Corporate Financial Strategy in SMEs

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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 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 financial strategy.**

Index Terms **– financial strategy, company strategy, corporate planning**

I. Introduction

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

II. Problem Solved

The company has no strategic financial management, and its turnover is decreasing. The definition of the financial strategy 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 financial strategy that would verify objectivity of the specific investment.

III. Theoretical Concepts Used

Professional literature shows many various concepts, approaches and attitudes to strategic management [1]-[12]. 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.

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.1). 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.

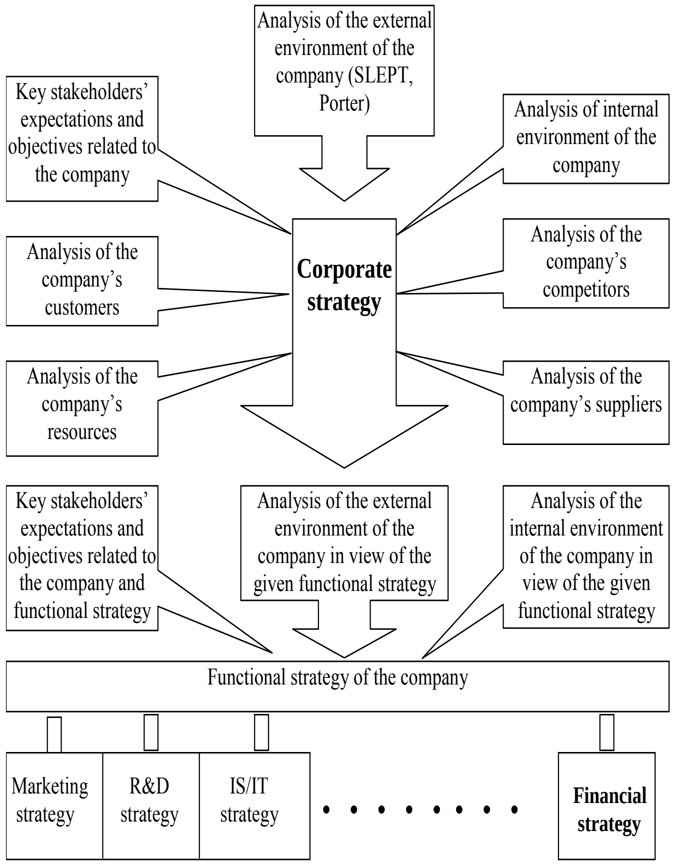

Fig.1 Procedure for the formulation of a strategy, modified [5]

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.

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

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threats and opportunities which might influence decisions about the defined financial strategy. To evaluate competitive advantages of the company in the financial field, we will use modified Porter analysis of the company field environment, 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 I). Tab. II defines power of the individual stakeholders.

TABLE I
ENVIRONMENTAL THREAT AND OPPORTUNITY PROFILE

ENVIRONMENTAL FACTOR	SECTOR	EFFECT
	Increasing the number of finance specialists	O
	Fluctuation of the finance specialists	-
	Shortage of qualified labour	T
	Employees´ wages in the financial field	-
Socio-economical	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
	Employment of new technologies and equipment	O
	Data protection	T
Technological	Possibility of filing accounting data	O
	Speed and volume of transmitted information	O
	Slower influx of foreign investment	T
Political	Protection of employees´ personal data	-
	Legal compatibility with the EU	O
	Time demanding procedures for selecting suppliers	T
Suppliers	Suppliers do not represent a threat for SBU	O
	High bargaining power of the customers	T
Customers	Acquiring new customers by using references	O
Competition	Threat of entry of new competitors is low	O
O opportunity T threat - neutral effect		

TABLE II
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. II). The annual dividend growth is a positive signal for the investors. 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 we will identify and analyse those financial components that will be subsequently included in the content framework of the proposed financial strategy (see Fig.2).

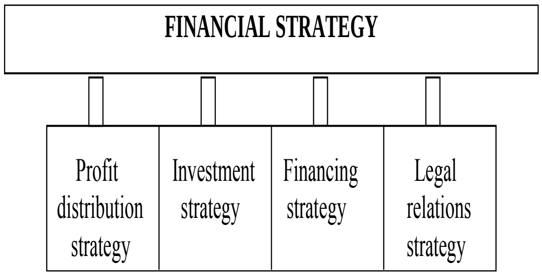

Fig. 2 The framework of financial strategy

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]-[15].

TABLE III
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

All relevant factors which were identified during the previous analysis will now be arranged according to their impact. In order to make a rational conclusion based on the analysis, we will have to carry out synthesis of the most important factors in a final *SWOT table* (see Tab. 3) 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.

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.

SWOT analysis (see Tab. III) 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.

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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