated.

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