

## **Basic characteristics of small and medium-sized enterprises in terms of their strategic management**

**Ing. Monika Březinová, Ph.D.**

Katedra řízení Jihočeská univerzita v Českých  
Budějovicích Ekonomická fakulta Studentská13,  
370 05 České Budějovice

### ***1. Introduction***

SMEs are indispensable in all economies, can be described as a driving force of business, growth, innovation, competitiveness, and are also very important employer. In the Czech Republic performed on 31<sup>th</sup> 12 2011 some business activity 1,066,787 legal and natural persons who are placed in the category of small and medium-sized enterprises. The total number of active enterprises are small and medium-sized enterprises participated in 2011 a total of 99.84%. The share of employees in small and medium-sized enterprises amounted to 60.85% in relation to the employees of the Czech economy. According to Řehoř, in 2007 the small and medium-sized businesses will create and offer new and quality jobs.

According to Srpová (2010), management of small and medium-sized enterprise has many specifics. In small companies due to the small number of employees and managers many functions are accumulated within the competence of only a few workers predominates, informal leadership is more common, oral communication is preferred over written, etc. According to a team of authors (2012) however, a high degree of flexibility to adapt rapidly to changing SME factors, it determines the face and reduce the growing globalization tendencies associated with the onset of multinational corporations and chains.

Strategic management, based on long-term forecasts, helping the company to anticipate future challenges and opportunities. (Keřkovský and Vykypěl 2006). According Sedláčková, Buchty (2006) strategic management gives clear goals and directions for the future of the company and its workers a sense of security. Strategic management helps to increase the quality of management, leads managers to improve their deciding. Keřkovský, Vykypěl (2006) further states that strategic management helps improve communication in the company, project coordination, staff motivation and improve resource allocation.

Dedouchová (2001) gives two definitions of strategy, traditional and modern. Traditional definitions approaches to understand the strategy of the company as a document in which there are long-term objectives of the company, determined the process of operations and allocation the resources needed to meet these goals. The modern concept sees strategy as the company prepared for the future. The strategy includes the long-term objectives of the company, the process of strategic operations and deployment of enterprise resources needed to meet these goals so the strategies would be based on business needs, take into account the changes in its resources and capabilities, and at the same time adequately respond to changes in the environment of the company. The central concept of strategic management is a strategy that is closely linked to the objectives it tracks. According to Kotler, Keller (2012) strategies express the basic idea of which way the company goals will be achieved.

The article deals with the mapping of the fundamental characteristics of SMEs in terms of their strategic management.

### ***2. Research Methodology***

This article is provided as one of the outputs of the research project "Process management and the possibility of its implementation in small and medium-sized enterprises" of Grant Agency of the University of South Bohemia GAJU 068/2010/S and. and serves as one of the sources for grant GAJU 039/2013/S .

In the research project was used secondary data (financial statements of SMEs who took part in the research) and primary data which was obtained primarily through quantitative methods questionnaire supplemented by qualitative method of in-depth interviews.

For the classification of small and medium-sized enterprises has been used a new definition of the European Union (European Commission: A new definition of SMEs 2006) in accordance with the Law No. 47/2002 Coll. as amended. This system has been adapted for the needs of the research, according to the following table number 1, where the group of small businesses was divided into two groups according to the number of employees in order to achieve detailed breakdown.

In the South Bohemian region was registered in 2011 68,826 economic entities from the selected category.

**Table 1: Classification of SMEs**

Enterprise size	Number of employees (Annual Work Unit)	Annual turnover	annual balance sheet
Medium enterprise	50 – 249	< 50 mil. €	< 50 mil. €
Small enterprise	25 – 49	< 10 mil. €	< 10 mil. €
	10 – 24	< 10 mil. €	< 10 mil. €
Micro enterprise	0 – 9	< 2 mil. €	< 2 mil. €

**Source:** own processing according to the European Commission (2006)

Enterprises with up to 9 employees (micro-enterprises) represent 18% of the total number. Small enterprises represent less than 4% of all the small and medium-sized enterprises in the region.

There are registered 78% of medium-sized enterprises within the region (Statistický bulletin – Jihočeský kraj 2011, Statistical bulletin).

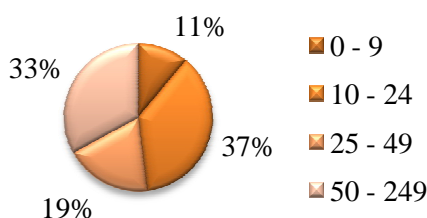
According to the legal form of business in the basic aggregate there dominate private entrepreneurs (77%), after that companies (9%), associations (5%), corporations of proprietors and cooperatives (3%), foreign persons (2,5%) and others. (European Commission. Key figures on European business with a special feature on SMEs 2011).

The prevailing business activities according to the classification of economic activities CZ-NACE in the examined aggregate constitute Wholesale and retail (22%). Building industry and industry are represented within the research identically with 13%, within the region there are about 21 000, or 19 000 as the case may be, and so they occupy the second and third position from the point of view of CZ-NACE. Business activities according to CZ-NACE such as section A - agriculture, forestry and fishing, section B - mining and extraction and section I – accommodation, catering and restaurants, were eliminated from the research because of their different perception and management of company processes – these are completely specific groups. There was chosen a research sample from the base aggregate with the method of improbability of random choice by reason of difficult conditions of data collection.

The research sample consists of 187 small and medium-sized enterprises of South Bohemia region. Composition of the research sample according to size (number of employees) and activity is indicated in tables no. 2 and 3 and in diagrams no. 1 and 2.

**Table 2, Diagram 1: Composition of the research sample of small and medium-sized enterprises according to number of employees**

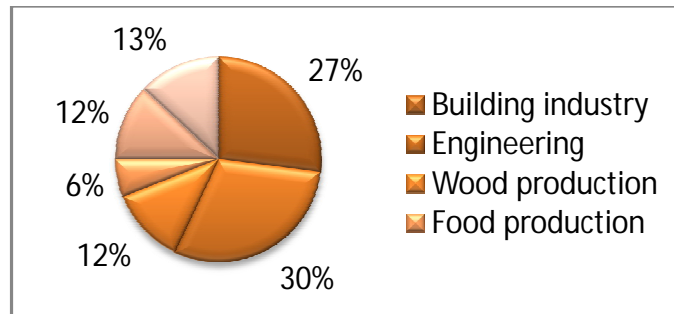
Number of employees	Number of enterprises	
0 - 9	20	11%
10 - 24	70	37%
25 - 49	36	19%
50 - 249	61	33%



**Source:** own survey

**Table3, Diagram2: Composition of the research sample of small and medium-sized enterprises according to business activity**

Activity	Numberofenterprises	
Buildingindustry	51	27%
Engineering	57	30%
Woodproduction	22	12%
Food production	11	6%
Commerce	22	12%
Services and Transport	24	13%



Source: ownsurvey

**3. Results**

Differences concerning strategies and their formulation at individual categories of examined small and medium-sized enterprises are indicated in tables no. 5 and 6. From the point of view of categories due to number of employees, as in the table 5, it is evident, that the majority (always more than 60 %) of enterprises has formulated strategy.

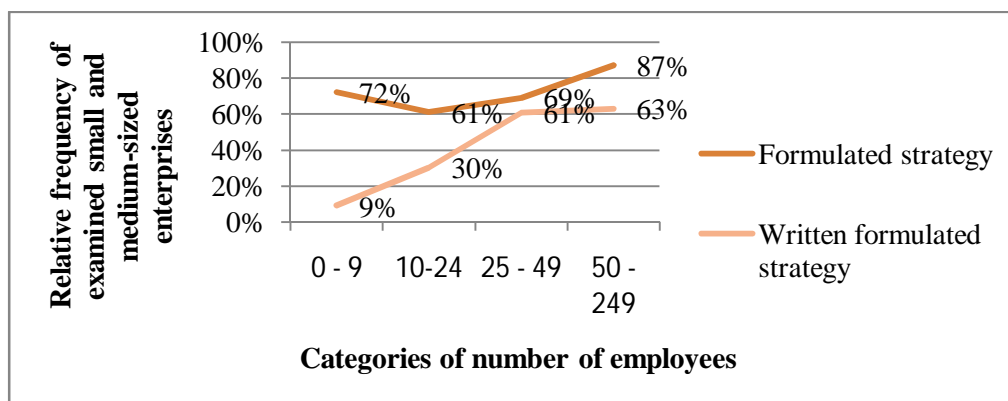
At the medium-sized enterprises (with more than 50 employees) the frequency is about 87 %. It is surprising that 72 % of micro-enterprises (up to 9 employees) also have formulated strategy. From the point of view of written formulation of the examined strategy the number of enterprises is lower, due to the fact that the number logically grows with the enterprise size. Micro-enterprises have then written formulated strategy only in 9 % of cases, on the contrary medium-sized enterprises in 63 % of cases, at the same time where enterprises with more than 150 employees have written formulated strategy in 83 % of cases. It is possible to compare the given results in the diagram no. 3, where curves of frequencies of examined enterprises having the formulated strategy, and of enterprises having the strategy formulated in the written form, are obvious.

**Table 1: Frequencies of formulated strategies of examined small and medium-sized enterprises according to the number of employees**

Numberofemployees	Numberofenterprises	Formulatedstrategy		Writtenformulatedstrategy	
		yes	no	yes	no
0 - 9	20	72%	28%	9%	81%
10 - 24	70	61%	39%	30%	70%
25 - 49	36	69%	31%	61%	39%
50 - 249	61	87%	13%	63%	37%

Source: ownsurvey

**Diagram3: Courvesoffrequenciesofexaminedsmall and mediumsizedenterpriseshavingformulatedstrategyaccording to thenumberofemployees**



Source: ownsurvey

The formulation of strategy from the point of view of categories due to business activity is shown in the table 6. It is similarly for all enterprises, that always minimally 60 % of them have formulated strategy. Most of the enterprises with formulated strategy are in the service sector (81 %), and also with the written strategy (59 %). The enterprises in the sphere of commerce show a little bit lesser frequency, when 76 % of them have formulated strategy and 44 % strategy in written form. Generally enterprises in the field of production show the frequency about 74 % in relation to the formulated strategy and 40 % in relation to the written formulated strategy.

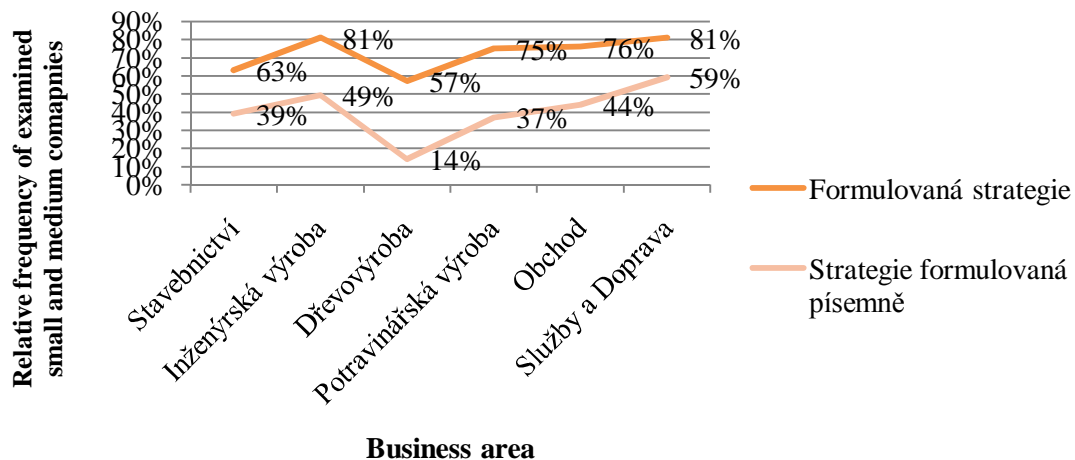
Strategies are most often created by enterprises which are concentrated on engineering production (81%, 49% written strategies). On the other side only 57% of enterprises which are focused on wooden production create strategies and only 14% of them have got a written version. Also the construction enterprises focus on strategies less - only 63% of them prepare their strategies and only 39% out of the examined enterprises have written form. The data can be seen in the graph number 4. The curves are basically copying the same line just with different values.

**Table2: Frequency of examined SMEs with a strategy according to business area**

Business area	Number of companies	Prepared strategy		Written version	
		yes	no	yes	no
Construction	51	63%	37%	39%	61%
Engineering production	57	81%	19%	49%	51%
Wooden production	22	57%	43%	14%	86%
Food production	11	75%	25%	37%	63%
Trade	22	76%	24%	44%	56%
Services and Transport	24	81%	19%	59%	41%

Resource: Own survey

**Graph4: Curves of frequency of examined SMEs with a strategy according to business area**



Resource: Own survey

Out of 187 examined enterprises 31% of them didn't indicate their strategy type. The rest of the examined SMEs are focused on strategy of survival. Four categories were determined:

- "Quality" (41% of examined enterprises) - enterprises focus on quality in all aspects of business, on business ethics, they aim to have a good name, they are oriented on customers and make all the effort to satisfy them, these enterprises are working towards higher flexibility and reliability in everyday praxis and also try to make their employees satisfied

- "Stabilization" (16% of examined enterprises) - enterprises focus on stabilizatin within the market but also stabilization of its internal environment, for example keeping the same number of employees
- "Development" (8% of examined enterprises) - enterprises focus on development of the enterprise in many areas - extension of production or provided services, market share and innovations
- "Profit" (4% of examined enterprises) - enterprises focus on a long-standing growth of profit, this includes the growth of revenues and also decrease of costs

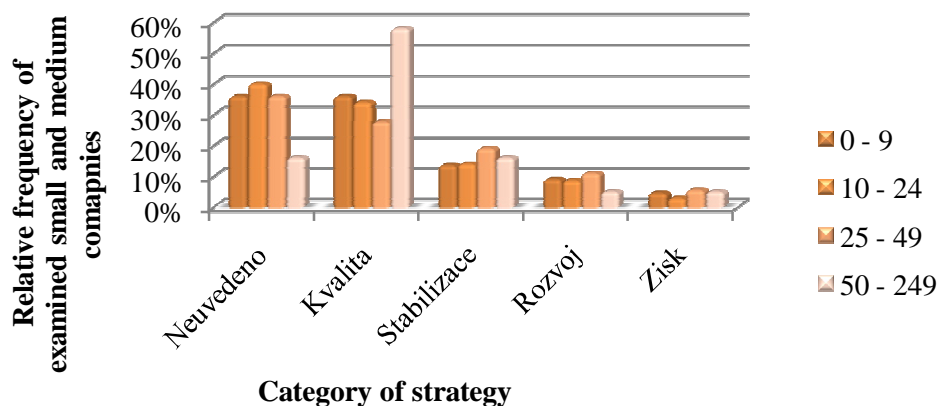
Table number 8 and graph number 5 show the differences between strategies of SMEs from different categories. It can be seen that the strategies structure of examined enterprises is similar, similarity can also be seen in terms of order of relative frequencies. Categories differ in terms of followed strategies. Dominant strategy is "Quality" followed by 30% of small enterprises (less than 50 employees), on the other side more than half (58%) of enterprises with more than 50 employees follow this strategy. Second most common strategy is "Stablization" - around 20% of enterprises choose this strategy to reach their goals. "Development" strategy is followed by 10% of enterprises but enterprises with more than 150 employees don't implement this strategy at all. Last strategy "Profit" is followed by 5% of enterprises.

**Table3: Frequency of followed strategies in examined SMEs according to the number of employees**

Number of employees	Number of companies	Not specified	Quality	Stabilization	Development	Profit
0 - 9	20	36%	36%	14%	9%	5%
10 - 24	70	40%	34%	14%	9%	3%
25 - 49	36	36%	28%	19%	11%	6%
50 - 249	61	16%	58%	16%	5%	5%

Resource: Own survey

**Graph5: Frequency of followed strategies in examined SMEs according to the number of employees**



Resource: Own survey

Table number 8 and graph number 6 show a similar analysis of SMEs presenting the results according to a business area. The structure of implemented strategies is similar as above where the categories were created according to the number of employees, but some differences can be seen in order of relative frequencies. Enterprises working in construction usually follow "Quality" and "Stabilization" strategies, 9% of enterprises follow "Profit" strategy and only 7% follow "Development". "Quality" was the most followed strategy by manufacturing enterprises, even more dominantly as it was chosen by 40% businesses as the device to reach their goals. 17% manufacturing enterprises in total follow "stabilization strategy", roughly half less of them follow strategy focused on "development", and just 2% of companies follow strategy of "profit".

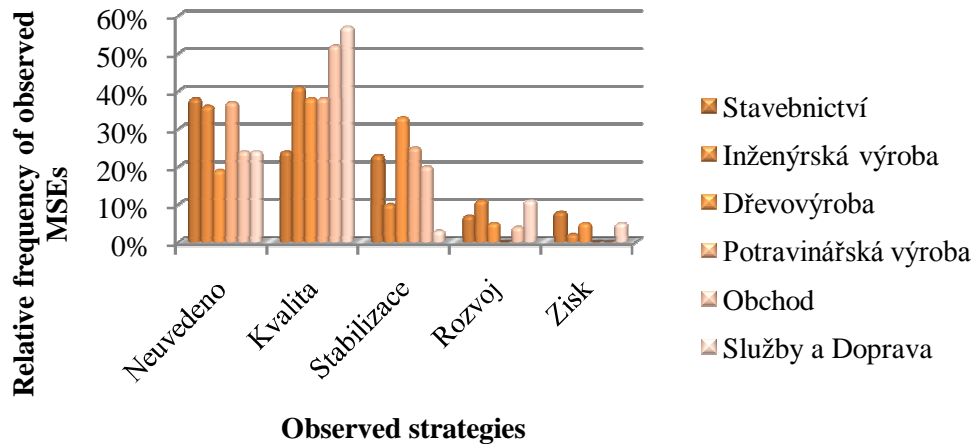
Engineering production companies follow dominantly strategy of “quality“, wood processing and food industry companies follow strategy of “stabilization“ similarly. Most trading companies (Commerce, 52%) follow strategy of “quality“, 20% of companies are focused on strategy of “stabilization“, just 4% strive for fulfillment of “development strategy“. No trading company set profit strategy as its goal. Service companies follow mostly quality strategy (57%), the second most frequent strategy was “development“. Just few service companies follow “profit“(5%) or “stabilization“(3%) strategy.

**Table 4: Frequency of SME observed strategies according to the business activity**

Business activity	Frequency	Not specified	Quality	Stabilization	Development	Profit
Building industry	51	38%	24%	23%	7%	8%
Production engineering	57	36%	41%	10%	11%	2%
Wood processing industry	22	19%	38%	33%	5%	5%
Food industry	11	37%	38%	25%	0%	0%
Commerce	22	24%	52%	20%	4%	0%
Service trade and transport	24	24%	57%	3%	11%	5%

Source: Own survey

**Chart 6: Frequency of SME observed strategies according to the business activity**



Source: Own survey

Causal effects of strategy choice among observed small and medium enterprises according to the number of employee’s category and the type of business activity were tested using statistical method of Kruskal-Wallis test. First, relation between strategy choice and number of employees was tested. Based on analyzed data we were able to confirm with 95% probability the null hypothesis that says there is no relation between tested variables ( $H = 6,675946$ ;  $df = 4$ ;  $p\text{-value} = 0,1540$ ).

Further, relation between strategy choice and category of business activity was tested. Based on analyzed data we were able to reject with 95% probability the null hypothesis in favor of the alternative hypothesis that says there is relation between examined variables ( $H = 7,849167$ ;  $df = 3$ ;  $p\text{-value} = 0,0492$ ). This relation was tested using correlation coefficient  $r$ . Interdependence of strategy choice and particular business activity is evident in Table 9 and graphically in Chart 7.

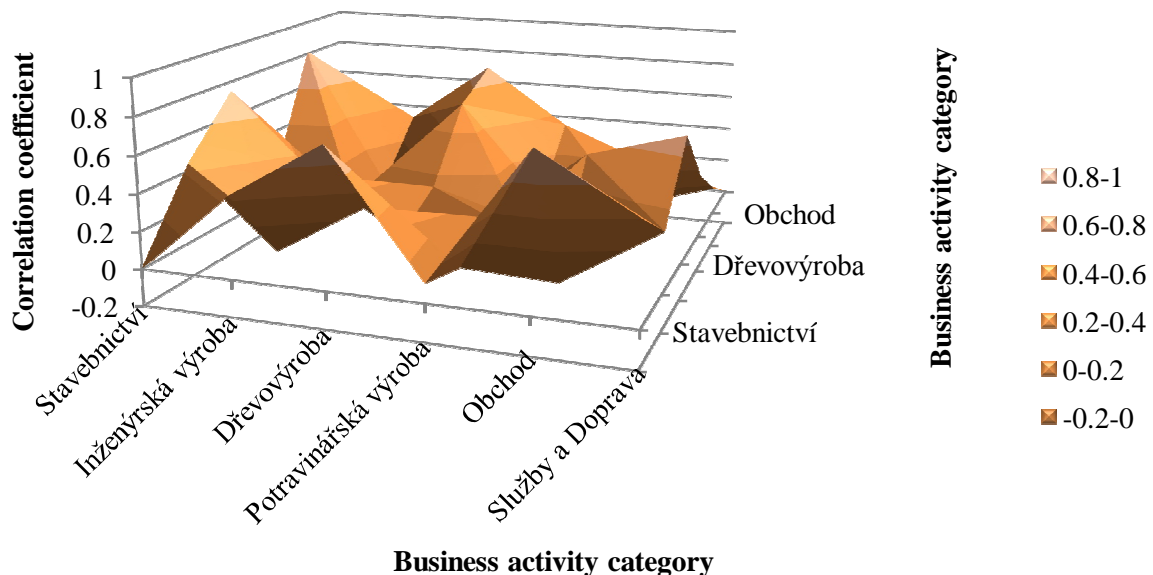
The strongest correlation (80%) was detected by strategy choice of product engineering and trading companies. Strong correlation (74%) was also found by determining strategy of building companies and wood processing companies. 68% correlation is visible by strategy choice of wood processing and service (transport included) companies. Last significant correlation, higher than 50%, were discovered by wood processing and trading companies; building and service companies (transport included). On the other hand no correlation was detected by determining strategy of production engineering and trading companies, food industry and trading companies.

**Table 9: Correlation coefficient of MSE strategy according to the business activity**

	Building Industry	Production Engineering	Wood Processing Industry	Food Industry	Commerce	Service and Transport
Building Industry		0,438736	0,741967	-0,102815	0,808746	0,518120
Production Engineering	0,438736		0,294688	0,022168	0,000000	0,319173
Wood Processing Industry	0,741967	0,294688		-0,146748	0,543214	0,683588
Food Industry	-0,102815	0,022168	-0,146748		0,000000	0,345930
Commerce	0,808746	0,000000	0,543214	0,000000		0,147087
Service and Transport	0,518120	0,319173	0,683588	0,345930	0,147087	

Source: Own survey

**Graf 7: Correlation coefficient of MSE strategy according to the business activity**



Source: Own survey

**4. Conclusion**

Majority of examined small and medium enterprises had formulated strategy, however, mostly just enterprises with more than 25 employees has also a written version. From business activity point of view is distinctly lower frequency of formulated strategy by wood processing companies, strategy is formulated and put down in words most often by trading and service (transport included) enterprises. Based on tested data the most frequent followed strategy is quality and stabilization, regardless of employees number category or business activity.



## 5. References

- Dedouchová, M., 2001. *Strategie podniku*. 1. vyd. Praha: C.H. Beck, 256 s. ISBN 80-7179-603-4.
- Keřkovský, M. a O. Vykypěl, 2006. *Strategické řízení: teorie pro praxi*. 2. vyd. Praha: H. Beck, 206 s. ISBN 80-7179-453-8.
- Kotler, P. a K. L. Keller, 2012. *Marketing management*. 14 vyd. New Jersey: Prentice Hall, 816 s. ISBN 978-0-13-210292-6.
- Řehoř, P., 2007. Analysis of the labour market due to the achieved level of entrepreneurial activities in the regions of the Czech Republic. Conference: 5th Scientific International Conference on Hradec Economical Days 2007, Location: Hradec Kralove, CZECH REPUBLIC Date: FEB 06-07, 2007. Pages: 248-253. ISBN 978-80-7041-824-6.
- Sedláčková, H. a K. Buchta, 2006. *Strategická analýza*. Praha: C. H. Beck, 121 s. ISBN 8071793671.
- Srpová, J. a V. Řehoř, 2010. *Základy podnikání : teoretické poznatky, příklady a zkušenosti českých podnikatelů*. 1. vyd. Praha: Grada, 427 s. ISBN 978-80-247-3339-5.
- Kolektív autorov: 2012. *Manažment malých a stredných podnikov*. 1.vyd. Nitra: Gramond, 331 s. ISBN 978-80-89148-85-1