

# **Application of strategic management in enterprises located in the Czech Republic as a tool of resources management support**

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## **Abstract**

The submitted article is focused on the problems of the application of strategic management in companies that are located in the Czech Republic as a tool of resources management support in accordance with the principle of sustainable development. The first part of the article describes sustainable development in general. The next part deals with the description of resources management. The main goal of the article is based on the analysis of usage of enterprise resource planning (ERP) systems for the needs of strategic management. The application of key models such as Balanced Scorecard (BSC), Total Quality Management (TQM), Management by Objectives (MBO), Six Sigma and others is subject to analysis in accordance with ERP systems implemented in medium sized and large companies. The presented information was obtained from the intensive survey that took place in January and February 2013. Strategic management is an area that is focused on long-term planning and strategic direction of an enterprise. Findings of management indicate that it is important to manage and systematically evaluate the company in a long-term perspective if the company wants to be successful and enjoy excellent financial health. From the sustainable development and resources management point of view it is important to use information systems that help to improve the efficiency of managerial control of an enterprise. On the other hand it is crucial to analyze whether the used ERP systems support higher profitability and enable application of strategic management models. The main goal of the vast majority of companies is based on the increase or maximization of own market value that is achieved by strategy of the company in a long-term period. The right strategy is important for survival of enterprise in today's competitive market and rapidly changing environment.

*Keywords: balanced scorecard, enterprise, enterprise resource planning systems, environmental protection, information systems, models of strategic*



*management, resources management, sustainable development, strategic management, survey.*

## 1 Introduction

Recently, the environment and its protection have been quite frequently discussed topics. In the last few years, countries all over the world have strived to protect their environments. For this purpose they have developed and implemented various measures that help to protect the environment. Human economic activities interfere considerably with the environment and therefore it has been necessary to develop such measures that will not only eliminate pollution but rather proactively act against such pollution. The implementation of these basic principles of sustainable development in a long-term perspective is only possible if the whole of society is involved in this meaningful process. Impulses for the improvement of the current situation must come both from the part of public administration and the private sector, general public and non-governmental non-profit organizations. Nevertheless, a quite important role in this process is also played by the responsibility of each individual citizen. Each of us may contribute with his life attitudes and everyday behavior to a better state of not only the environment, but also the general social and economic situation. It is therefore necessary that all the entities that may intervene into the area of sustainable development closely cooperate together in order to create such conditions that will allow us to meet all the needs and requirements of not only the current society, but also the next generations.

Currently the general public, as well as the academic sphere perceive the sector of economics as dominant [1]. Due to this dominancy of economics we must pay greater attention to the conception of social responsible behavior of enterprises (corporate social responsibility), as the main bearing point for the support of resources management and sustainable development of recent times.

Currently, the human being faces multiple challenges and threats, mainly caused by the expected increase of our population. It was estimated that by the end of 2050 the global population should reach the number of 10 billion. Another potential threat for the environment is the excessive use of non-renewable natural resources and also the disproportion amongst developed and underdeveloped economies. The growth of population and the increase of the wealth level will surely lead to more intensive utilization of natural resources. This will result in greater production of waste, pollution and deforestation, which will in turn affect the climate on the Earth and the irreversible depletion of our resources.

The methodology of the article is based on the review and thorough studying of papers and contributions published in vocational magazines as well as vocational literature databases. Also a questionnaire survey was realized by the authors of this article in enterprises in the Czech Republic. The questionnaire covered 50 questions and was prepared in electronic form in a way so its completion was easy and quick for the respondents. The questionnaire was divided into three basic parts: the first part was dedicated to the obtaining of



general information on the business entity (respondent). The second part was dedicated to the use of corporate information systems and the third part covered the area of financial management with the main aim of finding out what is the current practice in the use of the performance measurement systems.

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## 2 Selected definitions of sustainable development

In recent years, the question of the mutual relation between economical growth and environmental protection has become quite topical. This is why the discussion about sustainable development is so frequent nowadays. Sustainable development is defined and characterized in various ways. The conception of sustainable development is based on the idea of achieving a dynamic balance in various areas. From a practical point of view, it is the balance between production and consumption, the balance between the economy and the environment and the balance between development and protection. The most widely known and also the simplest definition of sustainable development was presented by Gro Harlem Brundtland in 1987 “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” [2]. In other words, as often quoted: “We did not inherit this planet from our ancestors, but rather borrowed it from our children.” This definition was mentioned in the report entitled “*Our Common Future*” published by the UN World Commission on Environment and Development (UN WCED).

In the Czech Republic sustainable development is defined by Act No. 17/1992 Coll., on Environment (Section 6) as follows “sustainable development is development that maintains for present as well as future generations the possibility to meet their elementary life necessities without compromising the diversity of nature, preserving the natural functions of ecosystems”.

The question of sustainable development was dealt with by Josef Vavroušek, the first Czechoslovak minister of environment, who defined it as follows: “sustainable life – or, more precisely, the way of living – is aimed at looking for the harmony between man and the nature, between society and its environment so that we meet the ideals of humanism and respect for life and nature in all forms and all times. It is the way of living that seeks for the balance between freedoms and rights of every individual and his responsibilities towards other people and nature in general, including the responsibility towards future generations. We should accept the principle that the freedom of each and every individual not only ends where the freedom of others starts, but also where nature is damaged. We should live in a way so that while meeting our own needs we do not restrict the rights of those coming after us” [3].

The aim of sustainable development is to provide society with perspective visions. The activities that meet current needs may be of a short-term nature.



Sustainable development is a complex conception that covers all human activities down to local levels. The aim of sustainable development is to improve the quality of life of both the present and future generations, while protecting the Earth's capacities. Sustainable development is based on democracy, the government of respect to basic rights covering freedom, equal opportunities and cultural diversity. It further supports high employment in economy, with strength in education, innovations, social and territorial cohesion and the protection of human life and environment.

## **2.1 Basic pillars of sustainable development**

The sustainable development conception represents the alternative model of the development of society compared to the dominating industrial economy. In general, sustainable development may be understood as the achievement of balance between economical sustainability, social sustainability and environmental sustainability. Considering the levels of policy and society, we can conclude that sustainable development needs the balanced growth in all four relatively independent areas: environmental, economical, social and political.

There are various opinions on how the individual pillars relate to each other; whether they are at the same level or considerably different, however bound by the dimensions of sustainable development. In general, we can conclude that the environment is a necessary but also a limiting basis of the sustainable development conception, the economy is the tool for the achievement of sustainable development, whereas the social goal of sustainable development is the achievement of quality life for all members of society (social pillar).

The policies based on the sustainable development conception enforce the aligning of economical and social development with capacities of ecosystems, while maintaining the natural values and biological diversity for present and future generations. The interconnection of individual pillars of sustainable development conception is shown in Figure 1.

As these three levels (pillars) of sustainable development are mutually interconnected; we must develop a system that will neither prefer nor omit any of them. The conception of sustainable development is based on the maintenance of balance in various areas. In practice, this means the balance between production and consumption, economy and environment, development and protection [5]. With regard to environmental protection, an excessive support of environmental aspects would for instance lead to economical stagnation in the relevant area. On the other hand, the proliferation of economical development often leads to worsening of the environment. Also the inadequate emphasis placed on the social aspects may cause considerable problems – e.g. the reduction of competitiveness in economic competition amongst regions [6].

## **3 Problems of resources management with focus on the usage of ERP systems in companies**

In the early 20<sup>th</sup> century the approach that focused on the relationship between usage of natural resources and on the other hand, cost and benefits resulting from



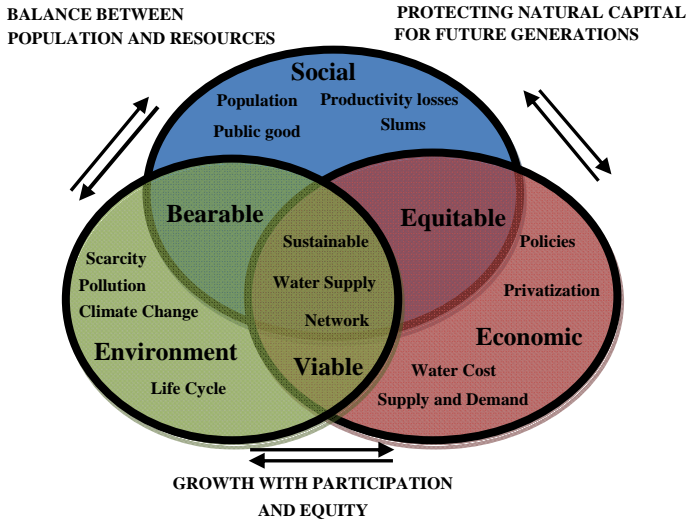


Figure 1: Interconnection of the sustainable development pillars [4].

business activities, appeared for the first time. The link between natural resources and business needs was used for the application of quantitative modeling to understand management options with the focus on the importance of integrating natural components and humans into the solution of optimal usage of natural resources in accordance with costs, revenues and profit [7]. Resources management has gradually developed during the 20<sup>th</sup> century and from the beginning of the 21<sup>st</sup> century is crucial for many highly developed countries. All resulted in a situation that sustainable management must consider these activities as intertwined systems [8]. Enterprise Resource Planning (ERP) systems help to effectively record business processes and manage them. Based on the data obtained, information for decision-making by management is prepared. This allows for the more efficient use of resources, including the subsequent decrease of costs and increase of corporate profitability.

#### 4 Balanced Scorecard as a tool of performance measurement

Under the current economic conditions, enterprise managements must quite often deal with the question of how to set the criteria of success, i.e. how to set the required goals. The basic goal of the vast majority of enterprises in a long-term perspective is market value maximization. Constant changes bringing new obstacles on the one hand and new opportunities on the other are quite characteristic for the current economic development. Significant changes in the business environment are notably related to a phenomenon called globalization, free movement of capital, general progress, expanding of information technologies and strengthening of capital market [9].

The efforts of business entities aimed at maximizing the stock value may often be limited by social interests. The company comprises of its employees, their families, but also citizens, government, institutions, creditors, suppliers, customers, competitors, international communities and other entities affected by decisions of the company (i.e. its management).

The goals the company sets may be divided by individual pillars of the sustainable development conception. The proposals of corporate goals are shown in Table 1.

Table 1: Characteristics of corporate goals by groups of entities concerned (stakeholders) [10].

Goals		
Economic	Social	Environmental
Profit maximization	Joint decision-making	Protection and spare use of natural resources
High company value for shareholders	Good working conditions	Limitation of pollution
Profitability	Fair rewarding	Reduction of waste
Business certainty	Job certainty	Control of waste
Growth expansion	Corporate social benefits	

Basic presumption for the successful development of a company in the present globalized environment is a correctly defined vision and strategy further broken down to particular strategic goals. One of the methods that help to implement the corporate strategy in this way is the Balanced Scorecard (BSC) methodology. This new model measures the performance of the company using four balanced areas: value (financial), customer, internal company processes and employees (learning and growth). These four basic areas are referred to “perspectives” as they significantly affect the future development of the company and are therefore significant not only for the evaluation of the company as a single unit but also for the evaluation of particular internal departments and sections of the company. Their mutual interconnection is the basis for the BSC framework. It allows balance establishment among short-term and long-term goals, among hard and soft metrics.

While measuring the business performance, the purpose must be clearly defined – this means it must be clear who will make use of the results measured. Different requirements will be set by owners, managers, creditors, banks, investment companies, financial authorities or rating companies. Also the time factor is very important (the period the measured results relate to). We can measure the business performance in the past, assess the current performance or focus on the expected future development of the company. Each of these entities judges the results on the basis of its own criteria so the views of individual economic entities may differ significantly. Owners and investors for instance strive after appreciation of their capital invested in the company. From the



investment point of view it is necessary for them to know that their investments are treated in their interest [11]. On the other hand, for the management it is important that the company prospers, has a stable stake in the market as well as liquid and profitable operation. Employees are especially concerned about optimum salaries, keeping their jobs in the company as well as about social benefits offered by the company. For customers it is important that the company estimates their needs and requirements correctly, offers them premium product, on time and for a reasonable price. Suppliers require the company to pay their receivables on time and therefore they especially check the level of indebtedness, liquidity and solvency. Business partners require from company to meet its obligations towards them on time as their existence depends on the company's vitality. And finally, the government is mainly concerned with the information regarding payments of taxes and proper utilization of subsidies, if any.

## 5 Results of survey

Figure 2 presents the structure of questioned and analyzed companies in accordance with the EU legislation. Microenterprises are defined as companies with less than 10 employees. Their annual turnover and sum of assets could not exceed 2 million EUR. Small enterprises are companies with less than 50 employees and their annual turnover and sum of assets could not exceed 10 million EUR. Medium sized enterprises are companies with less than 250 employees. Their annual turnover could not exceed 50 million EUR and their sum of assets could not be higher than 43 million EUR. If the company does not meet previously mentioned criteria it is classified as a large company [12].

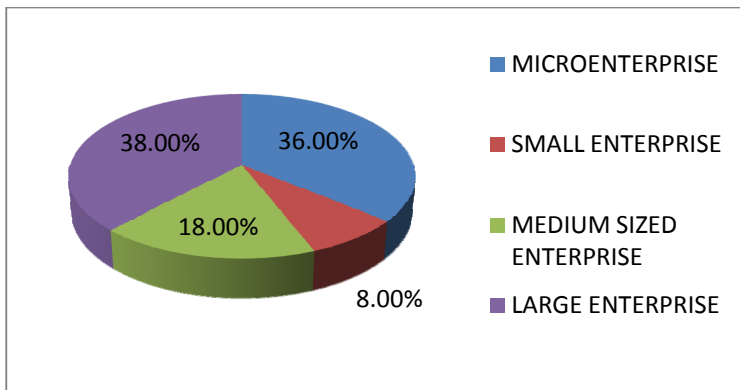


Figure 2: Size of the company in accordance with EU legislation.

During the survey the companies were asked for information about their legal form of business. 52% of them were limited companies (Ltd.), 30% of them were public limited companies (Plc.), 12% of them were individual entrepreneurs, 2% of them were cooperatives and the rest were other legal form of business used in accordance with the Czech legislation.

One part of the survey is focused on the problems of usage of ERP systems that are used for recording of accounting transactions, managerial accounting and for the needs of strategic management in general. Figure 3 presents the structure of the used ERP systems in companies located in the Czech Republic. Most of the companies were owned by foreign capital and the system was chosen due to the ERP system used by the parent company or due to the system used by their suppliers or customers. The production of a lot of analyzed companies was focused on automotive. The most used ERP system is SAP with a share of 38% of questioned companies.

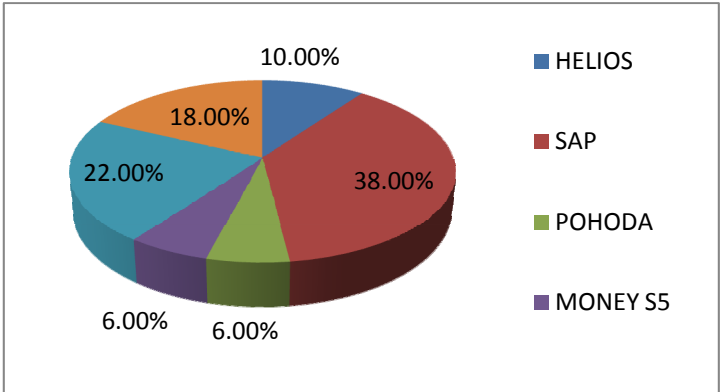


Figure 3: Size of the company in accordance with EU legislation.

On the basis of the ERP System used, the respondents answered their satisfaction with the system they use in terms of its functionality. The results are presented by Figure 4. 66.67% of the respondents were mostly satisfied with the ERP system used and they did not have any crucial critical comments on the functionality of the system. Only 3.7% of asked respondents were dissatisfied with the ERP system used by the company they worked in.

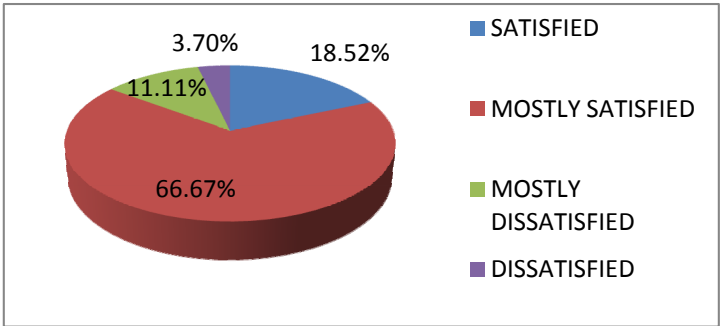


Figure 4: Satisfaction with the ERP system used in terms of its functionality.



With regard to the sustainable development conception the companies were questioned whether they use financial analysis for evaluation of their performance and financial health. 84% of them answered the question positively and the rest did not use it. This result corresponds with the structure of chosen companies that were analyzed. Mainly microenterprises do not prepare data for management decisions. If a company prepares the financial analysis annually, there could be a possibility of better usage of resources of the company such as finance, human work, energy use and production resources. 27.66% of respondents use financial analysis for planning. Another major goal of obtained data from the financial analysis is based on the setting of the strategic goals of analyzed company with a share of 21.28%. Feedback for controlling is represented by 20.21%. A surprising result of the survey finding is the situation that some of analyzed companies do not use the data obtained from financial analysis for any purposes (as presented in Figure 5).

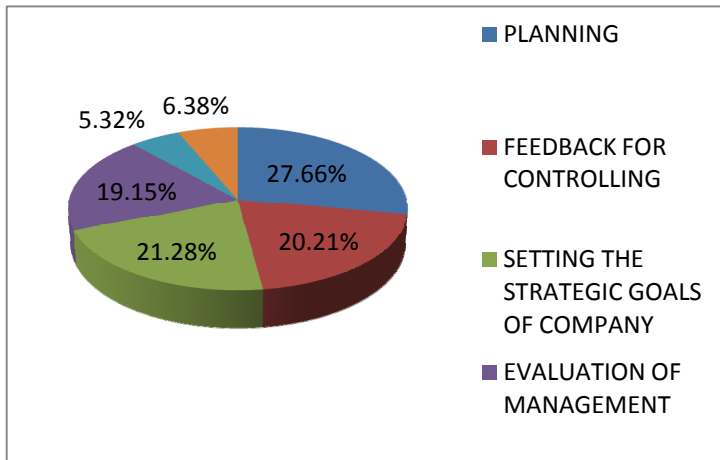


Figure 5: Ways of using financial data analysis.

Part of the research dealing with corporate performance is the area of use of strategic management models. From the survey it was found that 76.00% of the companies analyzed do not use any model of strategic management. 12.00% of them use Balanced Scorecard, 6% of them Total Quality Management (TQM) and the rest use Management by Objectives (MBO). The next question was based on the analysis of implementation of the model of strategic management used. 63.64% of companies that use some model of strategic management implemented that model individually. 27.27% of the analyzed companies used the services of an external consulting company and the rest of companies were not able to answer the question. Implementation of some model of strategic management helps the company to improve and streamline business operations with a focus on better usage of all resources used during the production.

The area of Corporate Social Responsibility (CSR) can also be considered as a part of resources management. The companies were questioned whether they

implemented CSR into the corporate environment. 80.00% of companies analyzed implemented it and only 20.00% of the companies do not deal with CSR yet (as shown in Figure 6). The result was relatively surprising and can be explained by the fact that a lot of companies questioned were owned by foreign capital.

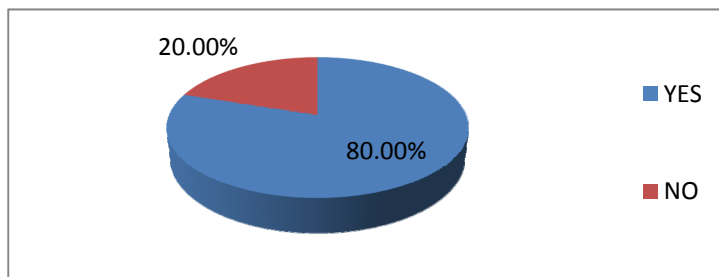


Figure 6: Integration of Corporate Social Responsibility in company.

## 6 Conclusion

The principles of sustainable development are aimed at the resolution of problems with the ongoing degradation of the environment, human equality and quality of life in a way that is sustainable from the social, environmental and economical point of view. The improvement of the current state of equal opportunities and sustainable development is only possible if the basic principles are followed not only theoretically, but also in our practical lives.

As is obvious from the analysis above, many companies doing their business in the Czech Republic implement innovative approaches to their corporate management. As a support of these approaches they make use of the enterprise information systems. Through ERP systems it is possible to closely monitor and analyze corporate activities and processes in order to minimize the costs expended on production activities. In this way, it is possible to reduce the consumption of natural resources and get closer to their optimal utilization. We can conclude that because of turbulent changes in the markets, only those companies may carry out their businesses properly and efficiently if they correctly understand the linkages between the use of natural resources and their corporate needs. The vast majority of companies situated in the Czech Republic implemented environmental protection and corporate social responsibility into their corporate culture in order to promote the ideas and key principles of sustainable development.

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