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IDENTIFICATION OF FINANCIAL STRATEGY IN SMALL AND MEDIUM-SIZED ENTREPRENEURSHIP

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Abstract

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This paper deals with the importance of financial strategy development of small and medium-sized enterprises (SMEs) in the winery industry. The main objective of the paper is to identify the current financial strategy of small and medium-sized enterprises and afterwards to propose changes that lead to new financial strategy. The research methods are the selected methods of financial analysis, collecting data about the research sample of SMEs, modelling the financial strategy with the help of Vensim program and further simulation of this model in business practice. The model derives from the previous research activities. The purpose of this paper is also to verify the usage of theoretically created model in small and medium-sized entrepreneurship and find the optimal financial strategy in the area examined. The results of this paper show the selected area of small and medium-sized entrepreneurship uses mainly the financial strategy of maximum liquidity (conservative strategy) in all observed years (2010–2014). This means the selected research sample of SMEs do not use progressive investment strategy with a further development. This result could highlight that SMEs in agricultural sector do not meet the financial strategy with corporate strategy focused on other business development. It is recommended to change this strategy into balancedfinancial strategy focused on higher profitability that could be used for the other expansion and development of the company.

Keywords: financial analysis, financial strategy, financial strategy model, modelling, simulation, small and medium-sized enterprises, agricultural enterprises, Vensim program

INTRODUCTION

The area of small and medium-sized entrepreneurship (hereinafter SME) is emerging and gaining popularity with its increasing importance in the whole business field and economy (Cravo *et al.*, 2015). The SME is a term which currently raises interest of academic as well as professional public and it happens worldwide and also in the Czech Republic. This paper focuses on the analysis and evaluation of the current financial condition and financial strategy of the selected agricultural companies. "The agricultural sector is included among the very sensitive areas of the economy, as it has its specifics that must be respected, such as the seasonal character of production, a high level of dependence on natural conditions, as well as the production structure" (Aulová, Hlavsa, 2013, p. 24).

The main reason for focusing on agricultural companies is the fact that not many researches were provided in this area and the financing of these selected companies is specified due to subsidies, donations and other financial interventions, which regulates agricultural market. The results of the research (Špička, Boudný, Janotová, 2009) indicate that the current subsidies have an impact on the stability of the farmers' income and furthermore, the current subsidies reduce the variability of the farmers' income.

Theoretical Framework

The theoretical framework consists of financial strategy elements and possible models in financial

management or financial strategy. The second part is dedicated to the current trends of small and medium-sized entrepreneurship and its possibilities of strategic financing and the last part summarizes the current literature review of financing and economics of agricultural companies as the main research sample consists of SME in agricultural sector.However, it is surprising that only little space in monographies and articles is dedicated to the financial strategy as a whole. Therefore, the literature review has to be consisted of only well-known information about the issue examined.

"Finance, traditionally, has been at the periphery of the strategic planning and innovative processes, gatekeepers of financial data as opposed to integral members of the process. With changes occurring in the finance and accounting professions, this categorization is shifting, and with the integration of strategy and a more comprehensive view of financial performance, there is an emerging trend toward a more integrated corporate finance function" (Smith, 2014, p. 20). The role of finance in operating decisions is primarily one of valuation and monitoring. Finance helps managers evaluate the operational alternatives available to them, and helps them monitor the decisions that are implemented (Narayanan and Nanda, 2004, p. 6). The increasing importance of strategic management of all business activities, new challenges for manager is coming. The financial strategy needs to be understood in comprehensive insight and as a key element of successful financial strategy.

Financial management can be defined as a subjective economic activity engaged in obtaining a needed quantity of funds from various sources of funding, allocation of funds to various forms of non-monetary assets and the distribution of profit in order to maximize the market value of the company (Valach *et al.*, 1999, p. 14). Strategic financialmanagement consists of "financial strategies which aregoals, patterns or alternatives designed to improve andoptimize financial management in order to achievecorporate results" where financial strategy "represents apath to achieve and maintain business competitiveness andposition a company as a world-class organization"(Salazar,et. al, 2012).The main financial objectives are usually based on maximizing of market value, optimizing of the capital risk, maintaining the financial stability including the liquidity, profitability or cash flow (Kalouda, 2009; Valach, 2006). According to Kalouda (2009, p. 12), financial management can be seen as a subset of corporate finance, which is used as a critical tool of corporate finance.

According to Nývltová and Marinič (2010, p. 13), financial management involves the following principles: principle of respecting the time factor, principle of cash flows, principle of net present value, principle of consideration of risk or principle of optimizing the capital structure. Růčková and Roubíčková (2012, p. 141) report that one of the fundamental problems of financial management is to set the total optimal amount of capital as well as choosing the right mix of financing its activities, i.e. capital structure. Modern financial management is based on the assumption to meet the main objectives of the company. The basic pillars of financial management are following (Synek *et al.*, 1999): active use of financial resources and opportunities, defining financial strategies, high autonomy of decision-making at lower levels, application of financial management at all level of corporate management, creating plans and budgets in a close cooperation of all departments, conducting high quality analyses and implementation of the necessary measures.

The main stages of financial management are following (Calandro and Flynn, 2007): 1) strategy formulation, or the determination of how to satisfy customer preferences in unique ways, 2) resource allocation, or the process of funding and staffing strategic initiatives that are tied to delivering customer satisfaction, 3) performance measurement, or an assessment of the relative success or failure of business activities. The practical applications of financial management can be distinguished into three main groups of decision-makings (Ogilvie, 2009, p. 14): investment decisions, financing decisions and dividend decisions – which reflect the responsibilities of acquiring financial resources and managing those resources.

The financial strategy is defined as a relatively coherent and interconnected set of strategic financial objectives, criteria and rules that underlie such planning (Landa, Polák, 2008). According to Bender and Ward (2012), financial strategy has two components: (1) the raising of funds needed by an organization in the most appropriate manner and (2) managing the employment of those funds within the organization, including the decision to reinvest or distribute any subsequent generated. The main purpose of setting up the financial strategy is to find the balance among controlling mechanisms, high company performance and minimizing the cost of financial operation to reach the effective management of all three mentioned financial areas (Irwin, 2005). Financial strategy is understood as a form of functional strategy that meets to main corporate and business strategy of the company and is derived from the long-term period and closely relates to the investment activities. The main stages of financial management are following (Calandro, Flynn, 2007): 1) strategy formulation, or the determination of how to satisfy customer preferences in unique ways, 2) resource allocation, or the process of funding and staffing strategic initiatives that are tied to delivering customer satisfaction, 3) performance measurement, or an assessment of the relative success or failure of business activities.

The area of finance is declared by 93 % of Czech companies as the crucial for the evaluation of corporate performance (Stříteská, Svoboda, 2012). The main objective of financial planning

is to ensure the need amount of capital that uses the prerequisite minimizing the cost of capital and optimal capital structure. Decision-making on capital structure means to decide whether to use internal or external sources (Fabozzi, Neave and Zhou, 2011, p. 540). The optimal capital structure is a mix of long-term funds, which minimize the overall cost of capital (Jindřichovská, 2001, p. 183). For such reason, the structure of a business must be designed with the objective of its optimization, i.e. with the securing of sufficient capital with minimum costs expended for it (Nývltová, Marinič, 2010). According to Chmelíková (2014), the using of other then own capital brings following shortcomings: the cost of financial distress or costs incurred in relationships between managers, owners and creditors (the agency cost). The long-term financial decision-making is based on the investments and business development, the short-term financial decision-making is based on managing the components of working capital. Financial strategy is then necessary to edit, update and manage on the basis of changes in the external financial environment and significantly affect the financial stability of the company and contribute to the growth and efficiency of the enterprise and maximization of its market value (Grasseová *et al*., 2010).in accordance with the trade-offtheory there is a positive correlation betweena company size and the probability of itsbankruptcy, so there is a positive correlationbetween the company size and indebtedness (Strýčková, 2015).

Tools of financial strategy are following: financial analysis, planning, optimizing the financial structure, financial criteria to evaluate the effectiveness of managerial decision-making, cash-flow management, management of receivables and liabilities, budgeting, controlling. Financial strategy, is a separate branch and one type of functional strategy, is considered to be an integral part of corporate and business strategy. he general financial components of the financial strategy are the main types of financial policies: *investment policy focusing on the promotion of economic efficiency of investment projects, policy of financing (external and internal) business activities, policy of managing the assets and liabilities (credit policy), policy of inventory management, policy of cash flow and liquidity management, policy of operating result management, policy of cost control and profit*. Three steps to set up a successful financial strategy are following (Mallete, 2006): Step 1 – Establish appropriate financial capital structure, following which a determination would be made of the magnitude of its cash surplus; Step 2 – Understand whether a company is undervalued or overvalued in the market, by examining investors' expectations from growth, margins, investments and other financial measures.; Step 3 – Develop a financial strategy, to be proposed to the Board for approval, ensuring the company's operations are sufficiently funded, that financial balance is achieved, and that its growing cash reserve is deployed appropriately.

According net working capital, three basic financing strategies are then distinguished to (Režňáková, 2012, p. 107–108): *Aggressive financial strategy* – In case of aggressive financial strategy, net working capital was negative. The part of long-term assets is financed by short-term resources. These situations occur in a period of rapid business growth, extensive investment or withhold payments to suppliers; C*onservative financial strategy* – A firm that applies this financial strategy also uses the long-term sources of financing to finance seasonal fluctuations in current assets. Here, it is typical lax approach to inventory management and collection of its receivables or prompt payment of liabilities to suppliers. This may result in reducing the return on invested capital; *Balanced financial strategy* – In this case, consistency between the maturity of financial sources with a lifetime of assets in the company is ensured.

According to Živělová (2014, p. 12), the financial strategy is understood as strategic financial operations that ensure achieving strategic financial objectives of a specified period. Strategic financial operations include mainly investment decision-making and decision on long-term financing. These operations deal with the financial business activities in long-term period, they relate to capital-intensive operations, brings major changes in the financing of the company that are associated with significant risks. Along with short-term operations, they make up the content of corporate financial strategy.The long-term strategic investment financing should follow three basic objectives (Hrdý and Šimek, 2012, p. 110): *provide economically justified budgeted capital at the anticipated investment, complying with the required rate of return,to achieve the lowest possible cost,not to disrupt financial stability*.

The main impacts on the financial strategy could be observed in internal and external constraints (Ogilvie, 2009, p. 22). The main argument is the issue of optimizing capital structure, in which a certain level of indebtedness creates the effect of tax shield and leverage. Against this statement is the fact that the increasing level of indebtedness causes higher risk of financial instability. Traditional theories declare that can be planned and managed to maximize of value of the company. On the other hand, the Miller-Modigliani model has proved that the capital structure is for a company marginal, because it is determined mainly by real assets and investments decision-makings. Financial managers have to formulate a policy that balances the effect of these opposing features (external and internal constraints), (Ogilvie, 2009, p. 22–23). The external constraints are: government influence, regulatory bodies, major economic influences, accounting concepts, sources of finance and their cost when determining capital structure policy. Internal constraints on financial strategy include: limited access to source of finance, the need to maintain good investor relations and provide a satisfactory

I: *Tab. 1: Classification of SME*

Category of enterprise	Number of Employees	Annual Turnover	Balance Sheet Total
Micro enterprise	<10 employees	≤2 mil. EUR	≤2 mil. EUR
Small enterprise	<50 employees	≤10 mil. EUR	≤10 mil. EUR
Medium enterprise	<250 employees	≤50 mil. EUR	≤43 mil. EUR
Large	>250 employees	>50 mil. EUR	>43 mil. EUR

Source: Regulation of the European Commission No. 70/2001

return on investment, a shortage of key skills, limited production capacity.

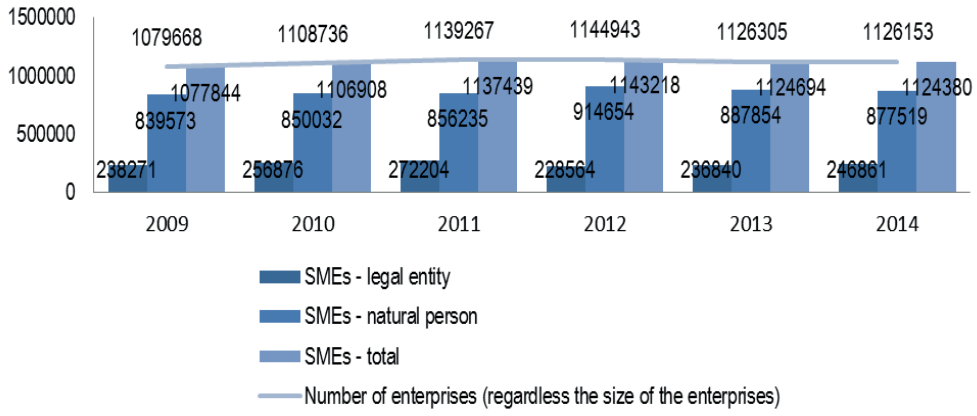
Importance of Small and Medium-sized Enterprises

To define SMEs, the various quantitative or qualitative qualification criteria are used. Quantitative criteria for determining size enterprises are mainly: the number of employees, annual turnover, balance sheet total, the volume of production, amount of capital or the amount of profit. In contrast, the qualitative criteria use the material characteristics typical for designating the size group of enterprises, i.e. the personnel structure, ownership and management of the company, capital constraints or economic strength. The most often division of SME is usually derived from Regulation of the European Commission No. 70/2001 that is following.

The United Nations Industrial Development Organization (UNIDO) classifies size enterprises based on the number of employees (Elaian, 1996), especially for developing countries (i.e. micro-enterprises with 1–4 employees, small enterprise with 5–19 employees, a large enterprise with 20–99 employees) and particularly for developed countries (i.e. small enterprise with 1–99 employees, medium-sized enterprises with 100 to 499 employees).Each enterprise must meet at least two values. Steel and Webster (1992) or Osei *et al.* (1993) agreed on a classification defining micro enterprises (with less than 6 employees), very small enterprises (with 6 – 9 employees) and small enterprises (with 10 – 29 employees). The following chart (see Fig. 1) demonstrates the development of SMEs in the CR among 2009 – 2014.

SMEs employ 80 million citizens of the European Union and make up every other newly created job. Small and medium-sized enterprises represent 99% of European enterprises, which generate about 70% of all jobs and 60% of EU GDP. SMEs represent 99.84% of the total number of enterprises in the Czech Republic (MPO ČR, 2015). SMEs secure 59.39% of employment, participate in the performance and value added of more than 53.11%, creating GDP more than 37% (Srpová, Řehoř *et al.*, 2010; MPO ČR 2015).

In comparison to large enterprises, SMEs are able to relatively better adapt to the changing needs of consumers. Their flexibility allows a rapid adaptation to change. Comacchio *et al.* 2012) suggest that the endowment of human capital at individual level and social capital at individual and organizational levels are the main determinants for SMEs in the task coordination activities implied by a boundary spanning role. SMEs can find very valuable development from external sources through partially revealing their internal development to external environment (Henkel 2006). SMEs usually have a simple organizational structure with a very small number of management levels, which enables shorter and quicker flow of information (Zuzek, 2015). SMEs benefit from close relationship with their customers as well as their employees – they are not solving the problems with communication barriers such as the large enterprises. Compared to large enterprises SMEs have less economic power. SMEs have usually



1: *Number of SMEs in the CR, 2009–2014*
Source: MPO ČR, 2015

short history and are thus too risky for banks. For this reason, SMEs have more difficult access to capital. SMEs act against the strengthening of monopolistic tendencies (Srpová, Řehoř *et al.*, 2010). The existence of SMEs stabilizes the whole society. SMEs are more sensitive to changes in their surroundings. SMEs face certain obstacles in the high growth areas of finance, taxation, regulations, corruption and anti-competitive practices (Schiffer, Weder, 2001). According to Yusof and Aspinwall (2000), a weakness of SMEs is often unintended suppression of teamwork by absence of delegation.Another problem is a limited range of experience and knowledge especially in management and marketing, obsolete technical equipment and technological backwardness. The other shortcomings could be also limited innovative capacity and low expenses on research and development and high administrative burden that restrict the development of SME. The main reasons of failure or bankruptcy in SME are defined in Tab. II.

Source: own elaboration based on (Šebestová, 2005; Barrow, 1996; Vojík, 2006; Strokes, Wilson, 2010; Analoui, Karami, 2003; Carter, Jones-Evans, 2012)

"The main causes of business failure are the lack of financial planning, limitedaccess to funding, lack of capital, unplanned growth, lowstrategic and financial projection, excessive fixed-assetinvestment and capital mismanagement" (Salazar, Soto, Mosqueda, 2012).Studies show that, despite the importance ofstrategic thinking and implementation on the conduct offinancial management in SMEs which have to operate incontexts of high risks and uncertainty with limitedresources, SME owner/managers regard production/serviceor marketing functions as

II: *Main reason of failure in SME*

Reason of failure in SME	Characterization
Undercapitalization	Underestimating the amount of capital that is needed for smooth functioning of the enterprise and also for ensuring the challenging position on the market.
Insufficient cash flow	One of the most common failures of SME is bad debts of customers.
The missing competitive advantage	It should be based on strong competitive and unique strategy and unique innovative and competitive product or service.
Uncontrolled expansion	If the enterprise is expanding to fast without a previous planning and preparedness, it could lead to problem, i.e. unsatisfied demand, lack of cash flow etc.
Insufficient experience and knowledge on the side of managers and entrepreneurs.	One of the most often factor of failure in SME complemented with lack of contacts and orientation in industry
The absence of production and business strategy	Before starting a business, it is needed to know what the target group of enterprise is.
Insufficient marketing	The created marketing strategy has to determine their potential customer and why.
Overly optimistic idea of the size of the market	Starting entrepreneur cannot do business without marketing research, he must find out who his competitors and predict the future development.
Underestimating the choice of the appropriate time to start a business	It is necessary to estimate the necessary for an establishment, its equipment and inventory purchase).
Wrong seat of business	For business it is an important place of business and the amount of rent for this place.
The selection and training of staff	Large companies can afford to make mistakes when choosing personnel; small businesses cannot afford such a luxury.
Economic aspects	Fiscal policy of the country, prices of inputs, etc.
Technological aspects	Underestimation of investment and technological demands of business.
Supply aspects	Miscalculation of strategic plans of suppliers.
External aspects	Conditions of financial institutions in the provision of banking services, increased costs of logistics services.
Internal aspects	The personal attributes, skills and competencies of the individual owner-manager are crucial to how well the business faces up to the inevitable crises.

priorities particularly in the startupphase of new ventures, which eventually results withpoor financial management, and in most cases failure of business (Jindřichovská, 2013; Karadag, 2015). It is also reported that, SME owners or entrepreneurs, until recently have a generaltendency to overlook the elements of strategic management (Zimmerer, Scarborough, 2005), whereas the lack of"strategic outlook" in the financial issues is a major threaton the longevity of SMEs as "many of the factors thatcontribute to failure can be managed properly withstrategies and financial decisions that drive growth and theorganization's objectives" (Salazar, Soto, Mosqueda,2012).

Research (Stokes, Wilson, 2010; Analoui, Karami, 2003; Deakins, Freel, 2012; Pavlák, 2013) provides evidence that the success of SME depends more upon the policies which it adopts than the buoyancy of the markets in which it operates. External influences are less important than individual factors, particularly management behaviors and competencies and the personal attributes to cope with SME environment. SMEs have to use innovations and attempt to re-engineer their operations in order to respond to the environmental changes and market requirements. According the research (Holátová, Březinová, Kantnerová, 2015), majority of examined Czech SMEs (60%) had formulated strategy. Based on tested data the most frequent followed strategy is quality and stabilization, regardless of employees number category or business activity. The Quality Council of the Czech Republic and the Association of Small and Medium-Sized Enterprises in the CR (ASMP ČR, 2011) introduced a survey (realized in 2011) among 541 Czech SMEs focusing on their opinion on competitiveness, barriers to entrepreneurship and innovation and the use of modern management methods. Almost half of SMEs see the greatest obstacle to business in a strong competition. Other significant barriers are the little state support and legislative restrictions (25%). Only 3% of entrepreneurs see the barrier in the outdated management methods. 98% of respondents considered the strategic business management for its long-term competitiveness as important. On the other hand, 77% of SMEs actively do not know any modern method of management and almost the same percentage of SMEs do not use any modern method of management.

Agricultural SMEs and its financial strategy

Literature review (2010–2016) about financial condition and performances of agricultural companies is not dedicated to this issue (Svatošová, 2015). Aulová and Hlavsa (2013) explored the positive or negative effect of selected determinants (size of the business, profitability, tangibility, non-debt tax shield, retained profits and liquidity) on the capital structure of businesses, expressed by way of three categories of indebtedness among the selected agricultural companies with the help of regression analysis. Details about financing from EU funds have been recently provided among Czech agricultural companies (Homolka, Švecová, 2012). These findings said that differentiation of business activity, in the form of processing of raw materials, decreases dependency of the economic results on donations or subsidies. The research (Malá, 2011) was focused on the efficiency of organic agricultural companies compared with conventional agricultural companies. The research has confirmed the less efficiency of organic agricultural companies that have to be subsidized. Čechura (2012) identifies the key factors determining the efficiency of input use and the total factor productivity development. Another research (Venclová, Salková, Koláčková, 2013) focused on the methods of the employee performance in the selected agricultural companies. This research has confirmed that agricultural companies apply selected methods of employee appraisal. The research (Davidova, Latruffe, 2007) provides the first analysis of the relationship between farm financial structure and technical efficiency in Central and Eastern European farming during the transition to a market economy shows that corporate livestock farms are the most homogenous in terms of technical efficiency. Another research (Špička, 2014) is dedicated to the agricultural companies indirectly with the focus on the evaluation production efficiency and its determinants of mixed crop and livestock farming among the EU regions. The Slovakian research (Adamišin, Kotulič, 2013) explores whether the change of legal status can influence the reached economic performance of the subjects. This research found out business companies show a higher economic success evaluated through the selected economic indicators than cooperatives even with subsidies. The previous researches were focused on Czech or Slovakian agricultural companies and no relevant data or researches about financial conditions of agricultural companies in last five years were founded for other European Union countries. Afterwards, the financial strategy among SMEs has been studied; however, no relevant comprehensive literature review is dealing with examined area. Therefore, this paper could offer a new scope of research activities.

MATERIAL AND METHODS

The main objective of this paper and this research is to identifythe current financial strategy of small and medium sized enterprisesafterwards to propose changes that lead to new financial strategy. For this case, the selected research sample of small and medium-sized enterprises have been selected. The basic research method to fulfil this objective is modelling the financial strategy in Vensim program and further simulation the possible changes. The financial strategy model derives from the previous research activities of the author.

The main purpose of this model is to find theoretical and practical comprehensive insight on setting up a concrete financial strategy and impact of possible financial changes on overall financial strategy. Modelling is the process, in which with the help of abstraction simplifies the process of understanding the reality investigated. Model can then examine the behaviour of the system by changing the input parameters. "A business model should describe how an organization creates and provides real economic and social value. It is a tool that enables an executive team to experiment with different ideas and scenarios and to predict outputs in a safe low-risk environment" (Marsh, 2013, p. 11). "Financial models are tools used for making investment strategies; the examples show the importance of developing the appropriate financial models for the purpose and for understanding the assumptions used in each financial model (Thomas and Sang, 2003, p. 3)." Afterwards, the method of simulation is used, which is a process of creating a real system implementation and experiment with this model in order to achieve a better understanding of the behaviour of the system and to assess various options of its activities. The other research methods are financial analysis of selected variables and studying of documents and relevant resources for building up the dynamic financial strategy model. The Vensim program can demonstrate values of dependent and independent variables, their changes in time and their impact on the desired results.

Research Sample

The research sample consists of the small and medium-sized enterprises. The research sample was selected according to the database of economic

III: *Variables in financial strategy model*

	Name of Enterprise	Seat	Est.	Scope of Activity	Number of Employees	Assets* (2014)	EAT* (2014)
1.	**AGRA HorníDunajovicea.s.**	HorníDunajovice 38	20/11/2000	01210	50–99	242050	4671
2.	**AGRA Olbramovice, a.s.**	Olbramovice 130	22/2/1994	11020	10–19	206343	11068
3.	**AGROLIP, a.s.**	Lipov 560	6/3/1996	11020	50–99	124985	7949
4.	**CHÂTEAU VALTICE – –Vinnésklepy Valtice, a.s.**	Valtice, Vinařská 407	13/5/1992	11020, 01210	100–199	474484	11667
5.	**Horákovafarma, a.s.**	Čejč 1	20/9/2000	11020	50–99	99102	7211
6.	**Kovosta – fluid, akciováspolečnost**	Brno-Židenice, Židenice, Vápenka 3059/4	14/5/1996	01210	10–19	22647	5474
7.	**NEOKLAS a.s.**	Šardice 700	12/12/1995	11020	50–99	313086	289
8.	**NOVÉ VINAŘSTVÍ, a.s.**	Měřín, Zarybník 516	1/11/2000	01210	25–49	168196	15382
9.	**PATRIA Kobylí, a.s.**	Kobylí 716	23/6/1998	11020	100–199	246569	5659
10.	**SONBERK, a.s.**	Popice, Sonberk 393	3/8/1994	11020	10–19	95288	2661
11.	**TanzbergMikulov,a.s.**	Bavory 132	19/3/1999	11020, 01210	10–19	98335	–8680
12.	**Vinařství LAHOFER, a.s.**	Dobšice, Brněnská 523	5/1/1998	11020, 01210	25–49	81803	1020
13.	**VINAŘSTVÍ MIKROSVÍN MIKULOV a.s.**	Mikulov, Nádražní 980/29	20/12/2004	11020, 01210	100–199	126441	–1368
14.	**VINIUM a.s.**	VelkéPavlovice, Hlavní 666/2	13/5/1992	11020	50–99	268688	–18152
15.	**VínkoKonečnýa.s.**	Ostrava, Moravská Ostrava and Přívoz, Cihelní 3286	9/11/1995	11020	10–19	9469	113
16.	**VÍNO BLATEL, a.s.**	Blatnice pod SvatýmAntonínkem 855	21/4/1993	11020, 01210	50–99	73852	877
17.	**Vinofrukt, a.s.**	DolníDunajovice, Kostelní 416	28/4/1993	01210	100–199	284587	–10884
18.	**VINOP a.s.**	Polešovice 446	25/10/1999	11020	10–19	41729	217
19.	**VINSELEKT MICHLOVSKÝ a.s.**	Rakvice, Luční 858	4/2/2003	11020	50–99	244008	7097
20.	**ZEAS Polešovice, a.s.**	Polešovice 308	30/10/1997	11020	25–49	190913	6002
21.	**ZNOVÍN ZNOJMO, a.s.**	Šatov 404	4/5/1992	11020, 01210	50–99	430150	25557

Source: own based on ARES and financial statements of selected enterprises, * in thousands CZK

subjects ARES (see http://www.info.mfcr.cz/ares/). The main criteria for the selection were: legal form of business as the joint stock company, the residence is in the Czech Republic and the scope of business is based on vegetable production (based on CZ-NACE: 01210: Growing and cultivation of wine grapes and 11020: Production of wine from wine grapes) and the existence of the company is longer than 10 years with minimum 10 employees. According to these criteria, 28 agricultural companies were founded; 4 of them had to be excluded due to incomplete information in financial statements or annual reportand 3 of them due to their liquidation process. The research sample counted on 21 agricultural companies; 11 of them are dealing only with production of wine from wine grapes, 4 of them are dealing with only with growing and cultivation of wine grapes and remaining 6 them are dealing with both scopes of activity (01210 and 11020). The main reason for the selection of those criteria is a duty to publish the financial statements as the legal entities in terms of Commercial register (see www.justice.cz), focusing on the Czech environment and its production. The results of this research are served as the preliminary research of the financial management in Czech agricultural companies. The following Tab. III serves a basic characterization of enterprises involved in the selected research sample.

In 2014, the area of vineyard in the Czech Republic formed 17.6 thousands ha; while the current production potential is at 19.6 thousands ha. In 2014,18.5 thousands of wine growers were registered in the Czech Republic. In 2014,wine growers harvested a total of 63,533 tons of grapes, which is 15% less than in the previous year. The yield grapes moved at 4.03 t / ha. Wine production in the Czech Republic is moving in the last three years, around 550 thousand hl/year. 2/3 of total production is created by white wines and remaining 1/3 is created by red wines.A total number of imported wines to the CR wasabout 1383 thousands hland exports of wine products from the Czech Republic amounted to about 170 thousand hl. Regarding the current structure of vineyards in the Czech Republic according to their size and the number of growers, 31% of the total number of growers manages vineyards areas to 0.1 ha. Sum of the areas of these small vineyards, however, accounts for only 4% of the total vineyard area in the Czech Republic. On the other hand, there is a concentration of large area of vineyards in a small number of "large" growers. Growers with vineyards over 5 hectares of planted area is only 1% of the total number of growers, but they account for more than 40% of the total vineyard area in the Czech Republic. Wine production in the Czech Republic in the last three years is around 550 thousand hl/year. (Ministry of Agriculture, 2015)

Wineries can be defined as the food industry, which is engaged in processing fromwine grapesto wine and the other by-products of production. This sector continues to viticulture, which is a branch of agricultural production engaged in the cultivation of grape varieties intended for direct consumption, production of must or wine. Wine from grapes is ranked among one of the oldest known alcoholic beverages. At present, as well as other fields of food industry, the wine market is affected by the general trend towards the concentration of production and the emergence of large wine companies. Despite this trend,a large number of small and medium-sized manufacturers remains in traditional wine-growing countries and ensures the preservation of regional particularities of wines.

At present, the Czech market is around 850 wine producers. This industry is made up of more small and medium-sized enterprises. There is a large representation of small winemakers, which distribute its products primarily locally at the production site. The clear market leader in the Czech Republic is Bohemia Sekt, s.r.o.. S. A large proportion also has winery Znovín Znojmo, a.s.and VINIUM, a.s. Velké Pavlovice. The winery market also creates a number of smaller companies and a large number of small winemakers (mainly operating locally). Although large companies determine trends in the wine sector, the smaller manufacturers use close contact with the customer, allowing them to react flexibly to the current market situation. Large wine companies may apply higher market competitive power, which can provide a lower redemption price of inputs and also have a better bargaining position to distribute their products. The small enterpriseshave an advantage in greater proportion of human labour and raw material and using traditional methods, which many consumers prefer. The smaller enterprises obviously use a smaller share of mechanization, as well as a lower rate of using chemicals, etc., which is a benefit not only for consumers but also for the environment.

The Basis for Creating the Dynamic Financial Strategy Model

This model derives from the basic principles of financial analysis that explores the profitability, liquidity and the cost and capital efficiency and that has been already simulated for the selected enterprise (Svatošová, 2015). The results are served for evaluation and simulation of current financial strategy in the selected research sample of enterprises. For creating the dynamic financial strategy model, the selected variables of financial analysis were used (see Tab. IV) – i.e. ROE and ROA as a basic variables of profitability, Total (Current) Liquidity as a complex liquidity, Long-term Coverage (Level of Capitalization) and WACC as a complex variable for cost and capital efficiency evaluation. The main purpose of selecting these formulas is their comprehensive insight on the overall financial situation.

The possible limitations of this model could be founded in setting the cost of equity and cost of

IV: *Variables in financial strategy model*

Return on Equity (ROE)	$ROE = \frac{EAT}{Equity}$
Return on Assets (ROA)	$ROA = \frac{EAT}{Equity}$
Total Liquidity	$Total\ Liquidity = \frac{Current\ Assets}{Short-term\ Liabilities\ and\ Credits}$
Long-term Coverage	$Level\ of\ Capitalization = \frac{Equity + Long-term\ Liabilities\ and\ Credits + Reserves}{Total\ Assets}$
WACC (Weighted Average Cost of Capital)	$WACC = R_E * \frac{E}{C} + R_D * (1-t) * \frac{D}{C}$ $R_E = R_F + R_B + R_{FS} + R_{LA}$ $R_D = \frac{cost\ of\ interest}{the\ average\ value\ of\ bank\ credits} * (1-t)$
Financial Strategy Model	$Financial\ Strategy = \frac{ROE + ROA + Total\ Liqudity + Level\ of\ Capitalization + WACC}{5}$

Source: own work (Svatošová, 2015)
Legend: *ROE* – Return on Equity, *ROA* – Return on Assets, *EAT* – Earnings after Taxation, *WACC* – Weighted Average Cost of Capital, *RE* – Cost of Equity, *RD* – Cost of Debts, *t* – Tax rate, *E* – Equity, *D* – Debts, *C* = *E* + *D* (Total Capital), *RF* – risk-free rate, *RB* – business risk, *RFS* – risk premium of financial stability, *RLA* – risk premium of company size

debt in the variable WACC. Costs of capital are expenditures of the company that must be paid to obtain different forms of capital (Billet and Dolly, 2007, p. 113). Cost of equity is usually set by several methods (Dluhošová, 2006, p. 110). In case of dynamic financial strategy model, the modular model was selected, because is more universal for companies that are not trading on capital market and that is more suitable in Czech companies (based on INFA methodology, details see MPO ČR, 2015).

Afterwards, the scoring evaluation for individual variables in financial strategy model was determined (see Tab. V). Based on received values of individual variables, the set points on interval 1 – 5 are determined, where 5 means the excellent result and 1 means very bad result. The selected values and set points of individual variables are inspired by Kralicek Quick test – mainly the values of profitability ROE and ROA (Sedláček, 20001, p. 125), the total liquidity is based on this source (Kislingerová, 2007, p. 368), the values of long-term coverage is based on this source (Fotr *et al.*, 2012, p. 174; Sedláček, 2001) and the values of WACC as the variable of cost and capital efficiency is based on the practice.

Final results of the dynamic strategy model are pointed as an arithmetic average of received points of set variables of profitability, liquidity and cost of capital (see Tab. V). Based on received total points (see Tab. VI), the final financial strategy is determined. When the model shows the highest points (4 – 5), the strategy of maximum profitability and progressive expansion is given, when the results are on interval 3 – 3.9, the strategy of proportional profitability and liquidity is determined, when the results are on interval 2 – 2.9, the strategy of maximum liquidity should be selected and when the company reaches the critical values between 1 – 1.9, the crisis and rescue strategy should be used. A detail description of individual strategies is given in Tab. III. The concrete financial strategies in terms of financial strategy model are inspired by these sources (Režňáková, 2012; Živělová, 2014).

Based on the information above, the financial strategy model without dynamics (in Vensim program) was created (see Fig. 2). In this model, we can see direct links of dependent and independent selected variables that have direct impact on final results of financial strategy.

RESULTS AND DISCUSSION

Firstly, the financial analysis of 21 observed enterprises has been provided (for years 2010, 2012 a 2014). Tab. VII provides data of 21 selected enterprises such an arithmetic mean, median, standard deviation, minimum and maximum value. The results are influenced by imperfections due to using arithmetic mean for each variable and also by the fact that accruals and deferrals have been not

V: *Evaluation of variables in financial strategy according to points (1 – 5)*

	Excellent (5)	Very good (4)	Good (3)	Bad (2)	Very bad (1)
ROE	>0.50	>0.30	>0.10	>0.00	< 0.00
ROA	>0.15	>0.12	>0.08	>0.00	<0.00
Total liquidity	>1.80	>1.50	>1.00	>0.80	<0.80
Long-term coverage (level of capitalization)	>1.1	>1	>0.98	>0.95	<0.95
WACC	<0.05	>0.05	>0.15	>0.25	>0.30

Source: own work (Svatošová, 2015)

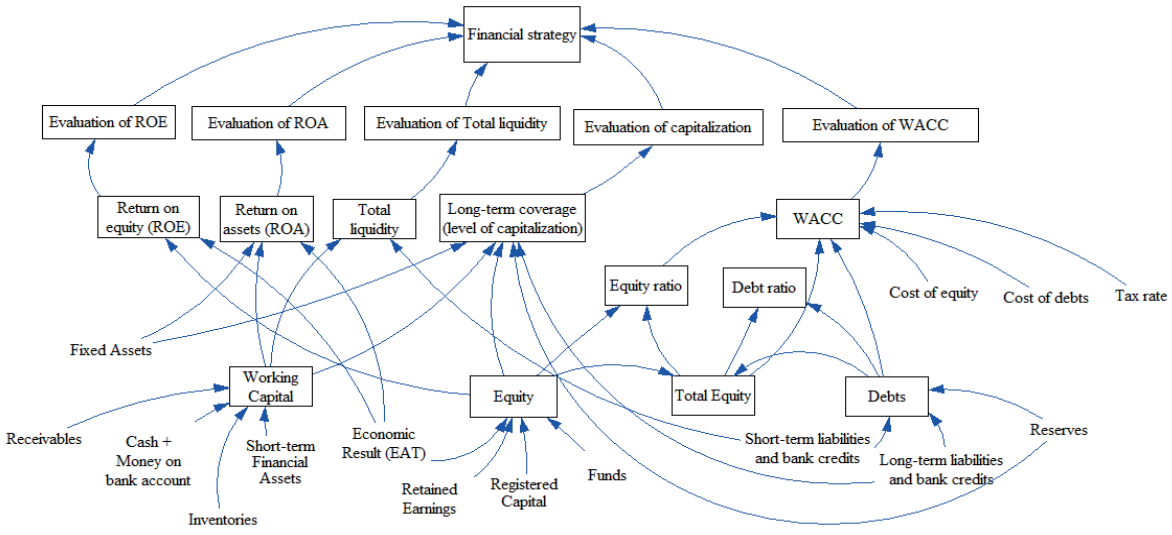
VI: *Received points and final of results to concrete financial strategy*

Evaluation According to Received Points	Type of Financial Strategy	Description of Financial Strategy
4–5	Strategy of maximum profitability	**Aggressive strategy:** maximizing the profitability, low or negative value of working capital, possibilities of high volume to long-term investments, potential of the company to be expanded and be progressive, the opportunity for absolute innovations
3–3.9	Strategy of proportional profitability and liquidity	**Balanced strategy:** reaching the reasonable value of working capital and acceptable profitability, the short-term investments or long-term investments with lower volumes could be realised, the expansion of company is possible, but only moderate, not progressive
2–2.9	Strategy of maximum liquidity	**Conservative strategy:** high volume of working capital, low profitability, conservative approach to the managing the long-term investments (no long-term expanding the company, focusing on operational issues of the business)
1–1.9	Crisis and remediation strategy	**Rescue strategy:** the effort to be rescued from bankruptcy, bad values of financial analysis (liquidity, profitability, indebtedness, etc., i.e. no comprehensive financial strategy is in the company realised, change of corporate and business strategy, the change of company conception, production and business, looking for new sources and opportunities for rescue and redevelopment of the company

Source: own work (Svatošová, 2015)

calculated in this financial analysis. An average value of assets reached almost CZK 183 millionin 2014, i.e. 15.6% more than in 2010. Median value reached over CZK 168 million in 2014, i.e. almost 36% more than in 2010. A percentage portion of current assets is approximately 45% and long-term assets approximately 55%.An average value of net income (EAT) was CZK 3.5 million, i.e. 1495% more than in 2010 when the EAT was CZK –252 thousands. Median value of EAT was CZK4.67 million, i.e. 477% more than in 2010. These findings reflect an increasing strong financial position of observed enterprises. Based on the financial analysis, the observed enterprises focuses more on higher liquidity with reaching lower level of profitability. Nevertheless, only liquidity L3 reaches recommended values among 1.5–2.5. Liquidity L2 and L1 are under the recommended values, i.e. the observed enterprises reach lower values of inventories and short-term financial assets than it is required. This statement is supported by a long period of money turnover cycle that takes on average almost 86 days (in 2014); nevertheless, it was shortened by almost 36 days compared to year 2010. The average value inventory turnover period is approximately 180 days, receivable turnover period is nowadays 88 days (by 15 days less than in 2010) and suspension of payments period is approximately 180 days. The value of net working capital is decreasing (from average value CZK 35 million into CZ million).

The overall indebtedness of selected enterprises is approximately 45% and the level of self-financing is approximately 55%. The short-term indebtedness is approximately 25% and long-term indebtedness 15%. The results of financial analysis show that



2: *Financial strategy model without dynamics*
Source: own in Vensim program (Svatošová, 2015)

VII: *Received points and final of results to concrete financial strategy for years 2010, 2012 and 2014*

	Arithmetic mean			Median			Standard deviation			Minimum			Maximum		
	2010	2012	2014	2010	2012	2014	2010	2012	2014	2010	2012	2014	2010	2012	2014
Assets	157999	175108	182987	123714	137168	168196	109493	115144	123271	5866	8309	9469	417158	440490	474484
Equity	92438	98235	90513	75841	86317	80300	69200	77241	66725	1868	2283	3887	268537	288727	200173
Debts	65270	75191	79381	48211	48864	64944	58439	67127	67503	3046	4630	4658	236678	270055	262792
SL	23017	30977	30117	18801	19550	19285	21008	33127	29550	3017	2126	2520	75176	137635	112695
SBC	12918	16769	15220	1697	444	2000	25128	31997	28431	0	0	0	90200	131000	122800
LL	12052	12774	18992	6560	6694	7037	14522	15885	26112	0	0	0	45884	51885	100397
LBC	9809	7490	7985	1309	259	0	16411	8775	12263	0	0	0	64200	23012	39981
EAT	–252	817	3516	979	1032	4671	13360	8032	9020	–42701	–25913	–18152	19286	14007	25557
EBT	658	2064	4489	1204	2083	5474	14449	8667	10344	–43236	–25913	–18152	23977	17657	30956
FA	85897	96364	105256	70192	93523	115791	61462	64675	66759	355	711	907	237373	247348	247561
CA	70908	77424	76410	45496	51479	46443	65768	64586	68103	5139	3984	4903	272200	250248	259066
CI	1209	1394	1287	576	593	719	1540	2026	1826	–378	0	0	6334	7795	7020
ROA	–0.16	0.47	1.92	0.79	0.75	2.78	12.20	6.98	7.32	–728	–312	–192	4.62	3.18	5.39
ROE	–0.27	0.83	3.88	1.29	1.20	5.82	19.31	10.40	13.52	–2286	–1135	–467	7.18	4.85	12.77
L3	1.97	1.62	1.69	2.22	2.57	2.18	1.43	0.99	1.17	1.70	1.87	1.95	1.65	0.93	1.10
L2	0.86	0.66	0.70	1.07	1.18	0.89	0.54	0.28	0.41	1.70	1.73	1.95	0.65	0.25	0.32
L1	0.24	0.18	0.18	0.15	0.18	0.10	0.30	0.17	0.19	–2.88	–4.23	–3.03	0.34	0.14	0.16
IC	1.54	2.48	4.49	2.09	6.43	7.61	9.09	3.99	5.78	108.44	0	0.00	4.29	2.27	5.41
LC	0.77	0.74	0.68	0.68	0.68	0.52	1.14	1.14	1.06	0.32	0.27	0.41	1.19	1.10	0.97
NWC	34973	29678	31073	24998	31485	25158	19632	–538	10123	2122	1858	2383	106824	18387	23571
E ratio	0.58	0.56	0.49	0.61	0.63	0.48	0.63	0.67	0.54	0.32	0.27	0.41	0.64	0.66	0.42
D ratio	0.41	0.42	0.43	0.39	0.36	0.39	0.53	0.58	0.55	0.52	0.56	0.49	0.57	0.61	0.55
SI	0.23	0.27	0.25	0.17	0.15	0.13	0.42	0.57	0.47	0.51	0.26	0.27	0.40	0.61	0.50
LI	0.14	0.12	0.15	0.06	0.05	0.04	0.28	0.21	0.31	0.00	0.00	0.00	0.26	0.17	0.30
CA ratio	0.45	0.44	0.42	0.37	0.38	0.28	0.60	0.56	0.55	0.88	0.48	0.52	0.65	0.57	0.55
LA ratio	0.54	0.55	0.58	0.57	0.68	0.69	0.56	0.56	0.54	0.06	0.09	0.10	0.57	0.56	0.52
RTP	103.05	91.8	88.15	135.64	109.58	99.72	73.65	53.23	93.51	864.54	6038.60	289.87	61.81	49.87	129.79
ITP	184.75	193.1	176.14	166.72	151.26	166.19	178.97	169.85	180.67	7.99	1674.71	0.00	191.53	170.84	215.57
SPP	166.42	200.23	178.47	145.11	108.47	129.04	201.44	238.46	236.80	2009.50	11411.62	506.22	191.50	251.95	277.41
MTC	121.37	84.66	85.81	157.25	152.37	136.86	51.18	–15.38	37.38	–1136.96	–3698.31	–216.35	61.83	–31.24	67.94

Source: own based on financial statements of selected enterprises

Legend: SL – Short-term liabilities, SBC – Short-term bank credits, LL – Long-term liabilities, LBC – Long-term bank credits, EAT – Earnings after Taxes, EBT – Earnings before taxes, FA – Fixed Assets, CA – current assets, CI – Cost of Interest, ROA – Return on Assets, ROE – Return on Equity, L3 – Current Ratio, L2 – Quick ratio, L1 – Cash Ratio, IC – Interest Coverage, LC – Long-term Coverage (Level of Capitalization), NWC – Net working capital, E ratio – Equity ratio, D ratio – Debt ratio, SI – Short-term indebtedness, LI – Long-term indebtedness, CA – Current assets ratio, FA – Fixed assets ratio, RTP – Receivables turnover period, ITP – Inventory turnover period, SPP – Suspension of payments period, MTC – Money turnover cycle

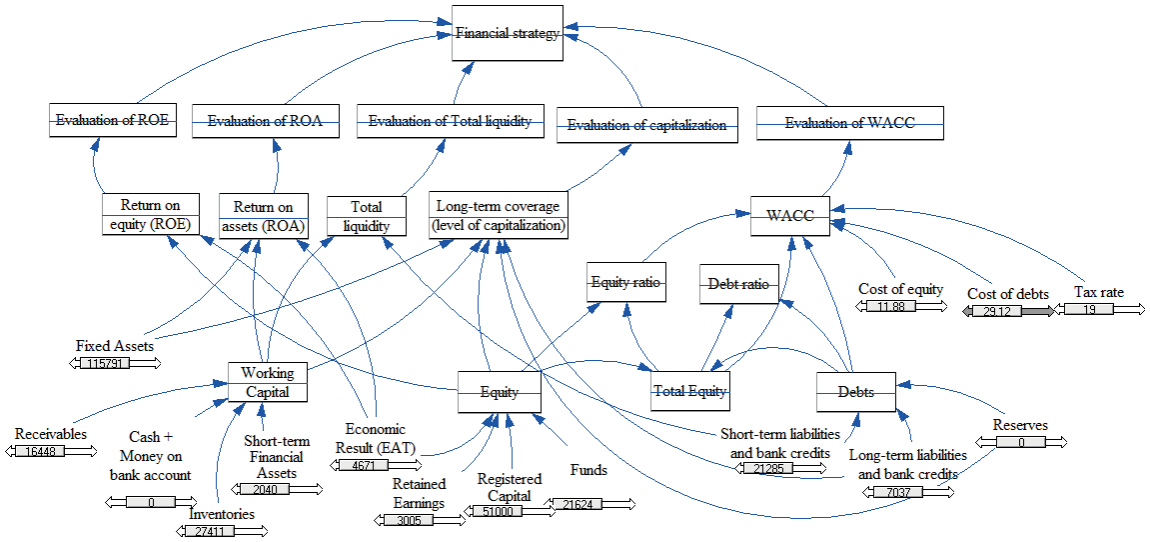
the selected enterprises are undercapitalised in all observed years (the level of long-term coverage is approximately 0.75), i.e. a part of long-term assets is financed by short-term forms of financing. The current average value of cost of interest is CZK 1.287 million. Based on the results of financial analysis, it could be concluded the selected enterprises focus on higher liquidity that is safer and more conservative approach, on the other hand, they reach low profitability and have problem with short-term indebtedness and financing. This financial strategic approach could be an obstacle for long-term expansion and fulfilling a progressive and investment strategy.

The financial strategy model has been then simulated for identifying the current financial strategy among 21 winery enterprises in the selected research sample. For final evaluation, the arithmetic mean and median values of selected variables among 21 winery enterprises have been used (see Tab. VIII and Tab. IX). These tables compare the years 2010, 2012 a 2014. The individual variables are influenced by imperfections due to using arithmetic mean and median for each value and also by the fact that accruals and deferrals have been not calculated in model. Despite the imperfections of the model, the final simulation serves clear results about the current financial strategy among selected enterprises. When using arithmetic mean and median, all observed years show using a conservative strategy focused on higher liquidity and lower profitability. The financial strategy model was simulated for all observed years; the example of model simulation for selected research sample is given in Fig. 3 for arithmetic mean of used values and in Fig. 4 for median of used values. The simulation of financial strategy model has confirmed the statement from the previous financial

VIII: *Input data for creating the financial strategy model (for arithmetic mean ofused values)*

Issue/Year	2010	2012	2014
Assets	156806	172690	180723
Fixed Assets	85897	96364	105256
Current Assets	70909	76326	75467
Inventories	39891	46045	44745
Receivables	22249	21889	22392
Short-term financial assets	8769	8392	8330
Equity	92437	98233	90513
Registered capital	73993	73993	65470
Funds	25451	21314	18837
Retained earnings	–6755	2109	2691
Economic result (EAT)	–252	817	3515
Debts	64585	76899	79105
Reserves	6792	11770	6791
Long-term liabilities	23016	12773	18992
Long-term bank credits	9809	7490	7985
Short-term liabilities	12052	30797	30117
Short-term bank credits	12916	16769	15220
Cost of interests	1209	1394	1287
t – tax rate	19%	19%	19%
r_f – risk-free rate*	3.32%	2.31%	1.58%
r_B – business risk*	5.35%	5.35%	5.35%
r_{fs} – risk premium of financial stability*	1.23%	0%	2.95%
r_{LA} – risk premium of company size*	2.28%	2.32%	2.35%
r_E – cost of equity	12.58%	9.98%	12.23%
r_D – cost of debts	4.31%	4.46%	4.49%
ROE	**–0.0027 (1)**	**0.0083 (2)**	**0.0388(2)**
ROA	**–0.0016 (1)**	**0.0047(2)**	**0.0194 (2)**
Total liquidity	**1.9733 (5)**	**1.5986(4)**	**1.6645 (4)**
Long-term coverage	**0.7722 (1)**	**0.7543(1)**	**0.6877 (1)**
WACC	**0.0884 (4)**	**0.0719(4)**	**0.0822 (4)**
Financial strategy	**2.4**	**2.6**	**2.6**
Type of the financial strategy in current year	**Strategy of maximum liquidity**	**Strategy of maximum liquidity**	**Strategy of maximum liquidity**

Source: own work with help of Vensim program (Note: the amounts are given in thousands CZK)
*calculated according to INFA methodology (details see MPO ČR, 2015), Ministry of Industry and Trade of the CR

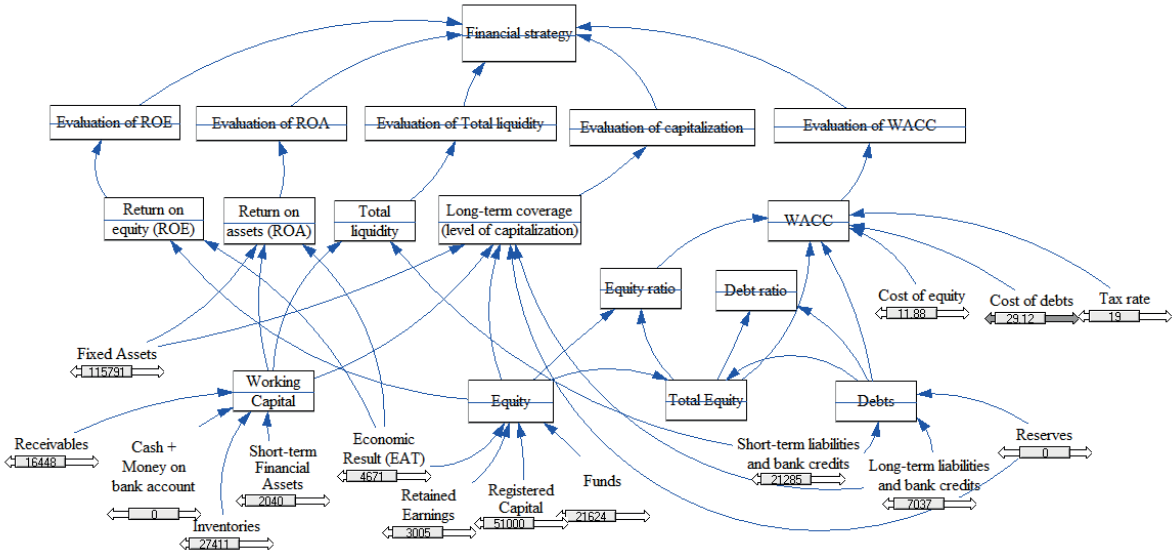


3: *Financial Strategy – Wine producers (in 2014, arithmetic mean of used values)*
Source: own in Vensim program

IX: *Input data for creating the financial strategy model (for median of used values)*

Issue/Year	2010	2012	2014
Assets	115996	144807	161690
Fixed Assets	70192	93523	115791
Current Assets	45804	51284	45899
Inventories	23551	27411	27411
Receivables	19161	20198	16448
Short-term financial assets*	3092	3675	2040
Equity	74609	86317	80300
Registered capital	65750	65750	51000
Funds	7880	16341	21624
Retained earnings	1232	3194	3005
Economic result (EAT)	979	1032	4671
Debts	28367	26947	28322
Reserves	0	0	0
Long-term liabilities	6560	6694	7037
Long-term bank credits	1309	259	2000
Short-term liabilities	18801	19550	19285
Short-term bank credits	1697	444	0
Cost of interests	576	593	719
t – tax rate	19%	19%	19%
r_f – risk-free rate*	3.72%	2.31%	1.58%
r_B – business risk*	5%	5%	5%
r_{fs} – risk premium of financial stability*	1.23%	17.42%	2.95%
r_{LA} – risk premium of company size*	2.28%	2.32%	2.35%
r_E – cost of equity	12.23%	27.05%	11.88%
r_D – cost of debts	15.52%	68.33%	29.12%
ROE	**0.0129 (2)**	**0.0119 (2)**	**0.0581 (2)**
ROA	**0.0084 (2)**	**0.0071 (2)**	**0.0289 (2)**
Total liquidity	**2.2346 (5)**	**2.565 (5)**	**2.1564 (5)**
Long-term coverage	**0.7217 (1)**	**0.6441 (1)**	**0.5402 (1)**
WACC	**0.1232 (4)**	**0.3371 (1)**	**0.1493 (4)**
Financial strategy	**2.8**	**2.2**	**2.8**
Type of the financial strategy in current year	**Strategy of maximum liquidity**	**Strategy of maximum liquidity**	**Strategy of maximum liquidity**

Source: own work with help of Vensim program (Note: the amounts are given in thousands CZK)
*calculated according to INFA methodology (details see MPO ČR, 2015), Ministry of Industry and Trade of the CR



4: *Financial Strategy – Wine producers (in 2014, medianof used values)*
Source: own in Vensim program

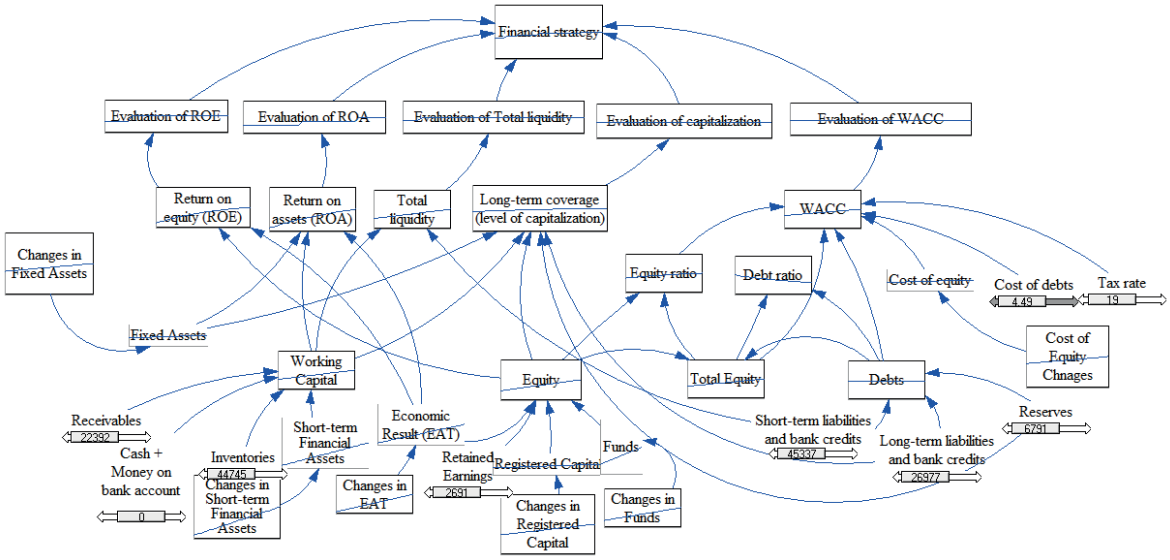
strategy that the selected enterprise focuses on higher liquidity (especially be higher volume of receivables) with reaching lower profitability and a certain level of undercapitalization. This may be a reason for impossibility to be expanded in the long-term period because of low profitability and lack of financial assets that could realize the investment and progressive strategy.

Recommendations and Financial Strategy Changes

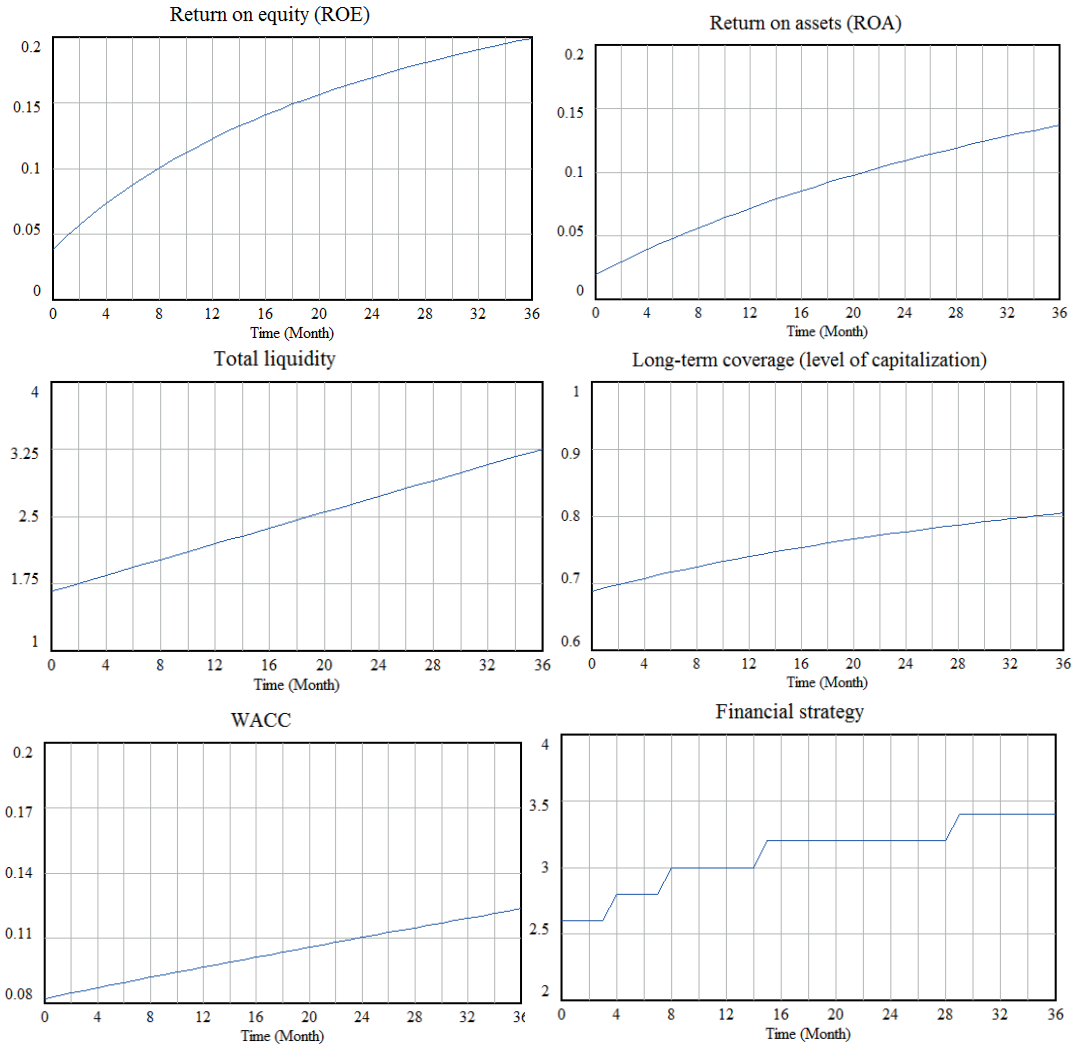
For the improving the financial situation and changing the financial strategy in the selected enterprises, the dynamic financial strategy model has been for arithmetic values created (for the year 2014; see Fig. 5). This model demonstrates changes in fixed assets (by CZK 1 million in each month), short-term financial assets (by CZK 2 million in each month), EAT (by CZK 1 million in each month) and registered capital (by CZK 1 million in each month) and funds (by CZK 1 million in each month) and cost of equity (by 0.1% based on estimation, because this variable is hard to predict) during the 36 months. We suppose a raping increasing in Equity during 36 months due to increasing of registered capital (e.g. by entering new investor) and receiving subsidies from EU funds or other governmental agencies. These own sources of financing will be used for buying new fixed asset enabling a rapid increasing in production and for increasing short-term assets for improving financial conditions of selected enterprises. New investments into fixed assets and entering new investor require a rapid and quick capital appreciation in the form of net income. The simulation of these changes has caused a change of conservative financial strategy into balanced financial strategy focusing on improving all levels of liquidity and profitability.

These changes improved the value of ROE from 3.88% into 13.22% (from pointed evaluation 2 into 3) in 36 months, the value of ROA from 1.94% into 13.48% (from pointed evaluation 2 into 4) into 36 months. The improvement was also noticed in total liquidity from 1.66 into 3.25 (from pointed evaluation 4 into 5) and level of capitalization from 0.69 into 0.8 (the pointed evaluation 1 was not changed) in 36 months. The level of WACC was increased from 8.22% into 12.35% (the pointed evaluation 4 was not changed) in 36 months. The final average evaluation of model has been changed from 2.6 into 3.4 that reflect a balanced strategy. The changes of all variables during 36 months in dynamic financial strategy model are demonstrated in following charts (see Fig. 6). Changes only in registered capital and fixed assets (by increasing about CZK 1 million) have no impact on the primary conservative financial strategy (with final pointed evaluation 2.6). When involving changes in EAT and short-term financial assets, the financial strategy has been changed (from points received 2.6 into 3.4). Implementing changes in funds and other short-term financial assets (increasing by CZK 1 million) does not have a crucial impact on overall financial strategy model results. Improvement was noticed only in level of capitalization.

Very similar results are served for median values (for the year 2014). The changes were the as in the previous case. These changes improved the value of ROE from 5.81% into 21.6% (from pointed evaluation 2 into 3) in 36 months, the value of ROA from 2.89% into 15.08% (from pointed evaluation 2 into 5) into 36 months. The improvement was also noticed in total liquidity from 2.16 into 5.54 (the pointed evaluation 5 was not changed) and level of capitalization from 0.54 into 0.72 (the pointed evaluation 1 was not changed) in 36 months. The level of WACC was increased



5: *Dynamic Financial Strategy Model (in 2014, for arithmetic mean of used values)*
Source: own in Vensim program



6: *Changes and its Impact on Variables in Financial Strategy Model (in 2014, arithmetic mean of used values)*
Source: own in Vensim program

from 14.93% into 16.54% (from pointed evaluation 4 into 3) in 36 months. The final average evaluation of model has been changed from 2.8 into 3.4 that reflect a balanced strategy as well.

This case has simulated possible dramatic changes in corporate strategy and their impact on financial variables and overall financial strategy. Nowadays, the biggest enterprises in winery industry in the CR use a conservative approach in management and other financial planning focusing on higher liquidity and lower profitability. The dynamic financial strategy model has simulated, in what variables the selected enterprises have to be improved to dramatically reach higher profitability and liquidity. We can lead discussion if this possibility could be realized in practice (i.e. obstacles with looking for new investor and willingness of both cooperating parties, obstacles with receiving subsidies, the other external factors influencing future net income, i.e. international competition, annual crop and harvest based on seasonable weather factors). This model supposes the ideal condition without mentioned external obstacles.

CONCLUSION

The paper has dealt with the identification of current strategy in the selected enterprises from the winery industry with the help of theoretically proposed financial strategy model. The prerequisite for the financial strategy identification was a detailed financial analysis of selected variables (mainly arithmetic mean and median). The results of financial analysis showed the selected enterprises focuses more on higher liquidity with low profitability. At the same time, the selected enterprises were undercapitalized and have a problem with short-term financing (e.g. in lower values of short-term financial assets).

A simulation of theoretically proposed model has proved the current financial strategy of observed enterprises focuses on conservative approach with reaching higher liquidity and lower profitability. It means the winery enterprises focuses on stabilization on the market and compensation of loses reached in previous years. Afterwards, the dynamic financial strategy model has been used that demonstrates changes in selected variables. These changes have been focused mainly on strengthening equity ratio by improving EAT, registered capital and funds, on the side of assets on strengthening in fixed assets and short-term financial assets. The dynamic financial strategy model could be served as a helping tool for financial planning and other financial decision-makings. These changes suppose as intention of enterprises to be expanded with using investment and progressive corporate strategy. This model supposes ideal conditions that exclude external factors influencing the final economic results. A strengthening debt ratio would cause worsening all observed variables and overall financial strategy.

The model could beneficial for expanding the theoretical knowledge in financial management, e.g. providing a comprehensive theoretical insight of the financial strategy and also a quality basis for financial decision-making process. The dynamic financial strategy model could solve the dilemma in the field of financial planning, financial decision-making and determining the optimal financial strategy.The theoretically proposed model has its own limitations, e.g. it is served for enterprises that are not trading on the capital market and for the Czech economy. The other limitation could be based on used methods for determination of cost of equity and cost of capital. The different methods could change the whole result of the model. The used variables in this model could be also the subject of other expert discussion and could be updated and to the current situation or business sector.

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