STRATEGIC MANAGEMENT IN AN UNCERTAIN ENVIRONMENT: ADAPTING STRATEGIES TO A RAPIDLY CHANGING ENVIRONMENT

[a]NATALIIA SEREDA, [b]IURII KALNYSH, [c]IVAN SILADIY, [d]YURII KOPCHAK, [e]KSENIIA DENYSENKO

[a]*Flight Academy National Aviation University, Kropyvnytskyi, Ukraine*
[b]*Dnipro National University, Dnipro, Ukraine*
[c]*Ferric Rakoczi II Transcarpathian Hungarian College of Higher Education, Berehove, Ukraine*
[d]*Vasyl Stefanyk Precarpathian National University, Ivano-Frankivsk, Ukraine*
[e]*Taras Shevchenko National University of Kyiv, Kyiv, Ukraine*
email: [a]nataliyasereda25@gmail.com; [b]ukalnish@gmail.com, [c]ivansuladij@gmal.com, [d]yurii.kopchak@pnu.edu.ua, [e]mvi.dkyu@clouds.iir.edu.ua

Abstract: Economic instability necessitates enterprises to seek optimal approaches for adjusting to a swiftly evolving environment through modifications in production capacities and competitive positions. The primary objective of this article is to evaluate the adaptability of industrial enterprises to external environmental changes by employing strategies for managing production capacities and competitive positions. This study investigates the adaptive strategies of enterprises within the domain of "production capacity" while considering the examination of shifts in the competitive positioning of industrial enterprises in response to key environmental factors such as orders, demand, export expectations, and fiscal constraints. The methodology employed in this article encompasses an examination of survey outcomes from industrial enterprises within the EU-27 region, alongside correlation analysis of competitive positions in domestic and foreign markets contingent upon production-influencing factors. The survey results obtained from EU industrial enterprises both during and after the pandemic highlight a decline in production capacity attributed to fluctuations in order volumes, demand, and export expectations, thereby exacerbating the competitive position of enterprises in domestic and foreign markets. The authors identified an inverse association between competitive positions in domestic and foreign markets and variables such as employment, labor supply levels, and fiscal constraints. The practical significance of this study lies in the identification of approaches that industrial enterprises can employ to adapt to shifts in the external environment, including factors such as orders, exports, and demand, which directly influence production capacity and competitive positioning. Industrial enterprises respond to these environmental changes by proactively forecasting expectations related to alterations in orders, demand, exports, and financial resources, both within and outside the European Union. Strategies for managing production capacities and competitive positions are consequently adjusted based on the prevailing demand, order volumes, exports, and financial resources.

Keywords: strategic management, strategy adaptation, focus strategies, strategies of industrial enterprises, EU enterprise strategies.

1 Introduction

Amidst the impact of the pandemic, the ongoing conflict in Ukraine, and the escalating prices of energy and food, organizations find themselves compelled to adapt to novel environmental conditions by exploring new management strategies. In 2022, the collective GDP of Eurozone countries exhibited an overall growth rate of 3.5%, although variations were observed across different nations (e.g., Poland -2.4%, Estonia -1.6%, Finland -0.6%), while in 2021, it recorded a growth rate of 5.3%. In the fourth quarter of 2022, the Eurozone witnessed a marginal increase of 0.3% in the number of employed individuals, with certain countries experiencing a decline in employment (e.g., Portugal -0.8%, Lithuania and Latvia both -0.5%) (Eurostat, 2023a). Economic instability necessitates enterprises to seek optimal approaches for adapting to a swiftly evolving environment, encompassing shifts in production volumes, capacity utilization, and export volumes, and considering alterations in demand, prices, and fiscal constraints, among other factors. Consequently, a more comprehensive examination of strategic management within enterprises becomes imperative to address the necessity of adapting to a rapidly changing environment in a nuanced manner. The primary objective of this article is to evaluate the adaptation of enterprises to changes in the external environment through the utilization of strategies for managing production capacities and competitive positions. Within this article, the authors examine the competitive positions of industrial enterprises from EU-27 countries in both domestic and foreign markets, taking into account the contextual backdrop of the pandemic and the war in Ukraine. Specifically, the author explores the association between various factors that influence enterprise production (such as demand, equipment, labor, and financial constraints) and market positions. Additionally, the study assesses the current state of competitive positions concerning production capacity, production duration, new orders, and export expectations.

2 Literature review

Strategy, derived from the Greek term "strategos" denoting the art of the general of the army, is defined as a comprehensive, unified, and integrated plan encompassing a series of actions and measures intended to address a specific problem situation and achieve targeted objectives within a predetermined timeframe. P. Drucker defines strategy as purposeful actions or goals and highlights two primary criteria for the development of a marketing strategy: concentration and competitive position in the market (Drucker, 1986, p. 77). Consequently, the competitive position within the market plays a pivotal role in shaping the strategic direction pursued by enterprises, ultimately determining their subsequent actions.

In addition to defining strategy as a plan, template, or model of actions, this concept is also regarded as a distinct position of a firm within the market environment. Under this perspective, strategy serves as an intermediary between the firm and the external environment, effectively bridging the internal and external contextual dimensions of its operations (Mintzberg, 1987, p. 15). This interpretation underscores the imperative of adapting the strategy and managing competitive actions and market position following the prevailing state of the market environment.

In his book "Competitive Strategy," M. Porter (2011) explores the notion of "competitive actions" as a form of strategy, highlighting that such actions can be either pre-planned or spontaneous. Every firm operating within a specific industry possesses a competitive strategy, whether it has been consciously formulated or emerged spontaneously. This strategy may be developed through deliberate planning or evolve organically through the activities of various functional units within the firm.

The cultural, economic, political, and social conditions prevalent within a country, along with the level of competition and product quality standards specific to that country, collectively shape the unique aspects of adapting a company's strategy to prevailing market conditions. The adaptation of enterprises to competitive conditions represents a fundamental management objective that significantly influences the formulation of a strategy for competitive behavior within the market, as well as the execution of measures aligned with the enterprise's objectives. "Adaptability" refers to the capacity of an enterprise to discern the influence of internal and external environmental factors on its operations and respond promptly through the development and implementation of efficacious management decisions utilizing existing and potential opportunities. The assessment of adaptive processes to environmental changes can be conducted by analyzing the prospective expectations of enterprises concerning aspects such as demand, employment, and financial resources. These aspects consequently influence potential production capacity, exports, and the competitive positioning of enterprises, among other factors.

In the existing literature, adaptation is explored within the framework of various dimensions including resources, behavioral changes, capabilities, and knowledge (such as technological capabilities, knowledge transfer, innovation strategies, routines, and material capabilities). It also encompasses governance and stakeholder management (including acquisitions and environmental assessment, strategic peers and stakeholders, identity-driven change, structural complexity, governance, categories, and external structure).

Furthermore, the concept of adaptation is influenced by competitive and institutional pressures. Scholars have defined adaptation as a deliberate decision-making process undertaken by organizational members, resulting in observable actions aimed at minimizing the gap between an organization and its economic and institutional environments (Sun, Liu & Ding, 2020; Sarta et al., 2021). This study examines the adaptation of enterprise strategy within the realm of "production capacity," with a specific focus on exploring changes in the competitive positioning of industrial enterprises in response to key environmental factors, namely, orders, demand, export expectations, and fiscal constraints.

Strategic management is a comprehensive approach adopted by organizations and other entities for the development of strategies. It encompasses the integration of strategy formulation and implementation, incorporating elements such as strategic planning, implementation methodologies, and ongoing strategic learning in response to external environmental changes (Bogers et al., 2019). Within the literature, seven distinct approaches to the strategic management system have been identified. These include the integrated approach to unit management, strategic issues management approach, contract approach, collaboration approach (encompassing lead organization, shared governance, and network administrative organization approaches), portfolio management approach, goal or benchmark approach, and hybrid approaches (Bryson & George, 2020). Strategic management and planning encompass a range of concepts, procedures, processes, methods, tools, practices, and, in the case of strategic management systems, structures. These elements must be employed thoughtfully, selectively, and strategically adapted to suit specific contexts (Bryson & George, 2020). The adaptation of strategy to the external environment plays a vital role in ensuring the sustainability of management, as evidenced by the concept of "Sustainable Strategic Management (GES)" (Barbosa, Castañeda-Ayarza & Ferreira, 2020), and in maintaining competitive positions (Azeem et al., 2020).

Strategic management (SM) endeavors to generate recommendations for generating additional business value and enhancing the competitive position in the market through well-defined actions and goals (Wenzel, Stanske & Lieberman, 2020; Battisti et al., 2020). The process of strategy development entails conducting specialized analyses of both the external environment and the internal potential of the enterprise, alongside evaluating potential threats and opportunities. On the other hand, the complete compilation of strategic guidelines concerning business directions and the organizational development of each enterprise encompasses the content of its strategic portfolio. The formulation of strategy empowers enterprises to establish a trajectory or direction of movement and behavior over time, thereby determining the internal management of the company to position the organization optimally within the competitive environment for achieving success. To ensure success, a company must continuously adapt to changes in the external environment (Fuertes et al., 2020). The structure of strategic management, encompassing methodologies, tools, and institutions, plays a crucial role in fostering resilience to changes, such as shifts in demand, orders, and competitive position (Klein et al., 2019).

3 Method

3.1 Data description

The study incorporates data derived from quarterly surveys of industrial enterprises conducted by the European Commission - Directorate-General for Economic and Financial Affairs (DG ECFIN) within the EU-27 and Euro area comprising 20 countries, covering the period from the first quarter of 2021 to the second quarter of 2023 (Eurostat, 2023c).

The survey results provide an evaluation of the following data:

Table 1. Survey of industrial enterprises in the EU-27

Question code	Assessment	Question
Q1	1. Assessment of current production capacity.	Considering your current order books and the expected change in demand over the coming months, how do you assess your current production capacity? The current production capacity is….: + more than sufficient, = sufficient, not sufficient
Q2	2. Duration of production assured by current order books, months	How many months of production are assured by your current overall order books? Our production is assured for ••.• months
Q3	3. New orders in recent months	How have your orders developed over the past 3 months? They have... + increased = remained unchanged − decreased
Q4	4. Export expectations for the months ahead	How do you expect your export orders to develop over the next 3 months? They will...: + - increase, = - remain unchanged, − - decrease
Q5	5. Current level of capacity utilization (%)	At what capacity is your company currently operating (as a percentage of full capacity)? The company is currently operating at ••.• % of full capacity.
Q6	6. Competitive position over the past 3 months: on the domestic market	How has your competitive position in the domestic market developed over the past 3 months? It has...: + improved, = remained unchanged, − deteriorated
Q7	7. Competitive position on foreign markets inside the EU over the past three months.	How has your competitive position in foreign markets inside the EU developed over the past 3 months? It has...: + improved, = remained unchanged, deteriorated
Q8	8. Competitive position on foreign markets inside the EU over the past three months	How has your competitive position in foreign markets outside the EU developed over the past 3 months? It has...: + improved, = remained unchanged, − deteriorated
Q9.1, Q9.2, Q9.3, Q9.4	9. Factors limiting the production - Insufficient demand, Labour, Equipment, Financial constraints.	What main factors are currently limiting your production? · none · insufficient demand · shortage of labor force · shortage of material and/or equipment financial constraints · other factors

Source: compiled by the author based on data from European Commission - Directorate-General for Economic and Financial Affairs (2023).

3.2 Statistical concepts and definitions

The outcomes of the industrial survey primarily consist of qualitative data, as the questions aim to gauge the anticipated production trends, existing order book and inventory levels, perceived economic uncertainty, expected sales prices, and employment status among EU enterprises. The quarterly survey data also furnish quantitative information regarding the capacity utilization of EU industrial enterprises and the duration of production, utilizing data extracted from the current order books.

Following the analysis of industrial enterprises' assessments, a correlation analysis was conducted to examine the connection between competitive positions in the domestic and foreign

markets and enterprise expectations, as well as the factors that influence production. This correlation analysis enables the assessment of the relationship between strategic management of production volumes, orders, inventories, and employment concerning the perceived level of economic uncertainty. The interdependence between these indicators was evaluated using the Pearson correlation coefficient with a significance level of 5%. Panel data encompassing the EU-27 countries for the period spanning from the first quarter of 2021 to the second quarter of 2023 were employed to estimate Pearson's r.

3.3 Statistical unit and Statistical population

The statistical unit employed in this study is the firm or enterprise, encompassing all enterprises within a specific sector and resident households. The industry survey covers approximately 38,000 units across all EU countries.

3.4 Unit of measure

The data are presented in balances, which denote the disparities between positive and negative responses, expressed as a percentage of the total responses. The published data are unadjusted and referred to as not seasonally adjusted (NSA).

4 Result and discussion

Current trends in strategy implementation encompass various aspects such as ensuring product quality, targeting specific consumer groups, and enhancing products and services. In EU countries, businesses employ distinct strategies, including 1) emphasizing high quality, which is employed by 52.3% of EU companies; 2) focusing on satisfying established consumer groups, adopted by 50.3% of companies. This emphasizes the alignment between the strategies chosen and the mindset or perspective of entrepreneurs within these markets, supporting the theoretical notion that strategy reflects the beliefs and perspectives of stakeholders and business owners. Additionally, 3) prioritizing the improvement of existing products and services, a strategy employed by an average of 41.5% of companies. The adoption of strategies targeting new customer groups is observed in 37.7% of EU firms, while 36.7% of organizations focus on delivering customer-specific solutions (Eurostat, 2023d). Less prevalent strategies include the introduction of completely new products or services (24.3%), a wide range of product and service offerings (20.5%), standardized products or services (18.8%), low-price strategies (17.1%), and focusing on key products or services (16.9%) (Eurostat, 2023d). Consequently, it is common practice in the EU for companies to employ a combination of business strategies, enabling them to gain multiple competitive advantages simultaneously. The majority of EU companies utilize two or more strategies concurrently, with a particular emphasis on innovation in products, services, and business processes. Notably, the strategy of cost minimization is not extensively adopted.

The analysis of current production capacities of industrial enterprises in the EU-27 for the period of 2021-Q1 to 2023-Q2 reveals their insufficiency during the period affected by the pandemic and its aftermath, from the third quarter of 2021 to the first quarter of 2022. However, a recovery in production capacities is observed starting from the second quarter of 2022, with a particularly active period beginning in the third quarter of 2022, driven by the rebound in demand and order volumes. Consequently, the production strategy adapts to the fluctuations in customer demand and order levels. Meanwhile, the security of production provided by existing orders remains relatively stable, experiencing only a slight increase in the first quarter of 2022. However, the assessment of new orders in recent months has significantly declined since the beginning of the fourth quarter of 2021. In both the fourth quarter of 2022 and the first quarter of 2023, negative assessments prevail, indicating a predominance of negative evaluations regarding the number of orders received.

Table 2. Estimates of production capacities and, utilization, production duration, new orders, export expectations, and competitive position of EU-27 industrial enterprises for 2021-Q1 to 2023-Q2

	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2
Assessment of current production capacity										
European Union - 27 countries (from 2020)	17,3	8,8	0,7	1,2	0,4	1,6	5,8	9,3	7,1	10,4
Euro area – 20 countries (from 2023)	19,6	10,2	2,1	1,9	1,4	2,3	7,2	10,5	6,7	10,5
Duration of production assured by current order books, months										
European Union - 27 countries (from 2020)	4,6	4,9	4,9	4,9	5,2	5,2	5,1	5,2	5,2	5,1
Euro area – 20 countries (from 2023)	4,2	4,6	4,6	4,6	5,0	5,0	4,9	5,0	5,1	5,0
New orders in recent months										
European Union - 27 countries (from 2020)	5,1	24,2	26,0	15,7	13,8	12,2	0,5	-7,1	-6,3	2,5
Euro area – 20 countries (from 2023)	6,3	27,0	27,8	17,2	15,4	12,6	-0,2	-6,5	-4,7	4,3
Export expectations for the months ahead										
European Union - 27 countries (from 2020)	3,3	15,3	14,3	10,7	15,4	6,1	2,9	-4,0	4,4	6,3
Euro area – 20 countries (from 2023)	3,3	16,6	15,5	12,7	17,5	6,2	3,5	-2,8	6,1	7,4
The current level of capacity utilization (%)										
European Union - 27 countries (from 2020)	79,2	80,6	82,9	82,2	82,1	82,3	82,0	81,2	80,8	80,9
Euro area – 20 countries (from 2023)	79,1	80,7	83,0	82,7	82,4	82,5	82,3	81,4	81,0	81,2
Competitive position over the past 3 months: on the domestic market										
European Union - 27 countries (from 2020)	4,7	6,8	9,5	6,4	5,8	5,3	0,5	-1,3	-0,6	-0,4

Euro area – 20 countries (from 2023)	5,8	7,8	10,8	7,3	6,6	6,1	1,1	-0,3	0,1	0,3
Competitive position on foreign markets inside the EU over the past three months										
European Union - 27 countries (from 2020)	1,6	3,3	5,2	2,2	1,9	2,6	-2,6	-6,0	-3,5	-3,2
Euro area – 20 countries (from 2023)	2,3	3,5	6,0	3,0	2,6	2,9	-2,5	-6,1	-3,1	-3,4
Competitive position on foreign markets inside the EU over the past three months										
European Union - 27 countries (from 2020)	-1,5	3,6	3,6	0,6	-1,6	-0,9	-4,8	-9,1	-7,8	-6,4
Euro area – 20 countries (from 2023)	-1,1	4,3	4,1	1,1	-1,7	-1,0	-5,0	-9,6	-8,1	-7,0

Source: compiled by the author based on data from Eurostat (2023b).

During the study period, industrial enterprises in the EU-27 experienced predominantly negative expectations regarding export orders, particularly in the second quarter of 2021 and the first quarter of 2022. This indicates a shift in focus towards the domestic market due to the impact of the pandemic. The level of capacity utilization remained relatively stable throughout the study period, indicating that industrial companies continued to operate their production facilities. However, the assessment of the competitive position of EU-27 enterprises in the domestic market has significantly declined in the past three months. From the second quarter of 2022 to the second quarter of 2023, there has been a trend of shifting from a more positive to a negative assessment of the competitive position. Similarly, the assessment of the competitive position of industrial enterprises in foreign markets, both within and outside the EU, has also shifted from more positive to more negative in the past three months.

As a result of the deteriorating external competitive position of industrial enterprises in the EU-27, numerous small and medium-sized enterprises encountered challenges such as declining sales, disruptions in the supply chain, and an increase in payment delays. To address these issues, management strategies within industrial enterprises involved seeking additional sources of financing to mitigate cash flow problems. For instance, Romanian enterprises experienced a significant reduction in turnover and sales during the pandemic crisis, which necessitated the mobilization of minimal capital and immediate responsiveness to changes in the external environment (Bordeianu, Grigoras-Ichim & Morosan-Danila, 2021).

In response to the crisis and the risks faced by industrial enterprises during the pandemic, the European Commission has revised the SME strategy to align it with the Industrial Strategy, the European Data Strategy, and the European Green Deal. The updated strategy encompasses various support measures, including facilitating market access for businesses outside the EU and implementing pilot initiatives and projects to assist businesses in adopting digital solutions, particularly in transitioning to digital business models during crises (European Parliament, 2021).

According to EU-27 industrial enterprises, the main factors contributing to the decline in production were equipment, particularly during the third quarter of 2021 to the third quarter of 2022, due to export and import restrictions. Labor-related issues, such as rising unemployment and insufficient demand during the pandemic recovery, also had a significant impact. On the other hand, financial constraints did not play a significant role in limiting production from the second quarter of 2021 to the third quarter of 2022 (Table 3). However, there was an increase in the difference (balance) between positive assessments of the impact of financial constraints on production capacity and negative assessments during the fourth quarter of 2022 and the second quarter of 2023.

Table 3. Assessment of factors limiting the production of industrial enterprises in the EU-27 for 2021-Q1 to 2023-Q2

	2021-Q1	2021-Q2	2021-Q3	2021-Q4	2022-Q1	2022-Q2	2022-Q3	2022-Q4	2023-Q1	2023-Q2
Factors limiting the production - Insufficient demand										
European Union - 27 countries (from 2020)	34,2	27,6	21,6	19,2	19,1	17,1	20,3	25,2	27,3	28,5
Euro area – 20 countries (from 2023)	33,3	26,5	20,8	18,0	17,7	16,3	19,5	24,0	26,3	27,0
Factors limiting the production - Labour										
European Union - 27 countries (from 2020)	12,1	14,3	22,9	25,3	26,6	27,6	30,2	28,7	26,3	25,0
Euro area – 20 countries (from 2023)	8,9	11,5	20,7	23,5	24,6	26,2	28,7	27,8	25,2	23,7
Factors limiting the production - Equipment										
European Union - 27 countries (from 2020)	13,1	28,8	41,5	48,8	46,1	52,8	47,1	40,0	33,3	27,7
Euro area – 20 countries (from 2023)	13,4	30,9	44,3	51,3	48,4	54,9	48,5	41,7	34,9	28,7
Factors limiting the production - Financial constraints										
European Union - 27 countries (from 2020)	4,6	3,5	3,4	3,5	4,0	4,3	4,4	6,1	6,1	5,5
Euro area – 20 countries (from 2023)	4,5	3,1	3,3	3,2	3,5	4,0	3,9	5,7	5,8	5,1

Source: compiled by the author based on data from Eurostat (2023b).

The correlation analysis reveals a strong positive correlation between competitive positions in the EU internal market and external markets, both within and outside the EU (Table 4). A weak negative correlation was observed between competitive positions in domestic and foreign markets and current production capacity: as capacity decreases due to declining orders and demand, competitive positions are expected to deteriorate in subsequent periods. Conversely, a strong positive correlation

was found between competitive positions in domestic and foreign markets and changes in order volumes, including expectations of potential export deliveries. Current capacity has a slightly positive impact on the competitive position of industrial enterprises (0.345).

The competitive position of industrial enterprises is adversely affected by the state of employment and labor supply, as indicated by the negative average correlation coefficient (Table 5). A strong negative correlation was found between competitive positions in domestic and foreign markets and fiscal constraints (correlation -0.911, -0.902, -0.943).

Table 4. Correlation matrix of the link between the competitive positions of industrial enterprises and their expectations of changes in production capacities, orders, and exports

	Q6	*Q7*	*Q8*	*Q1*	*Q2*	*Q3*	*Q4*	*Q5*
Q6	1,0000							
Q7	0,9824	1,0000						
Q8	0,9650	0,9663	1,0000					
Q1	-0,4358	-0,3917	-0,3427	1,0000				
Q2	-0,4983	-0,5052	-0,5514	-0,4642	1,0000			
Q3	0,9455	0,9330	0,9700	-0,4558	-0,4006	1,0000		
Q4	0,7979	0,8040	0,8088	-0,5146	-0,1999	0,8778	1,0000	
Q5	0,3450	0,2891	0,2660	-0,9430	0,4554	0,3867	0,3536	1,0000

Source: calculated by the authors.

Furthermore, a strong positive correlation was observed among the factors influencing production capacities themselves, such as labor and equipment. A moderate correlation was found between demand and fiscal constraints, as well as between labor and fiscal constraints. Chrobocińska (2021) highlights that the decline in the competitive potential and positions of enterprises or regions may be attributed to a shortage of qualified personnel.

Table 5. Correlation matrix of the link between the competitive positions of industrial enterprises and the factors influencing production

	Q6	*Q7*	*Q8*	*Q9.1*	*Q9.2*	*Q9.3*	*Q9.4*
Q6	1,000						
Q7	0,982	1,000					
Q8	0,965	0,966	1,000				
Q9.1	-0,291	-0,256	-0,217	1,000			
Q9.2	-0,444	-0,480	-0,524	-0,692	1,000		
Q9.3	0,145	0,098	0,073	-0,982	0,782	1,000	
Q9.4	-0,911	-0,902	-0,943	0,412	0,322	-0,269	1,000

Source: calculated by the authors.

5 Conclusion

The study identifies the prevalent business strategies adopted by EU enterprises, including 1) a focus on high quality, 2) targeting established consumer groups, and 3) improving existing products and services. Additionally, it is a common practice among companies to combine multiple business strategies, which yields several competitive advantages and fosters innovation in terms of products, services, and business processes. The survey results of EU industrial enterprises conducted during and post-pandemic highlight a shortage of production capacity during the peak spread of the pandemic, particularly in the third quarter of 2021 to the first quarter of 2022. This shortage can be attributed to fluctuations in order volumes and changes in demand. The aforementioned factors play a crucial role in determining the competitive position of industrial enterprises in both domestic and foreign markets, with their negative impact leading to a deterioration of this position in subsequent periods. Enterprises adapt their production strategies in response to changes in orders and demand. Notably, negative expectations regarding exports are prevalent during the pandemic. Correlation analysis supports a positive relationship between expectations of orders and exports and the competitive position of industrial enterprises within the EU-27. The study reveals a significant inverse association between the competitive positions of industrial enterprises in domestic and foreign markets and fiscal constraints. This indicates that industrial enterprises adapt their strategies in response to changes in the external environment by forecasting shifts in orders, demand, exports, and financial resources both within and outside the EU. Management strategies for production capacity are adjusted based on the fluctuations in demand, order volumes, and expectations of financial resources, all of which play a crucial role in determining the competitive position of industrial enterprises.

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