

The empirical analysis of the effect of competitive strategy on business performance——Taking real estate industry as an example

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Abstract. Three factors were built by using confirmatory factor analysis to reflect the influence of competitive strategy on business performance based on the financial data from 10 Chinese listed real estate companies. The influence of strategy location on the short-term and long-term business performance was also analyzed. The results showed that low-cost and differentiation strategy both promoted business performance, and the impacts from differentiation strategy were more obvious. The differentiation strategy was better than low-cost strategy in creating competitive advantages.

1. Introduction

Chinese real estate industry has been developing for more than twenty years. It has entered the stage of adjustment as the economic environment changing. So real estate industry should consider the further development in order to get promotion in changing economic environment. This study wrote from the perspective of competitive strategy, and analyzed how the competitive strategy would affect business performance of real estate companies based on the financial data from 10 Chinese listed real estate companies.

2. Reference reviewing and relevant conceptions

2.1 The method of competitive strategy and classification paradigms

Strategy has existed for long times. The strategic management has formed a complete method since it was introduced into enterprises management by managerialists in the late 1970s and 80s, including industry structure school represented by Michael Porter, core capability school represented by Hamel and Prahalad and strategy resource school represented by Birger Wernerfelt. Different classification paradigms were also put forward. Competitive Strategy published by Porter said the enterprises competitive strategy could be divided into low-cost, differentiation and concentration strategy. Myers and Snow divided competitive strategy into exploration, defense and plan strategy. They subdivided the differentiation strategy proposed by Porter into five strategies and took the low-cost strategies as a special differentiation strategy in prices. Although there were many classification paradigms about competitive strategy at home and abroad, Michael Porter's has the broadest application and it was used in this article. The concentration strategy could be thought as an application of low-cost and differentiation strategy into a specific market, so three competitive strategies of Porter could be summarized as low-cost and differentiation strategy.

2.2 Business performance

Business performance meant the marketing efficiency and performance level of enterprises. It was the reasonable assessment for the enterprises by measuring profitability, assets managements and solvency reliably under the synchronization of operation and development strategy. As the market mechanism was operating more completely, real estate companies could not obtain the sustainable competitive advantages only by internal resources. The roles of resource as a surviving base was getting weaker. This situation created new problems about integrating, distributing and using resources for the enterprises. How the real estate companies would adjust their strategy location in

order to make the strategy promote the studying process and business performance has been a major problem for the companies under the changeable circumstance. So how the enterprises would choose and adjust the strategy direction, and make it perform better by improving internal dynamic capabilities are problems which were worthy studying.

3. Research assumption

This article showed that the cost-leading, differentiation and concentration strategy promoted business performance obviously according to the method of competitive strategy, especially the contents from *Competitive Strategy* written by Michael Porter. The study discussed with professional people in different industries and economic society and referred to relevant references, about how the competitive strategy, as a type of enterprise strategies, affected business performance in a positive or negative, long-term and short-term way. For example, the ‘Advertisement War’, ‘Price War’, sales promotion, employees services and after-service quality appeared in the giant real estate companies in this industry also illustrated that opinion. This article put forward following assumptions:

Assumptions 1: The low-cost strategy would improve the business performance for real estate companies.

Assumptions 2: The differentiation strategy by assuming product features would have positive influence on business performance for real estate companies.

4. The source of data and test model

The samples in this article were from 10 A-share listed real estate companies during 2014-2016 to keep stable and good reference. The choosing scope which took real estate industry share as sample box was following: removed T-Type, including PT, ST, SST and S*ST, listed real estate companies which is listing less than three years; removed unnecessary and obvious abnormal data and chose relevant data (Low-cost and differentiation factors needed in low-cost and differentiation strategy were mainly chose in this empirical analysis); deleted samples from lacking data from single variable. The empirical analysis was based on the financial data from 10 representative listed real estate companies during 2014-2016. The primary data was from CFI.CN and Tonghuashun Financial. The secondary data was summarized by author by searching references.

5. Empirical analysis

Return On Equity (ROE equals net profit after tax/ owners equity) could be used to measure the usage efficiency of shareholders' fund and illustrate the usage efficiency of asset to attract external funds. It could strongly demonstrate the operation levels and internal connection between operation and assets, and provide evidence for enterprise general management. ROE made up the insufficiency of net profit after tax index. It was suitable that original shareholders accepted bonus share in order to dispel illusions of profit decreasing for investors and analyze profitability of enterprise using ROE.

Choosing control variable: The influences of business performance were varied in real estate industry. Other variables were needed to analyze the connections among variables except the individual variables. Only by that the internal causality among different variables in demonstration could be clarified.

The detailed variables and their index definitions based on the data from listed real estate companies which studied from the perspective of goodness-of-fit were showed in Table1.

Three common factors were extracted to explain the competitive strategy system and analyze the influence of strategy system on business performance. The multiple regression empirical model built in this article was as following:

$$y = \alpha + \beta_1 \times X_{i1} + \beta_2 \times X_{i2} + \beta_3 \times X_{i3} + \varepsilon_i \quad (1)$$

Where, y meant business performance, α was constant term, β was slope factor of independent variable, X_1 meant low-cost factor(TAT、SE、FAT), X_2 meant differentiation factor(PER、OPA),

X_3 meant company size, i meant the sequence number of listed real estate companies, ε meant random disturbance term.

Table 1. Definition of Specific Variables

Variables Factor	Name of Variables	Abbreviation	Meaning of Indexes
			Codes
X_1	Total Assets Turnover	TAT	operating income ^① /final profits of total assets
	Staff Efficiency	SE	①/staff salary
	Fixed Assets Transfer	FAT	①/average net value of fixed assets ^②
X_2	Period Expense Rate	PER	period expense/①
	Operating Profit Ratio	OPA	(①-operating cost)/ ①
Business Performance Factor	Return On Equity	ROE	net income/balance on equity
Control Variable	Company Size	Size	Ln (natural logarithm of total assets)

Confirmatory Factor Analysis was used in above data from 10 listed real estate companies in this article to examine whether the low-cost and differentiation factors were reasonable or not. The results were showed in Table 2.

Table 2. Confirmatory Factor Analysis of Competitive Strategic System

Variables Codes	Factor Loading	Index of Goodness-of-fit	Composite Reliability (CR)	Average Extraction Variance (AVE)
TAT	.84	$X^2=.53$, $df=2$.79	.52
FAT	.76	GFI=.97		
SE	.63	RMR=.04, RMSEA=.04		
OPA	.56	NFI=.88	.86	.71
PER	.69	IFI=.81		

a. dependent variable: Return On Equity%

b. Source of data: Tonghuashun Financial, Database of GuoTai'an

The Index of goodness-of-fit and factor loading were major issues when analyzing the results of confirmatory factor analysis as showed in Table 2. The results showed that the calculating result of X^2 , as the index of goodness-of-fit for common report, was 2.53. This result and df (df equals 2) were both less than 3. The number of samples in this research was 10, so the results were reasonable. X^2/df (equals 1.265) could be simply calculated in this article. The results were close to 1 which was considered as the theoretical expectation. The model fitted in this article was good because of the less samples. GFI, as a part of fitting index, was 0.97, and it was between 0 and 1. This result was reasonable. GFI was greater than 0.90, and this result was fitting better in the acceptable range. RMR (root mean square residual) was 0.04 and it was less than 0.1. This result was fitting better. RMSER (root mean square error of approximation), which was used to assess the misfitting index of the model, was 0.04 and it was less than 0.05. This result was fitting better. NFI (equals 0.88) and IFI (equals 0.81) were close to 0.9, so they were also in the acceptable range. The convergent validity for measurement model was assessed according to the Furnel-LaCKER Standard. The loads of normalization factors were greater than 0.5 between 0.4% and 0.86%. CR (0.79, 0.86) was greater than 0.8 and standard reference value (0.6), and it showed the consistency of internal factors in the model could meet the requirements. AVE was also greater than standard index value. The above

factors both had better composite reliability and validity. The convergent validity in this model prefer to be ideal.

The calculating results of model based on the analyzing benchmark, which took two related factors of competitive strategy as independent variable and return on equity as dependent variable under the condition of control variables, were showed in Table 3.

Table 3. Coefficient of Variation and Significant Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Standard Errors	Trial Version		
Constants	-.217	.41		-.312	0
Differentiation Cost Factor	.356	0	-.007	.641	.012
Low-cost Factor	.278	.135	.252	1.246	0
LN Natural Logarithm of					
Total Assets	.008	.023	.127	.609	.003

The results in Table 3 showed the coefficients of low-cost factor was 0.278 (greater than 0) and it was significant statistically. It illustrated that the low-cost competitive strategy was related to business performance. The value which was greater than 0 showed the relation was positive, which demonstrated assumption 1 was true. Differentiation cost factor was 0.356 (greater than 0) and it was also significant statistically, and illustrated that assumption 2 was true. The differentiation from product features was positively related to business performance. These variables had no multicollinearity because the VIF in the model was between 0 and 10 and the values were less than 10.

The regression models of the influence on business performance from competitive strategy in listed real estate companies could be summarized as following by above analysis:

$$y = -0.217 + 0.278X_{i1} + 0.356X_{i2} + 0.008X_{i3} \quad (2)$$

Table 4. Regression Coefficient

		B	t	Sig.
2014	Low-cost Factor	.0042	-.4233	.000
	Differentiation Cost Factor	.0147	.5781	.002
	LN Total Assets	-.0183	-1.3717	.004
2015	Low-cost Factor	.1122	.1568	.001
	Differentiation Cost Factor	.4646	.1872	.003
	LN Total Assets	.009	.6135	.005
2016	Low-cost Factor	.1341	.0814	.000
	Differentiation Cost Factor	.5977	.1982	.001
	LN Total Assets	.0105	.8931	.000

The results after analyzing major financial data during 2014 to 2016 from 10 listed real estate companies by Data-Analyzing Software-SPSS were showed in Table 4.

It showed that all regression coefficients of strategic factors were greater than 0, and they had significantly levels statistically in this testing analysis. There was no invalid data so no need to test again. The equation was still as following:

$$y = -0.217 + 0.278X_{i1} + 0.356X_{i2} + 0.008X_{i3} \quad (3)$$

It illustrated that both differentiation and low-cost competitive strategy had long term advantages.

6. Conclusion and Enlightenment.

The influence of differentiation factor on business performance was more obvious than low-cost factor from the analysis. Differentiation could also be considered as specialization when putting into reality and was harder than other competitive strategies. Differentiation strategy not only needed the imaginary and execution from enterprises by themselves, but also recognition from public and various tastes. Some objective factors in real estate industry such as region and environment also effected the profits from using differentiation strategy for companies. As for low-cost strategy, the price advantage was simple and obvious. Two major strategies were put forward from Vanke Group and Poly Real Estate Group. The conclusion was summarized by financial data from 10 listed real estate companies in recent three years. The data has certain references. There were also some inevitable errors due to more old and emerging companies in real estate industry and shorter time span.

The main conclusions were as following: firstly, low-cost strategy improved the business performance for real estate companies; secondly, the differentiation strategy from product features was positively related to business performance.

How to choose developing strategy to improve business performance was a common problem for real estate enterprises. The projects about real estate always needed large funds, long period and close relation with people. The enterprises could make long-term and stable progress only by synchronization of strategy and development, targets of business performance and reasonable circumvention of risks. Proposing and implementing specifically competitive strategy was the main direction for real estate enterprises to operate continuously and enhance power in the future. The decision and plan about taking low-cost strategy, or differentiation strategy or integrated both of them needed to make by companies according to the situation of enterprises themselves

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