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The Link between Financial and Overall Corporate Strategies

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***Abstract*—**Company strategy expresses a basic idea of how to reach company objectives. A whole range of models of strategic management are used in practice. The concept of strategic management should fulfill some basic requirements to make it applicable for both the typical, but also more specific company environment. The financial strategy plays an important role in corporate strategy. The paper develops a methodology of strategic model implementing into the category of micro, small and medium-sized enterprises (SMEs). Furthermore, the methodology recommends procedures while solving an up-to-date worldwide task of the definition of the company strategy and its financial strategy.

***Keywords*—**corporate strategy, financial strategy, corporate planning

I. Introduction

THIS paper has been prepared for a Czech engineering company. The company was incorporated eleven years ago. Its customers are international legal entities. None of the customers has more than a ten percent share in the turnover of the company for reasons of risk distribution.

The company has no strategic management, and its turnover is decreasing. The definition of the corporate and financial strategies should help the company to improve its position within the market. The company intends to invest into suitable properties to secure its expansion. In order to do so it is essential to prepare corporate and financial strategies that would verify objectivity of the specific investment.

II. Theoretical Concepts Used

Professional literature shows many various concepts, approaches and attitudes to strategic management [1]-[10], see Fig. 1-5.

The inability to define one single concept of strategic management which would be ideal for all strategic decisions is based primarily on the fact that decisions are usually non-recurring, and what's more they are often badly structured, and therefore they do not allow the evaluation of all relevant information.

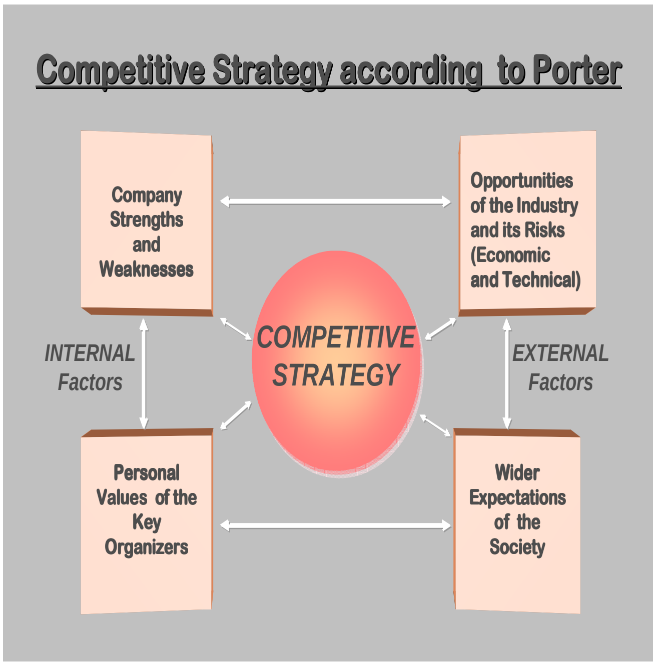

Fig. 1 Competitive Strategy according to Porter [6]

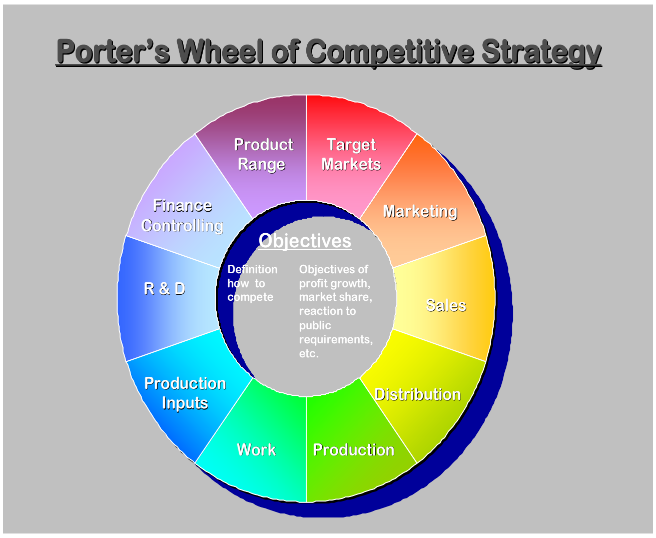

Fig. 2 Porterś Wheel of Competitive Strategy [6]

According to this concept [6], the company strategic targets form the central hub of the wheel. The arms are represented by key operational measures in individual areas which the company uses to reach its strategic objectives. The arms of the wheel (measures) must come out from the central hub, rely on it and at the same time they must be interrelated, otherwise the wheel could not turn round.

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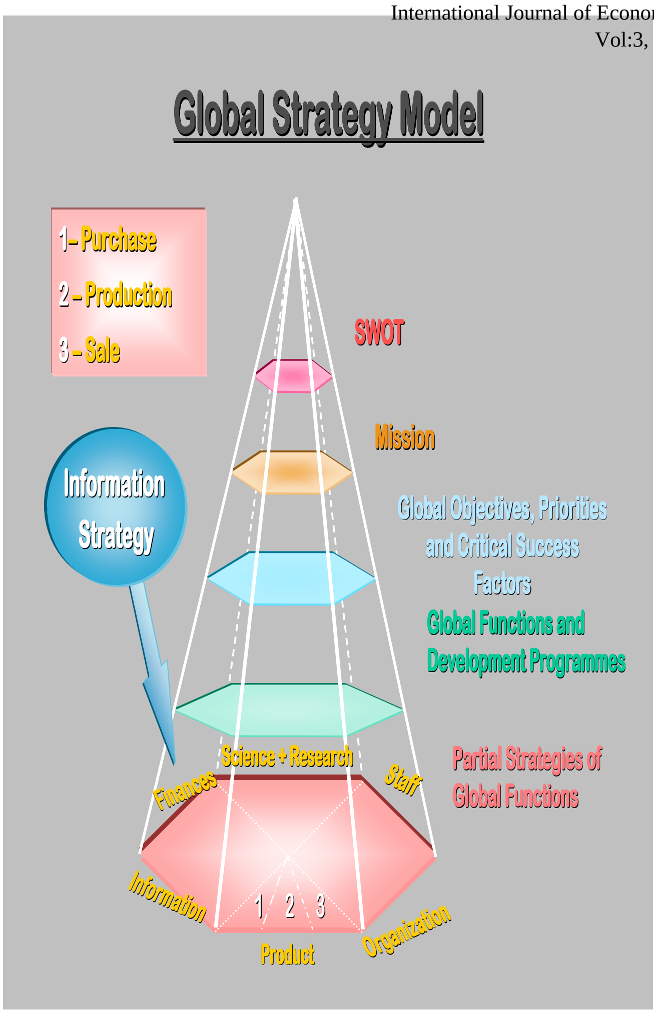

Fig. 3 Global Strategy Model [7]

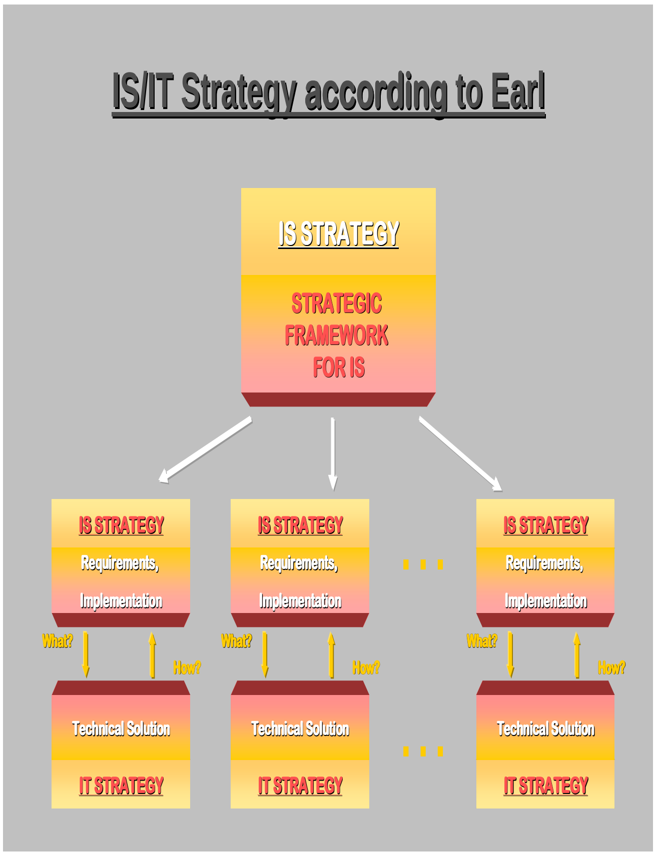

Fig. 4 IS/IT Strategy according to Earl [2]

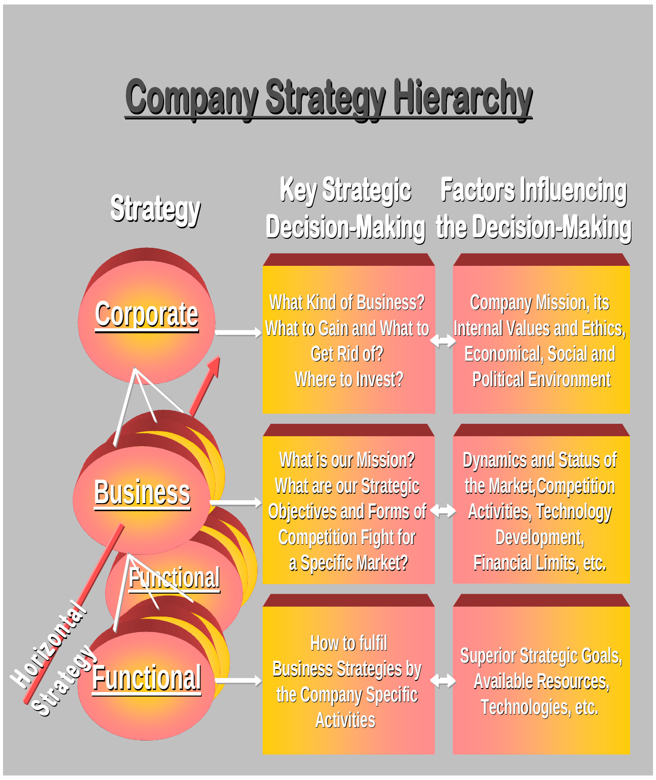

Fig. 5 Hierarchy of Corporate Strategies [5]

The concept of strategic management should fulfil some basic requirements to make it applicable for both the typical, but also more specific company environment. The criteria should be as follows:

a) Practicality of the concept based on clear definition of basic terms and clear methodology applicable for specific situations.
b) Definition of the direction of strategic management, e.g. top-down or bottom-up.
c) Model hierarchy enabling a clear and transparent structure of the complicated issue of forming strategies.
d) Definition of the decision making methods so that the methods can be applied on the relevant levels and both specialist and general staff have space to assert themselves.
e) Participation of lower organisation links on the formulation of the strategy in order to create suitable conditions for the following implementation of the strategy.

The basic strategic management conception applied in the paper was that by Miloslav Keřkovský and Oldřich Vykypěl[5], based on the existence of a hierarchical system of mutually connected strategies (see Fig.5). This clearly structures the complex issue of strategy formation. The concept defines basic terms, types and limitations of individual strategies and strategic levels, and outlines methodology for a specific type of enterprise including several specific examples. This fulfils the aspect of practicality of the concept.

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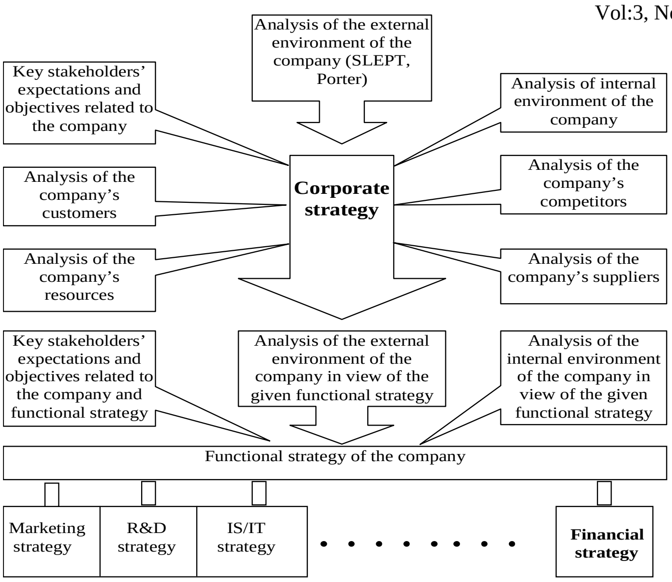

Fig.6 Procedure for the formulation of a strategy [5]

The definition of the financial strategy runs from top to bottom so that the superior level determines the basic strategic objectives for its subordinate levels. The subordinate levels then develop objectives into particular details on their level. This also secures feedback from bottom to top and verifies the objectivity of the strategic objectives determined on superior levels (see Fig. 6).

The company's external environment will be analysed using *General Environment Analysis (SLEPT)* [5] which will show any potential threats and opportunities that could influence decision about the corporate strategy. SLEPT analysis is limited only to the relevant factors in terms of making decisions about the corporate strategy (see Tab. I).

TABLE I
GENERAL ENVIRONMENT ANALYSIS

Environmental Threat and Opportunity Profile		
ENVIRONMENTAL SECTOR	FACTOR	EFFECT
Social	Health condition of the population	O
	Less people at productive age	-
	Endorsement of computers	O
	Internet access	O
	Expansion of home office working	O
	Life style	-
	Fluctuation of the specialists	-
Legislative	Internet in the state administration	O
	Personal data protection	O
	Enforceable rights	O
	Protection of investment	O
	Legalisation of minimal wage	O
	CR and EU laws	O
	Liberalization of the market	O
	Making building legislation easier	O
Economic	Economic growth	O
	Insignificant capital market	-
	Credits available on the market	O
	Inflation development	-
	Exchange rate CZK/EUR development	-
	Profit taxation	O
	Interest rate	O
	Higher prices for fuel and power	T
	Wages in engineering sectors	T
Political	Stable political situation	O
	Liberalization of markets	O
	Foreign investment	O
Technological	Technical communication possibilities	O
	Data protection	O
	Possibilities of data storage	O
	Progressive technologies	O
	CRM systems	O
	Requirements regarding building security	T
	Requirements regarding heat-insulation	-
O Opportunity	**T Threat**	**- Neutral Influence**

To analyse the decisive factors that determine a given market, *Porter's five-factor model of competitive environment* [5], [6] has been used. That contains the analysis of the following five factors: bargaining power of buyers, bargaining power of suppliers, threat of entry of new competitors, threat of substitutes and competitive rivalry (see Tab. II).

TABLE II
FACTOR EVALUATION WITH THE METHOD FOR OBJECTIFYING PORTER'S ANALYSIS

Porter's factors	Year 2008	Year 2013
Bargaining power of buyers	4.8	5.4
Bargaining power of suppliers	6.5	6.0
Threat of entry of new competitors	5.3	4.8
Threat of substitutes	2.8	3.0
Competitive rivalry in the industry	5.1	5.3
Factors evaluation interval: < 1 ; 9 >	min = 1point	max = 9points

The most often used company environment classification as shown in **[3]** defines the crucial company stakeholders. For a strategy to be successful it should not be at variance with the crucial stakeholders' interests, i.e. it should be formulated in view of their objectives, interest, information needs and strength. To determine the priorities/power of the individual stakeholders a point system has been used (see Fig. 7).

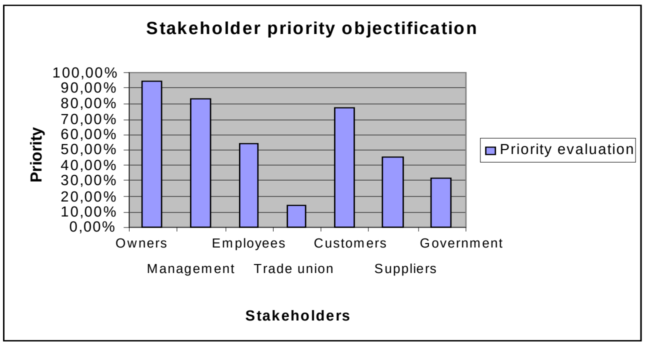

Fig.7 Comparison of priorities of the company stakeholders

In the analysis of the internal company environment *´7P´ components* (Product, Price, Place, Promotion, People, Process and Planning) has been used. That will be subsequently included in the content framework of the proposed strategy (see Fig. 8).

Fig.8 ´7P´ Components

All relevant factors identified the analyses above will now be arranged according to their impact. In order to make a

TABLE III
SWOT ANALYSIS

S: List of Strengths	W: List of Weaknesses
S5 - Differentiated services	W5 - Demands due to insufficient capacities
S6 - Advantageous location of properties	W6 - Missing development of new services
S21 - High quality of products	W8 - No marketing department
S28- Finance for fixed assets development	W10 - No flat organisational structure
S30 - Opportunities for company expansion	W16 - Non-conceptual educational system and staff development
S32 - Stabilized team of experienced employees	
S33 - High employee loyalty to the company	

O: List of Opportunities	T: List of Threats
O1 - Management support of company expansion	T1 - Decrease of prices of company services
O14 - Economic growth	T2 - Higher prices for fuel and power
O15 - Credits available on the market	T3 - Wages in sector
O16 - Profit taxation	T4 - Requirements regarding building security
O26 - Low threat of substitutes	T5 - Significant bargaining power of suppliers
O27 - Invoicing customers for their energy consumption	

rational conclusion based on the analysis, must be carry out synthesis of the most important factors in a final *SWOT table* (see Tab. III) considering the fact that some of the factors have similar consequences, and some are less important within the group than factors with the same effects. The result will not be overwhelmed by too many factors with similar effects or less importance than several dominant factors. Too many factors also make it more difficult to propose measures which would improve the situation in the company.

III. DEFINITION OF THE CORPORATE STRATEGY

To be competitive, the company has chosen the *strategy of differentiation focus*, by means of which it competes primarily using the specific character of its services. The chosen generic strategy of differentiation focus as shown in Fig. 9 is given preference thanks to the fact that competition in the given industry is not as keen, new entries of rivals into the industry are difficult mainly as far as investments are concerned, there is a small threat of substitutes and high customer loyalty. Differentiation is achieved by means of the supply, where the company provides its customers with a higher value for a price comparable to that of its rivals.

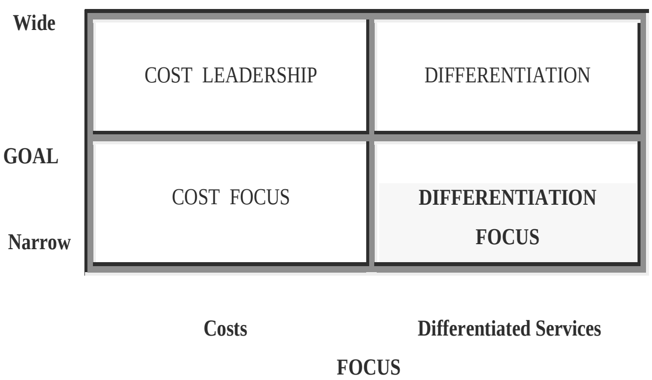

Fig. 9 Generic strategy according to Porter [6]

The basic objective of this company strategy includes the *sequential combination strategy*. It is a combined strategy typical of companies in a period of changing the life cycle of the supplied services and markets. The company is unable to meet the customer demand for outsourcing services, which is caused by the growth of both services and markets. From the point of view of time, the sequential character means that this year the company follows the *strategy of stability* in order to aggregate finance, and next year it will change to *expansion*.

IV. DEFINITION OF THE FINANCIAL STRATEGY

The main company objective listed for the field of finance supports the selected corporate expansion and differentiation strategies. The external company environment must be analysed using SLEPT analysis with its outputs of potential threats and opportunities which might influence decisions about the defined financial strategy. To evaluate competitive advantages of the company in the financial field, modified Porter analysis of the company field environment is used, which is commonly used to define corporate-business strategies. Processing Porter analysis for the need of financial strategy will be specifically focused on the identification of strategic measures which, after its application in the financial field, will improve the position of the company in this field. The importance, power and effect of the relevant factors of the environment identified in this chapter will be arranged and evaluated. ETOP (*Environmental Threat and Opportunity Profile*) will be used to process the results (see Tab IV). Tab. V defines power of the individual stakeholders.

TABLE IV
ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE

ENVIRONMENTAL FACTOR	SECTOR	EFFECT
Socio-economical	Increasing the number of finance specialists	O
	Fluctuation of the finance specialists	-
	Shortage of qualified labour	T
	Employees´ wages in the financial field	-
	Projected economic growth in the CR and the EU	O
	Development of inflation	-
	Development of the exchange rate: CZK / EUR	-
	Increase in prices caused by the increase in prices of raw materials and crude oil	T
	Decrease in profit taxation	O
Technological	Employment of new technologies and equipment	O
	Data protection	T
	Possibility of filing accounting data	O
	Speed and volume of transmitted information	O
Political	Slower influx of foreign investment	T
	Protection of employees´ personal data	-
	Legal compatibility with the EU	O
Suppliers	Time demanding procedures for selecting suppliers	T
	Suppliers do not represent a threat for SBU	O
Customers	High bargaining power of the customers	T
	Acquiring new customers by using references	O
Competition	Threat of entry of new competitors is low	O

O opportunity T threat - neutral effect

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TABLE V
THE DECISIVE STAKEHOLDERS

Stakeholders	Expectations	Objectives and priorities of satisfying the information needs	Power / Priority
Owners	- keeping the continuity of the company and its growth. - dividend yield - profits from selling shares	- increasing the value of the company	1
Management	- long-term prosperity - increasing the market share	- development of new products - increasing the total profit	2
Employees	- securing the work position - increase wages - further qualification	- information about company's economic activity	4
Competition	- lowering their competitive ability	- lowering the market share of the company - lower company image	5
Customers	- lower prices - better service - purchasing goods for servicing	- minimising purchase prices - the quality of logistic processes - reduction of the number of suppliers	3
Suppliers	- profits from the cooperation - increase of deliveries	- information about solvency - expanding cooperation	6
Government	- maximum tax collection - employing more people	- high company profit - high taxes	7

The proposed strategy must accommodate the interests and needs of company owners, management and customers as much as possible (see Tab. V). Later, when deciding about accepting the financial strategy, these stakeholders can be more easily persuaded that the proposed strategy is in their interest.

In the internal analysis must be identified and analysed those financial components that will be subsequently included in the content framework of the proposed financial strategy (see Fig. 10).

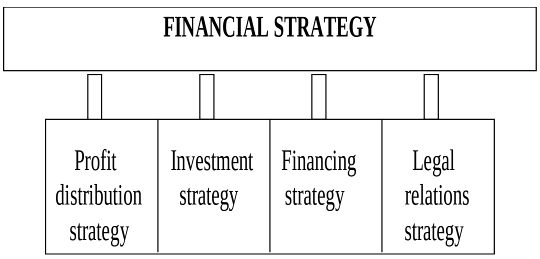

Fig. 10 The framework of financial strategy

Financial strategy, as a functional strategy, is subject to the overall corporate strategy. Therefore, financial strategy includes profit distribution strategy, investment strategy, financing strategy and legal relations strategy [1]-[13].

All relevant factors which were identified during the previous analysis will now be arranged according to their impact.

SWOT analysis (see Tab. VI) defines the strong and weak points, threats and opportunities which include all outcomes of the previous analysis. When drawing up the proposal part all analytical outcomes and definitions of the financial strategy were used so that strong company points and its potential opportunities were used whilst the weak points and factors representing future threats for the company were eliminated.

TABLE VI
SWOT ANALYSIS

S	W
List of Strengths	**List of Weaknesses**
S3 - Managing costs and stock	W2 - Incorrect evaluation of investment efficiency
S5 - Profit capitalization	W7 - High cash balance in the account
S12 - Managing liabilities and receivables	W1 - Non-systematic education of staff
S16 - Using internal and external resources	
S22 - Good quality control system	

O	T
List of Opportunities	**List of Threats**
O1 - Economic growth	T2 - Legal consequences of leasing
O12 - Credits available on the market	T4 - Higher prices for raw materials, fuel and crude oil
O14 - Profit taxation	T5 - Wages in sector
O17 - Speed of transmitted information	T7 - Securing accounting data
O19 - Legal compatibility with the EU	T8 - Fluctuation of employees to the competition

Defined objectives will be focused on the more distant future, and cover the time horizon of 5-10 years. Each objective will be defined in consideration of the superior strategy and the results of SWOT analysis, e.g. which strong points/opportunities are used and which weak points/threats are eliminated. At the same time it is important to state the provision of each of the defined objectives (financial budget, personnel provision etc.), and each objective must be allocated a person accountable for the fulfilment of the objective, and a person checking the fulfilment.

V. IMPLEMENTATION PROCESS

The proposed solution will help the company to implement its objectives in the field of financial strategy. The implementation process can be divided into two parts. The first, managerial part is based on the abilities of the implementation manager and his/her vision, company activation and support of the prepared proposals. The second, administrative part is based on the abilities of the company to adopt and further develop the started process. The Implementation Manager will be the Company Manager, the Implementation Sponsor will be the Finance Manager and the Implementation Agent will be individual Heads of Departments and their subordinates will become the Implementation Target.

The control mechanism is an integral part of the implementation process of the strategy and it aims to achieve optimal results for the available resources within the company.

VI. Conclusion

The proposed solution will help the company achieve its objectives in the financial strategy field with respect to the objectives determined by the corporate strategy.

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