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STRATEGY DEVELOPMENT IN GERMAN COMPANIES

STRATEGIE ROZWOJU W NIEMIECKICH PRZEDSIĘBIORSTWACH

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Streszczenie. Celem zarządzania strategicznego jest określenie potencjału przedsiębiorstwa na osiągnięcie sukcesu obecnie i w przyszłości. Dla przedsiębiorstwa nastawionego na zysk (for-profit) oznacza to identyfikację i rozwój niewykorzystywanych obecnie możliwości sprzedaży oraz tych, które pojawią się w przyszłości. Wymaga to dobrej znajomości rynków, nowych osiągnięć technologicznych i nadążania za zmianami społecznymi. Pracownicy, wynalazki, procesy i organizacja muszą być ze sobą spójne tak, by klient otrzymywał we właściwym momencie oczekiwaną przez siebie wartość dodaną. Konsekwentnie realizowana strategia rozwoju pozwala osobom zarządzającym przedsiębiorstwem zebrać i przeanalizować potrzebne informacje, które pozwalają wspierać menedżerów w podejmowaniu decyzji dotyczących spójności przedsiębiorstwa, jak też w ustalaniu celów i planów działań. To właśnie sprawia, że zarządzanie strategiczne jest tak cenne w biznesie. Badanie przeprowadzone wśród niemieckich menedżerów wykazało do jakiego stopnia systematyczna strategia rozwoju jest realizowana przez niemieckie przedsiębiorstwa i jakie instrumenty zarządzania strategicznego są w tym procesie wykorzystywane. Ponadto, badanie pozwoliło na określenie jakie są skutki takiego podejścia do biznesu i odpowiedziało na pytanie czy przedsiębiorstwa systematycznie wdrażające strategię rozwoju osiągają na rynku większy sukces niż ich mniej strategicznie nastawiona konkurencja. Na uwagę zasługuje również fakt, że w niniejszej pracy dokonano porównania pomiędzy przedsiębiorstwami państwowymi (rozumianymi tutaj jako organizacje non-profit) i przedsiębiorstwami prywatnymi (organizacje for-profit). Przeprowadzone analizy wykazały, że zarządzanie strategiczne w przedsiębiorstwach prywatnych i państwowych nie różni się zasadniczo. Praktycznie wszyscy menedżerowie uczestniczący w badaniu uważają, że strategia jest ważna, bardzo ważna albo wręcz kluczowa dla sukcesu firmy, ale jedynie jedna trzecia z nich systematycznie analizuje i weryfikuje strategię rozwoju firmy. Badanie wykazało również, że większość przedsiębiorstw konsekwentnie realizujących i weryfikujących swoje strategie rozwoju osiąga sukces. Niemniej jednak badanie nie wykazało w sposób rozstrzygający czy przedsiębiorstwa te uzyskują lepsze wyniki pod względem wzrostu sprzedaży i zysku aniżeli ich konkurencja, która nie kieruje się zasadą strategicznej spójności wszystkich elementów przedsiębiorstwa.

Key words: added value, alignment, change management, strategic management, private companies, public companies.
Słowa kluczowe: przedsiębiorstwa państwowe, przedsiębiorstwa prywatne, spójność w przedsiębiorstwie, wartość dodana, zarządzanie strategiczne, zarządzanie zmianą.

INTRODUCTION

The basis for the development of a suitable strategy is less a question of what return on capital or what profit is to be achieved, but rather it is a question of what value for the customer is to be created. This applies to for-profit organizations (FPOs) and non-profit organizations (NPOs) alike. In order to provide added value for the customer, one has to listen to the customer and implement what is heard accordingly. Only by looking from "the outside-in" can companies change customer expectations and begin to offer products and services that the customers did not even know they wanted. According to Drucker (2007), that is the measure for *innovative management*. Gälweiler (2005) describes the strategic thinking methodology as an overall planning derived from a *successful end*. The successful end usually lies far in the future. From there a contiguous sequence of actions to the present day is developed. Strategic behaviour accordingly is to damage the present success – and thus the company's present liquidity – in order to create the best possible position for future success. For Barney and Hesterly (2012) "a firm's strategy is defined as its theory about how to gain *competitive advantage*". A good strategy is a strategy that actually generates such advantages. Malik (2011) points out that in today's business *dealing with complexity* is a strong challenge. The strategy assumes the role of master control – a supreme principle of regulation, which is compulsory for the organization as a whole. It is a universal design, steering and guiding tool, focused on the self-organization and self-adjustment of a company. According to Müller-Stevens G. and Lechner C. (2001), strategic management has been an independent discipline for about 40 to 50 years. Terms such as *long-range planning* and *business policy* have gradually been replaced by the concept of *strategic management*. Strategic management developed into a scientific discipline in the beginning of the 1970s, focusing initially on the U.S.

In some publications Ansoff (2007) is referred to as the father of the concept of *strategic management.* For him, changes in the environment force companies to constantly adapt their strategic behaviour to new conditions. He points out that the right strategy is not the only condition for success. Ansoff envisions three important tasks of strategic management:

– *Strategic Issue Management* – real-time reaction to changes in the environment,
– *Weak Signal Management* – early identification of trend reversals,
– *Response Management* – institutionalized crisis management, if there is no time to react to changes with strategic measures.

According to Scheuss (2008), there are two basic worlds in the field of strategic management. One includes searching and announcing *recipes* for designing and developing business successfully. Here the focus is on tools, checklists, diagrams and instructions. The other is focused on the *tools* of strategic thought and action. The understanding of causal relationships is sharpened by a specific reflection of strategic themes. Opportunities and threats are identified, attractive future models are developed and innovative ideas for new products and processes are created.

Based on the *management framework* developed at the St. Gallen University, published in 1972 by Hans Ulrich together with Walter Krieg, Bleicher (2011) describes integrated management as a combination of *normative, strategic and operational management*. The three levels of management are aligned by a management philosophy that defines the company's attitude to its role and behaviour in the society. From this philosophy ideas are derived about the company's position in the economy and in the society by providing a benefit to identified target groups.

Many authors will take up the differentiation between strategic and operational management. Here, strategic management has the role of shaping the company's development. Operational management steers the company's development. Operational and strategic management go hand in hand. Operational is not the opposite of strategic. The opposite of strategic is developing no strategy and leaving the company's strategic alignment to chance.

For Gälweiler (2005) operational and strategic management are also not opposites. He sees close interactions between the two forms of management.

MATERIAL AND METHODS

The main objective of this paper is to show to what extent the management of private and public companies can form clear, actionable and traceable goals and priorities through a systematically developed strategy which increases the company’s chance of success. The paper points out the role of systematic strategy development in German companies, which tools are used and what results are thereby produced. The behaviour of commercial and public companies will be compared.

The central method of this paper is a survey, which is a scientific method to obtain information on the opinions, beliefs, knowledge, behaviour and development of people and organizations. Surveys are classified according to their methodical form and the manner of implementation. This paper presents the results of a quantitative representative survey with standardized questions, performed by means of an electronic questionnaire that was sent and returned by email. Randomly selected 120 managers were contacted, of which 64 have answered. The target group of the survey is managers from private and public companies. This managers are either responsible for the entire company or for a company division. The interviews were conducted between June 2012 and July 2013.

To meet these objectives, the following four hypotheses are tested:

H 1: Strategy development can be carried out systematically and in predictable, consecutive steps.

H 2: Commercial and public companies do not run periodic systematic strategy development processes to determine their priorities, goals and tasks.

H 3: Strategy development in commercial and public companies is not different in principle.

H 4: A comprehensive strategy is an indispensable basis for successful change processes.

RESULTS AND DISCUSSION

Sixty-four managers of different German companies, industry sectors and company sizes were interviewed via an electronic questionnaire. 54 for-profit and 10 non-profit organizations participated in the survey. All ten non-profit organizations are public companies. 58% of the sample comes from the service sector, 17% from the industry sector and 11% from the trade sector, which roughly corresponds to the distribution of industries in Germany. In the sample, there are 29 small companies (up to 100 employees), 17 medium-sized companies (between 101 and 1.000 employees), eight companies between 1.001 and 10.000 employees, eight companies between 10.001 and 100.000 employees and 2 very big companies (more than 100.000 employees).

Figure 1 shows how frequently the companies surveyed conduct a strategy process. These results show that only about one-third of the companies surveyed (36%) regularly go through a structured strategy process. 22% have a structured process, but do not go through it regularly. 14% have either no structured process or don´t go systematically through it. 28% have no process at all for identifying their strategic priorities.

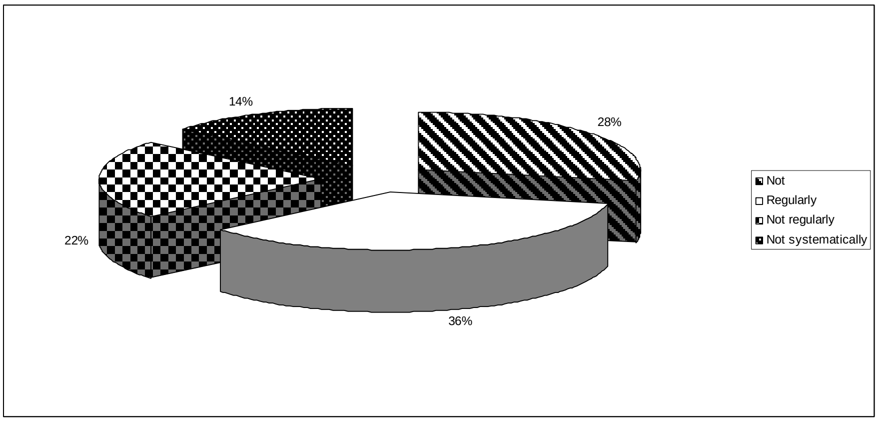

Fig. 1. The Systematic Strategy Process is Conducted
Source: own source, 2013.

19 of the 54 commercial companies (35%) regularly carry out a systematic strategy process. Among public companies four out of ten (40%) do this (see Fig. 2). The differences are not very significant, which means that private and public companies hardly differ in their implementation of systematic strategy development processes.

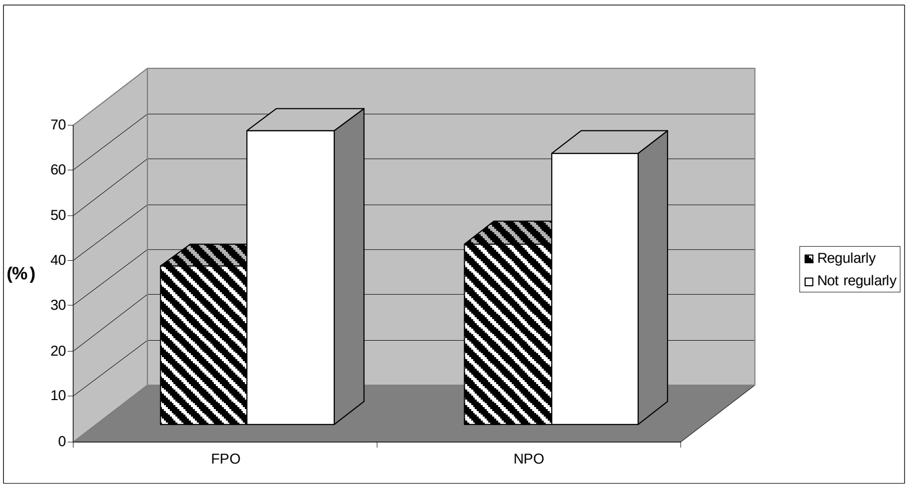

Fig. 2. Comparison of For-Profit Companies (FPO) and Non-Profit Companies (NPO) Regarding Regular Execution of Strategy Processes
Source: own source, 2013.

The sample includes 35 medium and large enterprises with more than 100 employees and 29 small businesses with up to 100 employees. Among the medium and large companies, 19 companies (54%) regularly carry out a systematic strategy process. Among the small companies, only four entities do so (14%). Therefore, it can be assumed with high probability that medium and large companies run regular systematic strategy processes to a significantly greater extent than smaller companies. In addition, the survey has clearly indicated that corporations run systematic strategy processes more regularly than sole proprietorships or partnerships.

Comparison of industry sectors reveals the following situation: eleven out of the 37 service companies (30% – see Fig. 3) perform a systematic strategy process regularly, out of the eleven industrial companies – seven (64%) and out of the seven trade companies – two (29%) do so. The study leads to the assumption that there are differences between industry sectors in the regular carrying out of systematic strategy processes. This result indicates that the proportion of companies that carry out regular systematic strategy processes is relatively high in the industrial sector.

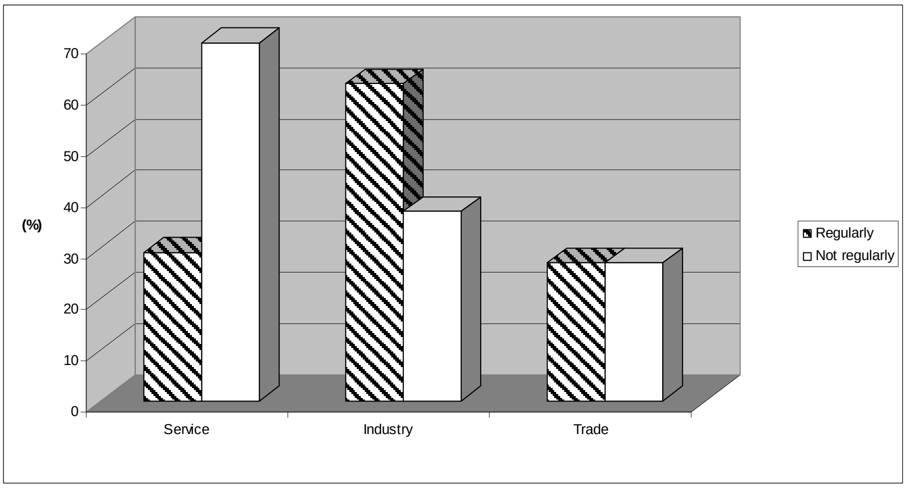

Fig. 3. Comparison between the Three Sectors of Industry Regarding Regular Execution of Strategy Processes
Source: own source, 2013.

Next, we consider the question of whether companies that consistently carry out strategy processes are more successful than others. Twelve out of 19 companies that regularly run strategy processes (strategy developer – 63% – see Fig. 4) show growth or even rapid growth (turnover development). In the group of 35 companies that are not consistent with their strategy (non--strategic), 23 companies (66%) show growth or rapid growth. The results obtained are thus very similar and so it cannot be proved that regular strategy processes lead to more revenue growth.

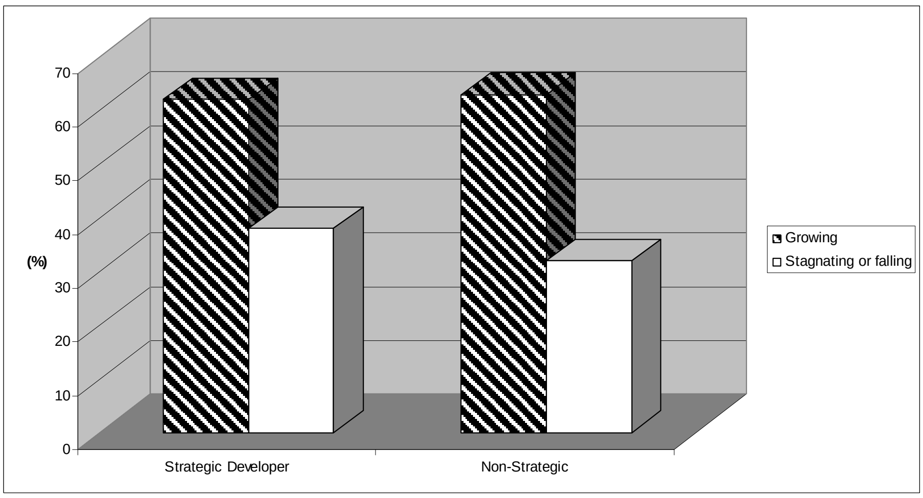

Fig. 4. Comparison between Companies that Regularly Perform Strategy Processes (Strategy Developer) and the ones which do not (Non-Strategic Developers) with regard to their Turnover Development
Source: own source, 2013.

Eleven out of the 18 companies (61% – see Fig. 5) that have gone through the strategy process regularly (strategy developer) generate an EBIT margin greater than 10%. 19 out of the 30 companies (63%) that either don't go regularly or not at all through the process (non-strategic) also generate an EBIT margin of more than 10%. The survey shows that the surveyed companies to a large extent achieve good profits. This applies both to strategy developers as well as to non-strategic companies. However, the survey did not prove that that companies which are consistent with their strategies achieve higher profits than their less strategically aligned competitors.

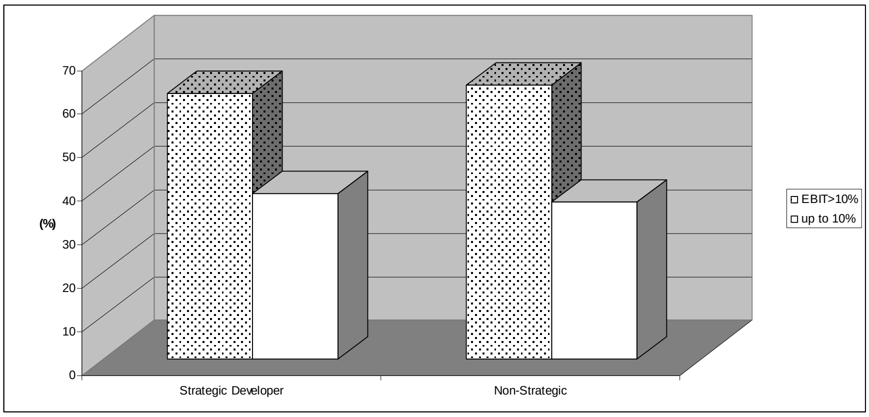

Fig. 5. Comparison between Strategy Developers and Non-Strategic Developers in Respect of their EBIT Level
Source: own source, 2013.

When asked about the tools used, it is striking that most of the managers state that they conduct market analysis and competitive analysis, but the specific tools for strategy development as described in the literature, such as product life cycle, portfolio or scenario are either hardly used or not even known. As deeper analysis shows, this is especially true for the group that did not regularly perform systematic strategy processes.

Tools such as benchmarking, scenario, Strategy Maps, risk analysis, Balanced Scorecard, product life cycle and portfolio are significantly more used by the group that systematically deals with strategies. SWOT analysis, however, seems to enjoy widespread popularity. It is considered one of the more specific tools and is used by both groups (see Fig. 6).

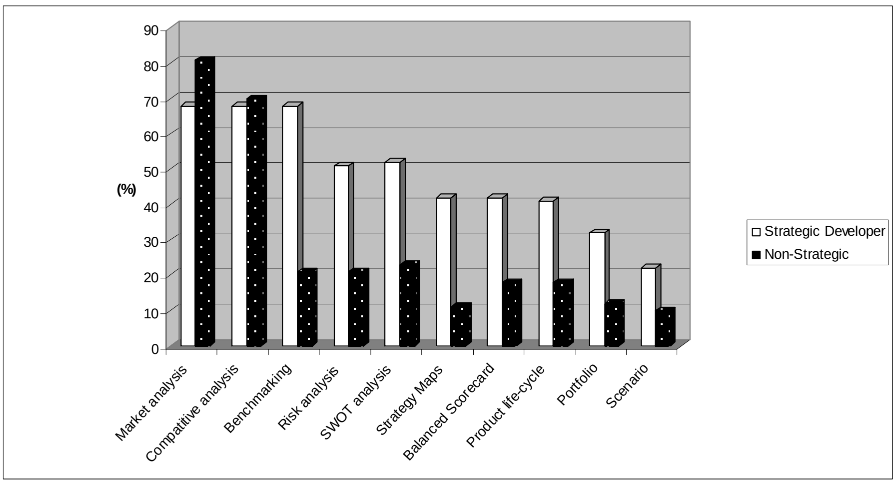

Fig. 6. Which Tools are Used? Comparison Between Strategy Developers and Non-Strategic Developers
Source: own source, 2013.

In the majority of the companies surveyed, the process leads to formulation of strategic objectives (see Fig. 7). In addition, product focus and target groups are derived. Managers also state that the strategy process specifies what not or no longer has to be done.

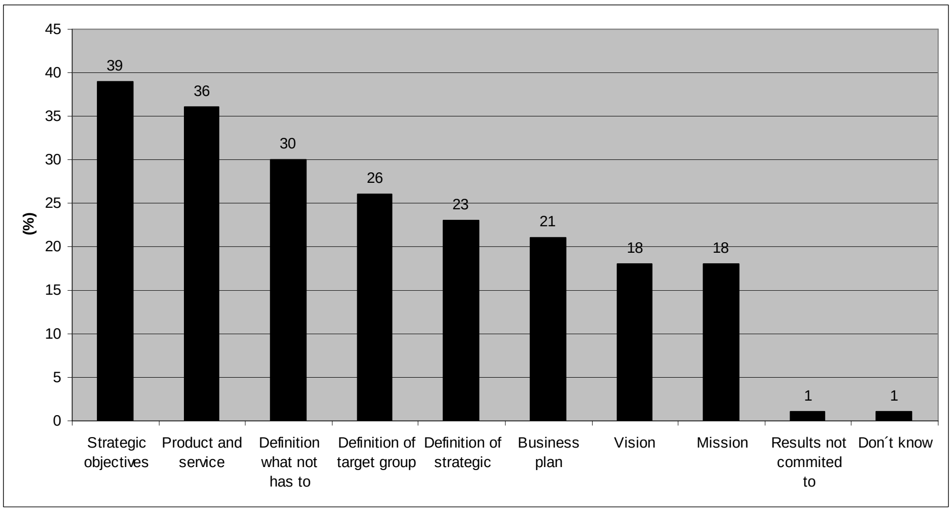

Fig. 7. Results of the Process
Source: own source, 2013.

On closer inspection (see Fig. 8), it can be observed that companies with systematic strategy processes (strategy developer) in much greater extent derive strategic objectives and are also much more inclined to support them with strategic indicators.

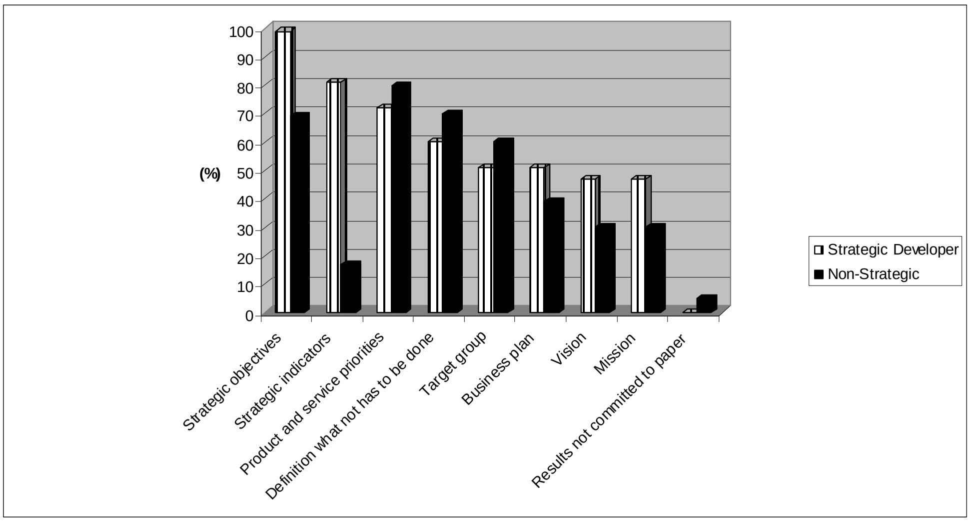

Fig. 8. Differences in Results of Strategy Processes between Strategy Developers and Non-Strategic Developers
Source: own source, 2013.

If we compare public enterprises (NPO) with strategy developers, we obtain a similar pattern as above. In particular, the definition of strategic objectives, business plans and strategic indicators are significantly less pronounced than in companies with systematic strategy process The result shows that NPOs obviously put much less emphasis on clear objectives and indicators for target tracking, including related business plans. This could be because in many cases they are not measured as consistently as FPOs regarding the achievement of targets. The definition of what has not or no longer to be done is more strongly pronounced in NPOs. The results of the strategy process in some NPOs are not committed to paper.

Figure 9 shows that, in 65% of the cases, the organization will be adjusted if the strategy process indicates this is necessary (Chandler (1190) describes this as “structure follows strategy”). Here strategic enterprises differ significantly from others. For strategy developers, their strategy has a much higher impact on the organization.

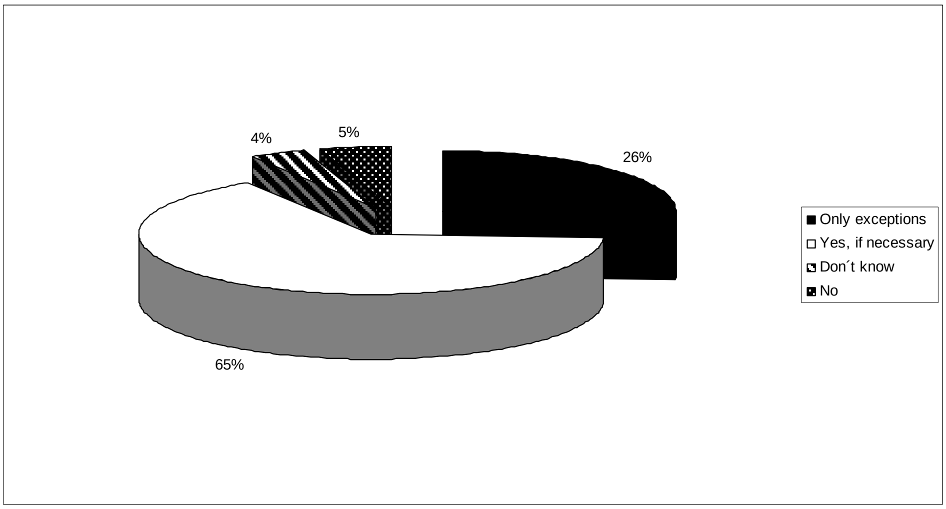

Fig. 9. Does the Process Lead to Organizational Changes?
Source: own source, 2013.

In 86% of the strategy developing companies, the organization will be adjusted as a result of the strategy process. For non-strategic developers this occurs in only about every second enterprise (see Fig. 10). Non-Profit Organisations behave more or less in the same way as non-strategic developers. Exactly 50% out of the 8 Non-Profit Organisations that perform any kind of strategy process let the organisation follow the strategy.

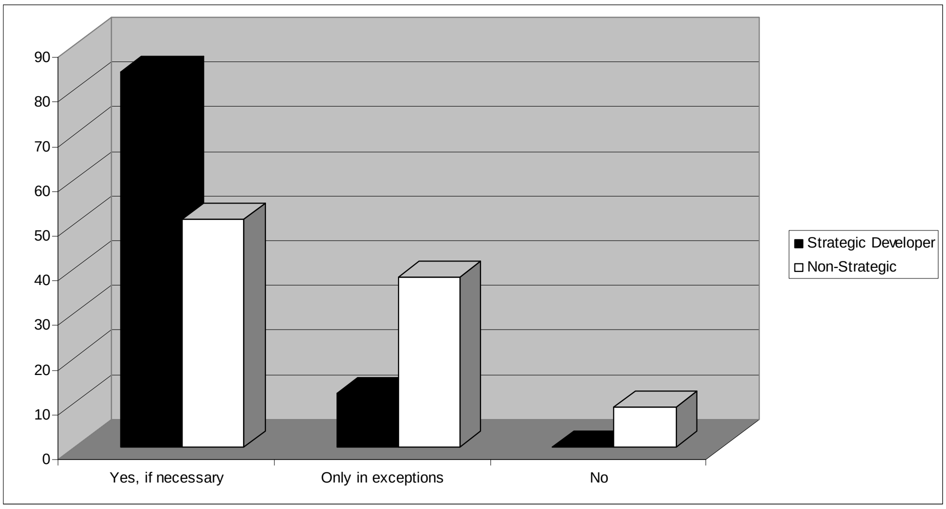

Fig. 10. The Structure Follows Strategy – Comparison of Strategy Developers and Non-Strategic Developers
Source: own source, 2013.

The main objective of strategic considerations of companies seems to be the choice of products and services to be offered in the market (see Fig. 11). All examined groups practically do not differ from one another on this point.

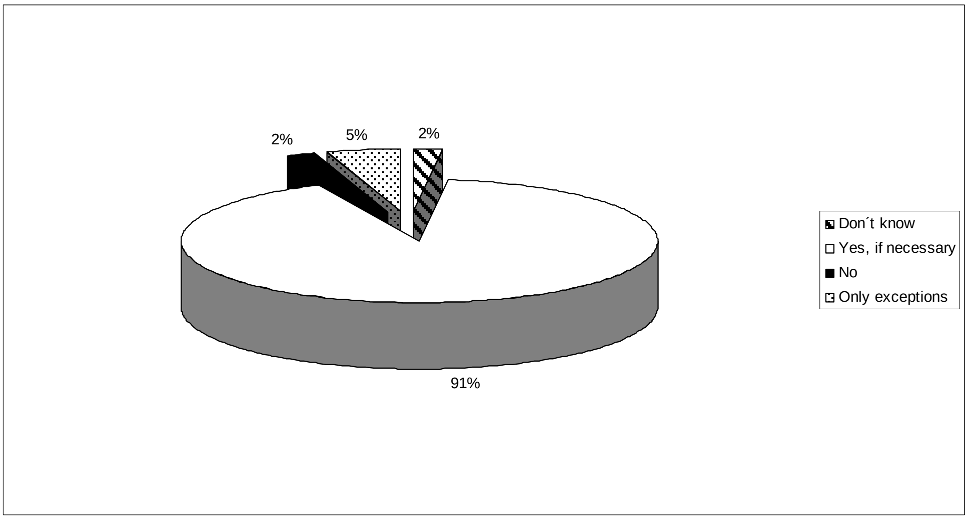

Fig. 11. Products and Services are Affected
Source: own source, 2013.

In nearly three-quarters of the companies, strategy processes have implications for staff development – in case it is needed. This applies in a similar manner to all groups studied.

Figure 12 shows that employees are fully familiar with the strategy in 31% of cases. In 60% employees are partly familiar with strategic statements. This value is absolutely the same for companies consistent in their strategy development and the ones that do develop strategies, but not in a systematic and consistent way. It is amazing that in the group of companies that develops no strategy process at all, the responses are very similar to the one given by the two aforementioned groups.

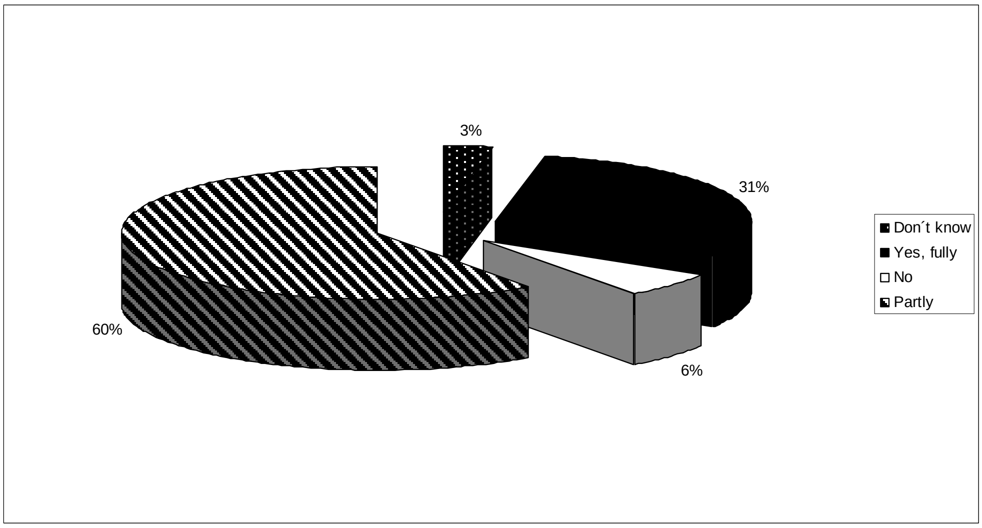

Fig. 12. How All Employees are Familiar with the Strategy
Source: own source, 2013.

Strategy developers and NPOs show no abnormalities that indicate any differences with regard to their staff familiarity with the company's strategy.

The effort companies put into the development of strategies pays off especially if the strategies help companies manage crisis situations better. Many companies in Germany were affected by the economic crisis of 2008/2009. Figure 13 shows that about half of the respondents believe to have benefitted from their strategy during the crisis. The other half is either not sure or does not believe to have benefitted. Again here, it is worth going deeper into the evaluation.

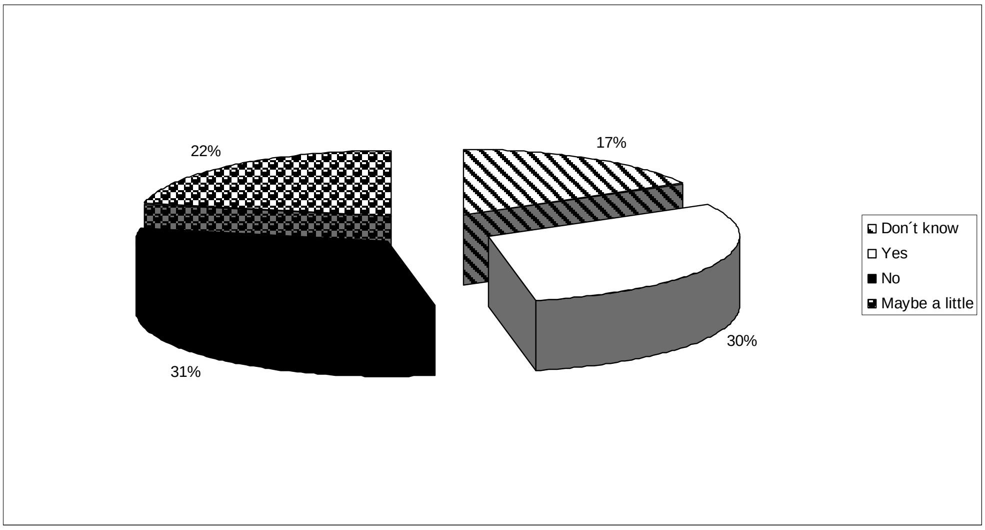

Fig. 13. Strategy is Helpful for Coping with the Crisis
Source: own source, 2013.

The companies that go through strategy processes on a regular basis, could benefit from their policies in the economic crisis 2008/2009. The companies with unsystematic strategies could benefit much less from their strategic preparation - exactly like the companies without any strategy process. Public companies (NPOs) could hardly benefit from their policies. This shows that for strategy developers strategy in the crisis was much more helpful than for non-strategic developers and NPOs. However, the latter may also be because public companies were far less affected by the economic crisis than private companies. In some cases the crisis affected public companies with considerable delay.

CONCLUSIONS

A Strategy needs to lead to an economical use of the forces within an enterprise. The aim is to use the forces in such a way that a competitive advantage arises for the company. In a process with clearly structured phases and through the use of appropriate tools the added value for the customer can be identified, goals can be derived and the organization can be aligned accordingly.

Some authors fear that a formal strategy process suppresses creativity and thus does not lead to optimal results. The risk does indeed exist, but should not be overestimated. Firstly, it may be addressed through the use of appropriate tools for stimulating creativity and adequately moderated. On the other hand, management teams are greatly challenged by consistently working on strategy processes.

Only 36% of the interviewed companies engage in a structured process aimed at identifying their strategic priorities. This applies equally to for-profit companies and non-profit companies. In case of large companies, with more than 100 employees, the result improves in favour of strategy development. Nevertheless, almost half of the larger companies also do not regularly perform structured processes. These results are astonishing because almost 80% of the interviewed managers stated that, in their view, a systematically elaborated strategy is very important or even critical for their company´s success. An explanation for this discrepancy may be that, first of all, a certain amount of effort has to be put in the development of a strategy. In addition, the company must have already invested in previously identified recent and future potentials. Thus, the current balance is debited. The return on investment can be expected only in the future. Implications stemming from these results confirm hypothesises 1 and 2.

Manufacturing companies deal with strategy development more intensively than service companies. This is partly due to the fact that development cycles in the manufacturing industry are usually much longer than in the service industry. Manufacturing companies are forced to identify consumers' needs early and to adjust their product portfolio accordingly. Systematic observation of customers and markets reduces the risk of faulty decisions that would be difficult to correct in the short term due to long lead-times.

In this study, companies that regularly perform systematic strategy processes were compared with companies that do not run strategy processes at all or do not run strategy processes regularly or not systematically, both in terms of their turnover development and in terms of their EBIT margin. In this comparison it could ultimately not be proven that companies that regularly perform systematic strategy processes achieve better turnover growth or a higher EBIT margin than their less strategic competition. Hypothesis 3 has not been fully confirmed.

When asked about the instruments used, most of the managers reply that they conduct market analysis and competitive analysis. But specific tools for strategy development, such as product life cycle, portfolio or scenario are either hardly used or not even known. This is especially true for the group that did not regularly perform systematic strategy processes.

The definition of strategic goals, which are also backed with verifiable indicators, is more pronounced in strategy developing companies. The result is that the strategy can be effectively put into practice and the implementation can be tracked consistently.

In companies with a systematic strategy process, the strategy leads more often to organizationnal changes than in companies without systematic strategy processes. Here non-profit organisations behave more or less in the same way as non-strategic organisations. In addition to adapting the organization to changing market circumstances, the strategy process results also in adaptation of the staff. This also applies equally to strategy developers and non-strategic companies. Hypothesis 4 has been thus confirmed.

The main objective of strategic considerations is the choice of products and services to be offered in the market. This applies to the same extent to strategic businesses, non-strategic businesses and for profit as well as for non-profit companies.

In most companies employees are not really familiar with the strategy. Strategy developers are much more likely to use the results of their strategy process to argue the need for change, to persuade sceptics, blockers and resisters than the other surveyed groups.

In the economic crisis of 2008 and 2009 companies that engaged in strategy processes on a regular basis benefited from their policies. The companies with unsystematically developed strategies could benefit much less from their strategic preparations. This point is remarkable because strategies are particularly important when there is a problem in the market. In good times companies can achieve good results with little strategic alignment. But in crisis situations the wheat is separated from the chaff. Companies with well thought through strategies clearly leave the competition behind**.**

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