

THE BUSINESS EXCELLENCE MODELS IN CZECH ENTERPRISES: THE EFFECTS OF BUSINESS STRATEGY ON PERFORMANCE

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Business excellence develops and strengthens the management systems and processes of an organization to improve performance and create value for stakeholders. Business excellence models frameworks can help to an organization to focus thought and action in a more systematic and structured way leads to increased performance. The paper focuses on the business strategy of Czech enterprises in the context of business excellence models. The objective of the paper is to identify the relationship between business strategy and international performance of Czech enterprises. The enterprises included in the study are 490 enterprises established in the Czech Republic. The primary data collection method was a questionnaire-interview. The results demonstrate that the business knowledge of managers and company resources significantly correspond with the business strategy of Czech enterprises on international markets.

Keywords: business strategy, international performance, international experience, business excellence model, resources.

JEL classification: F23, M16

1. Introduction

One of the fundamental questions in the field of business performance is how do companies acquire and sustain competitive advantages and pursue business excellence. The internationalization of entrepreneurship activities ranks among the long-lasting strategic decisions; these decisions result in significant changes- the most relevant being the running of the company. Company strategy works as an effective tool in improving company performance in domestic and foreign markets. The strategy activates a process that allows an organization to concentrate its resources on the optimal opportunities with the objectives of increasing sales and achieving a sustainable competitive advantage (Kotler, 2012). If the market in which the company operates is foreign, its business strategy will be an international business strategy that defines the way to compete across the word (Lasserre, 2007).

This paper focus on the key role of selected factors for the development of international activities offers several contributions to international business research and attempts to answer studies from other disciplines. Therefore, international entrepreneurship studies expand by suggesting that the international performance not only depends on the enterprise's investment in research and development but also on strategy and other factors. Despite the use of the single, small country, the Czech Republic, as a laboratory to test these theoretical propositions, the study is situated within the domain of business studies where the focus is on the effectiveness of strategy on the success of international activities. We offer a new angle on a business theory by focusing on the effects of the company strategy on the performance of activities in international markets. This study helps to advance the theoretical development of the role of company strategy in international activities.

Various empirical studies were conducted in order to investigate the relationship between strategy and company performance with varied conclusions. In this research study, strategy and other internal factors (managers' abilities, resources, company size, company age, industry) were investigated as factors influencing the success of international activities. The study was based on primary data collected from a recent survey of Czech SMEs. The relationships are analyzed using relevant regression techniques. The paper contains three segments. The first component outlines selected theories dealing with the business strategy and international performance, and business excellence models. The second part aims to present and then interpret results of the survey carried out among Czech SMEs. Finally, the last section concludes the research and offers a discussion of the most important implications. The discussion of the analyzation results and further recommendations are provided for managers in the last section.

2. Theoretical Framework and Research Hypotheses

Generally speaking, excellence means that what is done well today should be done better and wiser tomorrow, in terms of the competition, in order to satisfy all interested groups. Business excellence frameworks describe an integrated set of proven business practices designed to increase business performance across a broad range of organizations (Gloet & Samson, 2017). The concepts of business excellence remained at the centre of management theory and practices for at least three decades. Business Excellence, often described as outstanding practices in managing the organization and achieving results, is based on a set of fundamental concepts or values. According to Bandyopadhyay and Nair (2015), the findings suggested organizations that successfully implement business excellence develop the ability to respond to change, a capability that was becoming more critical as the pace of change increases. This capability leads to benefits for many of the organization's stakeholders. For an organization, excellence should mean clear dedication of leaders and managers to continuous improvement of all key processes, creativity and innovation, work conditions, teamwork, motivation level and general organizational culture (Zdrilić & Dulčić, 2016). The fundamental thought, underlying business excellence is the idea that quality should not be focused only on products and services produced by the organization (Evans, 2008). This idea suggests the phrase called performance excellence, which is synonymous with business excellence. Performance excellence is associated with the integrated approach to management of organizational performances that result in the delivery of continuously improved values to customers and stakeholders, thus contributing to organizational sustainability, increase in the overall organizational efficiency and capacity, as well as organizational and personal learning.

The organization sets effective strategies after considering where the organization comes from, what it has learned, and where it is going. Also, the considerations include the context in which it operates, knowledge of customer groups and market segments, past performance, discharge of legal responsibilities and minimization of harm. Companies apply the strategy as a tool that can be utilized to fast track performance. The strategy is a process that can allow an organization to concentrate its resources on the optimal opportunities with the objectives of increasing sales and achieving a sustainable competitive advantage (Kotler, 2012). Greenley (1986) noted that strategic planning has potential advantages and intrinsic values that eventually, translate into improved company

performance. According to Kotter (1996), the strategy can be used as a means of repositioning and transforming the organization. The essence of optimal strategy making starts with the building of a strong market position and an organization capable to produce successful performance, despite tough competition and internal difficulties. Porter (1996) has defined strategy as a creation of a unique and vulnerable position of trade-offs in competing, involving a set of activities that neatly fit together, that are simply consistent, reinforce each other and ensure optimization of effort. Company performance refers to the metrics relating to how a particular request is handled, or the act of performing; of doing something successfully; using knowledge as distinguished from merely possessing it. It is the outcome of all of the company's operations and strategies (Aaltonen and Ikävalko, 2002).

If the company operates internationally, the corporate strategy will be an international corporate strategy, which will incorporate the choice of regions and countries in the company portfolio (Lasserre, 2007). A business strategy is then used as an umbrella term to denote the broad range of strategic options open to the company, including both organizational and functional management strategy, product/market strategies, and diversification strategies (Barringer & Greening, 1998). A business strategy consists of integrated decisions and actions or plans that will help to achieve target goals. Thus, the following hypothesis is formulated:

Hypothesis 1: Business strategy is positively related to the international performance.

Knowledge transfer in a company can be defined as the process by which one unit of knowledge is influenced by the experience. Experiences are built through shared hands-on experience amongst the members of the organization and between the members of the organization and its customers, suppliers and affiliated companies. Skills and know-how are acquired and accumulated by individuals through experience at work. International experience makes necessary resources for enhancing the international competitiveness of companies. International experiences are important resources for enhancing the international competitiveness of companies. Filatotchev et al. (2009) proved that international performance depends significantly on managers' international experience. This international business experience may have involved working in multinational companies, or previous involvement in the business strategy of the local company (Filatotchev et al. 2009). Hence:

Hypothesis 2: A manager's international experience is positively related to the business strategy.

Companies throughout the world strive to develop and retain high calibre staff who drive the company's performance to greater heights. The importance of human resources has thus got the central position in the strategy of the company. According to North and Kumta (2014), the knowledge retains rationalization potentials (through the transfer best practices) and differentiation potentials (through the combined knowledge). International activities require specific knowledge of the internationalization process. Managers with previous experiences, capabilities, knowledge, and learning may lead to the creation, discovery, and exploitation of opportunities in international markets, and thus positively affect international performance. Hence we proposed:

Hypothesis 3: A manager's business knowledge is positively related to the business strategy.

The capability to get resources is sustained through a system of development designed to provide varying levels of skills and experience in order to deliver process improvement projects within the company. The system determines how resources and assets will be developed, valued, used and managed to support the deployment of the strategy. The lack of resources, according to Pottingia and Vescovi (2012), is for many companies the obstacle to develop and to implement business strategies in international markets. According to Manev et al. (2015), the strategic role of resource commitments is explored in various economic models. When a company has a permanent competitive advantage, its resources and capabilities are durable, hard to identify and hard to copy. Hence we proposed:

Hypothesis 4: Available company resources are positively related to the business strategy.

3. Methodology

The analysis is based on data from a standardized empirical study, which comprises of many questions on entrepreneurial activities of Czech enterprises in international markets. For the analysis of business strategy and performance of entrepreneurial activities, some questions on the success of international activities in international markets and factors affected the success of what we asked in the survey. The paper raises the question of if and how company strategy impacts on the company performance. The objective of the research study is to investigate the effect of business strategy on the success of international activities of Czech SMEs in the context of business excellence models. The data on strategy and on the performance we collected in an on-site survey of 490 Czech SMEs in period 05/2015 – 05/2016.

The sample consisted of the internationally experienced small and medium-sized enterprises in the Czech Republic. Selection of enterprises under research was based on the method of non-probability purposive sampling, by assumption and occasional selection. The researched companies all already began internationalization operations, all were founded in the Czech Republic, and all are private subjects. This focus on companies with the international experience was made to enable on-site data collection. First, telephone calls were made with general managers or CEOs of the Czech enterprises to explain the purpose of the study and to ask for their participation. A high level of personal involvement: telephone calls personal delivery, and pickup of questionnaires, was necessary because of the relatively low response rate in mail surveys in the Czech Republic and sensitivity to Czech managers' concerns about industrial espionage. Moreover, by the first telephone, we excluded those not representative of the population, such as sister companies within their corporations. After this step, the sample consisted of 800 companies from the Czech Republic that met all the criteria. In a second step, we hand-distributed questionnaires to the top managers and CEOs. Trained research assistants helped the top managers and CEOs complete the questionnaire, and explained any items that the respondents wished to have clarified. This procedure resulted in 600 matched questionnaires, out of which 110 the researchers eliminated due to the incompleteness of responses. Thus

490 (a response rate of 81.7%) questionnaires were used in the subsequent data analysis and statistical processing. The final sample consisted of companies with an average age of 22 years (minimum one; maximum 188), an average size of 54 employees (minimum one; maximum 27000). The sample comes from a variety of industries: about 57.2% in manufacturing, and 60.3% in services. The method of oral questioning and a questionnaire survey as the principal instrument applied for researching the relationship between strategy and performance of entrepreneurial activities. The instrument used in the survey, a structured questionnaire, contains five fields of varying degrees of complexity relating to the area of entrepreneurial activities. The questionnaire consists of closed, semi-closed and open questions. The questions were designed while based on the information gained from experts from business and universities and previous research. In some questions, particularly those related to the entry mode choice and market choice, simple and complex scales were used, mostly the Likert-type scale (5 = strongly agree to 1 = strongly disagree). Also, the questionnaire included four questions related to the company background (the type of a business sector; the size of the company measured by the number of employees; the year of company foundation;). The questionnaire was pre-tested for the instrument validity by 20 managers. In interviews, the managers were asked to respond to the items measuring the theoretical construct. The subjects were also asked to identify any ambiguities revealed in the questionnaire draft. Based on the feedback some minor changes of wording were made.

The international performance and business strategy are our dependent variables. International performance comprises traditional measures of the money-making activities of the company. The previous research (e.g., Uhlenbruck & DeCastro 2000; Wales et al. 2013; Keupp and Gassmann 2009; Onkelinx et al. 2016) was used as the indicator for the international performance financial indicator. Foreign turnover, as the proportion of turnover outside of the Czech Republic in the company's total turnover, was used as the financial indicator of the performance of international activities. The interviewed CEOs were asked to state their foreign turnover to total turnover of the previous year. In a comparison of different measures, Weinzimmer et al. (1998) recommend this as the most appropriate indicator. We can see, in Table 1, that the mean foreign turnover is 51.63 percent. Business strategies can be classified according to their level and types. There are various business strategy typologies. This research study focuses on Porter's typology of business strategies. A business STRATEGY is a set of fundamental choices, which define its long-term objectives, its value proposition to the market, and its intentions to build and sustain a competitive business system and how it organizes itself. These competitive advantages lead to three generic competitive strategies: cost leadership strategy, differentiation strategy, and focus strategy. The interviewers presented to the respondents a list of nine possible strategic approaches to establishing the business strategy in international markets. Respondents indicated the choice of approach he or she used. Questions on business strategy were presented in the form of five-point scales (5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, and 1 = strongly disagree) to ensure maximal respondent specificity. All multi-item measures achieved superior or adequate reliability scores in tests using Cronbach's alpha. The alpha values range from 0.73 to 0.80. The majority of respondents used the strategic differentiation approach.

The explanatory variables here are managers' abilities (international experience and business knowledge), strategy, and resources. The selected areas were modified based on

interviews to reflect the context of family businesses. International EXPERIENCE with international activities was measured through the company level using prior work international experiences (by years), in keeping with prior management research (Beckman and Burton, 2008; Walske and Zacharakis, 2009). International experience includes prior work in a company with international entrepreneurial activities. The average rate of international experience as measured by the number of years was 7 years (minimum 0 years, maximum 60 years). Business KNOWLEDGE measures knowledge of international markets and knowledge of practices in international markets by company management. The knowledge of international markets plays in the process of the realization of international entrepreneurial activities key role. Knowledge contributes to the increased competitiveness of entrepreneurial subjects in international markets. Questions on business knowledge of managers were presented in the form of five-point scales (5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, and 1 = strongly disagree) to ensure maximal respondent specificity. All multi-item measures achieved superior or adequate reliability scores in tests using Cronbach's alpha. The alpha values range from 0.74 to 0.82. RESOURCES were measured via the list of eight the most significant available resources (tangible and intangible resources) for international activities. Respondents indicated the most valuable resources that have been available for international activities. Most of the resources among sampled companies was international contacts and specialized knowledge. Questions on company resources were presented in the form of five-point scales (5 = strongly agree, 4 = agree, 3 = neutral, 2 = disagree, and 1 = strongly disagree) to ensure maximal respondent specificity. All multi-item measures achieved superior or adequate reliability scores in tests using Cronbach's alpha. The alpha values range from 0.80 to 0.84.

Guided by previous literature and empirical evidence, we have included several control variables. Among the company-level determinants of company performance, the company's size and company age are the two widely used demographic characteristics of companies. Therefore, we included company SIZE (natural logarithm of the number of employees) and company AGE (in years). In addition to the company-level determinants, we also included INDUSTRY level of the company: whether the company operates in the manufacturing or service sector. We included a dummy variable for industry level, as Acquaah and Yasai-Ardekani (2007) did because the distinction between manufacturing and services obviously has a considerable effect on company performance.

To test the theoretically derived model, the data we processed in the SPSS. The descriptive statistics we described in Table 1. Table 1 illustrated the intercorrelations among the variables were obtained from the Pearson Correlations Matrix. The values indicating intercorrelations among the predictor's variables were low, ranging from 0.19 to 0.38 ($p < 0.01$), thus indicating the independence of the variables used for measuring the predictors. The descriptive data revealed a promising variation as well as correlation among the variables included in the model, so we have reason to believe that it would find support for the hypotheses.

We used hierarchical moderated regression analysis (ordinary least-square OLS regression techniques) to test hypotheses. Before testing the hypotheses, multicollinearity in the dataset we controlled. For this purpose, the VIF values for the independent variables we calculated. In our analysis, the VIF values were all below 1.4, which is a relatively low and acceptable level. Consequently, there is no reason to believe that there is any major multicollinearity in the regression. This could lead to misinterpreting or overestimating the final model and its predictive ability. Table 2 present results.

4. Results

Table 1 | Descriptive statistics and Pearson correlation

	Mean	SD	1	2	3	4	5	6	7	8
Performance	51.63	28.52	1							
Strategy	2.38	0.78	-0.023	1						
Size	53.98	60.53	0.272**	-0.109*	1					
Age	21.53	27.86	0.326**	0.064	0.388**	1				
Industry	2.26	1.64	-0.209**	-0.050	-0.121*	-0.106*	1			
Experience	6.40	8.54	0.186**	0.062	0.091	0.074	-0.021	1		
Knowledge	3.88	0.86	0.373**	-0.039	0.305**	0.187**	-0.064	0.161**	1	
Resources	2.21	0.46	0.057	-0.035	0.065	-0.036	0.028	-0.031	0.107*	1

Significance level: * $p < 0.05$; ** $p < 0.01$

Source: own research

The first model in each series (Model 1 and Model 3 in Table 2) is a baseline model that shows the effects of control variables on the business strategy and performance. In the second model in each series (Model 2 and Model 4 in Table 2), the main terms of the independent variables are entered into the regression.

Table 2 | Determinants of Business Strategy

	Determinants of Business Strategy Dependent Variables (standardized regression coefficients)		Effects of Business Strategy on Performance Dependent Variables (standardized regression coefficients)	
	Model 1	Model 2	Model 3	Model 4
Size	0.168**	0.110*	0.156**	0.141**
Age	-0.025	-0.032	0.248**	0.250**
Industry	0.001	0.002	-0.164**	-0.164**
Strategy H1				0.094*
Experience H2		-0.054		
Knowledge H3		0.198**		
Resources H4		0.094*		
R²	0.26	0.74	0.16	0.17
ΔR^2	0.17	0.58	0.15	0.16
Adj. R²	0.26	0.48	0.16	0.01
F	3.076*	4.609**	21.85	17.41

Significance level: * $p < 0.05$; ** $p < 0.01$

Source: own research

Overall, the control variables explain little of the variance. Model 1 and Model 2 indicate that SIZE has a positive and significant effect on the business strategy, while AGE and INDUSTRY has an insignificant effect on business strategy. International EXPERIENCE in Model 2 has a negative and insignificant effect on business strategy. The Hypothesis 2 is not supported. The business KNOWLEDGE variable as indicated in Model 2 has a positive and significant effect on business strategy, in line with Hypothesis 3. The variable RESOURCES in Model 2 is positive and significant; Hypothesis 4 is supported. Model 3 and Model 4 shows that SIZE, AGE, and INDUSTRY have a significant effect on the performance. As indicated in Model 4, business strategy positive influenced performance, supporting Hypothesis 1.

5. Conclusion

Internationalization is the most complex strategy that any company can undertake. This strategy is likely to become increasingly necessary. There is no single set of criteria that defines excellence for the individual or business. Business excellence models represent a systematic, integrated and more permanent approach to improvement, i.e., an integrated strategy for gradual achievement of business excellence (Zdrilić & Dulčić, 2016). They make it possible to objectively determine the position of a company on the scale of excellence, but also to reveal the company's weaknesses or strengths. The discovered weaknesses are a precious potential for improvement, and this should be used as a driving force for the next level of organization advancement. In the business strategy framework, a successful business is one who sustains an attractive relative position for the company. The success of the process of internationalization of company depends in large part on the formulation and implementation of the business strategy.

This paper examines the effects of business strategy on the performance of international activities of Czech SMEs. The primary objective of the paper was to investigate the effect business strategy on the performance of international activities of Czech small and medium-sized enterprises, namely the effect of international experience, business knowledge of managers, and resources on business strategy. The results show that the business knowledge of managers (Hypothesis 3), and company resources (Hypothesis 4) are significantly associated with the business strategy of Czech SMEs in international markets. Also, the results show that the business strategy of Czech enterprises in international markets (Hypothesis 1) has a positive effect on the performance of companies in international markets. All business strategies appear to be sensible, logical and coherent, highlighting the advantages and benefits that a company could gain by using either approach.

This study has some contributions, such as theoretical contributions and managerial implications. This study has provided some theoretical contributions as follows: It gives additional insight into the relationship between business strategy and performance of international activities. Furthermore, we also provide some implications for managers and owners of Czech enterprises. This study helps the managers to understand how business strategy affects the performance of international activities. Managers and owners should give more attention to the development of business knowledge and international experience of other managers and employees.

This study also has some limitations. First, this study has been conducted only in one small country, the Czech Republic. Indeed, this will affect the generalizability issue. This

study only examined the relationship between selected characteristics of business strategy and performance of international activities. Hence, the researcher cannot justify it as a generalization for all European countries. Due to time and cost limitations, this study employed a cross-sectional study. Thus, it only portrays the phenomena at a single point in time, and it will not be able to reflect the long-term effects of the change.

This research study suggests several recommendations for future study. The study might be extended to multiple countries in Europe. The future study might use the longitudinal study, which describes phenomena in the long-term. The longitudinal study may lead practitioners and academicians to understand the causal relationship between business strategy and performance of international activities.

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