

STRATEGIC MANAGEMENT IN A SAMPLE OF GERMAN COMPANIES

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ABSTRACT

For strategic decisions making is the excellent knowledge of the internal and external environment important. Today managers have a number of tools that help them to see where their journey is leading. Therefore this paper deals with the analysis of the external environment of German companies taking into consideration the most recent economic and social trends. The result of the performed analyses is the statement, that German private and public companies have fair conditions for their entrepreneurial activities. The conducted questionnaire research shows which strategic management tools are used in the analysed sample of companies in order to develop and implement their strategies in successful way. Different ways of communications, the familiarity of employees with strategy, the outcomes of strategic management process, as well as the readiness of the companies to face the economic crisis are being examined. According to the results, strategic planning is inherent to 42 % German top managers in the studied sample.

KEY WORDS: strategic management, business model, communication tools, analysis of the external and internal environment

INTRODUCTION

Many managers are faced from time to time with new management tools. Strategic approaches are usually well accepted by the progressive and open-minded managers. The basis for the development of a suitable strategy is less a question of what return on capital or what profit has to be achieved, rather it is the question of what value for the customer is going to be created. This paper is focused on the topics that how companies can effectively use strategy development and its individual tools. This process have to take into account the relevant data in the form of numbers, facts and figures, and it also needs to be structured in such a pragmatic way that it can be followed and performed by a management team. It must also be transformed as a tool to practice, forming the basis for everyday and extraordinary decisions.

Clausewitz (2008), who is sometimes cited as the first strategist, described strategy as the economy of force. It is about joining the existing forces and using them economically. According to Drucker (2007), strategies help to predict the impact of current decisions on the future of an organization. Gälweiler (2005) and Scheuss (2008) indicate that strategy also describes the art of governance. Gälweiler (2005) sees strong parallels between the military strategy and the company's strategy in the completely same thinking methodology. However, he also sees basic differences between military strategies and business strategies. One point is that there is always at least one winner and one loser in military strategies. Instead, the aim of a corporate strategy is to prevent from letting it come to a dangerous opposition. Military objectives in general have to be achieved in the shortest possible time, while the corporate strategic goal always has to ensure the company's success over the longest possible time. For Barney and Hesterly (2012) a firm's strategy is defined as theory about how to gain competitive advantage. A good strategy is a strategy that actually generates such advantages. Malik (2012) points out that in today's business dealing with complexity is a strong challenge. The strategy assumes the role as master control – a supreme principle of regulation, which is

compulsory for the organization as a whole up to its capillaries. It's a universal design, steering and guiding tool, focused on the self-organization and self-adjustment of a company. For Scheuss (2008) strategy and management belong closely together. The strategy bundles the power as far as possible, in order to strengthen the clout. The implementation is possible only through effective management. Ansoff (2007) developed a matrix that focused on the company's present and potential products and markets. There are four possible product-market combinations: Existing products and new products in existing markets and in new markets.

MATERIAL AND METHODS

The main objective of this paper is to show to what extent the management of companies can receive clear, actionable and traceable goals and priorities through a strategy, developed systematically, in consecutive steps and in such a way that its chance of success increases significantly. In the paper is also defined the external environment of the German companies. Furthermore the aim is to point out what kind of strategic management's tools are used by the German managers and what are the ways and tools for communication of the strategic decisions with managers placed at the lower level of the managerial pyramid and with the employees.

The central component of this paper is survey which is basically a scientific method used 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. In this paper, a qualitative representative survey with standardized questions is performed by means of telephone interviews. The target group of the survey is consists of the managers of private and public companies. These managers are either responsible for the entire company or for the division for which they answer the questions. Within the different groups the data has been received from 12 companies. The telephone interviews were conducted between June and December 2012. Furthermore, to describe the economic and socio-cultural environment of the companies surveyed, some data from official sources is used. The data used was collected from the following authorities: Bundeszentrale für Politische Bildung; Federal Statistical Office of Germany; BMWi.de – Information page of the German Federal Ministry of Economics and Technology; DIW Berlin – German Institute for Economic Research, Berlin; IfM – Institut für Mittelstandsforschung Bonn; BMELV – Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz.

RESULTS AND DISCUSSION

Initial Situation and Framework of the Considered Companies in Germany

The investigations of this paper extend to companies that have their headquarters in the economic region Germany. Many of these companies, however, do international business, which means that they have subsidiaries abroad or sell their products in international markets.

Corporate Landscape in Germany

According to estimates by the institute for medium-size business research (IFM), based on figures from the business register of German's Federal Ministry of Justice, there were 3.7 million companies in 2012. The shares held by the groups, according to the enterprise definition of the European Union (figures for 2009) are shown in Table 1.

Table 1: Companies in Germany in the Year 2009

Company Size	Companies		Turnover		Employees covered by social insurance	
	number in 1,000	%	M* €	%	number in 1,000	%
Micro enterprises (up to 9 employees and up to € 2 million annual turnover)	3,238	90.0	544,078	10.9	3,915	15.6
Small companies (up to 49 employees and up to € 10 million annual revenue)	278	7.7	583,988	11.7	4,717	18.7
Medium-sized companies (up to 249 employees and up to € 50 million annual turnover)	64	1.8	752,036	15.1	5,221	20.7
Total KMU (small and medium Enterprises)	3,581	99.5	1,880,101	37.8	13,853	55.1
Large companies (250 and more employees and / or more than € 50 million annual turnover)	17	0.5	3,098,835	62.2	11,312	44.9
All Companies in Germany	3,597	100.0	4,979	100.0	25,165	100.0

*million

Source: Günterberg, B. (2012)

On 31 December 2011 in Germany one million craftsmen businesses were registered. According to the IFM, in 2010 German companies achieved a turnover of approximately 5.5 billion EUR (2009: 5 billion EUR). To 31 December 2011 in Germany 27 million people - paid mandatory social security contributions have been totally employed (including 1.6 million trainees).

Service businesses in Germany are increasingly becoming upstream suppliers for the industrial sector (Table 2). Today high quality industrial products are unthinkable without specialized services. The service gap discussed in the 1990s was largely closed temporarily. With a value share of around 70 %, Germany is below the share of the United States, the EU-27 and the United Kingdom. This is a reflection of the strong German industrial sector. However, since services are provided in the industrial sector too, in Germany, about 80 % of all employees across all industries are practising service activities. In the crisis year of 2009, the services sector was the engine of economic employment growth of 3.3 %.

In 2011, according to the Federal Statistical Office in Germany there was to a total of 30,099 corporate insolvencies. Additionally, there were 129,319 bankruptcies of other debtors (primary consumers). At the end of 2011, according to preliminary results of the Statistische Bundesamtes (Federal Statistical Office Germany), the population of Germany increased compared to the previous year by 92,000 persons (+0.1 %) to more than 81.8 million. This is the first, albeit small, increase in population in Germany since 2002. The main reason was the significant increase in immigration in 2011.

Table 2: Companies by Industry in Germany in the Year 2009

Industry	Total	Small and Medium Companies	Large Companies
Mining and Quarrying	2,524	2,492	32
Manufacturing	263,501	259,588	3,913
Energy Supply	28,771	28,244	527
Water Supply, Sewerage and Waste Management	13,146	13,010	136
Building and Construction	384,299	384,056	243
Sales, Maintenance / Repair of Motor Vehicles	699,211	695,637	3,574
Transport and Storage	124,746	124,287	459
Hotels and Restaurants	260,392	260,324	68
Information and Communication	130,311	129,898	413
Financial intermediation and Insurance Services	69,830	69,324	506
Real Estate and Rentals	308,599	308,412	187
Freelance, Scientific and Technical Services	483,954	483,488	466
Administrative and support services	177,504	176,922	582
Education	71,553	71,372	181
Health and Social Work	234,700	233,731	969
Arts, Entertainment and Recreation	102,360	102,294	66
Other Services	241,847	241,681	166
All Industries in Germany	3,597,248	3,584,760	12,488

Source: Günterberg (2012)

The climate of the economy deteriorated to the end of 2012, despite that German economy was growing, however, with lower dynamics. Economic growth in 2011 was 3 % compared to 4.1 % the year before. The gross value added amounted to 2,317 billion EUR in Germany in 2011. Of this accounted: agriculture, forestry and fishing 1 %; manufacturing 26.2 %; building and construction 4.6 %; trade, transport, hotels and restaurants 16 %; information and communications 3.8 %; finance and insurance services 4.4 %; land and housing 11.4 %; business services 10.5 %; public services, education, health 17.8 %; other services 4.4 %.

The German economy is characterized by an innovative and research-intensive manufacturing industry. Research expenditure has increased over the past ten years. In 2010, the German Federal Government provided 1.7 billion EUR to fund industrial research. In the same year the manufacturing industry itself invested 46.9 billion EUR in research and development. The automotive industry, mechanical engineering, chemical industry, and electrical engineering are research-intensive sectors. These areas account for approximately 90 % of industrial research expenditures in Germany.

The Common Agricultural Policy (CAP) of the EU largely determines the agricultural policy in Germany. The key decisions about the design of agricultural policy in Germany are therefore at the EU level. In 2009, Germany accounted for 6.5 billion EUR, of which 5.5 billion EUR were used for direct payments, 0.2 billion EUR for market support and 0.8 EUR billion for rural development. There are 350,000 agricultural enterprises in Germany. The trend is decreasing. 1.3 million persons were employed in the agricultural sector. On average, a German agricultural company achieved in the marketing year 2008/2009 a profit of 38,500 EUR, the profits vary greatly over the years. Overall, Germany is second behind France in livestock production and behind France, Italy and Spain in fourth place of crop production in the EU. Exports in 2009 were at 35 billion EUR.

In 2011 private consumer spending in Germany amounted to 1,487 billion EUR. It benefitted from the favourable conditions and in the second quarter of 2012 it showed an increase of 0.4 %. Household final consumption expenditure accounts for almost 60 % of gross domestic product.

German foreign trade remains on an upward trend. The euro area is still the most important export market for Germany. In the first half of 2012 German exports to the euro area fell under the previous year's level. Higher revenues from countries outside the euro zone offset the declining sales in the euro countries. However, a weakening external development of Germany is foreseeable.

Full-time workers in Germany earned, in the second quarter of 2012, an average gross income of 3,385 EUR per month excluding bonuses. The highest average gross monthly earnings were received by workers in energy supply companies (4,507 EUR), banks and insurance companies (4,433 EUR) and in the information and communications industry (4,415 EUR). The lowest average gross monthly earnings were paid in the hospitality industry (2,002 EUR). In the first half of 2012 the negotiated hourly wages of employees rose twice as fast as consumer prices, thus strengthening the real purchasing power of households.

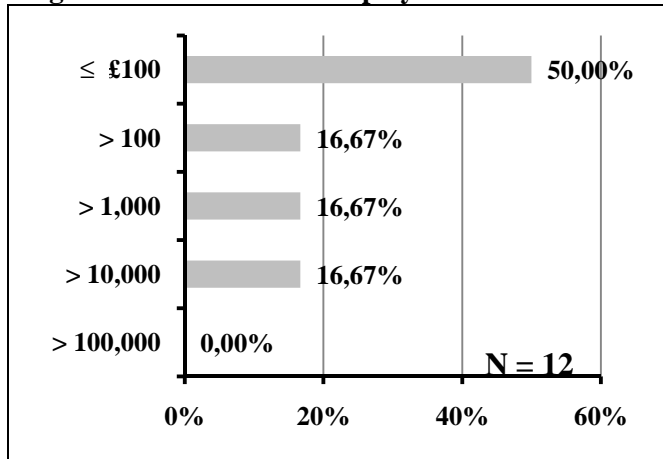
Consumer prices in Germany rose on average in 2011 compared to 2010 by 2.3 %. For 2011, both in the year and in all individual months, inflation rates were calculated at 2 % or more. It was mainly energy prices that were responsible for the significant increase in the annual inflation rate in 2011. Total energy prices went up by 10.0 % in 2011. Import prices rose by 0.7 % in July 2012 over the previous month and were up 1.2 % compared to the previous year. Export prices rose in July by 0.3 % over the previous month and were up 1.4 % compared to the previous year.

The money market in the euro area is still only partly functional and is supported in large part by special measures of the ECB. Interbank transactions barely take place. Instead of lending money to each other, commercial banks mainly keep their surplus funds at the Central Bank. Lending to non-financial corporations in Germany is growing. The money flows primarily into long-term contracts, which are usually used for investment projects. Credit standards for loans are still low. No significant tightening of lending conditions is expected. The funding situation of German companies is not yet affected by the crisis.

The Findings of the Survey Focused on the Companies Approaches to the Selected Factors of Strategic Management

In the first run, twelve different companies, industries and company sizes were surveyed. The results show that 75 % of managers were from private companies and 25 % managers from companies under public law. 77 % of the sample comes from the service sector, 15 % from the industry sector and 8 % from the trade sector.

Figure 1: Number of Employees



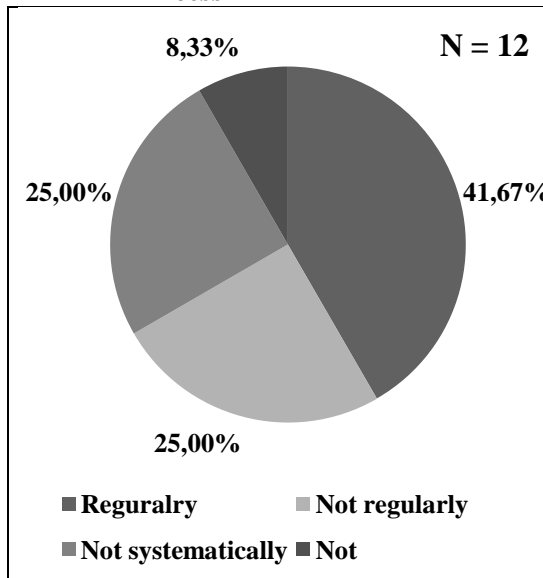
Source: own results

Figure 1 shows, that there were 6 small companies (up to 100 employees), 4 medium size companies (between 101 and 9,999 employees) and two large companies (more than 10,000 employees) in the sample.

A look at Figure 2 shows that less than half of the surveyed companies regularly implement a strategy process (42 %). The rest of companies (58 %) carried out the strategic process irregularly or even were not used to conduct the strategy process (8 %). As concerns to the tools which are used (Figure 3), it is striking that most of the

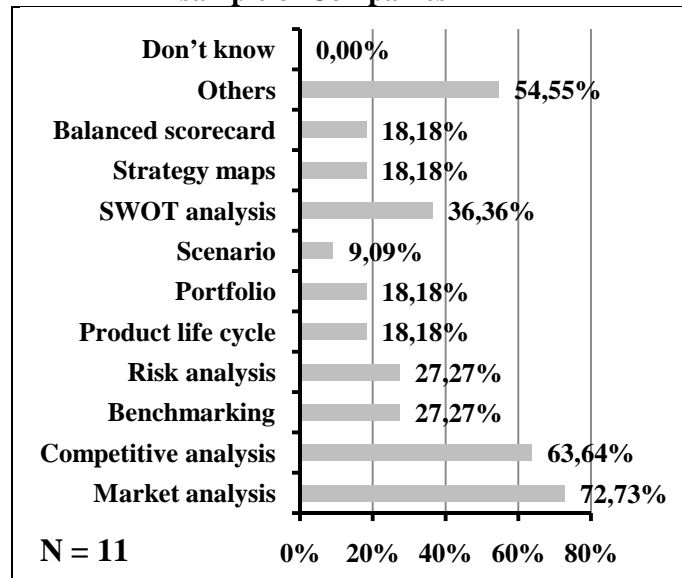
managers state that they conduct market and competitive analysis, or use other tools, but the specific tools for strategy development as they are known from literature, or from the most progressive multinational companies as well as from leading national companies, such as product life cycle or portfolio are either hardly used or even not known. In most of the companies the executive board carries out the strategy process.

Figure 2: The Conduction of Systematic Strategy Process



Source: own results

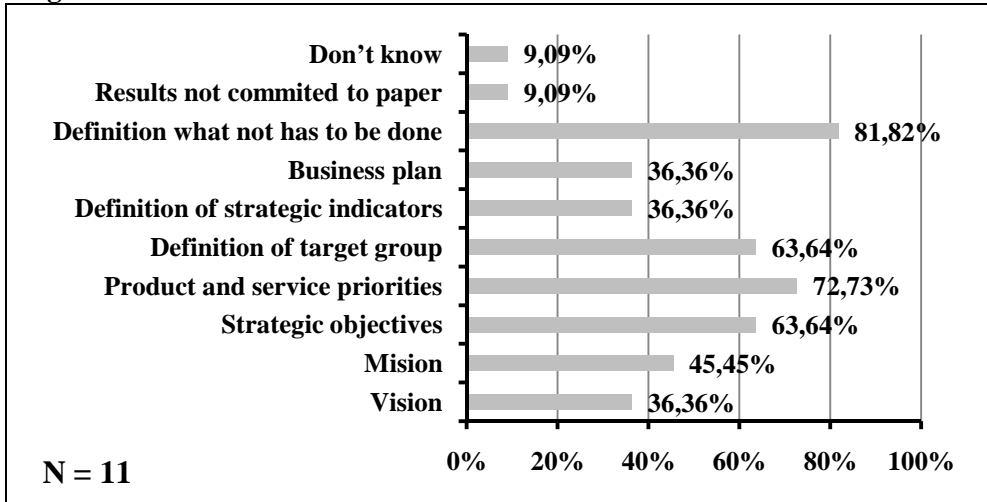
Figure 3: The Instruments of Strategic Management used in the analysed sample of Companies



Source: own results

According to the managers, in the majority of the companies the process leads to strategic objectives (Figure 4), which are often not underpinned by strategic indicators. 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. This is surprisingly in so far, because as a rule in practice companies find it very difficult to decide what is no longer to be done. A link between the strategy process and other management tool is not clear from the carried results (36 %). The selected companies consider alongside of the above said process as the most meaningful product and service priorities as well as the definition of the target group, and identification of the strategic objectives and formulation of the mission.

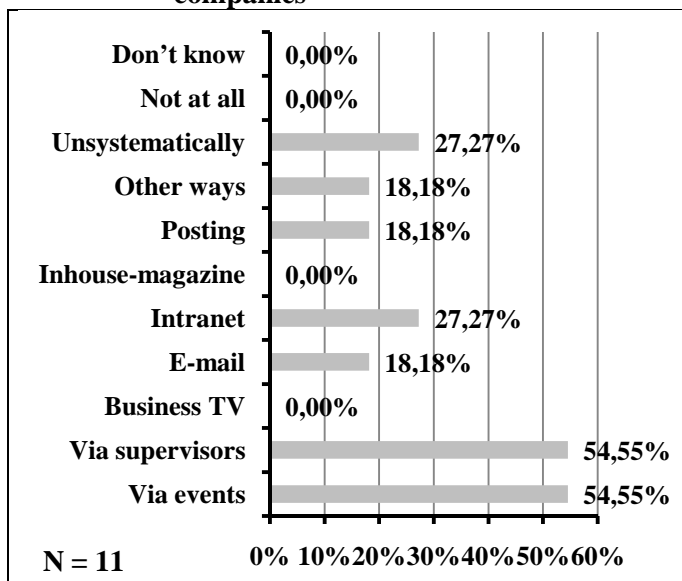
Figure 4: Results of the Process



Source: own results

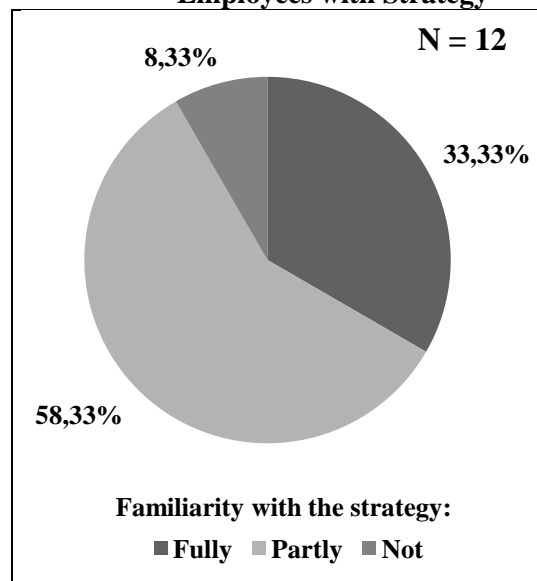
The results are communicated through different channels usually to all employees. The most frequent are following channels: via events, via intranet, via mails and via supervisors which are ranked at the top of the list (Figure 5). From the survey is visible that employees were familiar with the strategy in only a few cases (34 %). With corporate strategy were familiar 58 % of employees and 8 % were even not informed about it (Figure 6).

Figure 5: Communication Process in analysed companies



Source: own results

Figure 6: The Familiarity of All Employees with Strategy



Source: own results

75 % of the managers responded that the strategy for their business success is critical or very important. The remaining 25 % regarded it still as important. In this context is worthwhile to mention that only 42 % of the respondents regularly conducted a systematic strategy process. In the economic crisis 2008/2009 the companies did not prepare for themselves special strategies in order to deal in effective way with serious economic challenges. Just 25 % of them expressed that they prepared for the crisis special crisis packages, while 59 % failed to prepare any strategy and even 8 % had no idea about such a strategic managerial approach

and opportunity. It is also interesting that from all surveyed companies only one of them was strategically prepared for a collapse of the euro zone.

CONCLUSION

The risk that the strategy development process suppresses creativity does indeed exist, but should not be overestimated. Firstly, it may be addressed through the use of appropriate tools for stimulating creativity and a good moderation. On the other hand, management teams are greatly challenged by consistently working on strategic processing steps. A clear sequence of steps, which lays out what is to be prepared and what is to be done afterwards, is a prerequisite for a successful development of strategy (and its implementation).

The participation of employees in the development of strategies is undoubtedly very important. Managers – especially of large multinational corporations – are often too far away from the headquarters, in order to identify the all the operational impacts of decisions. Nevertheless, it must be carefully considered in which stage the employees have to be involved in strategy processes. At the very beginning, when there are no basic orientations, employees can hardly make a meaningful contribution (unless they become in advance involved in a well-structured process of data extracting). It is, and will remain the responsibility of top management to lay down the general direction of the company. Only then the underlying levels in the corporate hierarchy can be involved.

Concerning of the external environment of the German companies, it is worth to highlight that so far the economic conditions, despite of the global economic and financial crises challenges the entrepreneurial prerequisites belong among the most favourable within the Euro-zone and even across the world. Regardless of the fairly economic surroundings the German managers are using the tools of strategic management only in a limited way (42 %). In addition to this despite of the crisis, only 25 % of companies prepared special strategic crisis packages. In comparison with the situation in the Slovak agricultural enterprises the attained results are slightly more favourable. It is mainly due to the fact that 69 agricultural companies out of 81 analysed companies declared to have a strategy (Filo, 2013). To give an answer on the issue of the primary reason for hesitant approaches of managers towards strategic management requires further research. However, it has to be highlighted that the one of the substantial causes could stem from the fact that in national economies sectorial strategies, which would ensure the long-term directions in the development of the society, are not present in a visible way.

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