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Research on the Impact of Strategic Focus and Its Shift on Corporate Performance

Yumei Dong[1, *], Lichun Li[2]

[1]SILC Business School, Shanghai University, Shanghai, China
[2]School of Accounting, Shanxi University of Finance and Economics, Taiyuan, China
**Corresponding author*

Abstract: *The limited resources and attention of enterprises determine that enterprises need to find their own strategic focus: value creation or value distribution, and in the VUCA era, the internal and external environment of the enterprise is complex and full of uncertainties, and enterprises must make strategic changes at any time ready. This paper first clarifies the definition of corporate strategic focus and its shift, and then focuses on the impact of strategic focus on corporate performance, and further considers the impact of strategic changes on corporate performance.*

Keywords: *strategic focus, shift of strategic focus, corporate performance*

1. Introduction

China's economy has shifted from high-speed growth to medium-high-speed growth, and the economic structure has been continuously optimized and upgraded, bidding farewell to the extensive development of destructive mining, and shifting from factor-driven and investment-driven to service industry development and innovation-driven. In the process of economic development, we are faced with two historical propositions. One is structural transformation, which means raising the height of the industrial structure; the other is system transformation, which means the improvement of resource allocation methods and related codes of conduct. It can be seen that the main direction of economic transformation is the upgrading of the industrial structure and the transformation of the economic system, while the core is the transformation of corporate activities. The change in the type of enterprise development will make the industrial upgrading mechanism focus on the independent structural adjustment of the enterprise. The enterprise must find its own position and development space in market competition, so that the production structure can adapt to the changing market demand structure, and in the mutual exchange of enterprises. Amidst the competition, industrial upgrading and hierarchical transition will be realized. Among them, the enterprise's capital operation strategy and effect are very critical. The timely strategic transformation and upgrading of enterprises to adapt their organizational capabilities to the changing internal and external environments is a major issue that must be resolved to ensure the sustainable development of enterprises.

The limited resources and attention of an enterprise determine that the company needs to find its own strategic focus: value creation or value distribution, and the internal and external environment of the company is complex and full of uncertainties. The company must shift its strategic focus at any time. At present, there have been related studies on the single strategic resource dimension such as R&D investment and sales expenses and corporate performance. The study found that the GEM listed companies R & D investment and firm performance was positively correlated (Zheng Haiyuan and Li Kun, 2021), The greater the sales expenses, the more aggressive marketing strategies of listed companies are. The investment in sales expenses of a company has no significant impact on the short-term performance of the company, while the continuous investment in sales expenses has different effects on the growth of the company (Hao Yunhong and Zhu Yanjuan, 2012). However, from the theoretical perspective of the resource-based view, there have not been scholars involved in studying the types of corporate strategic priorities and their impact on corporate performance.

This paper integrates the resource-based view and strategic focus, clarifies the definition of corporate strategic focus, studies the relationship between strategic focus and corporate performance, and further considers the impact of strategic changes on corporate performance, enriching the current Research on corporate strategy and strategic changes provides theoretical guidance for companies when they face turbulence in the external environment and carry out strategic changes.

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2. Strategic focus and its shift

According to marketing research theory, there are two ways of corporate strategy: value creation and value distribution. Value creation emphasizes the innovation activities of enterprises, through research and development to improve the production process of enterprise products and services, and create value for customers; value distribution emphasizes that enterprises maximize the value of existing customers and existing products and services, usually using sales expenses as proxy variables. From the perspective of the resource-based view, corporate strategic changes will cause changes in the allocation of resources in six strategic dimensions: sales expenses, inventory, intangible assets, fixed assets, management expenses, and debt financing.

The investment in sales expenses is to redefine existing products and services, add new uses or new functions to existing products and services, and on this basis, strive to retain old customers and attract new customers through various marketing plans and activities. In terms of accounting, inventory refers to the finished products or commodities that the company holds for sale in daily activities, the products in the production process, the materials or materials consumed in the production process or the process of providing labor services, etc., and the company's inventory level The changes that have occurred are closely related to the company's existing products. Enterprise intangible assets are an important way for an enterprise to establish its core competitiveness, while research and development activities are an important source of enterprise intangible asset competitiveness. New products that meet customer needs and new technologies that lead the market are the main value output of enterprise research and development activities, which can give enterprises a competitive advantage and even monopoly in the market, which is conducive to profits and even excess profits. Fixed assets refer to non-monetary assets held by an enterprise for the purpose of producing products, providing labor services, leasing, or operating management, and that have been used for more than 12 months and whose value has reached a certain standard. The degree of renewal of fixed assets represents, to a certain extent, the changes in the main products of the enterprise or the changes in the production methods of the main products. To a certain extent, management expenses represent the management level of an enterprise, and changes in the rate of management expenses can reflect the changes made by the enterprise in terms of working methods and workflows. The debt-to-equity ratio is the capital structure in the balance sheet, which shows the degree of utilization of financial leverage. The debt-to-equity ratio can reflect the degree of protection of the owner’s equity to the creditor’s equity and reflect the long-term solvency of the company from another perspective. The change in the debt-to-equity ratio of a company is theoretically difficult to distinguish whether it is due to a change in the company's main business or a change in the production process of the company's main product.

Based on the resource-based view, this paper analyzes the input ratios of Shanghai and Shenzhen A-share listed companies in different resource dimensions from 2008 to 2016. The result of the component matrix shows that sales expenses and inventories are closely related to the current products and services of the company. In addition to the corporate value distribution strategy, intangible assets, fixed assets and management expenses emphasize the production process of corporate products and services, reflecting the corporate value creation strategy. A strategy with a higher degree of resource investment in the two strategies of value distribution and value creation is defined as the current strategic focus of the enterprise. The shift of strategic focus refers to the process by which an enterprise changes its strategic focus in order to adapt to changes in the internal and external environment. In this article, there are two possibilities for the changes in this year’s strategic focus compared to the previous year: (1) strengthening, stabilizing or shifting to value distribution based on value creation, (2) based on value distribution Strengthen, stabilize or shift to value creation.

Table 1

	components	
	1	2
Selling expense ratio	.971	-.062
Debt-to-equity ratio	.001	.125
Management expense ratio	.411	.489
Inventory-to-income ratio	.885	-.259
Fixed asset update	.092	.592
R&D investment ratio	.055	.622
Extraction method: main component.		
a. Two components have been extracted. Note: Principal component analysis is carried out based on the data of the six main dimensions of enterprise resource allocation		

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3. Strategic focus and corporate performance

The company promotes its products and services to the public and customers through value distribution activities. The value distribution of an enterprise is the marketing and planning activities of the enterprise. The purpose is to convey to consumers the various new features and functions of the products promoted by the enterprise, and to increase the sales of products and services. In addition, the market activities supported by the value distribution also have the ability to establish the role of brand image, maintaining the market's recognition of the company's products and services, and stabilizing the long-term cooperative relationship between the company and its customers, these functions can have a lasting direct or indirect enhancement of the company's profitability and growth capabilities.

Enterprise value creation takes R&D investment as the core, which is an important way to build an enterprise's core competitiveness. New products that meet customer needs and new technologies that lead the market are the main value output of corporate value creation activities, which can enable companies to gain competitive advantages and even monopoly power in the market, which is conducive to corporate profits or even excess profits. However, the process of value creation activities is unique. R&D investment has to go through a series of procedures for new product technology research and development, testing, output, and sales to generate value. Therefore, the effect of value creation on profits will not be manifested in the short term.

Due to the limited capital, manpower, and attention of enterprises, enterprises must clarify their strategic priorities and invest resources in more important aspects. Research has shown that whether it is value creation or value distribution, a clear focus can bring better performance to the enterprise. On the contrary, if the resources are distributed equally without distinguishing the key points, neither the enterprise value distribution activities nor the value creation activities will be able to maximize the value of the enterprise, and it will not significantly promote the performance of the enterprise. Based on the analysis of value distribution and value creation in the previous part, this article believes that there is a U-shaped relationship between strategic focus and corporate performance, that is, a company has a clear strategic focus and development direction, which can bring better performance to the company. There is no focus on corporate strategic strategy, and the equal distribution of resources will cause companies to have poor performance, and at the same time, the impact of value creation on performance will have a lagging effect.

4. Strategic focus shift and corporate performance

Modern enterprises are in an environment of change and uncertainty. In order to adapt to this change, enterprises have changed their strategic focus during the operation process, adopted strategic change behaviors, and continuously adjusted their strategic directions to improve performance (Huy et al., 2016) , Such as disruptive technology or major corporate mergers and acquisitions. The shift of strategic focus affects the organization's process, structure, and culture by affecting the company's resource allocation methods, and ultimately affects company performance. The shift of the strategic focus to value creation is a company's reform of the current production process of products and services, such as changes in intangible assets, fixed assets, and management costs, which will change the way the company's main products and services are produced. However, due to the particularity of R&D, intangible assets, fixed assets and other resource allocation models, their changes will not affect the production methods and processes of enterprise products and services in the short term. This particularity makes the shift to value creation affect the financial performance of the enterprise there is a hysteresis effect. The strategic focus shifts to value distribution activities, which makes the current resource distribution mode of the main products and services of the company different from the past.

No matter which direction the strategic focus shifts, the company's strategic changes in the resource allocation model affect the company in two different ways. One is adaptability. Strategic changes within the boundary increase the company's chances of aligning with the environment, while the other impact is disruptive, beyond the boundary of strategic changes, adding inappropriate changes that may lead to poor execution. Changes (Ma Li Peipei, 2019).

When the overall competitive environment of the industry changes, in order to adapt to the ever-changing market environment, the company will change the company's resource allocation mode to adjust the company's strategic direction. Under this circumstance, the shift of the strategic focus of individual companies can reflect the degree and direction of changes in the entire industry, that is, the strategic deviation of a single company actually conforms to the reform trend of the entire industry. At

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this time, the strategic reform of the company is to learn from and imitate the same industry. The strategic model of the enterprise does not have great risks and conforms to the development trend of the industry. At this time, the shift of strategic focus will promote the development of enterprise financial performance (Guo Zhigang et al., 2020). At the same time, when the shift of strategic focus is relatively small and within the boundaries of change, market investors believe that companies are closely following industry trends and are actively seeking better production methods for products and services in a more secure way. Market investment the author regards it as the potential capability of the company and believes that the company is in the process of positive development, leading to an increase in its valuation of the company. In short, the level of strategic change reflects the company's strategic choices (Finkelstein and Hambrick, 1990), reflects the company's bold thinking and novel strategic choices, so that the company can be consistent with the environment and achieve better performance (Hambrick and Schecter, 1983), a certain degree of strategic focus shift will have a positive impact on corporate performance.

However, in a destructive way, the level of strategic change in resource allocation patterns will have a negative impact on corporate performance. The greater the degree of change, the greater the cost and difficulty of implementing the change, because it needs to build new capabilities and obtain new resources (Zhang and Rajagopalan, 2010). A high degree of strategic change usually means a major breakthrough with the previous strategy, which means higher costs. This change has caused destructive effects on the enterprise. The major changes in the resource allocation model that the company has made in a short period of time will bring significant pressure on the company's management resources and organizational system. Therefore, for companies to effectively utilize new knowledge and new practices, there must be a certain degree of overlap. When the level of strategic change is too high, the new resource allocation model deviates significantly from the historical pattern of the enterprise and the central tendency of the industry, which prevents the enterprise from effectively carrying out changes. Therefore, when a company’s strategic reform is at a high level and transcends the boundaries of the reform, market investors will believe that the company is currently exposed to greater risks, leading to underestimation of the company’s market value. And the shift of the company’s strategic focus is beyond the boundaries of change and beyond the scope of changes in the industry where the company is located. At this time, the company’s resource allocation model deviates from its past experience and the degree of industry change, and it has a high level of strategic change, namely The Company is experimenting with new and uncertain resource allocation models in key strategic dimensions. At this time, the shift of corporate strategic focus has a negative impact on corporate performance.

Therefore, regardless of the direction of the transfer, in the case of a low transfer range, the increase in the level of change is mainly to strengthen the adaptive effect of the change; in a high-level change, the increase in the level of transfer makes the destructive effect far For adaptive effects. Therefore, this article believes that there is an inverted U-shaped relationship between the shift of strategic focus and corporate performance, but due to the particularity of value creation activities, the shift of strategic focus to the direction of value creation has a certain lag effect on corporate performance.

5. Conclusion

Economic transformation and industrial structure adjustment promote the strategic transformation of enterprises, and also determine the direction and timing of the strategic transformation of enterprises; conversely, the strategic transformation of enterprises promotes economic transformation and upgrading of industrial structure. The new normal of the economy is driving major changes in the manufacturing industry, the service industry, and even the entire society. This article discusses the relationship between corporate strategic focus and corporate performance from the perspective of value creation and value distribution. The research finds that companies must clarify their own development direction, have a clear strategic focus, and pay attention to changes in internal and external environments during their operations. Timely and reasonably adjust the company's strategic focus to adapt to the environment and have a sustainable competitive advantage.

This research has strengthened Chinese companies' attention to value creation and value distribution activities. The level of investment in value creation can determine the strength of a company's independent R&D and innovation capabilities. The amount of investment in value distribution activities is directly related to the success or failure of the establishment of corporate image, the establishment of brand loyalty, and the delivery of product value. Both of them can increase the profitability and growth capacity of the company to a certain extent. Through the analysis of strategic focus and the impact of strategic changes on corporate performance, it can provide guidance and reference in the process of corporate managers' decision-making with two strategic priorities: value creation and value distribution.

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