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Do they Compete Differently? Strategies of MNEs and Domestic Companies in the Environment of the Czech Republic

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Abstract

Purpose of the article: The Czech Republic is still considered an emerging economy and MNEs are important players in most of its markets. Hence, knowledge of their strategies is essential and valuable not only for companies already present on the Czech market, but also for those who intend to enter the Czech market.
Methodology/methods: The analysis centres on a sample of 155 foreign multinationals and 118 Czech companies. Using the empirical data, a logistic regression model was subsequently employed to determine whether the strategies chosen by the firms are related to any of the environmental variables. I employed ANOVA and linear regression model to determine whether certain strategy choices are related to higher company performance for MNEs and DCs.
Scientific aim: This study examines the strategy-environment configurations adopted by multinational and domestic companies in the Czech Republic and makes an assessment of which strategy is the most advantageous.
Findings: The author concludes that the strategies of MNE and domestic companies differ in such a dynamic and hostile environment. The performance implications of the strategies deployed are also examined. The most significant result indicates that the adoption of a heterogeneous strategy-environment configuration by MNEs and domestic companies in a small-scale transition economy leads to better performance for both of them.
Conclusions: The results imply that the adoption of a heterogeneous strategy-environment configuration by MNE and domestic companies in smaller transition economy leads to better performance for both of them. This study offers a different insight into the strategic behaviour of companies and extends the existing knowledge by adding the ownership variable into the strategy-environment relationship. Output of this study can serve as the basis for decision-making in companies already active in the Czech marketplace and, particularly, as important entry information for companies considering entering the market.

Keywords: logistic regression, subsidiary, strategy, environment, domestic companies, MNEs, performance

JEL Classification: M16

Introduction

The strategic behaviour of companies in the current period of globalized, competitive and changing markets may be characterized by the extent to which a company's strategy is adapted to this environment. Company strategy clearly depends not only on the company itself, on its resources and organization, but it is also dependent on the character of the environment in which the company operates. The alignment between strategy and environment lies at the center of strategic management (Luo *et al.,* 2001). It is the alignment of an organization's strategic orientation to its environment which is of paramount importance to business success (Morrison, Roth, 1992). An appropriate fit between strategy and environment should ensure the growth of a firm (Tan, Litschert, 1994).

With the increasing level of globalization, the question arises as to whether domestic companies and foreign multinationals respond to a similar environment in the same manner. There exists the assumption that domestic companies know the market thoroughly. If these companies provide examples of best performance in the local environment, a multinational company might attempt to mimic their strategy (DiMaggio, Powell, 1983). However, the conditions under which these two types of company operate are by no means identical. The multinational company subunit is not autonomous and its strategic choices are influenced by its given field of operation and the parent firm's internationalization arrangements (Bartlett, Ghoshal, 1987). A subsidiary of a multinational company may often avail itself of benefits associated with the mother company abroad, not accessible to local companies for various reasons. Multinational and domestic companies thus operate under different conditions. This work assumes that the strategies of these two types of company are divergent in a dynamically-changing environment, since they have their own resources, capabilities, market orientation, environmental familiarities and global integration arrangements.

Foreign affiliates contribute to a host country's international competitiveness through various channels and are also responsible for much of the host countries' employment, turnover and value added. It is therefore of crucial importance both to the theory and practice of planned management to investigate the strategies pursued by multinational and domestic companies in a changing environment.

1. Literature review

The underlying premise of this study is that the relationship exists among business capabilities, the environment and strategic type (Desarbo *et al.*, 2005). Since MNEs and DCs are specific with respect to organizational capabilities, market orientations, strategic objectives, environmental familiarity or global integration arrangements (Luo, Tan, 1998), these two types of companies may diverge in the means of strategies they pursue in the same environment.

The entire subject of the organizational environment and its interrelation with business strategy has received an extensive attention in the strategy literature. Organizations face important constraints and contingencies from their external environments and their competitiveness depends on their ability to monitor the environment and adapt their strategies to the environmental trends (Boyd, Fulk, 1996). Companies therefore need to scan the environment and the environmental trends properly and analyze the position of a company. The second demand on companies is related to their ability to adapt to the environment, which means that the company should be able to suggest suitable changes responding to the environment and more importantly, to implement these changes.

A strategy which is effective is then considered to lead to sustainable competitive advantage in an organization resulting in superior performance (Oosthuizen, 1997). Therefore the choice of a particular strategy by MNE or DC should be related to their performance. If the strategic choices of these two types of companies differ in the same environment, it would be interesting to see whether these are related to higher performance for these two groups.

When exploring the relative performance of MNEs and DCs in a particular environment, two streams of theories are of relevance, and these lead to opposing conclusions. On one hand, the "MNE advantage" literature argues that firm specific advantages in combination with location-specific advantages and host country resources provide the MNE an advantage over DC. On the other hand, the second stream of literature argues that MNEs have a disadvantage because of unknown foreign environment, and therefore suffer from liability of foreignness (Chacar *et al.*, 2010). Despite the growth of empirical studies in this field, the knowledge of the relative advantages of MNEs and DCs remains confused. The amount of conflicting evidence and the occasional use of imprecise methodology do not support any strong statement about the differences between MNEs and DMEs (Anastassopoulos, 2003).

The importance of the environment for the organization and for achieving its goals has been widely recognized in the extant management literature, often across various perspectives (Desarbo *et al.*, 2005; Tan, Litschert, 1994). There exist competitive interactions between the external environment, competitive strategy and derived marketing activities (Fiegenbaum *et al.*, 2004). Existing empirical studies show not only that there is a close relationship between strategy and environment, but also they often imply that particular strategies are appropriate for some environments, *e.g.* (Homburg *et al.*, 1999). If companies analyze the environment properly, these recommendations can guide their decision about a proper strategy. However, these recommendations vary a lot and sometimes they are even contradictive. Some authors (Miller, 1988; Porter, 1980) have argued that a cost-leadership strategy is appropriate for stable and predictable environments and a differentiation strategy is suitable for dynamic and uncertain environments. Therefore a differentiation strategy is more effective in the environments with quick changes of products, services and practices (Duncan, 1972). Furthermore, empirical research proved that managers in more uncertain environment usually tend to be more proactive and innovative, presuming a higher degree of risk (Miles *et al.*, 1978). A recent empirical study (Nandakumar *et al.*, 2010) has shown that in environments with lower hostility a cost-leadership strategy and in more hostile environments a differentiation strategy lead to better performance in comparison to competitors. The same study suggests that a cost-leadership strategy is more advantageous for improving financial performance in highly dynamic environments, but in low-dynamic environments a differentiation strategy is more helpful in improving financial performance. In environments with low level of dynamism organizations need not go for high levels of innovation and product enhancement because the main competitors do not normally make huge changes in their strategies (Kabadayi *et al.*, 2007).

1.1 MNE and DC Strategy

Since MNEs are to a certain extent specific and different from the DCs, the differences between these two types of companies might lead to divergent strategies pursued in a complex environment. Existing studies focused on strategies of MNE and/or DC do not provide sufficient answer.

There is a stream of literature that suggests that MNE strategies should be similar to those of DC. In 1994, Rosenzweig and Nohria proposed that MNE in a foreign country tend to resemble local practices, or in other words, they try to mimic the strategy of local firms. The background for these thoughts is related to the fact that local companies are expected to know the environment well and therefore choose the most suitable strategy. However, this approach does not reflect the difference between MNE and DC, which might distract MNE from pursuing similar strategies as DC. Also, this approach does not take into consideration that strategy of DC might not necessarily be the best possible choice.

To reflect the criticism of the above mentioned thoughts, another stream of literature suggests that the conditions for these MNE and DC are by no means identical. Elango (2009) found out that in US, foreign firms take a differing strategic posture to cope with the disadvantages of being a foreign firm compared to domestic rivals. MNE subunit is not an autonomous firm and its strategic choices are influenced also by its competence and the parent´s firms internationalization arrangements (Bartlett, Ghoshal, 1987). Moreover, the local governments usually treat foreign subsidiaries differently that local companies, and the knowledge of the local business environment is also not similar for DCs and MNEs. Accordingly, this implies that strategies of MNE and DC might differ from each other.

In general, there are two main reasons for MNEs and DCs to pursue different strategies. The first are the environmental conditions – for DC it is a known environment; to the contrary, foreign MNE faces conditions partially or totally different from those of its familiar home environment, the environment in which it was born and developed (Luo, Tan, 1998). Recent work has pointed out that unfamiliarity with a country is still likely to put MNE at a disadvantage (Chacar *et al.*, 2010). The danger that unfamiliarity with the environment can bring additional costs to MNE is referred to as the liability of foreignness. This often leads to more demanding governance in MNEs and therefore it leads to higher costs of management of MNEs in comparison to DCs. The costs of managing the MNE subsidiary in a foreign country are increased by the necessity to overcome long distances. Moreover, foreign MNEs often face a completely different market context than exists in their land of origin, since the market economy is still a fairly novel phenomenon in the Czech Republic and therefore is so called transitional economy. Foreign subsidiaries are often treated differently from domestic-based corporations. Differences in the political-legal environment faced by DCs and MNEs are also expected to lead to strategy differences.

The second reason possibly leading to divergent strategies of DCs and MNEs are the resources

(Bartlett, Ghoshal, 1987). Much of the IB research is built upon the idea that MNEs draw on their country specific advantages to expand to the foreign countries and therefore even outperform DCs (Chacar *et al.*, 2010). The country specific advantages are present in their home country and MNE can use them as they internationalize. MNE can employ resources conferred by their home nations, and they are able to develop a competitive advantage in foreign markets. Parent company is often able to provide experienced managers to the subsidiary (Mata, Portugal, 2002), but also financial resources, product diversification or marketing advantages. For example, some MNEs share the same brand globally, such as Walt Disney Company, and therefore have lower advertising and marketing costs (Chacar *et al.*, 2010). These advantages are usually called firm specific advantages. MNE can use combinations of non-location bound firm specific advantages and location bound firm specific advantages as strategies in order to achieve optimal resource deployment (Rugman, Verbeke, 2008). Connection of the subsidiary and parent company may also enforce certain limitations on the subsidiary that DCs do not face (Luo, Tan, 1998). These include centralized management with its attendant limitations on the power of local managers and the necessity of fulfilling targets set by the parent company (Bartlett, Ghoshal, 1987). Expectations of headquarters about the behavior of subsidiaries might therefore also lead to differences in strategy of MNEs and DCs.

Based on the literature review, I formulate the following hypothesis:

Hypothesis 1. Strategies of multinational and domestic companies in dynamic and hostile environment differ.

Strategies of MNEs and DCs have been rarely empirically compared, and those few results obtained from the existing studies are far from conclusive. Also the environmental conditions in which strategies were examined are often those of large economies of US or China. Moreover, studies often focus on MNEs or DCs separately, and thus the results do not provide a comparison. This offers a challenge to explore the comparison of strategies of MNE and DC in the emerging economy of the Czech Republic.

The strategies of MNE and DC which match properly with the external environment and internal conditions are considered to be effective. A strategy which is effective for both MNE and DC should lead to sustainable competitive advantage in an organization resulting in superior performance. Therefore, the following hypotheses 2 and 3 are formulated:

Hypothesis 2. The prevailing strategy of a domestic company used in dynamic and hostile environment (identified in H1) is related to higher performance than other strategies.

Hypothesis 3. The prevailing strategy of a multinational company used in dynamic and hostile environment (identified in H1) is related to higher performance than other strategies.

Performance is often used to assess the appropriateness of a particular strategy. A substantial number of empirical studies have examined the relationship between business-level strategy and performance (Nandakumar *et al.*, 2010). Luo and Tan (1998) examined the strategies of MNEs and state-owned companies in China and found out that for MNEs, prospector strategy is related to higher performance, and for Chinese state-owned companies, it is the analyzer strategy. This implies that it might be the specifics of the environment which determine the "goodness" of a particular strategy. This brings a challenge of examining and comparing strategies of other groups of companies, and also to explore the differences or similarities of the findings in different types of economies, which this paper attempts to.

2. Methodology

Following the previous research (Desarbo *et al.*, 2005; Nandakumar *et al.*, 2010), I directed questionnaires at the CEO level of MNEs and DCs in the Czech Republic, or a competent member of management. I provided the questionnaire over the internet and emailed respondents with a direct link to their questionnaire. I collected part of the data through the Research Centre for the Competitiveness of the Czech Economy as a part of research on multinational companies (Blažek *et al.*, 2011). Secondary data were collected from annual reports of companies, available via their web pages, commercial register or Credit Info database. Respondents were kept unaware of the relationships under investigation to avoid over-justification issues. During the period of data collection, I phonecalled CEOs randomly to assure that they were the real respondents of the survey. I used personally administered questionnaires, too, to gather further pertinent information. Results of these personal interviews in 5 MNEs and 4 DCs added validation to responses from the questionnaire.

A binary logistic regression model was

subsequently employed to determine whether the strategies chosen by the firms are related to any of the environmental variables. To test the first hypothesis, it is necessary to test both MNEs and DCs which strategy out of four (prospector, analyzer, defender, reactor) do they use in dynamic and hostile environment. Strategy variables therefore include four binary variables. These represent dependent variables. Dynamism and hostility of the environment are represented by scales and these are independent variables. Because of the binary dependent variables, logistic regression was chosen as a suitable method for testing hypothesis H1.

A one-predictor logistic model was fitted to the data to test the research hypothesis regarding the relationship between the likelihood to choose a particular strategy and the environmental dynamism and hostility. Therefore, the following model is proposed:

$$\text{predicted logit of (STRATEGY)} = \\ = \beta 0 + \beta 1 \cdot \text{(ENVIRONMENT)},$$

where STRATEGY will be substituted by analyzer, prospector and defender separately for MNE and DC.

Binary logistic regression is a form of regression which is used when the dependent is a dichotomy and the independents are of any type. The logistic regression analysis was carried out by the logistic procedure in IBM SPSS Statistics 20 in the Windows Vista environment.

I employed ANOVA and linear regression model to determine whether certain strategy choices are related to higher company performance for MNEs and DCs and therefore to test the hypotheses H2 and H3.

The population for this research covers all MNEs and DCs, which are legal entities (Limited Companies and Joint-Stock Companies) in the Czech Republic, have 50 and more employees, and belong to manufacturing industry. In 2009, the share of manufacturing industry on the gross value added reached 23,6% in the Czech Republic and hence this study gains significance in this context. The sample size of MNEs was 667. In total, 155 usable responses were gathered, representing a return rate about 23%. The sample size of DCs was 1134. 118 usable responses were gathered, representing a return rate about 10.4%.

I tried to minimize the effect of both sources of non-response error, the refusals and non-at-homes. Those who did not answer the questionnaire were emailed after 6 weeks with a reminder of the questionnaire. I compiled the questionnaire in a way to decrease the rate of refusals, in terms of length of questionnaire, the graphic and visual aspect of the questionnaire, or easy filling in. Non-response bias was examined by comparing the means of the responses received from early and late respondents. This approach provides an effective test for nonresponse bias because late respondents are likely to respond in a manner similar to non-respondents (Armstrong, Overton, 1997). T-tests indicated no significant differences between the means of the responses received from early and late respondents.

2.1 Measurement of Variables

Environment. In this study, I used perceptual measures of the environment, because the environment becomes known to the organization exactly through managerial perception (Miles *et al.*, 1974). The environment is treated in this study as a multidimensional construct, as it is common in the management literature. Based on the categories widely used in the environment-strategy literature the choice was made for the environmental dynamism and hostility. In line with previous works, I conceptualized dynamism using dynamics and uncertainty in four dimensions – competitors, customers, suppliers and technology. Hostility was measured in two dimensions – intensity of business competition and the level of corruption.

Strategy. With respect to the perspective adopted in this study and to dissimilarities between MNEs and DCs regarding empirical approaches to the research of the strategies employed by these two types of companies, I have chosen the Miles and Snow typology (Miles, Snow, 2003 orig. 1978) as a framework of business strategy to explore the environment-strategy configuration of DCs and MNEs. The specific relationship between the four strategic types and environment is central to Miles and Snow model. The typology has been widely adopted in diverse empirical studies, *e.g.* (Hambrick, 1983; Desarbo *et al.*, 2005; Sim, Teoh, 1997; Vorhies, Morgan, 2003; Zajac, Shortell, 1989), which have contributed to identifying it as one having good codification and prediction strengths (James, Hatten, 1995). The typology has been subjected to numerous tests of its validity and researchers have found strong and consistent support for the basic validity of the typology (Hambrick, 2003; Shortell, Zajac, 1990).

Based on the existing literature, preliminary choice was made for this study to select strategies on the basis of a description; hence the data obtained will be represented by binary nominal variables. I adopted the description from (Olson *et al.*, 2005) and (Miles, Snow, 2003 orig. 1978) and subjected it to back-translation procedures to ensure validity. The Miles and Snow typology instrument contained brief description of a firm using prospector, analyser, defender or reactor strategy. However, the terms "prospector, defender, analyser and reactor" were not used in the questionnaire to avoid any connotations that one was preferred. Rather, each description was prefaced by a categorization of "Strategy A", "Strategy B", "Strategy C" and "Strategy D", each corresponding to the appropriate strategy type. Respondents were offered a category scale – they were asked to indicate which of the strategies most closely fitted to the firm. The instructions stated that no strategy type is inherently good or bad. Instructions also emphasized that the respondent is questioned about realized strategy prevailing at the time of questioning, not the intended strategy.

Performance. A combination of objective performance data and subjective assessment of performance by key informants has been chosen for this study. A question was included in the questionnaire to measure the subjective evaluation of rentability of assets (ROA). The recent research suggests that the use of subjective measures of firm performance relative to competitors is particularly desirable in studying emerging economies (Luo, Tan, 1998), and that self-typing typology is a valid methodology for examining performance (James, Hatten, 1995; Shortell, Zajac, 1990). Moreover, subjective responses on performance are reliable (Tan, Litschert, 1994). As in a number of previous studies, ROA has been chosen also as an objective measure for this study (Banalieva, Santoro, 2009; Wu, Pangarkar, 2006). ROA, calculated as operating income-to-total assets, reflects how successful a company is at generating income from its invested capital, without the influence of taxes, therefore capturing both the profitability and efficiency of assets employed. The ROA was computed as a mean of three years ROA (2005–2007). Since subjective and objective performance measures might not correlate for MNE subsidiaries (Talpová, Scalera, 2015), there variables are used separately in the following models to obtain more proper results.

Common Method Variance. I tried to minimize the common method variance to a great extent. Firstly, Podsakoff *et al.* (2003) suggest that to avoid potential CMV by using other sources of information for some of the key measures. In this study, objective data about company performance was collected from annual reports of companies, in other words, from a different source than respondents. Podsakoff *et al.* also suggest that protecting respondent anonymity may reduce method bias. In a covering letter as well as at the beginning of the questionnaire it was clearly indicated that all replies would be treated in the strictest confidence and no names or identities of individual firms would be revealed or disclosed to third parties. The confidentiality of the study was supported by the fact that The Centre for Competitiveness of the Czech Economy and Masaryk University are engaged in the study. Podsakoff *et al.* further state that method bias can be reduced also by assuring respondents that there are no right or wrong answers, which was also stated in the questionnaire, and emphasized in the question asking about the company strategy. The questionnaire was pre-tested for appropriateness of the questions and their comprehension in order to ensure that ambiguous, vague and unfamiliar terms are not included, and that the questionnaire as a whole and the individual items are formulated as concisely as possible. Pre-test included 20 companies from various sectors with 25% from the manufacturing sector. I also tried to diminish method biases by using different scale endpoints and formats for the predictor and criterion measures. Another ex ante remedy against method bias is to choose the right informants. Strategic decisions are top-level decisions and only those directly involved can provide valid answers. In this study the CEOs of the participating organizations were the respondents and hence the CMV problem is moderated. For reducing the impact of consistency motif, I designed the questionnaire in such a way that the dependent variables follow the independent variables.

Because a single respondent provided the data for this study, I utilized previously validated measures where possible and checked for common method variance post hoc using Harman's single factor test. No dominant factor that could account for the majority of the variance was indicated for both DCs and MNEs.

3. Results

Firstly, the strategic choice was examined to get the overview of the strategy distribution in the sample. The descriptive statistic is in the enclosure.

To explore the strategy-environment relationship, six logistic regression models were created, three for MNEs with prospector, analyser and defender as a dependent variable and similar for DCs. Throughout the analysis, two of them (MNEs with dependent variable prospector and DCs with dependent variable analyzer) proved to be significant and were explored in details and expanded by decomposing the variable environment. As a result, four logistic regression

Table 1. Results of the strategy-environment analysis.

	MNE		DC	
Dependent variable	**Prospector MNE 1**	**Prospector MNE 1A**	**Analyzer DC 1**	**Analyzer DC 1A**
Constant	–5.54***	–5.83***	–4.84**	–5.08**
Environment	0.75**		0.77**	
Dynamism		0.82***		0.60*
Hostility		–0.02		0.06^{+}
Overall model evaluation	χ^2 (p)	χ^2 (p)	χ^2 (p)	χ^2 (p)
Omnibus test	13.448 (0.000)	17.724 (0.000)	9.268 (0.002)	9.520 (0.009)
Goodness-of-fit test				
Hosmer-Lemeshow test	8.26 (0.41)	5.86 (0.66)	5.80 (0.56)	11.55 (0.17)

*$^{+}p<0.10$, *$p<0.05$, **$p<0.01$, ***$p<0.001$.*
Source: Author based on survey results.

models were used for the interpretation. The summary of results of these models is in (Table 1).

For MNEs, prospector strategy proved to be related to the environment. This means that when the environment is complex, MNEs tend to use prospector strategy to deal with such environment in the Czech Republic. For DCs, it is analyzer strategy that is used by these companies in complex environment. Therefore, strategies of DCs and MNEs differ in a complex environment, which supports Hypothesis 1.

The higher the complexity of the environment, the more likely it is that a MNE chooses the prospector strategy. This is an interesting result. In large markets such as China and US, which are often of a high priority for MNEs and constitute a large share of their foreign and total sales, it might be expected that MNEs will focus on innovation and expansion to new product markets. In such markets the competition is high and to be competitive in such markets, it is necessary to respond to this challenge and to search for new and innovative products. This is often related to very high costs and risks. However, this often does not discourage companies from such an investments. Although they might not be successful with all the products and at all markets they enter, success launch of one new or innovated product in these large markets often brings about very high sales. Also, the knowledge of the brand will increase and one successful launch can often cover the costs of less succesful market entry or product launch. The results show that also in smaller economies like the Czech Republic, when the environment is complex – which means that it changes a lot and the competence is strong – MNEs pursue the prospector strategy. They focus on innovation – and this focus is mostly welcomed by both national and regional governments. Innovation and innovative technologies are largely supported and will be at the centre of attention in upcoming years.

Further analysis revealed that it is the dynamism, not the hostility, which is significantly related to the prospector strategy. In general, this offers at least two possible interpretations. As hostility is a subjective measure, it might be influenced by the subjective perception of MNE managers. Since they often have experience with different countries and markets, their perception of what is high and low level of hostility may differ from perceptions of managers in DCs. The results might also imply that it is the increasing dynamism of the environment, not the hostility, which is for MNEs related to the prospector strategy. Quick changes at the market and a higher level of uncertainty stimulate MNEs to use the new market opportunities. Hostility of the environment might be related to other strategy for MNEs and might be revealed in the future research.

For DCs, analysis results in the finding that it is the analyzer strategy which is related to higher complexity of the environment. This means that DCs in a complex environment use also innovative strategies, but only in properly selected cases. In contrast to MNEs, for DCs it is both dynamism and hostility which are related to pursuing an analyzer strategy. DCs with an increasing complexity of the environment tend to scan the environment carefully for opportunities. They do have a stable product portfolio, but thanks to the proper information about the changes on the market that they are able to gain, they are able to react quickly to particular challenges on the market. Compared to the MNEs, DCs are not so innovative and proactive and their strategies are usually less risky. They are usually market followers, but thanks to careful market analysis they identify the key challenges – and these usually encourage them to invest in product innovation and they are able to adapt very quickly to the new market situation.

To test the Hypotheses 2 and 3, *i.e.* to explore the relationship between a firm's strategic behaviour and its performance, regression analyses were carried out. The two performance variables subjective ROA and ROA served as dependent variables, the different strategies and control factors served as independent variables. First, the control variables were entered, followed by the strategy variables in the second step for each performance variable.

First, I focused on the DCs. (Table 2) provides the results.

To discuss the results, I focus on the full models. The regression analysis showed that the coefficient of analyzer strategy was positive and significant for both subjective and objective performance variables, and thus provided support for Hypothesis 2. These findings imply that in an emerging economy, an analyzer strategy for DCs fits with dynamic and hostile environment, if the aim of these companies is to increase performance in terms of ROA and subjective measures. In addition, a prospector strategy is related to higher ROA. The results show a strong tendency towards innovative aspects of DC strategies when the goal of the companies is increasing ROA.

This finding therefore contributes to the fact that DCs tend to use more innovative strategies, rather than only defending its current portfolio, which would be implied by defender strategy. Analyzer strategy is sometimes referred to as a mixture between prospector and defender strategy. The results show a strong tendency towards innovative aspects of DC strategies when the goal of the companies is increasing ROA.

On the other hand, ROA is an objective measure, and when it's measured subjectively, prospector strategy has not turned up to be related to higher subjective ROA. This contributes to the finding that analyzer strategy is the one most related to the higher performance.

Secondly, I focused on MNEs. (Table 3) provides the results.

Table 2. Regression analysis DCs: strategy and performance.

Dependent variable	**Subjective ROA**	**Subjective ROA**	**ROA**	**ROA**
Control variables				
Firm size	0.24**	0.21**	0.07	0.02
Legal form	–0.18^{+}	–0.20**	–0.31**	–0.33**
Strategy variables				
Prospector		0.14		0.19^{+}
Analyzer		0.21**		0.28**

*$^{+}p<0.1$, *$p<0.05$, **$p<0.01$, ***$p<0.001$.*

Source: Author based on survey results.

Table 3. Regression analysis MNEs: strategy and performance.

Dependent variable	**Subjective ROA[1] model MNE 2**	**Subjective ROA model MNE 3**	**ROA[2] model MNE 4**	**ROA model MNE 5**
Control variables				
Firm size	0.14^{+}	0.11	0.10	0.07
Legal form	0.12	0.13	–0.01	0.01
Strategy variables				
Prospector		0.20*		0.16^{+}
Analyzer		0.05		–0.10

[1]F statistics of the model was not significant, [2]F statistics of the model was not significant,

*$^{+}p<0.1$, *$p<0.05$, **$p<0.01$, ***$p<0.001$.*

Source: Author based on survey results.

The regression analysis showed that the coefficient of the prospector strategy was positive and significant for both subjective and objective performance variables, providing support for Hypothesis 3. The results imply that in emerging economy of the Czech Republic, a prospector strategy for MNEs fits with the dynamic environment, when the aim of the company is higher performance.

4. Discussion

MNE subsidiaries and their strategies are in the spotlight for researchers and managers the world over. The Czech Republic is still considered an emerging economy and MNEs are important players in most of its markets. Hence, knowledge of their strategies is essential and valuable not only for companies already present on the Czech market, but also for those who intend to enter the Czech market, whether as a Czech company or a foreign MNE.

The results show that to align with the complex environment of an emerging economy, MNE subunits appear to follow a prospector strategy, while DCs use an analyzer strategy. This may be driven by, on the one hand, attempts on the part of domestic companies to differentiate from their competitors, because they often cannot lower costs to reach the price levels of large multinationals. On the other hand, their strategies may be driven by their actual knowledge of local markets. Domestic companies may also lack sufficient financial resources to be able to accept the risks incorporated in the prospector strategy.

These results in general are in line with Miles *et al.* (1978), who stated that managers in more uncertain environments usually tend to be more proactive and innovative, presuming a higher degree of risk. Also Duncan (1972) stated that a differentiation strategy is more effective in environments with rapid changes of products, services and practices. Both DCs and MNEs in more dynamic environments, use strategies with elements of innovation and proactiveness. However, there is a difference in the extent to which the two types of companies use these elements in their strategy to cope with a dynamic environment. Burns and Stalker (1961) have argued that environmental uncertainty should be associated with prospecting, but also associated to a lesser extent with differentiated defending. This study therefore extends this issue by exploring these two strategic possibilities and assigning them to two groups of companies – domestic and multinational. I assume that it might be exactly the differentiating characteristics of these two types of companies – the level of environmental familiarity and resources – that lead to pursuing a particular strategy.

The evidence from the Czech Republic implies that it is not necessary for MNEs to mimic the strategies of local firms, which suggests the institutional theory (DiMaggio, Powell, 1983). In contrast, choosing a strategy that is based on company core competences, resources and capabilities can help MNEs better to overcome the liability of foreign-ness and compete successfully than imitation of the strategies of local businesses. In this way, these results partly support the findings of Luo and Tan, who focused on state-owned companies and MNEs. In their later article, they focus on international joint ventures in China and they conclude that an Analyzer strategy is the dominant strategic response to increased environmental complexity, dynamism, and hostility. Therefore this article adds a piece to the jigsaw by examining the strategies of privately-owned domestic companies.

The findings also imply that in an emerging economy, an analyzer strategy for DCs and a prospector strategy for MNEs fit with dynamic and hostile environment, if the aim of these companies is to increase performance. In addition, a prospector strategy is related to higher performance for DCs.

In terms of strategy-performance relationship, the results of this study partly support the findings of Nandakumar *et al.* (2010), who have shown that a cost-leadership strategy in environments with lower hostility, and a differentiation strategy in more hostile environments, both lead to better performance than competitors. Domestic companies who perceive higher levels of hostility in the environment tend to use an analyzer strategy, which has positive impact on performance. However, for multinationals, the higher levels of environmental hostility are not related to any strategic preference. Managers in multinational companies might not perceive the level of hostility as being so high, since they may be used to a certain level of hostility due to their international experience, or they might expect a certain level of hostility just because they are entering a foreign market. This is supported by the fact that the average level of perceived hostility is lower in multinational companies than in domestic companies.

However, the results contradict some other findings of the previously-mentioned study (Nandakumar *et al.*, 2010), which suggest that a cost-leadership strategy is more advantageous for improving financial performance in highly dynamic environments, but in low-dynamic environments a differentiation strategy is more helpful in improving financial performance. Although the study is based on a slightly different strategy typology, the results are still different. In this study, it was concluded that firms – both multinational and domestic – in dynamic environments tend to use more proactive strategies and these are related to higher performance. For both types of firm, the defending, low-cost strategy is widely used, but not by the companies with higher levels of dynamism in the environment. Moreover, defender strategy does not help a company to improve financial performance.

5. Conclusion

In overall conclusion, the distinction between multinational and domestic companies when examining strategies proved to be of great importance. The adoption of a heterogeneous strategy-environment configuration by these two types of companies leads to better performance in both of them.

The results show that to align with the complex environment of an emerging economy, MNE subunits appear to follow a prospector strategy. This means that, although the market of the Czech Republic is not as dynamic and complex as emerging large economies of China or the US, multinationals still regard it as an opportunity to challenge the market with new and innovative products and services and do engage in actions that presume higher degrees of risk.

DCs use an analyzer strategy to cope with a dynamic and hostile environment. This may be driven by, on the one hand, attempts on the part of domestic companies to differentiate from their competitors, because they often cannot lower costs to reach the price levels of large multinationals. On the other hand, their strategies may be driven by their actual knowledge of local markets. Domestic companies may also lack sufficient financial resources to be able to accept the risks incorporated in the prospector strategy.

This study has important theoretical and managerial implications for international executives, particularly those interested in investing or marketing in emerging economies. First of all, it is necessary for these managers to establish a good fit between strategy and particular conditions in the selected market – the business environment. In order to prosper at the market of the Czech Republic, multinational companies need to be innovative, proactive and aggressive. In dynamic environment which is a reality of most of the markets all over the world multinational companies need to adjust themselves to the changes, bearing a higher degree of risk. This definitely pays off in the Czech Republic – prospector strategic orientation leads to higher performance of these companies. Specifically, multinational companies in order to reach higher performance should focus on innovative technologies, which would enable them to offer new products or enter new markets. They should invest in new product or service development and try to become market leader at least in some markets. Because of their experience and support of headquarters, this strategy should lead to better performance. Moreover, they can make use of the support of both national and regional governments, which will most probably focus on innovative technologies in the upcoming years. Another option is to make use of technology transfer, which has not been much developed in the Czech Republic yet, and therefore offers wide range of possibilities.

To the contrary, for domestic companies the analyzer strategy makes contributions to their profitability. In order to prosper in the Czech Republic, it is therefore essential for domestic companies to differentiate the product, either through a better targeting strategy, increased customer benefits, or lower costs, based on proper analysis of the market. The large part of Czech markets has been taken away from Czech companies by multinationals, and those domestic companies, which have survived, need to scan the market and offer unique products to maintain the market share and financial performance. It is exactly the proper knowledge of the environment, which might constitute a competitive advantage for domestic companies, so that they are able to identify the challenges at the market which should be profitable. Therefore domestic companies should focus on scanning the environment and proper analysis.

Of course, the strategy of domestic companies can be to a large extent accompanied by export strategies, since the market in the Czech Republic has become smaller for domestic companies with the presence of multinational companies. However, domestic companies can still survive at their home market, and with carefully chosen strategies they can defend it. These should be not only aligned with the environment properly, but they also should take into consideration the strategies used by foreign competitors. And from what this study showed, the right strategy for domestic companies to defend their home market is not the defender strategy, implying focus on lower costs of processes, production and costs, but the analyzer strategy which enables those companies to take advantage of the market knowledge.

To conclude, this study offers a different insight into the strategic behaviour of companies and extends the existing knowledge by adding the ownership variable into the strategy-environment relationship. Output of this study can serve as the basis for decision-making in companies already active in the Czech marketplace and, particularly, as important entry information for companies considering entering the market.

Nonetheless, there are some important methodological and conceptual limitations of this analysis which raise a number of issues for further research. Analysis in this article has been conducted in a particular time period on specific groups of multinational and domestic companies in the Czech Republic within a specific sector of economy, thus leaving open the possibility that presented results are an artefact of where and when it is chosen to conduct the survey. Future research needs to build on this work and possibly extend it to other countries, or by examining even more types of companies.

Secondly, the choice of the industry tends to limit the generalizability of the findings. There might be factors unique to the particular industry that differ in other industries. However, the advantages of the single industry research should be emphasized, since they offer enhanced internal validity (Wright *et al.*, 2005).

Thirdly, the performance of subsidiaries of MNEs is a challenging issue. Since there are numerous financial flows within the multinational enterprises, it is open to dispute to what extent are the performance measures accurate and correspond to the real performance of the subsidiary. The subsidiary performance offers a challenging way of the future research.

Last but not least, there might be important differences related to strategy, environment and performance of the MNEs from different countries. The more thorough scrutinizing of strategy-environment aspects and performance of MNEs from different countries might be a promising way of research revealing more cultural facets of the management.

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Enclosure

Descriptive statistics of the variable strategy for DC.

DC	Frequency	Percent	Valid Percent	Cumulative Percent
prospector	19	16.1	16.1	16.1
defender	45	38.1	38.1	54.2
analyzer	46	39.0	39.0	93.2
reactor	8	6.8	6.8	100.0
total	118	100.0	100.0	

Descriptive statistics of the variable strategy for MNE.

MME	Frequency	Percent	Valid Percent	Cumulative Percent
prospector	31	20.0	20.0	20.0
defender	64	41.3	41.3	61.3
analyzer	49	31.6	31.6	92.9
reactor	11	7.1	7.1	100.0
total	155	100.0	100.0	