

METHODOLOGY OF THE INTERNAL ENVIRONMENTAL ANALYSIS AS A PART OF STRATEGY PLANNING

MADAI Hajnalka, BITTNER Beata, KOVACS Tunde, NAGY Adrian

University of Debrecen, Faculty of Economics and Business, Institute of Applied Economics Sciences, Debrecen, Hungary

madai.hajnalka@econ.unideb.hu

bittner.beata@econ.unideb.hu

kovacs.tunde.zita@econ.unideb.hu

nagy.adrian@econ.unideb.hu

Abstract: *The market environment has changed significantly in recent years. Globalization, market concentration, rapid flow of information and technological advancement make increase competition in all industries. The previously commonly used the company, recognize the threats and opportunities outside the company, in this regard intuition skills have outstandingly importance. In this article, the authors present the importance of strategic planning and its connection to traditional planning and its differences. After that, the paper presents the internationally recognized strategic planning method, its steps and the quantitative approach was replaced by the emphasis on quality. The significant changes in the economic, social and natural environment require more responsible mentality and forcing companies to make more responsible decisions. Planning periods have been shortened. Due to rapid changes plans have to become dynamic and multiple controls and feedback have required at the planning stage. Due to the above changes, the overall strategic planning has also come to the fore. The main task of strategic planning is to recognize and respond to the opportunities of the organization in time, and to develop a systematic action program with a systematic approach to analyzing their risks. Successful strategy-making is a success factor of proper strategic thinking. This affects the company's framework of the strategy. The strategic thinker should coordinate a procedure to monitor the state of relationship of each step and its interrelation in particular the internal assessment methods. The development and formulation of the strategy begins with the definition of the business vision and the business mission. These are subordinated to analyze that seek to understand the firm's strategic position. After that, the possible strategic directions can be selected. After selecting the strategic direction (s), the long-term objectives of the organization should be recorded. Knowing the objectives, possible strategic options should be considered and analyzed. The final step of planning is the strategic choice that will help the organization decides which version or variations will be used in the implementation phase. The method described above provides a framework that can be applied not only at company level, but also at a sectoral, national, but individual level, as well.*

Keywords: *business strategy; strategic planning; internal analysis.*

JEL Classification: *L1.*

1. Generally Introduction or Background

“If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle.” (Sun Tzu, BC.4. century) As it is demonstrated the literature of strategic thinking has a long history, as the basic analysis of internal and external factors which determine the main and long term strategy of an organization. In this article we try to give a review of the latest results of methodology of the strategic planning with a special regards on the Internal Analysis, Approach or Audit of an organization. The review of the methods of Internal Audit is mostly based on an American strategic planning practice of Strategic Management published by Fred R. David at al, 2017, 2019. But we tried to adapt the methodology to the European specialties.

Research Background: The history of strategy theory and the development of strategic planning are discussed in numerous Hungarian and international literature (Csath, 1990, 2004; Whittington, 2001; Fülöp, 2008; Gulyás, 2014; Balaton-Tari, 2014). In Hungary the stages of the development of corporate strategic theory were presented on the basis of the “Strategic and Business Planning” published in 2014 by Károly Balaton and Ernő Tari co-authors and by Gyula Fülöp, published in 2008 in his book “Strategic Management: Theory and Practice”. Based on these books, four periods can be distinguished in the history of corporate development. These sections are:

- a) Experiences of corporate planning (until about 1965);
- b) The beginnings of the modern theory of the strategy (approximately 1965-1970);
- c) Development of strategic planning models and methods, constraints of strategic planning (ca. 1970-1980);
- d) Development of the theory of strategic management (approximately 1980 to the turn of the millennium) (Balaton – Tari, 2014.). The strategic management, as a process: like strategic analysis, strategy formulation and implementation, is far more the only a strategic planning approach. “Competitive Strategy” and value chain method was also developed by Porter, which was published in the book “Competitive Advantage” published in 1985. The essence of the model is to break down the value-creating activities into strategically relevant phases that can be separated from each other in order to identify the strong and weak links of the value chain (Fülöp, 2008). The model proved to be suitable for separating primary and complementary activities within the company. Furthermore, the analytical method graphically depicts the individual activities in terms of their role in value creation (Marosán, 2002). In the course of resource based analysis, the process of strategy development was based not on the requirements of the competitive environment, but on the level of resources available to the organization (Balaton – Tari, 2014). Among the theorists of the resource-based approach was Barney, who developed the approach into a coherent theory. In his view, strategic assets are nothing but the tangible and intangible resources of the company. Nowadays the leading authors of Strategic Management and as part of that Strategic Planning are publishing in the

United States. The book of Strategic Management published by Fred R. David et al, in 2019 is the 17th edition now and used in 80 countries in the world as a university textbook..

2. Methodology and Discussion

Within the process of Strategic Management and as a part of it Strategic Planning we are focusing on the process of the Internal Audit which is the second level of the analysis of an organization which serves to formulate a sufficient strategic plan. The main aim of the process of Internal Audit is to reveal and evaluation of the strengths and weaknesses in all business areas of the organization. Representative managers, leaders of an organization and employees from throughout the company need to be involved in determining a firm's strengths and weaknesses. The internal approach which could be also called as audit requires collecting and assimilating information about the firm's management, marketing, finance/accounting, production/operations, research and development (R&D), and management information systems, operations, culture of the firm, and goodwill.

Almost parallel to the analysis of the external environment, internal analyzes should also be carried out. There are also several procedures for internal analysis. We reviewed the next four:

- *Resource Based View (RBV) Approach*
- *Analyzing Key Internal Forces (KIF)*
- *Value Chain Analysis (VCA), (Activity Based Cost accounting, ABC analysis)*
- *Internal Factor Evaluation (IFE) Matrix (Nabradi et al, 2018)*

In the case of an internal analysis of an enterprise, we have to consider its capabilities, and we focus on how the company can meet the expectations set out there in the future. This point is where the internal analysis connects to the above mentioned mission statement and vision of the organization. During the process of strategic planning, first we have to clarify the general fundamentals of internal analysis which covers the revealing of internal factors by using the suitable methods. We are trying to answer four important questions in this case: What, why, and how do we examine and analyze, at what we need to pay attention during the analysis? We are trying to concentrate on the next tasks:

Always concentrate on internal strengths and weaknesses of a company.

These elements can be affected or modified by the firm.

The analysis focuses only on the present circumstances or situations.

The analysis is subordinate to the mission and vision

Basically, it is advisable to reveal the resources of the organization. The method of *Resource-Based Approach* means taking the most important resource and capital categories in turn and then evaluating them into the main objective outlined in the vision. What are these resources? There are three major groups of resources: Physical resources and technological resources, Financial resources; Human resources; Organizational resources, Culture; Brand and goodwill

RBV theory asserts that resources are actually what help a firm to exploit opportunities and neutralize threats. Firstly, fixed assets, including intangible assets, tangible assets and financial assets, and current assets, their categories are stocks,

receivables, securities and cash. In the analysis, we take a look at their internal composition and size, and examine how much we are able to meet the vision of the future. Following the tools, we examine human resources. We analyze whether there are enough graduates, men and women, the cost of the permanent employees, personal benefits, the fluctuation, the workplace atmosphere, the organization of the company, the corporate culture. Is there any personal development program for employees, are they aware of the company's mission and vision. Culture of an organization is quite important for the employees. The human affiliations and beliefs embedded in the life of the company, as well as the accepted common values, have been formulated in the Company's Code of Ethics.

If we evaluate the internal factors of an organization or an enterprise, we can apply the so called *Key Internal Factor Analysis (KIF)*. In the case of an organization, the investigation should be extended to the next factors:

Management, Marketing, Financial accounting, Production service, Research and development, Management Information System (MIS) (Nábrádi at al, 2018)

The grouping of *Key Internal Factors* in this sense is not random. The most important element of a business in strategic terms is the management itself. As far as we know, no business can be successful just because it produced an excellent product or because it was not indebted. What are the tasks and areas of analysis in the management analysis? It is advisable to identify which areas of management are responsible for this purpose. The management has five well-defined tasks. Planning, organizing, motivation, staffing and controlling

Evaluation of the company's marketing area is not an easy task. Either. during the analysis phase of strategic planning, it is worthwhile to explain the advantages and disadvantages of the following areas (Nábrádi at al, 2018.): The Main Areas of Marketing evaluation are: Customer Analysis, Customer Analysis, Market Segmentation, Trends in Sales of Products and Services, Product and Service Design, Pricing Practice, Distribution, Evaluation of Distribution Channels, Existence and practice of marketing research, Possibility Analysis, Marketing Mix Analysis.

The analysis of financial-accounting conditions can be found in the company's balance sheets and profit and loss accounts. The analysis should now also follow the basic principles that we are examining in the present - analyzing the company in accordance with the principles set out in the vision and mission. Factors to be analyzed are influenced by the company and its operation. We are trying to find out what strengths and areas to be strengthened are currently in place. The analysis of financial-accounting conditions is examined in five major groups in the strategic planning literature (Nábrádi at al, 2018): Solvency, Liquidity, Leverage, Activity, Profitability, and Growth. In each case, we analyze the financial situation of the company by analyzing numerical indicators, and from the past we have experienced the results of the present. Although these indicators are industry-specific, they can be interpreted differently in the primary (mining, agriculture), secondary (processing, machine manufacturing) and tertiary (service, trade) sectors, but there are also sectors that are sector-neutral.

Evaluation of production and service consists of analyzing all activities that convert or transfer the expenditures into revenues for goods and services. The main areas

of analysis for strategic purposes include: Production Service Process, Capacities and Capacity Utilization, Inventory and Inventory Management, Structure, Preparedness and Efficient Use of Labor, Quality and Quality Management, Quality assurance. Evaluation and certification of production and service is not an easy task. Some of them can be quantified, while more elements are subjective.

From a strategic point of view, *R & D* is not a particularly appreciable aspect of the primary sector producing mass products and small businesses. However, there is the discovery and application of innovation results that can be realized in their own or in clusters, but its numerical values in the Hungarian economy are still not significant. Although today large companies still have the privilege of *R & D*, there are examples in small and medium businesses to develop new technology or services and running a new start-up.

The Management Information System (MIS) generally refers to a computer system that allows managers to manage, evaluate, and effectively manage organizational units. The management information system is no longer an inevitable tool in our century. It can not only help managers, but also inform employees, "stakeholders" in business.

Value chain analysis is a novel approach to analyzing internal factors. Its novelty lies in the fact that it does not take into account traditionally functional areas such as the resource-based approach, or the methodology for analyzing key factors, but is based on building product service closely over time. Basically, it analyzes costs with a specific approach. The method is really effective if the company covers a whole product chain, but it can be used well even if it is limited to the narrower segments of the supply chain. The method is publicized by Porter as it was mentioned in the background.

The complexity of Internal Approach will be developed into the form of *Internal Factor Evaluation (IFE) Matrix*.

There are therefore several approaches to analyzing the internal factors of the business. Whatever we do, we are basically seeking answers to two questions: where we need reinforcement (weaknesses) and what are already the goals to be achieved (strengths) in order to realize our vision and maintain our mission. A suitable method for deciding this and quantifying strengths and weaknesses is the Internal Factor Evaluation Matrix (IFEM). IFEM is characterized by a single number of the strengths and weaknesses of the company, and we can use it to make an assessment of where the company needs to strengthen its vision for the future, and which factors are significant strength can be demonstrated in its business. The essence of the process is to select the most significant 10-20 internal factors that give the company strengths or weaknesses to realize the vision. The method of working out the matrix was worked out by Fred R. David, 2017. in the IFEM.

3. Results and Acknowledgements

During our educational practice of Strategic Planning we realized that student (especially corresponding students, who still have jobs) really enjoy this subject. A great benefit for them (as managers or employees), that they perform better when they understand how their work affects other areas and activities of the firm. When

marketing and manufacturing managers or employees working in related divisions discuss issues related to internal strengths and weaknesses, they gain a better understanding of the issues, problems, tasks, and needs of all the functional areas. In organizations that do not use strategic management, marketing, finance, and manufacturing managers often do not interact with each other in significant ways. Compared to the external audit, the process of performing the internal audit provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole organization. (Fred R. D, 2017) Performing an internal audit thus is an excellent tool or forum for improving the process of communication in the organization.

In an extended paper we could demonstrate the methods of Internal Audit and Approach and the advantages of them through real, organizational examples from operating companies.

References

1. Bittner B.–Madai H.–Nagy A.–Nábrádi A. (2018): In Szerk: Nábrádi): A stratégiai tervezés gyakorlata. Debreceni Egyetem, Debrecen, pp. 7-158. ISBN 978-963-490-053-5
2. Csath M. (1990): Stratégiai vezetés-vállalkozás. Közgazdasági és Jogi Könyvkiadó, Budapest, pp. 9-205. ISBN 963-222-218-0
3. Csath M. (2004): Stratégiai tervezés és vezetés a 21.században. Nemzeti Tankönyvkiadó, Budapest, pp. 12-36. ISBN 963-19-5251-7
4. David, F. R.–David, F. R. (2017): Strategic Management: A Competitive Advantage Approach, Concepts and Cases, 17th Edition. Pearson Education, pp. 32-276. ISBN 978-1-292-14849-6
5. Fülöp Gy. (2008): Stratégiai Menedzsment: Elmélet és gyakorlat. Perfekt Kiadó, Budapest, pp. 11-56. ISBN 978-963-394-748-7
6. Gulyás L. (2014): Stratégiai Menedzsment: Szun-Ce-től a „Kék Óceánig”. JATEPress, Szeged, pp. 19-27. ISBN 978-963-315-204-1
7. Marosán Gy. (2002): Stratégiai menedzsment. Műszaki Könyvkiadó, Budapest. pp. 44-118. ISBN 963-16-3045-5
8. Marosán Gy. (2006): A 21. század stratégiai menedzsmentje. Műszaki Könyvkiadó, Budapest. pp. 130-139. ISBN 963-16-6008-7
9. Nábrádi A. (2010): A vállalati stratégia, stratégiai terv pp. 19-56. In: A stratégiai és üzleti tervezés gyakorlata. (Szerk. Nábrádi A.–Pupos T.). Szaktudás Kiadó Ház, Budapest, 27 p. ISBN 978-963-9935-40-2
10. Porter, M. E. (2006): Versenystratégia. Akadémia Kiadó, Budapest, pp. 41-344. ISBN 963-05-8349-6
11. Sun Tzu, (BC.4. century): The Art of War
13. Whittington, R. (2001): What is strategy – and does it matter? Cengage Learning, London. ISBN 978-1-86152-377-8