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BUILDING PERFORMANCE IN A STRATEGIC WAY

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Abstract: *One of the great challenges companies face today is globalization and the gradually intensifying market competition under which competitive performance is becoming more and more demanding to assure. Companies respond individually to all challenges. The reason behind the diversity of reactions is that all companies follow different strategies, structures and have different cultures.*
The author of this paper has developed indicators to measure company strategy, culture and performance. The present article focuses on the relationship between the characteristics of organizational strategy and company performance.
Key words*: company performance, balanced scorecard, organizational strategy, strategy types*

1. INTRODUCTION

One of the consequences of today's trends and the turbulent external conditions is that organizations must have a firm view on how to adopt to their complex environment. The prerequisite of success and strong performance is a well-implemented, solid strategy. The relationship between company success and strategic, tactical and operational planning is evident. Successful organizations clearly separate strategic and operational planning and tools reaching and controlling strategic target estimates (Gaál – Pfohl, 1995).

2. OBJECTIVES

The aim of research is to identify how the probability of occurring in the weak, poor and strong performers' clusters is influenced by occurring in the strategic characteristics clusters.

3. CHARACTERISTICS OF THE EMPIRICAL RESEARCH

Research methodologies of the present study are outlined below.

3.1 Sample

The empirical research has been performed with quantitative methods in 256 companies. The survey questionnaire included questions regarding organizational strategy, culture and performance. The study covers the area of Hungary. More than half of the companies included in our study are medium size regarding the number of employees. 36,1% of the companies are large and 13,27% are small and micro businesses considering their size. The majority of the companies studied in our research operate in the processing industry.

3.2 Research model

The research focuses on the effects of organizational strategy and attributes as factors influencing company performance. The research results of linkages between organizational strategy and performance are in the focus of the present article.

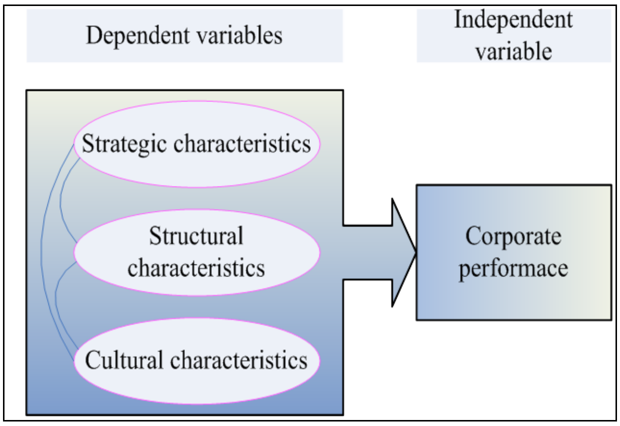

Fig. 1. Research model

3.3 Variables

To describe organizational strategy, the following characteristics - used later as indicators – have been analyzed: the method of communicating organizational strategy and breaking down strategy, the dynamics of strategy, the growth strategy, the competitive strategy (Porter, 1980), orientation (Ohmae, 1982) and the company's adaptation to the external environment (Miles – Snow, 1978).
For the evaluation of company performance, the Kaplan-Norton Balanced Scorecard model has been used. (Kaplan – Norton, 1996, 2001, 2004) On the basis of this model, financial and non-financial indicators will also be considered.

3.4 Research methods

The research is descriptive and as a result quantitative methods have been used for the analysis.

The examination has been performed with multi-nominal logistic regression method. The method has proved that the model is significant, data is consistent with the assumptions of the model and the explanatory power is also adequate. (Barus, 2003)

4. PROBABILITIES OF OCCURRING IN PERFORMANCE CLUSTERS BASED ON COMPANY STRATEGY

Based on the research results three performance-clusters have been identified: poor performers, weak performers and strong performers. The cluster analysis with reference to strategic variables has also been carried out. The probabilities of occurring in one of the three performance-clusters where strategic indicators are considered have been identified as well. The factors functioning as barriers to strong performance have been listed.

Poor performers			Strong performers		
Inde-pendent variable	Exp(B)	β	Inde-pendent variable	Exp(B)	β
'Still-water' growth strategy	6,072**	1,804**	Analyzer strategy	3,676**	1,302**
Com-municat-ing strategy at all levels	0,219**	-1,52**	Aggres-sive growth strategy	2,68*	0,986*
------------------------	-------	-------	Cautious growth strategy	0,329*	-1,111*
------------------------	-------	-------	Commu-nicating strategy to top manage-ment only	0,068**	-2,688**
------------------------	-------	-------	Concen-tration strategy	0,117**	-2,143**
------------------------	-------	-------	Rational growth strategy	0,255**	-1,367**

Tab. 1. Strategic variables significantly influencing performance

** significance level of 5 %
*significance level of 10 %

In the model presented in Table 1 the cluster of weak performers is not included because of the multi-nominal logistic regression method uses one reference category from the dependent variables as a point of reference. The odds ratio (Exp (B)) indicates the probability of occurring in a certain group when all the other variables are unchanged. The logistic regression coefficient (β) indicates the impact of the independent variables.

The research results have revealed that companies following the 'stillwater' growth strategy are six times more likely to appear in the poor performers' cluster than in the weak performers' cluster (Exp(B)=6,072). It was also indicated by the positive regression coefficient. Companies belonging to the 'stillwater' cluster apply only the market penetration out of the Ansoff's growth strategies.

The companies which communicate their strategies not only to top managers but also to middle managers and all employees are 0,219-fold more likely to belong to the poor performers' cluster than to the weak performers' cluster. So the probability to appear in the poor performers' cluster is 78,1% less (100% – 21,9%). It is also supported by the negative regression coefficient. The opposite of this is the probability to appear in the strong performers' cluster. Companies communicating strategy only to the top management are 0,068-fold more probable to appear in the strong performers cluster than in the weak performers' cluster. It means that the probability to belong to the strong performers' cluster is 93,2% less. It can be stated that the probability to perform well is almost zero.

Companies following Miles and Snow's analyzer strategy are 3,676-fold more likely to occur in the strong performers' cluster so by following analytical strategy the probability to occur in the strong performers' cluster is fourfold compared to occurrence in the weak performers' cluster.

Companies following Porter's concentration strategy are 0,117-fold more likely to occur in the strong performers' cluster than in the weak performers' cluster. The probability to occur in the strong performers' is 88,3% less than occurring in the weak performers' cluster. Consequently, if a company does not appear on a wide market but rather operates in a narrow product market segment will have less probability to become strong performer.

The companies which follow rational growth strategy are 0,255-fold more likely to occur in the strong performers' cluster than in the weak performers' cluster. The probability to become a strong performer is 74,5% less than becoming a weak performer. The negative regression quotient supports the same result. Besides pursuing growth strategy, some companies following rational growth strategy also follow retreat strategy and rationalize certain areas in order to remain efficient. However, the result shows that strong performer companies are not forced to retreat on any of their business areas.

If the significance level is increased to 10%, two further correspondences emerge regarding strong performers. Those employing aggressive growth strategy are 2,68-fold more likely – it is almost three times higher – to fall into the strong performers' cluster than to that of the weak performers'. The same probability for companies following cautious growth strategy is 0,329-fold. Companies following aggressive growth strategy apply all of Ansoff's growth strategies whereas companies following cautious growth strategy focus only on already existing products.

5. CONCLUSION

The analysis of the correspondences between company performance and the strategy types applied by the icons of strategic management shows that such strategy types influence whether companies have poor, weak or strong performance even under contemporary circumstances. The chance of belonging to the cluster of strong performers is increased by the application of analyzer strategy and aggressive growth strategy, or decreased by the application of cautious and the rational growth strategy, and the concentration strategy, and also the non-adequate communication of strategy within company framework.

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