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APPROACHES TO FIRMS` STRATEGIC ORIENTATION AND THEIR DEVELOPMENT DURING FINANCIAL CRISIS

The article deals with possible approaches to firms` strategic orientation. Individual approaches to strategy formulation are compared. Attention is drawn to the advantages, disadvantages and basic preconditions for their successful implementation. These basic strategic directions include differentiation, low-cost strategy, focus strategy, first mover strategy, market-follower strategy. Attention is also paid to the importance of innovations in business strategy. Presents new comments to the empirical research aimed to the behaviour of firms during the financial crisis in 2009–2010 in the Czech Republic.

Keywords: *strategy, differentiation, innovation, competitive advantage, first-mover strategy, focus strategy.*
JEL classification: *M10, L10.*

Йозеф Краузе

ПІДХОДИ ДО СТРАТЕГІЧНОЇ ОРІЄНТАЦІЇ ФІРМ ТА ЇХ РОЗВИТКУ В УМОВАХ ФІНАНСОВОЇ КРИЗИ

У статті розглянуто можливі підходи до стратегічної орієнтації фірм, порівнюються індивідуальні підходи до розробки стратегії. Увагу приділено перевагам, недолікам і основним передумовам їх успішної реалізації. Основні стратегічні напрями включають диференціацію, стратегію низьких цін, фокус-стратегію, стратегію першопрохідця, стратегію ринкового послідовника. Увагу також приділено важливості інновацій в бізнес-стратегії. Представлено нові коментарі до досліджень, направлених на стратегічну орієнтацію фірм під час фінансової кризи в 2009–2010 рр. у Чеській Республіці.

Ключові слова: *стратегія, диференціація, інновації, конкурентна перевага, стратегія першопроходця, фокус-стратегія.*
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ПОДХОДЫ К СТРАТЕГИЧЕСКОЙ ОРИЕНТАЦИИ ФИРМ И ИХ РАЗВИТИЮ В УСЛОВИЯХ ФИНАНСОВОГО КРИЗИСА

В статье рассмотрены возможные подходы к стратегической ориентации фирм, сравниваются индивидуальные подходы к разработке стратегии. Внимание уделено преимуществам, недостаткам и основным предпосылкам их успешной реализации. Основные стратегические направления включают дифференциацию, стратегию низких цен, фокус-стратегию, стратегию первопроходца, стратегию рыночного последователя. Внимание также уделяется важности инноваций в бизнес-стратегии. Представлены новые комментарии к исследованиям, направленным на стратегическую ориентацию фирм во время финансового кризиса в 2009–2010 гг. в Чешской Республике.

Ключевые слова: *стратегия, дифференциация, инновации, конкурентное преимущество, стратегия первопроходца, фокус-стратегия.*

Introduction. Various authors give various classifications of strategies. Nevertheless, most of them have similarities. A very successful classification can be

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found, for example, in Whittington (2001). This author classified by the outputs of strategy and processes used for strategy creation, he formulated classical, processual, evolutionary and systemic approaches. Characteristics of main strategic orientations are given in the following text. Approaches of the most important authors on business strategy are used.

Differentiation. The concept of differentiation is defined, for example, by Porter (2004, 1998, 1996), Drucker (2006), Johnson, Scholes and Whittington (2008) and others.

According to Porter (2004), a firm chooses the strategy of differentiation, it must produce a product unique in the industry, and customers will appreciate this uniqueness. Firm will focus on specific product features that customers will evaluate. This situation allows a firm ask for a higher price. The difference may be not only in a product itself, but it may be in its distribution, the services associated with it etc. Firm has to choose the characteristics of a product in order to differentiate it from the most competitive products with similar characteristics.

Drucker (2006) considers increasing customer value and innovation as a basic approach for a successful strategy. It is possible that the product is not new, but the strategy would change it into something new, changing the utility value for customers.

Johnson, Scholes and Whittington (2008) also wrote about the strategy of differentiation in their concept the "strategy clock". This strategy combined the high level of perceived product/service benefits and average level of price. The aim was to achieve a higher market share through superior products at the same price level. Implementation of this strategy was achieved by improving the uniqueness of the product. Differentiation can be achieved by investing in research and development and the achievement of higher reliability, quality, technical standards etc. Firm may establish a strategy for effective marketing, brand strength and effective promotion. This type of strategy can be also based on the capabilities of a firm. If it is an ability that is truly unique, it is very difficult for competitors to imitate such differentiation.

Low-cost strategy. According to Porter (1998), when firms select a low-cost strategy, the goal is to produce products with the lowest cost in the industry. The firm has a broad portfolio of activities and the firm is active in various sectors. The resources of low costs are derived from the structure of the industry. The main sources are the economies of scale, access to raw materials etc. Producers seeking the advantage of low cost sell standardized product in large volumes. The firm wanting to achieve good profitability must reach the price level below the level of its competitors. When building competitive advantages of low cost, it is not possible to be focused on costs only. The firm must produce a product with qualitative parameters comparable with competitors. Otherwise, the firm will have to reduce price and low cost advantage will disappear. Porter (2008) also formulates the factors of attractiveness for each industry.

Johnson, Scholes and Whittington (2008) distinguish 2 strategic orientations based on low price. The first is the combination of low cost and low value added. This strategy is applied to the market at which customers cannot decide, or better but more expensive goods are not affordable for them. The second option is the combination of low rates and moderately high added value.

Focus strategy. According to Porter (1994), when firms choose the focus strategy, they must focus on one segment only the industry. These segments have customers with unusual requirements. It is the condition for this strategy. If a product is manufactured under a production system, which has a specific costs curve, the firm chooses this strategy. Firm with a focus strategy can achieve success because its competitors are too broadly focused. Their scope is so broad that it fails to comply with customers' special wishes or it would cost too much.

What Porter (1994) calls "focus strategy", Johnson, Scholes and Whittington (2008) call "focused differentiation". When choosing this strategy, a firm tries to offer customers high value for high price. If a firm decides on this strategy, it chooses a specific market segment. And within this segment it is usually possible to again apply the focused strategy and thus open the door for closer focus.

The firm must clearly define the satisfying needs of customers and actions and resources needed for satisfaction of these needs. This can be problematic for companies trying to serve different market segments and satisfy various needs of different customers. Targeted strategies may be in conflict with the investors expectations too.

The market must be carefully monitored under focus strategy. The differences between segments are constantly changing and a firm always meets new competitors. Drucker (2006) called this strategy ecological niches strategy. This strategy seeks to complete domination of a smaller market segment. In previous strategies firms compete in a competitive fight. The aim of this strategy is to achieve ecological niche position where it is unlikely that the firm comes into conflict with its competitors. The aim is to not to attract attention of other firms. One special possibility is called the toll-gate strategy where the firm manufactures products needed for another firms. The market size is too small. The others are not attracted in this situation.

Kotler and Keller (2009) formulated the market-nicher strategies. Market-nicher strategy is applied by firms that specialize in "niches" at the market. A common feature of successful strategies is offering high utility values, the application of price premiums, achieving low cost, high culture expression of firms. Risk connected with this strategy is the situation when weaker firms can be squeezed out of a niche. Their specific resources have no further application. Specialization in niches does not mean only focusing on a certain type of end users. This may mean, for example, customer segmentation by size, geographic range etc.

Niche strategy has some similar features with the strategy of the defender as it is seen in Miles and Snow (2003). The basic goal of a defender is to find and satisfy a relatively stable market segment. Firms do not seek a change in the form of innovation, new product development, but they try to avoid possible changes. The means to do so are to lower the price of products to not attract new firms into the sector. Decisions are made slower and are based on thorough research and analysis. Each strategic business units tend to have less autonomy.

First mover strategy. Hamel (in Gibson, 1998) considered it is necessary to come up with the news first. It is necessary to acquire new skills, explore new market opportunities and experiment at the market to understand future needs of customers. At the same time firms have to spend resources very carefully before they get enough reliable information about opportunities.

Drucker (2006) called this strategic orientation being "fastest with the mostest". The entrepreneur`s aim is to archive a leading position in the industry by implementing this strategy.

This strategy is the most risky one; the greatest risk here is failure threat. On the other hand, if this strategy is successful, the potential effects are the highest.

The aim of this strategy is to create something really new and different. This is the reason, that non-experts and outsiders are very often successful with this strategy. They do not know, what is possible or what is not and these people do not worry to try new products or solutions. For this strategy to be successful, innovations must be based on careful and purposeful analysis of options.

According to Drucker (2006, 2002), when innovation becomes successful, innovator must develop the product very intensively. He must reduce costs and price not to attract other firms to this industry. This strategy requires really thorough analysis and understanding of innovative resources and their dynamics.

This strategy is consistent with the strategy of prospector. This term was brought in by Miles and Snow (2003). This group includes the firms with the most aggressive strategies. These firms seek to expand their presence at new markets and exploit and create new opportunities. To ensure this aim, these firms do not deal with too thorough research and analysis. Individual business units are highly autonomous.

This includes also Ansoff` (1965; 2007) strategy of product development. In this case a firm develops a new product for the current market – firm develops and offers new products for existing customers. Development of new products is currently the most essential in thing competitiveness maintaining.

Kotler and Keller (2009) called this strategy the market leader strategy. The market leader is the firm that has the largest market share and this firm usually forces other companies to implement price changes, new product introductions, forms of promotion etc. If the firm wants to maintain this position, it must try to increase the overall demand, protect existing market share, and increase its market share at the expense of others.

The essence of this strategy is the creation of innovation. First mover strategy brings various advantages. The main advantages according to Grant (2010) are the following: if the used resources are scarce, the first firm usurps these resources. Other firms do not have access to these resources. Even if, after some time, firms can imitate competitive advantage, the first firm has the advantage. At least the first firm realizes above-average profits which enables its further development. This firm has an edge over other firms. Innovators have a good reputation and establish the relationships with other actors at the market – suppliers, customers, consumers. First at the market can create a cost advantage due to larger experience.

On the other hand, not even the firm, which first implements a strategy in the industry, can assume obtaining of a sustainable competitive advantage. For example, Barney (1991; 2001) thought that diverse sources is the prerequisite for sustainable competitive advantage.

If a firm comes to market with a new product, it prepares a good position to gain a dominant share of the overall market. Kotler and Keller (2009) presented an interesting link between corporate profitability and the share of the overall market. Dependence between profitability and market share may take the V-shape. It means that high profitability is reached by the firms with high market shares or by rather small firms. The authors explain this by the fact that large firms address the entire market. Through economies of scale and experience curve large firms reach low costs and good profitability. Small firms on the other hand specialize in narrow segments. Small firms know their customers very well. Medium-sized firms are not able to benefit from the above-mentioned advantages of their larger or smaller competitors.

For business leaders in every country, Porter and Kramer (2006) considered corporate social responsibility. These authors said that this factor would become increasingly important for success. This theme as a strategic factor for success was solved for example by Juscius and Snieska (2008). The corporate social responsibility is often connected with sustainability and "green" aspects. It is seen in the studies by Bynate (2010), Dragomir (2008), Gaszquez-Abad (2011), Hart (1997).

Blue ocean strategy. In the recent years the strategies which have to bring victory without direct conflict with competitors are often discussed. Bartes (2006, 2011) solved the "victory without fight" and the new tools for strategy formulation. At the same time, firms have to influence the development of their environment to achieve their goals.

Kim and Mauborgne (2000; 2004; 2005a; 2005b) came with the concept of new market space creation. These authors introduced the term "blue ocean strategy". Its essence is that a firm creates new demand – new industries. The firm does not interfere with competitors in "red oceans", i.e. in existing sectors. Boundaries and rules are known in these "red oceans" and competitive fight is very difficult. Firms fight among themselves for competitive advantages and this situation reduces the potential profits. The principle of "blue ocean strategy" is the value innovation which brings benefit for a firm and for customers concurrently.

Market follower strategy. According to Kotler and Keller (2009), market follower strategy is most often associated with imitation. High costs are associated with development of new products and at the same time there is a high risk that the development will be not successful. In addition, there is a risk that customers will not accept a new product etc. Therefore, it may be advantageous to follow the leading company in the industry. Follower has a choice of 4 basic strategies: counterfeiter, cloner, imitator, and adapter. Followers can often be targeted by other firms. It is necessary for them to achieve low costs and at the same time maintain a reasonable quality.

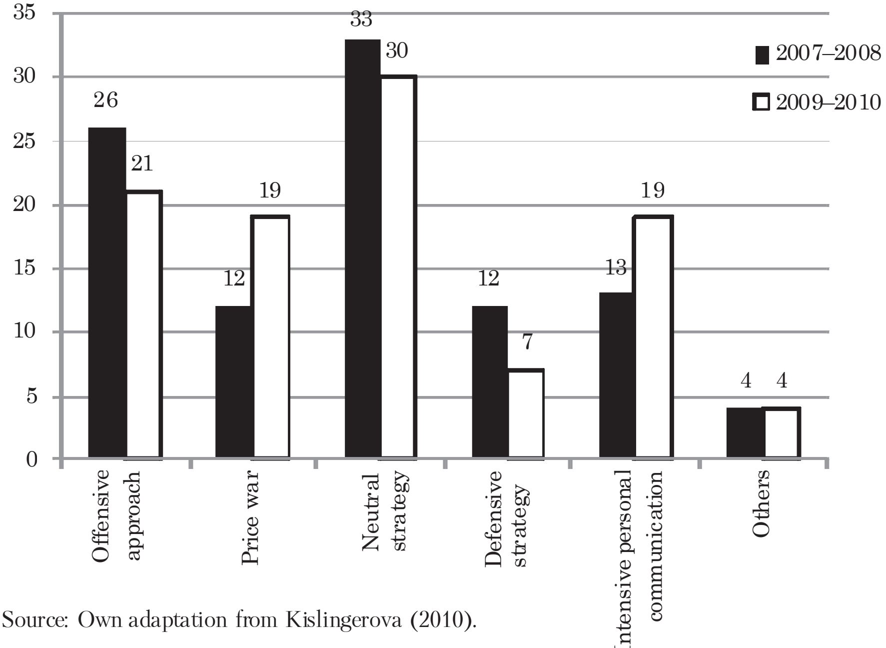
Drucker (2006) describes this strategy as "hitting them where ain`t." This strategy is further divided into "creative imitation" and "entrepreneurial judo". This term characterizes an imitation strategy fundamentally. The entrepreneur understands better the needs of customers. The imitator takes over and improves product according to customers` wishes.

The aim of this strategy is to achieve market leadership, eventually dominating the entire market. In comparison with the "fastest with the mostest", this strategy is less risky, because the product already has demand. Based on market research it is possible to make a solid segmentation and demand characteristics. The original innovator is successful. The imitator improves the product, looking at it from the customer's perspective.

Miles and Snow (2003) called this approach the defender strategy. The objective of the defender is to find and meet a relatively stable market segment. Firms avoid changes in the form of innovation, new product development. The means to do so are low prices of products. Low prices do not attract new businesses in the sector. Decisions are slower, based on thorough research and analysis. Each strategic business unit tends to have less autonomy.

Comments to empirical survey. The empirical survey was realised by the Department of Business Economics (Kislingerova, 2010). The survey examined the measures in the firms for the crisis overcoming during 2008–2010 in the Czech Republic. The first part of the questionnaire detected the basic identification characteristics. The other questions were aimed at identification of measures in various firms' areas (finance, production, strategy, logistics etc.).

The development on strategic orientation in marketing during 2007–2010 in the studied firms is given in Figure 1.



Source: Own adaptation from Kislingerova (2010).

Figure 1. **The development orientation during 2007–2010,** *%*

The results of the survey show clearly, that during the observed years, the importance of price policy and intensive building of personal relationships with customers increased considerably.

19% of the firms during 2009–2010 as compared to 12% of the firms during 2007–2008 had the price war with their competitors. 19% of the firms during the crisis (2009–2010) as compared to 13% of the firms (2007–2008) applied the intensive personal communication with their customers.

Neutral strategy focused on existing customers was realized approximately by the same number of the firms in the chosen period (30% during 2009–2010 as compared to 33% during 2007–2008).

The firms used less offensive approach and defensive strategy in the mentioned period. Offensive approach was used by 21% of the firms in 2009–2010 as compared to 26% in 2007–2008. Defensive strategy was used by 7% of the firms in 2010–2009 as compared to 12% in 2007–2008.

Conclusion. Strategies can be classified by their degree of specialization and offensive approach. Attention should be directed first to market strategy, which is based on innovations. This strategy offers many advantages, such as the acquisition of resources, above-average profitability. Another significant advantage is working in the area where the company does not have competitors.

It is also possible to say that all the approaches mentioned above can be successful. Businesses with various strategies can exist for longer time. The innovative firms exist in the global market environment. These firms come with new products and innovations as the basis for their competitive advantage. At the same time very successful imitators operate at the market. A typical example of such firms is Chinese producers of various goods.

At the same time there is a large number of small local firms that are focused only on a narrower segment and geographic range. These firms can also be successful for a long term, and can meet the expectations of their owners. By formulating of a successful strategy firms must assess whole firm comprehensively and firms must evaluate a broad environment.

According to the empirical research, it is possible to observe changes in the strategic orientation of the firms in the Czech Republic during the recent financial crisis. The firms have concentrated on the price war and the intensive personal communication with customers. It is possible to state that the low-cost strategy was the basic precondition for survival of these firms in this period.

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