The Influence of Corporate External Environment on Strategy

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Abstract
The research examines empirically the influence of external environment in strategic management in small and medium-sized companies in Moravian-Silesian Region. Questionnaires were selected for data collection. The survey results show that companies are affected by the environment. The influence of factors is different. The difference is due to the nature of business. Businesses are responding to the impact of factors in their strategies.

Key Words
Strategy management, Strategy, Strategic tools, External environment, External factors.

Introduction
The strategy is a broad-based concept, assessing – to a certain extent - competitiveness of the organization, objectives formulation and policy necessary in achieving these goals. The essence of strategy formulation is to put into context of the organization and its environment (Porter, 1998, 2008).

The environment, in which organizations are located, is defined nowadays by large degree of uncertainty. The environment is very dynamic, branches influence each other. The option to reduce uncertainty, to capture the trend and to reveal relationships of interactivity, is the active implementation of strategic management (Johnson, Scholes and Whittington, 2008).

Establishing of a strategy and its level of fulfilment is often depending on the organization's ability to formulate objectives in response of stimuli from the environment. It is a different level of companies' ability to cope with external influences as a main factor affecting success, endurance and performance of firms (Mallya, 2007; Grant, 2010).

Classical rational approach to strategic planning is often criticized by Mintzberg and Quinn (Mintzberg et al., 2003), questioned by (Mintzberg Ahlstrand and Lampel, 2005), on
the other hand, there are still many supporters of planning process (Ansoff, 1991; Joyce, 1999; Stonehouse and Pemberton, 2002; Wittmann and Reurter, 2008).

Strategic management process uses a variety of tools. These tools make it easy management of strategic management throughout the process, especially in the analysis of internal and external environment in forecasting and formulating goals (Johnson, Scholes and Whittinghton, 2008; Porter, 2008; Stonehouse and Pemberton, 2002; Grant, 2010).

Objectives and methodology

Strategic management was primarily the domain of large companies. Nowadays the usage of strategic management is still expanding in small and medium-sized enterprises (SMEs’). Also, strategic management research includes primarily environment of large corporations. Research will concentrate on the less explored area of strategic management in SMEs’.

Respondents were divided into three categories: micro (0-9 employees), small (10-49 employees) and medium (50-249 employees). The large companies (over 249 employees) were not included in the research.

The aim and objectives of the research

The aim of this research was to study the usage of strategic management in small and medium-sized businesses in Moravian-Silesian Region (M-SR). This includes: firstly, the extent of the usage of strategic tools in these companies, secondly a focus on the influence of corporate external environment; thirdly, on the effects of some organisational characteristics.

In this paper, attention is focused on assessing the influence of corporate external environment. More specifically objectives of research in this area were:

- Which factors are shaping the strategies of companies?
- How influenced are organizations by external environment?
- What geographic area is monitored by the companies?
- How are businesses strategies affected by the surrounding areas?

Methodology

The research was divided into three stages.

The first phase of the research was devoted to defining the research areas and methods of data collection. The aim of this research is to study the usage of strategic management in SMEs’ in Moravian - Silesian Region. Questionnaires were selected for data collection.
Second stage consisted the empirical research in small and medium sized companies in Moravian-Silesian Region. In cooperation with the Chamber of Commerce 370 questionnaires were sent out and 74 questionnaires were filled. This number includes five large companies. These companies were not included in the results. The survey used the results from 69 questionnaires.

The third stage covered data analysis, presentation of results and preparation of research reports. Descriptive statistics (frequency, mean median) and inferential statistics (correlation, tests of significance) will be used in the data analysis.

**Results**

Research, inter alia, discussed the influence of corporate external environment. The list of factors affecting the company was compiled. The list included: customers, competition, suppliers, political factors, legislative changes, macroeconomics indicators, technological trends, market trends, social factors, ecological factors.

**How influenced are organizations by external environment?**

Table No. I: List of external environment factors and their significance/insignificance contains the results of significance or insignificance of the individual factors. It was clearly selected range of customers and competitors; their relative frequencies were the highest, more than 50%. Social, ecological factor and macroeconomics indicator were located on the opposite side. They were identified by only few respondents for a very significant impact.

**I: List of external environment factors and their significance/insignificance**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Very significant</th>
<th>Very insignificant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ranking</td>
<td>Frequency (%)</td>
</tr>
<tr>
<td>Customers</td>
<td>1</td>
<td>75,7</td>
</tr>
<tr>
<td>Competition</td>
<td>2</td>
<td>56,5</td>
</tr>
<tr>
<td>Technological trends</td>
<td>3</td>
<td>20,3</td>
</tr>
<tr>
<td>Suppliers</td>
<td>4</td>
<td>14,49</td>
</tr>
<tr>
<td>Legislative changes</td>
<td>5</td>
<td>10,1</td>
</tr>
<tr>
<td>Market trends</td>
<td>6</td>
<td>7,2</td>
</tr>
<tr>
<td>Political factors</td>
<td>7</td>
<td>5,8</td>
</tr>
<tr>
<td>Social factors</td>
<td>8-9</td>
<td>2,9</td>
</tr>
<tr>
<td>Ecological factors</td>
<td>8-9</td>
<td>2,9</td>
</tr>
<tr>
<td>Macroeconomics indicators</td>
<td>10</td>
<td>1,4</td>
</tr>
</tbody>
</table>

*Source: Own research*
Technological factors achieved specific results. Their influence was at the same time for some respondents very important, for approximately the same percentage of very unimportant. The results correspond to the business nature.

What geographic area is monitored by the companies?

The following chart shows the geographic area that companies followed up (Fig. No. 1: The monitoring area by company size). The Czech Republic was the most studied area in categories of micro and small firms. Only 6% of respondents in the category of micro companies followed the nearest area - the area of micro-region.

The worldwide area was watched by one third of small-size companies. Firms in the category from 50 to 249 employees monitored mainly area of European Union - 80%.

As the influence of factors the results affected not only by size of company but also the nature of business.

![Bar chart showing geographic areas monitored by companies of different sizes.]

Source: Own research

1: The monitoring area by company size

How are businesses strategies affected by the surrounding areas?

Firms in the process of environment analyzing pursue the strategies of other entities. It could be a strategy of competition, customers, surroundings businesses (not only
competitive), and authorities. Results of the monitoring can be adopted and formulated into their own strategies.

II. Companies following up surrounding entities

<table>
<thead>
<tr>
<th>Follow up entities / Company size</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0-9</td>
</tr>
<tr>
<td>Yes, I follow up the competition’s strategy</td>
<td>13%</td>
</tr>
<tr>
<td>Yes, I follow up the customer’s strategy</td>
<td>9%</td>
</tr>
<tr>
<td>Yes, I follow up the strategy of surroundings businesses (not only competitive one)</td>
<td>34%</td>
</tr>
<tr>
<td>Yes, I follow up the authorities’ strategy</td>
<td>3%</td>
</tr>
<tr>
<td>No, I do not follow up other entities</td>
<td>41%</td>
</tr>
</tbody>
</table>

*Source: Own research*

The Table No. II Companies following up surrounding entities and figure 2: The strategy following other entities shows a clear relation between the company size and the environmental monitoring. A large number of micro-businesses didn’t follow other entities (41%). If they monitored the strategy, it was the strategy of surrounding businesses.

![Bar chart showing strategy following other entities](source: Own research)

2: The strategy following other entities

The categories of small and medium-sized companies (49-249 employees) followed largely the strategy of surroundings businesses. One third of these firms pursued a strategy of
competition. It was surprising; the 10% of medium-sized companies did not follow the strategy of others.

**Discussion**

The standard approach for developing the strategy includes an analysis of the external and internal environment. Analyses provide information about threats and opportunities - from the external environment and the strengths and weaknesses reflect the internal environment. Strengths and weaknesses are more easily influenced by the organization, they can be changed within a certain timeframe, while the factors derived from the external environment, are more complicated. Threats and opportunities forced to respond in organization strategy are essentially unchangeable in the short term. These threats and opportunities are very difficult to influence from long term. Therefore, it is important to recognize and evaluate them. In the case of identifying potential threats it is then desirable for continuous monitoring (Pearce and Robinson, 1998; Carpenter, Bauer and Erdofan, 2011).

This article shows that small and medium-sized firms are more or less influenced by environment. The high frequency of evaluation of social factors as insignificant give raise to several questions. Do business leaders realize the relationship between social environment and consumer sector? Or reflection a quality of the social environment and potential employees? The low evaluation of the significance of environmental factors could be associated with some degree of environment ignorance.

Theoretical framework of strategic management is well documented in academic circles, but mapping of their applications is relatively occasional (Vaitkevičius, 2007). Studies of strategic management tools are particularly infrequent for small and medium enterprises. Stonehouse and Pemberton (2002) studied UK companies. They compared large companies and SMEs’ in area of strategic planning. The usage of strategic tools of SMEs in Western Australia, Singapore, Hong Kong and Malaysia were mapped in Frost's study, which also compared the results with previously conducted research by Clark and Husseyn (Frost, 2003). Kraus and Reiner (2006) examined the views of businesses on strategic planning and conducted applied research methods and techniques.

The comparison of the results from these studies is limited. Historical development of each country is specific as the structure of their economy. The usage of strategic management tools is obviously affected by all these differences. The evaluation of the environmental
factors also reflects specifics of countries. The results of the survey in the Moravian-Silesian region are not easily transferable to other regions.

**Conclusion**

The survey used the results of 69 questionnaires. Respondents were divided into three categories of micro (0-9 employees), small (10-49 employees) and medium (50-249 employees). The large companies (over 249 employees) were not included in the research.

Respondents chose from a compiled list of factors with the most influence. These factors were customers, competition, followed by technological trends. The order of the most insignificant elements was dominated by ecological and social factors and technological trends.

The Czech Republic was the most monitored location in categories of micro and small firms. Firms in the category from 50 to 249 employees monitored mainly area of European Union -80%. The worldwide area was watched by one third of small-size companies.

A large number of micro-businesses didn’t follow other entities (41%). If they monitor the strategy, it was the strategy of surrounding businesses. The categories of small and medium-sized companies (49-249 employees) followed largely the strategy of surroundings businesses and one third of these firms monitored a strategy of competition.

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**References**


