



**Doctoral Program in  
Business Economics**

**Ph.D. Thesis - Summary**

**Könczöl Erzsébet**

**The Role of Company Value Creation in the  
System of Strategic Objectives of Hungarian  
Medium-sized Enterprises**

**Supervisor:**

**Dr. Attila Chikán  
Professor**

Budapest, 2007

**Department of Business Economics**

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## **Definition of the Research Problem**

Corporate strategy has been in the centre of my attention in the past almost thirty years. I have dealt with its various aspects, theory and practice; I taught and practiced it. It was the topic of my diploma and of my master's thesis, and I also tested it in practice as a company manager and business consultant.

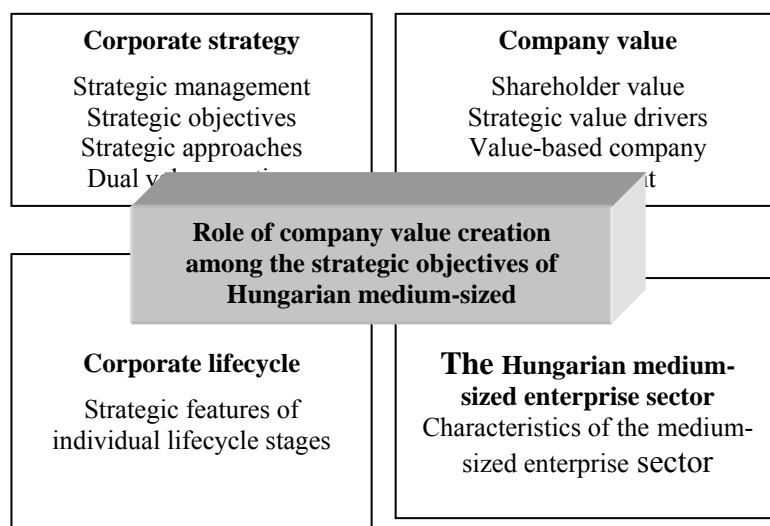
In the second half of the 1970s, corporate strategy used to be a rare approach, both in theory and practice. I had some excellent teachers and, subsequently, I had the opportunity to test this novel approach in practice, at Taurus, one of the leading Hungarian companies. At Taurus, I had a chance to work for a longer time with a company management team committed to strategy, and with the British consultants of Boston Consulting Group. The experience I gained there has determined my later work. I put it to use in the creative work carried out under the leadership of Attila Chikán at Budapest University of Economics at the end of the 1980s, which resulted in the publication of the first Hungarian business economics textbook, including my contribution to the chapter on corporate strategy.

My first-hand experiences gained as company manager and business consultant over the past two decades have confirmed it for me that no company may be successful or operate effectively for a long-term without a

strategic approach, or without a strategic management. Clever moves, the fast grasping and exploitation of opportunities may lead to success and even significant profit, but the key to the long-term, effective operation of a company is the strategic approach and a well-chosen strategic arsenal.

## The Research model

This doctoral dissertation focuses on the system of strategic objectives of companies, and in particular on how, in function of what factors, the multi-level strategic objectives are arranged into a hierarchy. The four professional/theoretical pillars of my approach to the system of strategic objectives are illustrated in the following figure:



In the first part of my dissertation I reviewed the theoretical bases regarding these four professional/theoretical pillars: approaches, concepts and models

concerning corporate strategy, company value creation and company lifecycle, and the main characteristics of Hungarian medium-sized enterprise sector. The literature on corporate strategy is exceptionally rich and complex, so I reviewed only certain areas and aspects as justified by the main question to be answered by the dissertation. The basic concepts of corporate strategy and the main topics of strategic management are presented in a book written jointly with my colleagues and edited by myself (Könczöl et al. 2007). I do hope that the work concerned is sufficient demonstration of our familiarity with the general literature of this topic.

## **The main research questions**

**1. Part of researchers and company managers are of the opinion that the strategic objectives focusing on competitive and on value creating objectives, respectively, are opposed to one another; they have contrary effects, albeit they are not mutually exclusive. In his book** Rappaport goes into the details of the beliefs underlying the frequent conflicts between competitive advantage and shareholder value. He stresses that the effects of changes triggered by exploiting competitive advantages manifest themselves also in the company value indicators.

László Reszegi (Reszegi 2004) discusses another aspect of the same issue. He answers the question whether the value maximisation strategy is asserted in the Hungarian economy as follows: “The value of the company increases, but the role of the value creating strategy does not. What does that mean? Other strategic decisions must also have a value creating effect.”

A possible explanation for the existence of so many different views on company value is the relative nature of this concept: for, one question is how to create company value, but the other is how to create it in better ways than others.

In view of the above, my **first research question is that is it fair to assume that the strategic objectives focusing on competitive and on value creating objectives are not opposed to one another;** and whichever group takes the upper hand in the system of objectives of the company at a given moment, the implementation of the resulting strategy affects the elements of the other objective group as well?

2. In the Dissertation I present the role of medium-sized companies in the Hungarian economy and I summarise the reasons of selecting them as target group for the research.

**My second research question is how could be described the factors influencing the system of strategic objectives of Hungarian medium-sized enterprises?**

3. **The third research question is what are the main factors influencing the role of competitive and value creating strategic objectives among the Hungarian medium-sized enterprises?**

## **Research methods**

This doctoral dissertation starts out from the model according to which *strategic objectives* based on the already accepted purpose of the company and the definition of its mission *rely on two main pillars: competitive strategic objectives and strategic objectives focusing on value creation*. I claim that these two groups of objectives appear in the strategies of individual companies with different weights, different priority rankings and in a manner that changes during the lifecycle of the given company. At the same time, *in the strategy implementation phase, these two factor groups are closely interrelated, and whichever group takes the upper hand in the system of objectives of the company at a given moment, the implementation of the resulting strategy affects the elements of the other objective group as well*.

## **Hypotheses**

I have defined the following hypothesis in terms of the strategic objectives of the Hungarian medium-sized enterprises:

*H1* The increase of corporate value is rarely stated among the strategic objectives declared by the Hungarian medium-sized enterprises, but the majority of them already shows the signs of value-consciousness.

*H2* The managers and owners of medium-sized enterprises often



set targets relating to the balanced implementation of the competitive and value creating strategic objectives. (This is often stated as ‘improvement of our competitiveness with a satisfactory return to shareholders’.)

*H3* The corporate lifecycles prove that there are significant differences in the role of financial and non-financial value drivers in the various phases of the corporate lifecycle.

*H4* Strategic value drivers and value creation objectives become dominant in the special corporate “life situations” as mergers, acquisitions, capital increase, operational crises, diversification, regional expansion.

## **Methods**

I used primarily qualitative research methods for my doctoral dissertation, within the framework of which I relied on three types of information sources.

➤ Analysis of the database of the Competitiveness Research Centre In 2004, the Competitiveness Research Centre of Corvinus University of Budapest carried out its third questionnaire-based survey of the competitiveness of Hungarian enterprises. I did not take part in this research programme personally, but the Research Centre made it possible for me to study the database of the survey in order to analyse the following factors:

1. Can it be detected from the database of the three surveys conducted at different times that the questioned companies have moved towards value oriented strategies? As the questionnaires did not

contain such a question directly, the analysis may be prepared with indirect factors.

2. Processing of a limited data set and analysis of the factors of the strategic orientation with respect to my research target group, i.e., the medium-sized enterprises.

This database can support primarily the analysis of the H1 hypothesis.

- Analysis of the economic data of the small and medium-sized enterprise sector

The purpose of the analysis of the statistical data concerned was also to draw conclusions about the H1 hypothesis.

- Structured interviews with managers and owners of medium-sized enterprises

Based on literature and press publications, as well as my own experiences as a consultant, I have selected a group of Hungarian medium-sized enterprises whose managers I interviewed. The results of this research phase provide additional support for the H2, H3 and H4 hypotheses.

## **Research findings**

Reviewing professional/theoretical concepts and studying the practical approaches of Hungary medium-sized enterprises relating to the system of strategic objectives was in the focus of my doctoral dissertation. Now I

summarise those findings which have been developed during my research work.

## **1. Terms and concepts developed in the course of research**

- An important element of the research that I defined the term of strategic objectives in order to use that term further on during the analyses:

*I will consider as strategic objective(s) those intentions of the company, set for a longer term, which*

- *specify in what manner they intend to reach their purpose and accomplish their mission,*
  - *describe precisely – often in terms of quantified objectives – the target status to be attained by the strategy, and*
  - *serve as decision-making criteria for the choice of strategic alternatives.*
- An other new approach of the dissertation how could be sketched the picture of the system of strategic objectives based on the reviewed concepts and on my experiences:

**PURPOSE**

**MISSION**

**STRATEGIC OBJECTIVES**

**To obtain and  
keep competitive  
advantages**

**Company value  
creation**

**Partial strategic objectives (approaches)**

- Porter's generic strategies (differentiating, cost-leadership, focusing)
- Strategic approaches (entrepreneurial /growth, adaptive, planning)
- Strategic development directions (diversification, market consolidation, product development, withdrawal)
- Strategic development modes (acquisition, alliances, internal development, modification of the value chain)

**TARGETS AN TASKS**

➤ Value creation, value destruction, value consciousness

While the companies adhere to competitive strategic objectives, their activity simultaneously influences the value of the company. This influence, however, is not necessarily a positive one, that is, it does not necessarily lead to value creation. During the implementation of their competitive strategic objectives, the companies

- increase the value of the company in a fortunate case,
- consume value in a more unfortunate one. For, instead of creating value, corporate strategy actions, projects, may also *consume or destruct value*. This will happen if the company implements investments/projects generating no positive net current value. Such projects reduce or “consume” value accumulated during the previous operation of the company. “Value destructing” projects/investments may be implemented by a company consciously (as in the case of temporary low “introductory” prices aimed at raising market penetration or improving market positions), or under some pressure.
- It may happen that the company managers simply overlook whether their projects implemented for competitive strategic reasons increase or destruct the value of the company, because they do not take into account the effect exerted by individual strategic actions on company value. In such cases, the underlying reason does not concern the methods being applied, but the attitude of the managers or perhaps the lack of proper understanding of company value by the managers or the owners.

There is only one commendable way to solve the latter problem: by raising the value consciousness of the strategic decision makers of the company. This often implies a learning process for the entire company management. *The first step is to take into account the criteria of impact on company value when taking strategic decisions.* To link the competitive and value-based strategies in the company and ensure their organic co-existence, value consciousness must be present and enforced permanently in the strategic decisions.

- I outlined those groups of factors which influence the development of the relationship of competitive and value creating objectives:
  - There is a correlation between the position attained by the company in the given lifecycle phase and the priority ranking of the two main groups of strategic objectives.
  - Special “life situations” may result in the predominance or priority of one or the other group of objectives during the period of the balanced operation of the two main groups of strategic objectives.
  - Beside the lifecycle phases, the characteristics of the proprietary and the management structures and their changes may also have a decisive effect on the relationship of the two groups of strategic objectives.

## **2. Strategic challenges for the Hungarian medium-sized enterprises**

- Medium-sized enterprises represent an outstanding enterprise group in the sense that, although on the basis of their classification

and support options they belong to the SME sector, their operation and performance characteristics are closer in several respects to those of the large enterprises than to the averages of the SME sector.

- The target group of my research is those 3200 - 4670 enterprises - depending on the classification criteria - which are identified as medium-sized ones.
- Calculations and their analyses leads to the conclusion that, between 2001 and 2005, the owners of Hungarian medium-sized enterprises tried to face the competitive challenges, which increased significantly as a result of EU accession, by increasing their accumulation ratios and capital expenditures – parallel with stagnating profit before tax in real terms and a much lower tax allowance ratio than that of large enterprises. All this may be interpreted as strengthening the competitive strategy objectives to the detriment of the owners' value creation in the short term

### **3. Strategic features of medium-sized enterprises based on the company sample of Competitiveness Research Center**

- The analyses based on the database of the 'Competing with the World' research programme 2004 processed the answers of 301 enterprises, 126 from them qualified as medium-sized.

- Significantly more medium-sized enterprises have majority domestic owners than the enterprises in the entire sample. The export ratio of medium-sized enterprises is significantly lower than their sales revenues in the entire sample. According to their main activities they have higher share in manufacturing and in trade sectors than the sample average.
- Strategic characteristics of medium-sized companies in the sample could be described that maximising customer satisfaction was a top priority among their strategic objectives, followed by goals linked to maximising profits. Concerning their strategic orientation, it is important to mention that - opposed to the entire sample - the majority of medium-sized companies followed stability strategies. Also, in the entire sample, most companies pursuing growth strategies are among medium-sized enterprises, but they are not as numerous as those with stability strategies.
- The responding managers expressed that their owners place stability and reliability before high returns. This is somewhat contradictory to the rank order of so-called value-driven enterprises where the importance of profit maximisation received much higher values.
  
- In case of most questions on competitive strategy, the majority of responding medium-sized enterprises judged their own performance as being close to the industry average in all 3 survey periods. *With regard of ROE, medium-sized enterprises placed themselves below the industry average in all three surveys. There*



*was one factor, namely the quality of goods/services, where they assessed themselves as significantly better than the industry average.*

- Importantly and typically, *medium-sized enterprises tend to be targets of acquisition by large or international companies.*
  
- I also analyzed the results of the three surveys to see the changes during the period of 1996 -2004. All three surveys revealed maximising customer satisfaction as a top priority among the strategic objectives of medium-sized enterprises. Firms named external competition as the factor having the least impact on their operation in all three surveys - although the importance of this factor has increased during the entire period. We have found one factor that of technological standards, in whose case the competitive position of medium-sized enterprises has weakened compared to 1996.
  
- I also analyzed the groups of value-driven and partly value-driven companies. My conclusion was that *the characteristics of value-driven medium-sized enterprises differ considerably from the values identified for the industrial average of all medium-sized enterprises.* Their ROE and especially their return-on-sales values are higher compared to the industry average than the values typical of the entire medium-sized enterprise population in the sample. In terms of technological standards, market penetration and quality

criteria, their values are lower than those of the entire medium-sized enterprise population in the sample.

- **The data and conclusions described above could prove the statement of Hypotheses 1.**

#### **4. Factors influencing of the system of strategic objectives of medium-sized companies according to the interviews**

- During the last phase of my research I made interviews with top managers or top manager owners of 14 medium-sized enterprises in order to gain additional inputs to my subject.
- It can be stated on the basis of the enterprise interviews and the data presented concerning value consciousness that, although the managers and owners of the enterprises really express a system of strategic objectives which is balanced in the long run, due to their corporate specifics (industry, market, ownership features), in the medium-sized enterprises under study, it is more frequent for either the clearly competitive or clearly value creation-oriented objectives to predominate among the strategic objectives expressed by them.
- **The interviews supported the statement of Hypothesis 2.**

- Little information was provided by the enterprise interviews to support this hypothesis H3. concerning the different role a value drivers in different lifecycle periods. This is due mainly to the fact that the enterprises included in the circle of interviewees were characterised by highly similar features in terms of not only size, but also age and lifecycle phase. The enterprise interviews gave me an opportunity to investigate how the characteristics of the ownership and management structures and their changes may have a decisive effect on the relationship of the two groups of strategic objectives.
- **Although I could collected some useful information but results of the interviews and the database have not provided relevant information to support Hypothesis 3.**
- Finally I studied the interviewed companies according to the impact of corporate “life situations” to the changes of the structure of their strategic objectives.

Although **the conclusions drawn on the basis of the company interviews** cannot be generalized to the wider circle of medium-sized enterprises, but **they verify my assumption as Hypothesis 4, that the indicated extraordinary corporate “life situations” may well trigger a change in the attitude to the hierarchy of strategic objectives of the circle of the owners and managers of the given enterprises.**

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