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Business strategy in explicit description as an illustration of companies´ behaviors

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Abstract. *Companies´ behaviors are an external manifestation of their strategies and goals. A business strategy in explicit description has been used to describe a strategy by a set of externally observable parameters. Companies´ behaviors have been described through an extensive survey. Special attention was given to the impact of the economic crisis on micro-sized and small-sized enterprises. The research has shown a real distribution of business strategies and the strengths and weaknesses of companies' behaviors. The companies are able to adapt to changes relatively quickly (in the short term), but they lack long-term strategic perspective.*

Key words: corporate behavior, business strategy, micro-sized and small-sized enterprises

JEL Classification: M10, M21

1. Introduction

Businesses, regardless of whether they have a formulated strategy or not, tend to choose some kind of behavior in their environment. They then act to preserve and develop its existence. These behaviors, especially actions, are real. They represent not only a manifestation of the same strategy, but also these kinds of behavior mean a presentation of an unplanned, imposed or a random strategy. It is important how businesses would like to behave and act, but it is more important how businesses actually behave and act. A company always tries to perceive a strategy (consciously or less consciously), because it always chooses the goals and means of achieving the strategy. Without these two conditions, corporate behavior cannot proceed. Thus, a strategy, its kind and its characteristics can be derived in the implicit way from external characteristics of corporate behavior, or the behavior can be characterized on the basis of the business strategies´ typological concepts. An outside look at companies operating in the current business environment can bring us a new knowledge about their actions and about their actual distribution of business strategies and their changes.

2. Behavioral parameters of companies

A business strategy is an accurate and essential description of corporate behavior. A business strategy addresses the role and responds to the question of how to outperform competitors in the satisfaction of customers´ needs and wants. It is obvious that this can be achieved by differentiation. The most common and traditional classification of business strategies is the generic typology of classification. The generic

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theory identifies certain common features of successful business behavior without any connection to limiting factors. It is assumed that certain strategies are almost always appropriate or applicable, no matter what the particular situation is. The generic approaches [Porter, 1980, 254, Hall, 1980, from 73 to 86, Mintzberg - Quinn, 1991, from 70 to 82 Miles - Snow, 1978, Vasconcellos e Sá, 1999, 52] overlook many complexities of individual situations, but in most cases empirical studies have confirmed their validity.

A descriptive strategy characterization according to a set of selected parameters is less common. These kinds of concepts attempt to describe the strategy through visible external signs, fairly visible external signs, which can be determined without an in-depth analysis. Usually it is enough to have an experience from a practice-oriented industry observer, or from a motivated competitor, or from a business partner. **The first descriptive concept** comes from an extensive business strategies survey [Carter - Stearns - Reynolds, 1994, 30]. The strategies were recorded and described by the following (parameters): market sensitivity, attitudes towards the future, level of technology, product diversity, attractiveness of location, support services, and price. **The second descriptive concept** was originally used as a methodology for identification and prediction of the competitors. [Thompson - Strickland - Gamble, 2008, from 85 to 87]. A strategy, in this case, can be described by the following: business radius, strategic goals, market share, competitive position, competitive position and financial performance. **The third descriptive concept** was established as a result of an explicit comparison of several characteristics or definitions of business strategy. The concept was affected by Markides, Collis, Rukstad and Magretta. Markides [Markides, 2008, from 65 to 73]. who write that a strategy has to find answers to three questions: "Who are my target customers?, What products and services should I offer to them?, and What kind of products and services should I offer to my target customers in more efficient and innovative way?." Collis and Rukstad [Collis - Rukstad, 2008, from 82 to 90] express a good strategy by three critical components: 1. having a goal, the 2. having a business focus, (customer, goods, and geographical location) and the 3. placing a higher value on customers. Finally, there is the formulation of Magretta [Magretta, 2002], who argues that a strategy must be unique within the components, such as: market position, technology, products, services, and customers. Thus, a business strategy, in conclusion, should meet the corporate objectives, particularly through the choice of the industry, customers, products, and processes.

3. Data and survey methods

A survey about business behavior was conducted in the last quarter of 2009, based on questionnaires which examined the business environment, internal business environment and business strategies. The purpose of the survey was to describe the behavior and business acts at that certain time and space with a secondary emphasis on micro-sized and small-sized enterprises. An important part was devoted to the company's adaptation to the economic crisis. Closed scaled questions and case studies were used as a basis for data collection. The case studies should capture business behavior, which was not the subject of closed questions, or which should explain and justify the behavior in the responses to the closed questions. Each questionnaire was answered by one external respondent who cooperated with an internal employee of the evaluated company. There were no restrictive conditions in choosing the company according to size, industry, or legal personality, or according to any other conditions. After an exclusion of incomplete or improperly responded questionnaires, the survey consisted of 330 companies operating in Slovakia. These companies were entered into the statistical spreadsheet, for elementary statistical processing and results of the primary information sources. Due to the large number of outcomes, the survey usually referred only to a significant, above average or to typical values of selected parameters. The business strategies and their characteristics are usually expressed as a proportion of enterprises pursuing these strategies in a percentage (%) from the total number of all observed companies. Selected quality characteristics are

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measured on a scale method that assesses the consistency between the observed company and the competitors at the local, regional, national, Central European, and global areas.

The case study was synthesized from the 30 companies (6 micro-sized enterprises, 10 small-sized enterprises, 5 medium-sized enterprises and 9 large companies). The observed companies were selected several times. The aim of this selection was to identify companies whose behavior and acts were described above the average level while still being (in terms of research objectives) sufficiently representative and unconventional. The basic question of the research was: What are the companies´ behaviors and acts, if their behavior and acts are recorded and described though explicitly expressed business strategies? What kind of behavior do they have in order to keep their existence and survive?

4. Survey results

The research sample was evaluated and described by three concepts of business strategy explicit expression. The first concept (4.1) contains parameters that highlight the internal assumptions of business strategy. The second concept (4.2) is based on the description of external consequences of strategic decisions as a result of certain corporate behavior. The third concept (4.3) seeks to combine the external strategic manifestations (customer, industry) with the internal strategic decisions (product, process), which are important in corporate objectives achievement.

4.1 The descriptive characteristics of the business strategy (market sensitivity, attitude toward future, the level of technology, product diversity, location attractiveness, support services, price).

The enterprises responded sensitively (47%) to their environment (they are **market-sensitive**). Almost one third of the companies (29%) try to have a moderate advance reaction to the real change in the market. The minority of companies (17%) are slightly behind the real change. A significant advance or a distinctive is in the range from 4% to 1%. The micro-sized and small-sized enterprises have slightly slower responses to the environment compared in comparison with the whole set of enterprises.

The businesses evaluated their **attitude towards the future** very confidently. One quarter of the companies perceive the attitude towards the future as creative. This attitude can be interpreted as a significant advance from the real situation. The majority (35%), however, seeks to adapt to ongoing changes. About 18% of the businesses are “in waiting mode”, and about 13% of the enterprises seek a proactive behavior to the future situation. A negligible part of the business admits a passive attitude towards future. A smaller part of the micro-sized enterprises are in „waiting mode“(13%), as they are more interested in adaptive attitudes (47%). We can see a higher amount of the small-sized businesses in „waiting mode” (25%,) and they adapt to the environment at the same level as the whole set of the enterprises.

Technology in the companies is comparable to the European level (25%). The world level technologies together with the Central European level and the national level are represented in almost the same extent (about 20% each). The rest is the technology at the regional and the local level. The micro-sized and small-sized enterprises declare less technology than at the world, European, and Central European levels. Their level of technology is usually represented by the national, regional and the local level.

Product diversity and excellence do not correspond with relatively higher declared levels of technology. The amount of world-class products/products compared to world level can be seen in less than one fifth of the companies. The highest share is obtained by the national products (24%). The micro-sized and small-sized enterprises obviously lag behind the average level of products. Only 7% of the micro-sized enterprises offer world-class products. The micro-sized enterprises are successful in offering national level

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products (30%), and their largest share is represented by the regional products (18%). The small-sized enterprises declare a significant proportion of Central European and national level products (25%).

Corporate **attractiveness of location** is equal in the Central European, national and the regional level. Only 5% of the companies consider their location as the world. The micro-sized and the small-sized enterprises operate usually in the national (23 – 25%) or in the regional location (24 – 29%). A less amount of these companies (16%) operate locally.

Companies provide **support services** in various ranges and the highest amount of these services are provided at the national level (27%). The Central European and the European level of support services are approximately equal (20% each). The micro and small enterprises provide support services in a narrower range in comparison with all observed companies. These smaller companies provide support services mostly at the national level (with the micro-sized enterprises at 38% and the small-sized enterprises at 32%).

The businesses offer about the same **price** as their competitors (56%). Slightly higher prices were declared by 24% of the businesses, and prices slightly below the average were reported by 16% of the businesses. Significantly higher and lower deviations are rare. The micro-sized enterprises set prices lower than those companies in the whole group (e.g. slightly higher price for 20% of these companies, the same price for 48% and slightly lower price for 23%). Small-sized companies have the same price policies as the whole group of observed businesses.

4.2 Descriptive characteristics of the business strategy (radius, strategic intent, market share, competitive position, competitive position and corporate profit)

National market is the main area or **radius**, where 30% of the enterprises operate (34% of micro-sized enterprises and 36% of small-sized enterprises). These figures are lower at the regional and the local markets, and at the Central European, European and at the world markets. The micro enterprises operate either in Europe (1.8% of the micro-enterprise category) and/or worldwide (3.6% of the micro-enterprise category) only marginally. The radius of micro-sized and small-sized enterprises is mainly regional, national and Central European. All observed companies have a significant share in Europe (16%) and in the global dimension (15%). Significant differences can be seen at the regional area, which is much more typical for the micro-enterprises (30%) than for the small firms (19%) and businesses of the whole set (13%).

The **strategic intent** of most of the businesses (30%) is to penetrate among the top five companies in the industry. 17% of the companies want to overcome or maintain leadership in the industry. Improving position by one or two places is declared by 12.5% of the companies. Getting into the top ten or applying for a leadership in the industry is the ambition of approximately 9.5% of the companies. Survival in the industry is declared by approximately 3% of the enterprises. The micro-sized and small-sized enterprises do not play a significant role in obtaining a dominant leadership in the industry. The micro-sized enterprises try more to overcome any opponent or maintain their positions (23%). They also want to get into the top five in the industry (21%) or to improve their position by one or two positions (20%). Getting into the top ten (16%) is important as well. Survival in the industry is sufficient for 7% of the micro-sized enterprises. The small-sized enterprises show less interest in the top ten (8%) than the micro-enterprises. They fight more for getting into the top five (30%) in comparison with the micro-sized enterprises.

The most important feature for a significant number of the companies (50 %) is to keep their current **market share**, as they grow together with the growth of the industry. A smaller, but also a significant proportion of the companies (33%) expand through their internal growth, and they raise their market share at the expense of their rivals. Approximately 7% of the businesses try to expand aggressively by acquisitions and by the internal growth of the company. About 6% of the businesses see their growth mostly in acquisitions. The rest of the companies can lower their market share if a short-term profit needs to be

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pushed or achieved. The micro-sized and small-sized businesses focus more on maintaining a current market share (55% and 65%) than all observed companies. The micro-sized businesses rely on expansion through their internal growth more (at 40%) than small-sized businesses (at 26%). The micro-sized and small-sized businesses do not use acquisitions almost at all, or combining acquisitions with the internal growth of the company.

A well-defended, **competitive position** is appealing for the majority of the companies (59%). Almost a quarter of the businesses (24%) want to strengthen their competitive position. However, on the contrary, 12.5% companies try to defend their competitive position with a total strain. The rest of the business has a weakening competitive position, or they can change their position with a better future defense, or they need to exit the industry completely. The micro-sized enterprises are keen on strengthening their position (34%), but they have to work harder to defend their position (16%). Due to such a division in the industry, the smaller amount of the micro-sized enterprises (44%) focus on the current defense of their position. The small businesses are much more involved in defending their current position (71%), and they work less (10%) on strengthening their current positions. Keeping the position in the industry with a total strain is a task for 14% of the small-sized businesses.

The observed businesses prefer a combination of a defensive and offensive **strategic position** (47%). A mostly offensive position (28%) is preferred in comparison with a defensive position (10%). A conservative follow-up position is applied by 12% of the businesses, and an aggressively risky position is chosen by 3% of the enterprises. There are no big differences in companies selected by size (all companies, small-sized businesses or micro-sized enterprises), because the differences are only between 1% to 3%. The micro-sized companies pursue usually less risky positions.

The observed businesses achieve **profit** compared with the industry average (56%). Above average profit was declared by 28% businesses and below average values were reached by 7% of the enterprises. A small amount of the businesses (2.5%) were extremely successful in profit achievement. The micro-sized and small-sized businesses are different from all observed companies, because the number of above average results is smaller. These companies (about 18%) are typical for a higher share of the average results (61% and 66%). The micro-sized and small-sized businesses have a larger share of the below average results (9% and 11%). Losses were represented among micro-sized enterprises (altogether 11%).

4.3 Case study: An explicit description of the business strategy - descriptive characteristics of the business strategy (objectives, products, processes and customers)

We can distinguish two large and relatively homogeneous **groups of objectives**. **The first group** includes the growth and development issues. Those are variations connected with:

- the growth of market share
- entry into foreign markets
- the increase of competitiveness in the European market
- the strength and security of the competitive position
- the increase of production
- the development of personal sales
- the achievement of a leading position in sales (e.g. sales of small and medium-sized cars in the Bratislava region)
- the continuing extension of the products and services range, product diversity, and acquiring new customers (e.g. mid-sized company with international operations)
- the opening of a new operation
- target care about customers
- a higher amount of loyal customers

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The second group of objectives focuses on keeping a current market position, or surviving in the market and cost reduction.
It is important to:

- keep a market position
- strengthen relationships with business partners and customers
- maintain sales through strong promotion in crisis
- maintain and enhance the position of a business unit within the company
- keep a market share
- maintain a stable position in the market
- keep suppliers and customers
- take care of the customers before the upcoming expansion
- maintain product quality
- keep a high quality of technology
- provide excellent service

Some companies try to survive the crisis, and they do not want to lose their customers while reducing operating and overhead costs. They want to increase capital strength, and they seek a strategic partner with financial capital. Cost reduction and reducing external resources are important as well. Customer satisfaction and offering a traditional product is another focus of this group.

The third group of objectives is a cluster of different topics without a unifying base. They address actual problems of a company:

- how to overcome syndromes of small-sized businesses (lack of sources, less confidence, and weak competitive advantage)
- finding new business
- sales orientation
- better reputation in markets
- possible partnership with software providers
- to become a medium-sized developer (project costs are from 10 to 20 million Euros)
- the differentiation of services
- increasing professionalism and expectations of employees

A **competitive product** is one which is different from the competitor due to a wide range, high quality and reasonable price. A practical implementation of this thesis is limited. Services provided make a difference to all types of goods sold:

- selling outlet goods
- providing additional and support services (such as custom-made products, an additional adjustment to the product for the original price, catalog sales, internet sales, small gifts, loyalty discounts, or a Christmas prize lottery).
- a supply of goods of exceptional quality, even for higher price

An industry's lack of innovations is compensated by a complex product together with a high level of support and additional services provided. High-added value, differentiation, and a wider range of product variation contribute to less powerful technology and more manual work.

It is obvious for technology **processes** that production and administration is not profoundly yet nonetheless continuously improved. There is a simplification of processes and elimination of unnecessary operations and unnecessary costs. The processes are optimized due to an expected decrease in sales. Return on sales is preferred more than sales volume. Trade, distribution, and buy-back purchasing of unsold products have become important. In many cases, the quality of additional services together with an accuracy and detail of response to client requests matter most. A postal service company can ensure the

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development of differentiation on the basis of speed and error-free delivery. It offers additional services (electronic tracking shipments, direct contact with the customer, or electronic confirmation of delivery). Process improvement is based on the primary source, which is a highly qualified staff. The emphasis is given to flexibility, adaptability, and innovation. These features are often considered as the most valuable assets. In more specific terms, they represent a constant touch with customers and their changes in needs, but also a vision and a high speed response to external changes. Adaptable workers have become more important as well.

A **customer** in strategic thinking is:

a) *a faithful buyer*, who might repeat a bigger purchase, or who can be offered other goods

b*) a satisfied buyer*, who is a source of reference for widening the range of loyal customers

c) *a new buyer* for whom it is necessary to build an additional sales space. Knowledge of customers´ wants is considered an important component of the strategy, which can be realized due to flexible adaptation to the orders. (For example: modern information communication technologies can identify early any changes in the customers´ demand which can be satisfied by a wide range of Slovak, Czech, German and Austrian tour operators.)

Many enterprises are aware of their options, and therefore they formulate strategies to meet short-term targets by maintaining quality, giving presentation at exhibitions, and by branding and personal selling. The companies can promote policies that are not very different from competitors' strategies (such as more customers, more production, cost reduction and market share expansion). The difference then lies in better reputation, brand quality, or high caliber workers. Also business contacts, relationships with customers, and decent presentation at exhibitions are important. Companies want to get closer to their customers, and they broaden the range of services provided. Some companies try to differentiate significantly from the competitors, or they create a new definition of their business (e.g. providing accounting services and offering also consulting, training, publishing, property valuation and other services).

The crisis impact on business resulted in a massive drop in orders, while their demand was pushed only by selling cheaper goods. Shift work and the working week were shortened, and employees were laid off. For example, in Volkswagen Slovakia (VW Slovakia), the so-called „flexikonto“ has been introduced (the payment is a full scale, but the remaining hours must be balanced by two years). The drop in production was accompanied by clearance sales and price discounts in order to keep important clients. Cost reduction was necessary, and the company started to pay more attention to workers´ ideas.

Thus, the enterprises try to support sales in various ways in order to avoid a deep drop of revenues. The companies keep only the most skilled and productive workers and they are open to tasks and services that were previously only supplementary. They try new kinds of business and they wait for a market recovery. A number of these measures means only a moderate elimination of the crisis (e.g. cost reductions, employees´ separation, lower electricity prices or energy reduction due to the usage of more efficient technologies). The crisis only deepens the impact of any previous, incorrect strategy. Most businesses were not prepared for the crisis, as they responded to it late, and they prefer only reduction measures.

5. Discussion

In terms of **business strategy descriptive characteristics** (*market sensitivity, attitudes toward the future, level of technology, product diversity, attractive location, supporting services,* and *price)* businesses predominantly feel changes when they occur. They either try to adapt to them, or they wait for the right time to use the change as an opportunity. The average technology can be considered as the Central European, and product diversity and product excellence mostly correspond to this level (Central European). The attractiveness of location is concentrated from the Central European to regional framework. The level

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of support services ranges from the national to European level. Most enterprises have prices similar prices to their competitors. The excellent companies declare a creative attitude towards the future (4%), world technology and world production (20,%), but only 5% of the companies declare world attractive position. About 10% of the companies can offer world support and additional services. Lower prices can be offered only by a small proportion of the enterprises.

According to the second **business strategy descriptive characteristics** *(radius, strategic goals, market share, competitive position, competitive position and profit or loss)* the companies operate mostly in the national market, but they are also present in the international and local markets. A typical company is ambitious and wants to get into the top five in the industry. At the same time, most businesses want to maintain a current market share, and therefore they prefer a well-defended competitive position. They try to combine predominantly offensive and defensive attitudes, which is a bit opportunistic and not a sign of a clear and self-confident strategy. Most companies achieve an average profit in the industry.

According to the third **business strategy descriptive characteristics** *(objectives, products, processes and customers)* the corporate strategic behavior is diligent, which is reflected in the care of products, processes and customers. However, the companies are limited by product innovations or process potential. Therefore, the solution can be found only in slight improvements. Enhancements (such as support services, comprehensive products, fast processes, and maximum responsiveness to customers needs and wants) can help, but only up to a certain level.

The crisis has brought new incentives to the corporate strategies, which are well seen through strong objectives to maintain the corporate performance and results in order to wait for better times. Many companies responded to a drop of sales in a simple way and with rapid action. This action was represented mostly by lowering prices, giving discounts, or gift giving to more expensive goods. The government tried to help at least to support car sales by providing a scrap rebate for new car buyers, but this cannot be understood as a good approach, because this reaction to the crisis is totally inadequate, or even dysfunctional. New strategies should be based on a deep and fundamental business restructuring or on the total change of the original business. The crisis has clearly shown what is functional and viable. The crisis has also shown what kind of business has to go through a profound transformation in order to survive, and to work towards growth.

Evaluation of the small businesses and micro-sized enterprises compared with the whole set of enterprises.

The micro-sized and small-sized businesses are slightly more sensitive to the impact of new technologies, which is probably connected with the circumstances of their origin, although many of them originate due to the implementation of technical innovations. The micro-sized enterprises value less their brand, reputation, knowledge, and experience. This can be understood as a proof of their shorter existence. They have a weak corporate culture. Their tangible and intangible resources are of worse quality. The micro enterprises somehow focus more on unsegmented markets, which may be associated with their vaguely or poorly defined strategy. Their business strategy is based on very different and non-harmonized abilities. These companies slightly prefer relative cost reduction from relative differentiation. They focus especially on services. The micro-sized enterprises differ more in price differentiation than in quality differentiation. They are more active in new markets with new products.

These businesses are more diversified, as they try to test different paths of their growth. The small-sized enterprises, after their business clarification, diversify less. The micro-sized enterprises, after applying the business strategy potential, try to combine resources and experience more in innovative concepts than in a completely new and original business concept. The micro-sized enterprises would rather defend their positions than look for new opportunities. The small-sized businesses try to implement both strategies. The micro-sized enterprises are perhaps more cautious, and therefore they more often choose strategies with

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less added value. The small businesses, probably after gaining higher self-confidence, choose the strategy with more added value. The micro-sized businesses are slightly more inclined to strategies based on price rather than on higher added value.

The micro-sized and small-sized businesses do not respond enough to the initiatives from the external environment. However, they are relatively well-adaptable if they decide to act fast. Their technology skills are average and products are weaker. Their location is fair, and they provide support services of lower quality, so they mostly compete by price. They operate mostly in the national market, and their ambitions are modest. They focus on overcoming the nearest competitors or on keeping their current position. They risk less. Their earnings are mostly average.

6. Conclusion

Corporate behavior is largely determined by the companies themselves. Stating only causes of failure or below average performance due to turbulent external environmental changes is not very important. The sources of large and sudden changes are not extensive, but they must be identified and evaluated well in advance. Companies then can adapt to them quickly. A mainstream company is pushed between moving forward and securing its future actions. This “game of assurance” results in a strategy of small steps and limited innovation, which revolves around the nature of the original product and technology. It is implemented in incremental and additional improvements. Therefore the willingness and ability for adaptation are tactical. The enterprises are therefore good in operational adaptation, but they are significantly behind in strategic flexibility. They should mobilize their capabilities, and they are formally aware of that. But their behavior and actions do not reflect what they are aware of. Companies should increase fundamentally the level and quality of material resources, especially technologies, if they want to play a decent role in the Central European region. Several considerations and questions arise, whether expectations from the micro-sized and small-sized businesses are not too bold or lofty.

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