

Current situation and trends in creating corporate strategy

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Abstract

Purpose of the article In current corporate practice, strategic situation analysis methods fail in generating corporate strategy. Not all analytic tools can be considered suitable and effective. The article presents the results of complex research on business entities in the Czech Republic focused on the area of creating corporate strategy, or the level and anticipated trends in strategic management and decision-making.

Methodology/methods The tested sample included 456 companies from the Czech Republic, further classified by their size (109 micro enterprises, 140 small enterprises, 124 medium-sized companies and 83 companies with more than 250 employees), sector (201 manufacturing and industrial enterprises, 255 companies from the services sector) and location of their business activities (189 regional companies, 126 national companies and 141 multinational companies). By using Pearson's chi-squared test, dependence / independence of selected internal and external methods of strategic situation analysis on creating corporate strategy are tested.

Scientific aim The objective of the article is to analyze and assess the application of the strategic situation analysis methods in creating a corporate strategy and the corporate sphere top managers awareness of such methods.

Findings The results obtained showed that the application of strategic situation analysis is insufficient and rather schematic. In a number of cases, it was found out that top managers often lack knowledge of basic rules and principles of strategic corporate management.

Conclusions In the period of slowing economic growth, insufficient application of strategic situation analysis methods can be considered a critical element in terms of a company future competitiveness. In the conclusion, the authors present a vision of a new approach in generating corporate strategy based on the industry value chain and new approach to determining and analysis of business environment.

Keywords: strategic situation analysis, corporate strategy, value chain, corporate environment, strategic management and decision-making

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Introduction

Most of top managers of leading companies in the Czech Republic in personal interviews emphasize the importance and irreplaceability of strategic thinking and decision-making for management and decision-making processes while criticizing the current level of theoretical knowledge in this area. They document failures or ineffectiveness currently used or recommended strategic analytical methods concentrated in so-called strategic situation analysis (SA). These methods are a basis for teaching at universities within the subject Strategic management. The reasons of low efficiency of these methods in generating corporate strategies include constantly intensifying changes in corporate environment, as well as the fundamental changes in economic Framework where the companies conduct their business activities. It can be reasonably assumed that in the period of economic growth that is currently fading out in our economy, the need for generating corporate strategy is reduced in the minds of top managers. However, in terms of the strategic thinking needs and principles it should be reversal. In the period of economics growth it is necessary to design a corporate strategy from the perspective of expected decrease in the economic growth, which can result in a significant competitive advantage for the business entities in the future. The authors of the article had the opportunity to visit a number of such companies person-ally within the framework of a long-term mutual cooperation. The strategic materials prepared by the companies based on this principle were inspiring and motivating for the authors to intensify their research activities to create a new methodology for generating corporate strategy, especially on the basis of a value chain analysis and a new approach to define and analyse corporate environment.

1 Literary research

The concept of strategy dates back to old human history 2500 years ago, the period of Ancient China and Greece, but this was related to the concept of military strategy. The emergence of strategic management as an independent science dates back to the 1960s – 1970s. H. Mintzberg (1990) moves this important date even 10 years back, into the 1950s, in relation with publication of the first work dealing with the explanation of strategy, V.H. Newman's book, *Administrative Action*, in 1951. The first book with "strategy" in the sense of strategy related to the behaviour of a business entity (*Strategy and Structure*) was published in 1962 by Alfred Chandler (Clegg et al., 2011). Since the origins of strategic management as an independence science strategic management theory aimed primarily at systematical conducting of corporate practice has been constantly changing and evolving (Tan and Ding, 2015; Hoskisson et al., 1999). Currently there is no uniform theory that could serve as a base for corporate practice. H. Mintzberg (1990) determined ten basic schools of strategic management in terms of their approach to strategy (Design School, Planning School, Positioning School, Entrepreneurial School, Learning School, Power School, Cognitive School, Cultural School, Environmental School and Configuration School). His work was followed by a number of other authors (Prahalad, Hamel 1990; Whittington, 2001; Mallya, 2007; Vodáček and Vodáčková, 2009; Kourdi, 2009; etc.), who strived for a certain "simplification" and reduction of the approaches generated. As major and most cited strategic management theories can be considered the following ones: positioning theory (Porter, 2012, 2015), internal resources-based theory (Barney, 1991) and knowledge-based theory (Drucker, 1988; Nurmi 1998). Since the later half of the 20th century there have been witnessed intensive efforts to create and conceptualize new approaches and theories, management methods and tools, which are related to the fundamental changes that have taken, or are taking place in the corporate environment in the world, or European economy.

Especially in the last third of the last century it became clear that the used way of managing companies based on the static perception of processes occurring in the market economy, their predictability, repetition and linear progression is, in terms of existing dynamic development in the corporate sphere, unsustainable. It is not incidental that the corporate environment is currently referred to as turbulent, the processes occurring as discontinual; globalization and internationalization processes are taking place with high intensity. The requirements placed on top managers are increasingly higher, especially in terms of their ability to be good strategist and visionaries (Clegg et al., 2011; Andreeva and Kianto, 2016). A new perspective on managerial work, strategic management and decision-making in terms of new economy started to emerge. Corporate strategists should monitor not only the operation of the companies, but also their environment so that they could record the changes and respond to them flexibly with the aim to eliminate negative impacts, particularly as a result of in-creasing competition.

According to the existing strategic theory management, in order to formulate a corporate strategy, a strategic situation analysis is used, which by means of internal and external strategic analyses (analytical tools), analyses and evaluates the internal and external company environment. Want (2007) states that for each analytical tool, its expected contribution should be clearly defined, and the application of analytical tools is often based on the

cooperation with external business entities and is usually financially and time consuming. Downey (2007) states that all analytical tools are based on historic, past data that extrapolate the future assumptions. He points out that in interpreting the results it is necessary to be careful, since the results can be influenced by prejudices or pressures arising from the company. Frost (2003) describes that the tools and management tools support strategic thinking of managers and reduce the risks associated with the decision-making. Knott (2006) has a similar opinion, claiming that the role and tasks of strategic management tools and techniques form a basis for strategic thinking, and are a starting point for structuring strategic management activities.

The most widely used analytic tool is a SWOT analysis, which is a very popular tool not only in the Czech Republic but also among organizations in Great Britain (Gunn and Williams, 2007) or Australian companies (Frost 2003), then customer satisfaction analysis, Porter's five forces model, PEST analysis, benchmarking and portfolio analysis methods. These methods are used by more than 50 % of business entities, as Gunn and Williams (2007) say. Abdhussien and Hamza (2012), Williams and Naumann (2011) emphasize the value chain analysis and benchmarking, since these can reduce costs, improve product quality and evaluate a company performance.

The beginning of the 21st century means an important moment in the strategic management as a scientific field. Creating corporate strategies based on the principle of analytic strategic methods for the internal and external environment started to fail in the corporate sphere. A crucial stage in approaching the situation analysis methods were the works of Porter (2012, 2015), who claimed that a corporate strategy does not depend on the ability to predict changes. However, what is important is a detailed awareness on which groups of customers and which needs will be dominant in the following three and five years. The same author also admits that a good analysis is of a crucial importance; in his opinion, however, it is not reasonable to create a corporate strategy in advance, since finding a really good strategy suitable for a company is a matter of several years (Magretta, 2012). Abraham, (2012) and Duggan, (2007) mention the differences between the analytical approach and creating a strategy. An important moment in terms of creating a corporate strategy was a publication of Michael Porter's work, *Competitive Advantage*, in 1985. He specified the importance of the value chain, which is defined by Porter as a powerful tool that allows dividing a business into strategically important activities resulting in higher prices or lower costs (Magretta, 2012). Many other authors, such as Hill and Jones (2001), Robbins and Coulter (2004), Mallya (2007), Blažková (2007), Zuzák (2011), Feller et al. (2006), Weele, (2009) etc. deal with a value chain concept.

The authors of the article respect and do not diminish the importance of strategic situation analysis when evaluating the internal and external corporate environment. The value chain analysis, including the analysis of the internal industry structure, however, considered principal in generating unique and original value chains of the individual business entities. Only a corporate strategy created this way can provide the company with the required competitiveness and sustainability in the newly emerging geographic and economic framework of the world, Europe, region or municipality.

2 Material and methods

The research was carried out on the sample of 456 companies in the Czech Republic. The sample included 109 micro companies, 140 small companies (up to 50 employees), 124 medium-sized companies (up to 250 employees) and 83 large companies (above 250 companies). The prevailing presence of small and medium-sized companies in the sample corresponds with the typical structure in the Czech Republic, for which small and medium-sized companies are characteristic. The companies were further classified according to the industry sectors in the Czech Republic - production and industrial companies (201 companies) and service sector companies, but also by the location of their business activities into regional (189), national (126) and multinational (141) companies.

Two hypotheses were formulated:

- H1: Situation analysis is in Czech corporate practice intensively used for projection of corporate strategy and development priority-setting.
- H2: Top managers' command of methods for internal and external environment analysis is sufficient for their implementation, evaluation and subsequent implementation of the results obtained into corporate practice.

In terms of statistical methods, Pearson's chi-square test to identify the dependence / independence of selected category variables (internal and external strategic analysis) was used to create a corporate strategy. The formula for Pearson's chi-square independence test is as follows:

$$x^2 = \sum_{i=1}^r \sum_{j=1}^c \frac{(n_{ij} - e_{ij})^2}{e_{ij}} \quad (1)$$

X^2 chi-square

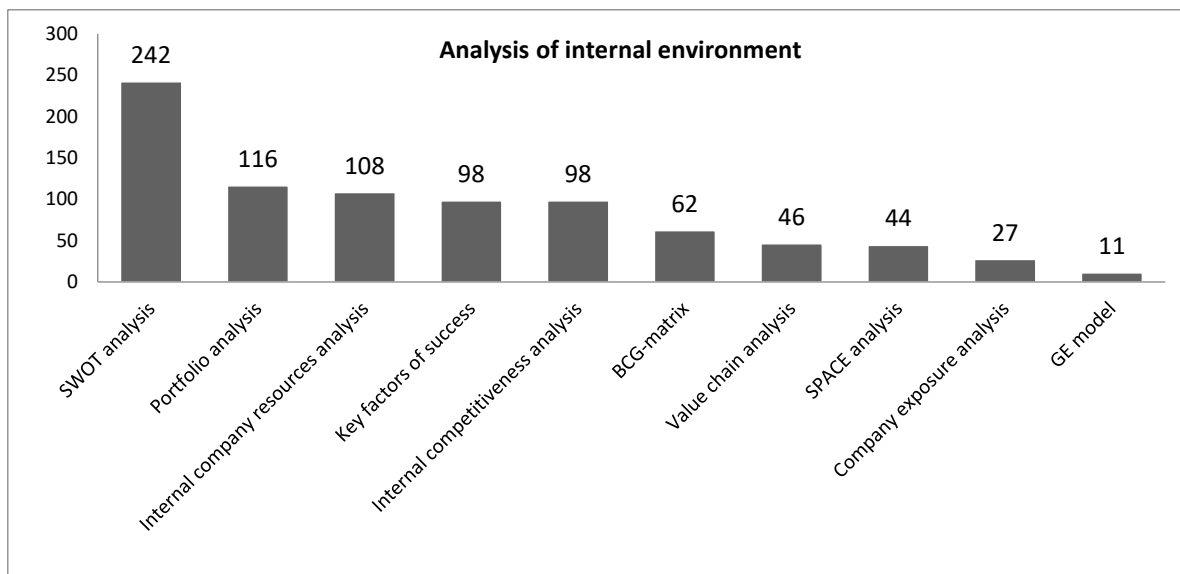
X_i empirical frequency (actual)

N_{pi} theoretical frequency (expected)

In the tests, two hypotheses are assumed, null (H_0) and alternative (H_A). H_0 (no dependence between the selected features), H_A (dependence between the selected features). The evaluation criterion for verification of rejection of the hypothesis is p-value, whose values are in the interval $\langle 0,1 \rangle$. If the resulting p-value $< \alpha$ (with the fixed significance level $\alpha = 0.05$), H_A is verified.

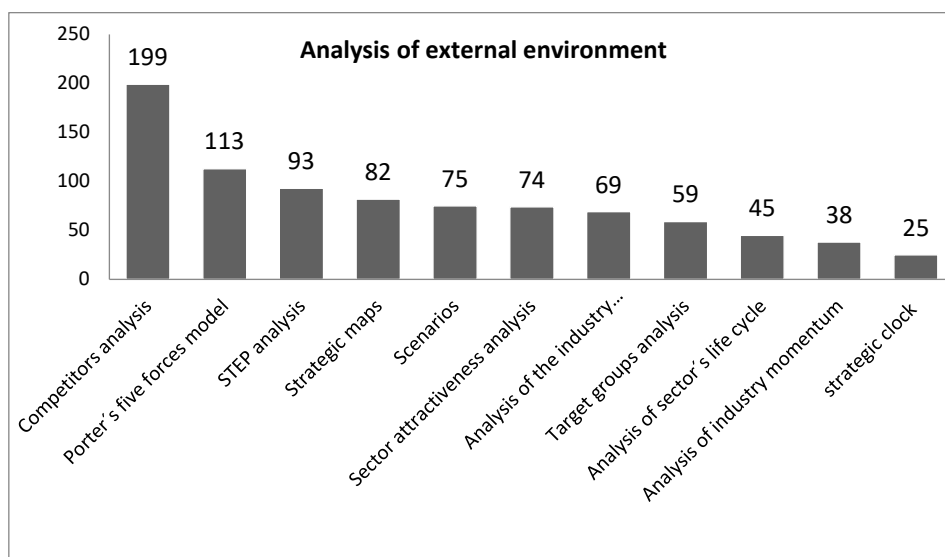
3 Discussion

The following graphs show the frequency of applying strategic situation analysis methods divided in methods for internal environment analysis (internal strategic analysis) and external environment analysis (external strategic analysis).



Source: Own research

Figure 1 Frequency of using strategic situation analysis methods for evaluating the internal company environment



Source: Own research

Figure 2 Frequency of using strategic situation analysis for evaluation of external corporate environment

It results from Graph 1 that within the Czech Republic corporate sphere internal environment analysis, the most frequent one is the SWOT method, then portfolio analysis and internal company resources analysis. In terms of analysing the external company environment (Figure 2), the most frequently used method is the competitors analysis, analysis of sector's internal structure – Porter's five forces model, and STEP analysis. The results point to the fact that more than 50 % of the companies tested does not use any of the strategic methods. In this relation, a question arises on what basis and using what methods and procedures the strategic materials are processed and what determines the decision-making of company managers. Interviews with top managers of leading companies, especially in the South Bohemian region, indicate the growing need to create an appropriate methodical and practical procedure for generating corporate strategy. The need for this procedure is enhanced by the need to provide company managers with adequate information for their relevant strategic planning and decision-making in their day-to-day management practice.

Table 1 Dependence of generating corporate strategy on company sector, size and location of business activities in internal analyses

Analysis	Sector (p.value)	Company size (p.value)	location of activity (p.value)
SWOT analysis	0.8921	0.4663	0.4305
Portfolio analysis	0.3586	0.8461	0.1377
Internal company resources analysis	0,3162	0.4976	0.5966
Key factors of success	0.9874	0.1927	0.2976
Internal competitiveness analysis	0.3086	0.4195	0.9636
BCG-matrix	0.871	0.4078	0.9106
Value chain analysis	0.008428	0.1927	0.6386
SPACE analysis	0.913	0.3004	0.887
Company exposure analysis	0.6613	0.9451	0.3936
GE model	0.6139	0.7167	0.5219

Source: own research

The results in Table 1 confirm the dependency of only one analysis – value chain analysis in terms of sector classification of the tested companies. This finding is fully inline with the corporate strategy generating theory, which states that value chain is one of the key elements for creating a successful corporate strategy. Other internal analyses showed no statistically significant values, both in terms of size and location of the activities of the companies tested. These results include, inter alia, the reflection of a gradual change in globalization processes that are giving way to national, regional and local specifics. Gradually, the geographical form of the world economy map, new economic centers appear (China, India, etc.) while the competitive tension grows on the world markets. It is not possible to identify a set of key factors for internal company environment applicable to all three assessment plans. What is very positive is highlighting the role of value chain for strategic management and decision-making, which is a significant qualitative step forward in the managers' awareness.

Table 2 Dependence of preparing corporate strategy on sector, size and location of business activities of company in external analyses

Analysis	Sector (p.value)	Company size (p.value)	location of activity (p.value)
Competitors analysis	0.6514	0.1242	0.5069
Analysis of competition in the sector (Porter's five forces model)	0.7713	0.671	0.6984
STEP analysis	0.8112	0.3615	0.1917
Strategic maps	0.198	0.437	0.7463
Scenarios (prediction of company external environment development)	0.429	0.6221	0.8786
Analysis of sector attractivity	0.1391	0.8971	0.903
Analysis of sector's economic characteristics	0.935	0.7879	0.2913
Analysis of target groups	0.8808	0.04944	0.9808
Analysis of industry's life cycle	0.5083	0.4595	0.1912
Industry momentum analysis	0.4083	0.01219	0.09801
Strategic clock	0.8145	0.3031	0.2803

Source: Own research

Table 2 shows the overview of external strategic analyses dependence on creating a corporate strategy in terms of the sector, size and location of the activities of the companies tested. Statistically important values have been indicated for two external analyses (analysis of target groups and industry momentum analysis), but only in terms of size category of the tested companies; lower dependence can be seen only for industry momentum analysis for the category of location of company activities. What is interesting is the lack of Porter's five forces model, or analysis of the industry internal structure, which is considered to be a very important one in terms of theory and absolutely necessary in terms of generating corporate strategy. This result can be partially influenced by the fact that the research was carried out in the period of strong economic growth. This fact does not necessarily mean that the tested companies did not consider the key factors determining the internal industry structure, but that they were not given particular attention to.

Conclusion

Based on the results of the research, the authors cannot make a final and comprehensive conclusion on the issue solved. Nevertheless, they can describe the current situation in the corporate sphere in terms of the existing level and forms of strategic management and decision-making and predict the expected development in this area.

Creation of a corporate strategy has assumed a theoretical knowledge and practical application of strategic methods for analysing internal and external company environment. However, the results have confirmed the authors' assumption that nearly a half of the companies tested do not use any of the strategic situation analysis methods.

This statement rejected the first hypothesis. A question therefore arises on what basis and using what methods and procedures the strategic materials are processed, especially in terms of medium-sized and large companies. The top managers were also identified a lower level of knowledge in strategic management and decision-making, especially in the case of companies based outside the Czech Republic, thus rejecting the second hypothesis.

In internal strategic analyses, the dependence on creating corporate strategy was demonstrated only for the value chain analysis, in terms of the sector category, which is a very positive finding especially in terms of the future development and the need to provide an effective tool for generating successful, competitive corporate strategies. In the case of the world's most widely used SWOT analysis, the dependence has not been proved. Emphasizing the role of the value chain for strategic management and decision-making can be considered a significant qualitative step forward in the minds of top managers. This fundamental change can be justified also by growing dominance of new economic relations and links within the global economic system.

External analyses showed the dependence on processing the corporate strategy in terms of size of the companies tested, mainly in the case of target groups analyses and industry momentum analysis. A surprising and unexpected finding is the absence of internal industry structure analysis (Porter's five forces model).

Based on the aforementioned conclusion it can be stated that the fundamental changes are necessary in the area of using strategic situation analysis methods in corporate practice. Besides the alarming lack of knowledge of theoretical foundations and practical skills in strategic management and decision-making, top managers have more frequently bring up a question of their effectiveness and efficiency. The research of the article's authors showed that it is appropriate to analyse the company environment in its integral form, that is, in balance and integrity of its sub-components (external and internal corporate environment), as well as the value chain. The application of a newly created value chain analysis method the authors of the article are currently working on can be considered a prospective procedure when generating an original and unique competitive strategy of the given company. The negative findings described in the article in terms of methods and tools for generating corporate strategy are intended not only for top managers in the corporate sphere, but it is also a topical challenge for research organizations, including universities.

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