THE BASIC CHARACTERISTICS OF CORPORATE STRATEGY AND FIRM VALUE

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Abstract. Strategy creation is the most responsible and demanding work, because this process has a number of specific characteristics. These characteristics include a focus on the future, work with risk, allocation of resources and participation of the top management. In the long run, all factors are variable and it is difficult to predict their development. Strategic work covers the activities of the whole firm, because it is a complex activity that must work with information from various fields. The article presents the results of the empirical research conducted in the Czech Republic. The research found out the respect for the main recommendations for strategy creation and implementation. The impact of the respect for these recommendations to value creation was measured by summary index.

Keywords: Strategy, innovation, firm value, environment, key success factors monitoring.
JEL classification: M10, L10.

Introduction

The strategy determines the basic direction of the firm. The strategy determines markets of the firms, customers, competitors. Strategy creation must take into account global business environment and global trends. Strategy must also take into account resources and capabilities of the firm. Strategy must put the conditions in the environment into compliance with the resources and capabilities of the firm. Therefore, a unique strategy creation is very demanding activity.

The aim of this paper is to formulate the basic characteristics and principles of strategic management. The paper presents the results of empirical research. This research examined the respect for the chosen principles of strategic management in the Czech firms. The impact of the respect for these principles on the value of the firm is presented.
in the paper. The value of the firms was measured by IN99 index. IN99 index is a kind of the value model focused on the conditions in the Czech Republic. Test the difference between means of two samples were used for measuring the impact on the value.

The basic characteristics of the strategy formulation and implementation are formulated in the article. In this context, the importance of innovation in business strategy is emphasised in the present days. Therefore, this theme is in this section. Based on research, the importance and impact of the respect for these characteristics on firm value is verified.

**Literature review**

Strategic management (Hitt et al, 2007; Peng, 2008) is the process of making and implementing decisions that have long-term impact on business. These projects are crucial for the firm. The aim is to achieve long-term success of the firm. Strategic management is realised by the creation and implementation of strategies. Strategic management should be aimed at maintaining consistency between long-term orientation of the firm, its long-term goals and available resources. The concept and characteristics of strategic management may be found in the military first. The basic objective of military action is to achieve victory. In the economic sphere, this means that one firm makes effort to gain comparative advantage over another firms. This feature, i.e. trying to gain comparative advantages, differentiates strategic management from long-term management. We distinguish between true and false strategic management. The right strategic management is fully filled with elements typical for the military area. Firms compete very intensely. They try to gain comparative advantage over other firms. Firms dispose of each other. The result is that the strongest firms will survive. A monopoly is created. Among the subjects is an antagonistic relationship. For example, Bartes (2011, 2010a, 1997) deals with military concept of corporate strategy. This author often draws from the principles of the concept of Asian martial art. This concept is based on the use of opponent force. False strategic management is based on non-antagonistic relationship between firms.

Ofek, Wathieu (2010) emphasize the importance of the environment and trends for the strategy. According to these authors, ignoring trends can give competitors an advantage. They suggest four steps: identify trends, conduct two separate explorations, compare results and formulate potential strategies.

Grant (2010) gives the following features of strategic processes:
- importance for the whole company,
- resources allocation,
- decisions made in the process of developing and implementing strategies are largely irreversible.

Similar characteristics can be found in Pearce, J., and A. Robinson, R., B. (2000), these authors reported the following 6 specific features of strategic processes:
- necessity of involvement of top management,
- need to allocate a large part of the enterprise resource,
- most significant impact on long-term profitability;
- focus on the future;
- impact on the entire organization,
- need to take into account factors in the environment of the firm.

According to the authors above, we can distinguish some elements typical for strategy: strategy is mainly focused on the future; strategy has a significant effect on the entire company and its future economic success; to establish a working strategy requires the involvement of top management (Bungay, 2011); decisions taken in the process of strategy creation and implementation are largely irreversible; strategy defines the area of business activity; part of the strategy is decisions about the allocation of available resources; strategy must take into account factors occurring outside the company and the extent of the adaptation of the firms to its environment; in the process of strategy formulation the interests of all interested groups (stakeholders) must be taken into account; strategic processes are complex; strategic processes are superior to other levels of management.

Mintzberg (1987) emphasizes the fact that the process of strategy is not just applications, development of methods and analysis. He emphasizes the application of the principles of strategic management. He believes these principles are the basis for the successful formulation and implementation of strategies. The necessity of the principles of strategic thinking results from the basic characteristics mentioned above. Relevance of this concept increases continuously, because firms compete in age of instability and risk (Reeves, Deimler, 2011).

Key success factors are important aspects in assessing the significance of business environment. We can define the key success factor as follows (Thompson, Strickland 1998): “Key success factors are those factors that most affect the ability of the company in an industry to thrive.” These factors can be partial aspects of the strategy, the characteristics of products, resources. Typical for the factors of production are, for example cost-effectiveness, production quality, location of production in areas with low cost, flexibility of production. For instance, low distribution costs, speed deliveries, own sales network are typical factors in the area of logistics. In the field of sales it can be the creativity of advertising campaigns, attractive packaging, and awareness of the brand.

Concrete steps (Johnson, Scholes, 2008) for determining the key success factors are the identification of these factors for a particular business, identifying the resources and capabilities to gain competitive advantage through these key success factors, setting standards for overcoming competition and estimating the extent to which competitors can imitate specific advantages.

The basic precondition (Grant, 2010) for success in the business is to understand the needs of customers and knowledge of how to overcome competition. Customers want low cost, easily accessible stores, wide range, which will be adapted to local consumer needs, always fresh goods, friendly staff and good service. Businesses try to cope with competition high concentration. High sensitivity of consumers on prices, however, exacerbates price competition. Companies require low price from their suppliers. Key factors are as follows: realisation of economies of scale, buying in bulk, bargaining power, low wages, good location of shops, easy parking.

Simons (2010) recommends concentration on customers, shareholders’ priorities, performance variables, strategic boundaries, creative tension, contribution of employees, strategic uncertainties, when firms want to improve their strategy.
Especially in recent years, the importance of innovation for a successful business strategy is discussed. Innovation strategy/first on the market becomes a necessity. This strategy is risky, but also it allows firms to get maximum effect (Drucker, 2009). The aim of this strategy must be to create something truly new and different. If the strategy is to be successful, innovation must be based on thorough and purposive analysis of options. When innovation becomes successful, the innovator must act even more intensely, continue to develop the product and come up with new ideas. At the same time, firms should reduce the cost to deter potential competitors from entering the industry. This strategy requires a thorough analysis and understanding of innovation sources and their dynamics (Drucker, 2009). Another important requirement is speed of response and the high autonomy of business units (Miles, Snow, 2003).

Innovation is the foundation for the prosperity strategy (Vlček, 2002, 2008). It is necessary to move from current development of firm for this strategy. Discontinuity is seen as a tool to ensure the longevity of a company. Firms should move from life cycle moves to the next. Current development of a company is at some point interrupted by a serious decision about the change.

Deciding on the strategy is very difficult and risky. It is about the decision to leave the current positive business development and focus in another direction, where there is no assurance that it will mean more prosperity. A prerequisite is a good business plan, which is based on competitive manufacturing programme with a high value for the customer. Restructuring must be implemented by good and strong management that performs fast and clear decisions and motivates all employees to change.

Innovation strategy/first mover bring various advantages (Grant, 2010). These benefits can be formulated as follows. Where resources are scarce, the first company is able to steal those resources. Other companies will simply have no chance to get such resources. Even if, after some time, companies can imitate competitive advantage, the innovator has advantage. At least the innovator has realised above-average earnings, which will enable it to invest in company development. At this period of time, this resource is unavailable to other firms. The first on the market creates good reputation and builds relationships with other market players (suppliers, customers, consumers). A firm can create a cost advantage due to its better experience. If a company comes to the market with a new product, it usually prepares a good position to gain a dominant share of the overall market (Kotler, Keller, 2007; Porter, 2008).

“Blue ocean strategy” (Kim, Mauborgne, 2007, 2005) was very famous and successful in the past. The essence of this concept is to create a new industry. There are no competitors in this new area. The term “red ocean strategy” is used for existing industries. In these industries firms are fighting among themselves and the profit decreases (Džbánková, Krause, 2011; Krause 2008a; Krause 2008b).

The importance of competitive intelligence for the management of the company was studied by Bartes (2010b). According to his research, about 67% of companies do not require strategic information about competing companies to prepare an offensive strategy. Theodor (2008) studies the intensity and order of innovation in the Czech companies. According to that author, the Czech companies realise predominantly lower order
of innovations. Product innovation represents 80% of all innovations. The remaining part (20%) is process innovation. Incentives for innovation are mostly customer needs and requirements (91.9%), the need for improving the production of own products (64.1%), efforts to improve working conditions for employees (42.7%), need to reduce the adverse environmental consequences (40.6%).

Table 1. Red ocean strategies versus blue ocean strategies

<table>
<thead>
<tr>
<th>Red Ocean Strategies</th>
<th>Blue Ocean strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compete in existing market space.</td>
<td>Create a sovereign market space.</td>
</tr>
<tr>
<td>Beat competitors</td>
<td>Eliminate competitors of the game.</td>
</tr>
<tr>
<td>Take advantage of existing demand.</td>
<td>Create new demand and take advantage of it.</td>
</tr>
<tr>
<td>Choose between value and cost.</td>
<td>Break the dilemma of choosing between value and costs.</td>
</tr>
<tr>
<td>Make sure the system of the company activities runs in line with the strategic choice of differentiation or low cost.</td>
<td>Make sure the whole system of activities runs in line with the company’s focus on differentiation and low cost.</td>
</tr>
</tbody>
</table>


Survey

Empirical research has been carried out. It was focused on selected issues of level of corporate strategy in the Czech Republic.

The first part of the questionnaire contained the identification characteristics: sales, number of employees, business area. The questions aimed at strategic management, globalisation and competitive advantage were contained in the second part of the questionnaire. The questionnaire contained 21 questions. The answers were offered for each question.

Approximately 1500 firms were asked to complete the questionnaire by e-mail. 64 questionnaires were obtained this way. 8 questionnaires were not fully completed and were discarded. Response rate was about 4%. 44 questionnaires were obtained with the help of personal contacts in the firms.

102 returned and fully completed questionnaires were included in the evaluation. The structure of obtained questionnaires according to the size of the firms was as follows:

- 28% of small businesses,
- 47% of medium-sized enterprises,
- 25% of large enterprises

Methods

The impact of selected factors on value creation for firms was tested. Value creation for owners was tested by IN99 index. This index is an analogue of Altman’s index.

IN99 (Kislingerová, 2004) index is a summary methodology for predicting value creation for shareholders. This index was designed by discriminant analysis.
Discriminant analysis (Meloun, Militký, 2002) is concerned with qualitative dependent variables on several quantitative variables. It allows putting the object to the existing groups. For the discriminant analysis, it is necessary to statistically test the significant differences between experimental groups. If testing proves the difference between the two groups, the discriminant analysis can be used. The output can be qualitative variables that indicate a group - a healthy company or an ill company.

The authors of this index are the well-known Czech economists Inka Neumaier and Ivan Neumaier. Index IN99 is the respect for conditions in the Czech Republic. The index is constructed as follows:

\[ \text{IN} = -0.017 \times \text{assets/liabilities} + 4.573 \times \frac{\text{EBIT}}{\text{assets}} + 0.481 \times \frac{\text{revenues}}{\text{assets}} + 0.015 \times \frac{\text{current assets}}{\text{current liabilities}} \]

Intervals of index IN99 and evaluation are summarised in Table 2.

**Table 2. IN99 index**

<table>
<thead>
<tr>
<th>IN99 index</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;0.684</td>
<td>Firm does not create value for shareholders.</td>
</tr>
<tr>
<td>0.684 – 2.070</td>
<td>It is not possible to say.</td>
</tr>
<tr>
<td>&gt;2.070</td>
<td>Firm creates value for shareholders.</td>
</tr>
</tbody>
</table>


The test of the difference between means of two samples was applied. 5% significance level by testing was required.

**Results**

**The importance of strategy and continuous strategy creation for value creation**

Hypothesis No 1: Firms with a continuously created strategy reach a higher value for their owners than firms without a strategy.

Expectation 1: Firms that continuously work on their strategy create higher value for owners than firms without a strategy. These firms respect the basic rules and principles of strategy creation. These firms know the conditions in the environment and they know the conditions in the firms, and they are capable of formulating a successful strategy. Firms without strategy do not know the changing conditions and are not capable of reacting to opportunities and threats.

The question was formulated in the questionnaire as follows: “Is the strategy in your firm arranged in a complex manner and continuously?” The answers offered to the firms were:

- Yes. We update our strategy continuously.
- Our strategy was created 1-2 years ago.
- Our strategy was created 4-5 years ago.
- We have no strategy.

\[ \text{EBIT} = \text{Earnings Before Interests and Taxes}. \]
The firms were divided into two groups. The firms in the first group have a strategy and update it continuously. The mean of value of index IN99 is 1,356 in the first group. The firms in the second group have no strategy. The mean of value of index IN99 is 1,022 in the second group of firms.

Table 3. IN99 values depending on the level of strategy creation

<table>
<thead>
<tr>
<th>Strategy level</th>
<th>IN99</th>
</tr>
</thead>
<tbody>
<tr>
<td>We update our strategy continuously.</td>
<td>1,356</td>
</tr>
<tr>
<td>We do not have any strategy.</td>
<td>1,022</td>
</tr>
</tbody>
</table>

Resource: Author.

It is possible to confirm the first hypothesis after statistical testing. Firms that continuously update their strategy reach higher value for owners. The expectation about the impact of continuous work on strategy was confirmed.

The impact of monitoring external factors on value creation

Hypothesis No 2: Firms that monitor external factors reach higher value for the owners than firms without monitoring factors in the environment.

Expectation 2: If the firms monitor the factors in the environment once a year or more frequently, they create higher value for owners. These firms know the conditions in the environment and they are able to predict the changes of such conditions.

The question of the questionnaire was formulated as follows: “How often do you update information about the factors/conditions in the environment of your firm?”

The answers offered to the firms were the following:
- We do not monitor these factors.
- We update it every 2 to 3 years.
- We update it once a year.
- We update it more frequently.

The firms were divided into two groups. The firms in the first group monitor the external factors once a year or more frequently. The mean of IN99 index value is 1,470 in the first group. The firms in the second group monitor the external factors every 2 to 3 years or firms do not monitor these factors. The mean of IN99 index value is 1,470 in the second group.

Table 4. IN99 values depending on external factor monitoring

<table>
<thead>
<tr>
<th>External factor monitoring</th>
<th>IN99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not monitored; every 2-3 years</td>
<td>1,169</td>
</tr>
<tr>
<td>Once a year; more frequently.</td>
<td>1,470</td>
</tr>
</tbody>
</table>

Resource: Author.

It is possible to confirm the second hypothesis after statistical test at the chosen significance level. If firms monitor external factors, they reach higher value for owners.
The expectation about the impact of monitoring external factors on value creation was confirmed.

The impact of monitoring internal factors on value creation

Hypothesis No 3: Firms that monitor internal factors reach higher value for the owners than firms without internal factor monitoring.

Expectation 3: If firms regularly monitor the situation in the firms, they know their resources and capabilities, strengths and weaknesses and this enables them ensuring compliance of resources and capabilities with the opportunities in the environment.

The question of the questionnaire was formulated as follows: “How often do you update information about the factors/conditions inside your firm?”

The answers offered to the firms were:
- We do not monitor these factors.
- We update it every 2 to 3 years.
- We update it once a year.
- We update it more frequently.

The firms were divided into two groups. The firms in the first group monitor internal factors once a year or more frequently. The mean of IN99 index value is 1,439 in the first group. The firms in the second group monitor internal factors once 2 to 3 years or firms do not monitor these factors. The mean of IN99 index value is 1,031.

Table 5. IN99 values depending on internal factor monitoring

<table>
<thead>
<tr>
<th>Internal factor monitoring</th>
<th>IN99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not monitored; every 2-3 years</td>
<td>1,031</td>
</tr>
<tr>
<td>Once a year; more frequently.</td>
<td>1,439</td>
</tr>
</tbody>
</table>

Resource: Author.

It is possible to confirm the third hypothesis after the statistical test at the chosen significant level. If firms monitor internal factors, they reach higher value for owners. The expectation about the impact of monitoring internal factors on value creation was confirmed.

The impact of monitoring key success factors on value creation

Hypothesis No 4: Firms that monitor key success factors reach higher value for owners than firms without monitoring these factors.

Expectation 4: If a firm researches the key success factors once a year or more frequently, it creates higher value for owners. These firms know the areas of enterprise that are important for the success in the particular industry.

The question of the questionnaire was formulated as follows: “How often do you update information about key success factors in your industry?”
The answers offered to the firms were:
- We do not research these factors.
- We update it every 2 to 3 years.
- We update it once a year.
- We update it more frequently.

The firms were divided into two groups. The firms in the first group research the key success factors once a year or more frequently. The mean of IN99 index value is 1,579 in the first group. The firms in the second group research the key success factors every 2 to 3 years or firms do not research these factors. The mean IN99 index value is 1,230 in the second group.

**Table 6.** IN99 values depending on the frequency of monitoring of key success factors

<table>
<thead>
<tr>
<th>Frequency of monitoring of key success factors</th>
<th>IN99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Once a year; more frequently.</td>
<td>1,579</td>
</tr>
<tr>
<td>Not monitored systematically; every 2 to 3 years.</td>
<td>1,230</td>
</tr>
</tbody>
</table>

Resource: Author.

It is possible to confirm the fourth hypothesis after statistical test at the chosen significance level. If firms monitor key success factors, they reach higher value for owners. The expectation about the impact of monitoring key success factors on value creation was confirmed.

**The impact of compliance of resources and key success factors for value growth**

Hypothesis No 5: Firms with compliance of resources and key success factors reach higher value for owners than firms without compliance of these factors.

Expectation 5: Firms with compliance of resources and key success factors create higher value for owners. Firms know the factors important for success in their particular industry and their resources and capabilities enable them to be better than their competitors.

The question of the questionnaire was formulated as follows: “Are the resources and key success factors in compliance in your firm?”

The answers offered to the firms were:
- Resources and key success factors are in compliance. It is important for us.
- Resources and key success factors are in compliance. It is not important for us.
- Resources and key success factors are not in compliance.
- We do not monitor this area.

The firms were divided into two groups. The firms in the first group have resources and key success factors in compliance. IN99 index value is 1,553 in the first group of firms. The firms in the second group do not have resources and key success factors in compliance. IN99 index value is 1,192 in the second group of firms.
Table 7. IN99 index value depending on compliance of resources and key success factors

<table>
<thead>
<tr>
<th>Compliance of resources and key success factors</th>
<th>IN99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance – it is important.</td>
<td>1,564</td>
</tr>
<tr>
<td>Compliance – it is not important.</td>
<td>1,518</td>
</tr>
<tr>
<td>Compliance.</td>
<td>1,553</td>
</tr>
<tr>
<td>Not in compliance.</td>
<td>1,192</td>
</tr>
</tbody>
</table>

Source: Author.

It was possible to confirm the fifth hypothesis after statistical testing. Firms with compliance of the key success factors and resources reach higher value for owners measured by IN99 index than firms without compliance. The expectation about the impact of compliance of key success factors and resources was confirmed.

The impact of innovations on value creation

Hypothesis No 6: Firms with high level of innovation activity reach higher value for owners than firms with low level of innovation activity.

Expectation 6: Innovations are considered to be the basis for competitive advantage. Innovations allow creating demand and firms can reach the above-average profitability.

The question of the questionnaire was formulated as follows: “Is the level of innovation activity low or high in your firm?” The answers offered to the firms in the questionnaire were the following:
- The level of innovation activity is low.
- The level of innovation activity is high.

The mean of IN99 index value of the firms with high level of innovation activity is 1,595. The mean of IN99 index value of the firms with low level of innovation activity is 1,371.

Table 8. IN99 values depending on the level of innovation activity

<table>
<thead>
<tr>
<th>External factor monitoring</th>
<th>IN99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low level.</td>
<td>1,371</td>
</tr>
<tr>
<td>High level.</td>
<td>1,595</td>
</tr>
</tbody>
</table>

Resource: Author.

It is possible to confirm the sixth hypothesis after statistical test at the chosen significance level. Firms with higher level of innovation activity reach higher value for owners. The expectation about the impact of innovation activity was confirmed.

Discussion

All hypotheses solved in the text above were confirmed. It may be stated that the respect for the basic principles of strategic management creates the preconditions for
the growth of value of the firms. The summary of confirmation or rejection of the hypotheses is given below in Table 9.

**Table 9. Evaluation of hypotheses**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Confirmation/rejection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesis No 1</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Hypothesis No 2</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Hypothesis No 3</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Hypothesis No 4</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Hypothesis No 5</td>
<td>Confirmed</td>
</tr>
<tr>
<td>Hypothesis No 6</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>

Source: Author.

Firms should respect the general principles of strategic management. Management should continuously create the strategy. It enables finding and considering the changing conditions in the global environment and in the firm’s resources and capacities. Firms should find out and identify key success factors, because these factors are fundamental for long-term prosperity. These key success factors should be in compliance with the resources of the firm.

**Conclusion**

Strategic management and strategy creation and implementation have a number of characteristics. The main characteristics include a focus on the future, participation of top management, allocation of corporate resources, the impact on the activity of the whole enterprise, and defining the main activities. It is necessary to formulate the key business success factors for the successful strategy formulation. Firms must respect these factors to achieve long-term prosperity. Firms should focus on innovation by strategy formulation.

Based on empirical research of companies in the Czech Republic it is possible to demonstrate the following. Firms that have continuously worked on strategy created higher value for owners than firms without any strategy. The difference between value creation in these firms was tested. The difference was statistically important. The firms that monitored external and internal factors and key success factors reached higher value for owners than the firms without monitoring these factors. The difference between value creation in these firms was tested and that difference was statistically important. Firms with compliance of resources and key success factors create higher value for owners than firms without compliance of these factors. The difference between value creation in these firms was tested and that difference was statistically important. Firms with high level of innovation activity create higher value for owners than firms with low level of innovation activity.

Further research should focus on the importance of specific factors for the corporate strategy and its long-term success. These factors are, for example, environmental aspects, the latest information technology, etc.
Acknowledgments

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References


**PAGRINDINĖS ĮMONIŲ STRATEGIJŲ IR ĮMONIŲ VERTĖS CHARAKTERISTIKOS**

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**Santrauka.** Strategijos sukūrimas yra labai atsakingas ir pastangų reikalausiantis darbas, nes šis procesas pasižymi keletu specifinių savybių. Šios savybės apima orientaciją į ateitį, darbą mažinant riziką, išteklių paskirstymą ir vadovybės dalyvavimą. Ilgainiui visi veiksniai kinta, todėl sunku prognozuoti jų raidą. Strateginis darbas apima visą įmonės veiklą, nes tai yra sudėtinga veikla, besiremianti įvairių sričių informacija. Straipsnyje pateikiami Čekijos Respublikoje atlikto empirinio tyrimo rezultatai. Tyrimas pateikia pagrindines strategijos kūrimo ir įgyvendinimo rekomendacijas. Vadvaujančiu šiomis rekomendacijomis, vertės kūrimo poveikis mažene iškala pagal sudėtingų indeksą.

**Reikšminiai žodžiai:** strategija, inovacija, įmonės vertė, aplinka, pagrindinių sėkmės veiksnio monitoringas.