

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

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**Abstract**—The strategic management represents current direction of management. It is applied in all types of enterprises, including small and medium sized ones. Using principles of process management within SMEs has its limitations caused mainly by the size of the enterprise and the related focus on operational management. Other specifics are function accumulation, informal leadership, preference of oral communication to written, etc. Nevertheless, implementation of strategic management can increase competitiveness, reduce costs, improve decision-making, facilitate implementation of the employee motivation system, shorten delivery times, raise quality of customer satisfaction, etc. The aim of this article is to find out how to what extent SMEs implement the principles of strategic management.

**Keywords**—strategic management; SMEs; strategy; quality and stabilization (key words)

## I. INTRODUCTION

SMEs are indispensable in all economies, can be described as a driving force of business, growth, innovation, competitiveness, and are also very important employers. In the Czech Republic 1 066 787 legal and natural persons who are placed in the category of small and medium-sized enterprises. Performed some business activity until 31st December 2011. From total number of active enterprises small and medium-sized enterprises created 99.84% in 2011. Percentage of employees in small and medium-sized enterprises amounted to 60.85% in relation to the employees of the Czech economy. According to Řehoř [1], in 2007 the small and medium-sized businesses will create and offer new and quality jobs.

According to Srpová [2], management of small and medium-sized enterprises 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, informal leadership is more common, oral communication is preferred to written, etc. According to the team of authors [3] however, a high degree of flexibility to adapt rapidly to changing SME factors determines the ability to face and reduce the growing globalization tendencies associated with the onset of multinational corporations and chains.

Strategic management, based on long-term forecasts, helps the company to anticipate future challenges and opportunities [4]. According Sedláčková, Buchty [5] 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 decision making. Keřkovský, Vykypl further say that strategic management helps improve communication in the company, project coordination, staff motivation and resource allocation.

Dedouchová [6] gives two definitions of strategy, traditional and modern. Traditional definition explains the strategy of the company as a document in which there are long-term objectives of the company, determined processes of operations and allocations of the resources needed to meet these goals. The modern concept sees the 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 company resources needed to meet these goals. It means the strategies are based on business needs, take into account the changes of their resources and capabilities, and at the same time adequately respond to the 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, [7] strategies express the basic idea of how to achieve the company goals.

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

## II. RESEARCH METHODOLOGY

This article represent one of the outputs of the research project "Process management and the possibility of its implementation in small and medium-sized enterprises of the " Grant Agency of the University of South Bohemia GAJU 068/2010/S and serves as one of the sources for grant GAJU 039/2013/S. The research project used secondary figures (financial statements of the surveyed SMEs) and primary figures which were obtained primarily through quantitative methods questionnaire supplemented by qualitative method of

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

TABLE I: Classification of SMEs.

Enterprise size	Number of employees	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. €

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

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 private entrepreneurs (77%) there dominate then 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 create 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 positions 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 basic aggregate with the method of improbability of random choice because of difficult conditions for 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 “tab. II” and III .

TABLE II. 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%

TABLE III. Composition of the research sample of small and medium-sized enterprises according to business activity.

Activity	Number of enterprises	
Building industry	51	27%
Engineering	57	30%
Wood production	22	12%
Food production	11	6%
Commerce	22	12%
Services and Transport	24	13%

### III. RESULTS

Differences concerning strategies and their formulation in individual categories of examined small and medium-sized enterprises are indicated in “Tab. IV and V”. From the point of view of categories according to number of employees, as in the “Tab. V”, it is evident, that the majority (always more than 60 %) of enterprises has formulated strategy.

In 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 company size. Micro-enterprises have written formulated strategy only in 9 % of cases, on the contrary medium-sized enterprises in 63 % of cases, at the same time enterprises with more than 150 employees have written formulated strategy in 83 % of cases.

TABLE IV. Frequencies of formulated strategies of examined small and medium-sized enterprises according to the number of employees.

Number of employees	Number of enterprises	Formulated strategy		Written formulated strategy	
		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%

The formulation of strategy from the point of view of categories according to business activity is shown in the “Tab. VI”. It is similar for all enterprises that always at least 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 commerce show a little bit lower frequency, 76 % of them have

formulated strategy and 44 % strategy in written form. Generally said 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 hand only 57% of enterprises which are focused on wooden production create strategies and only 14% of them have 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 a written form.

TABLE V. Frequency of examined SMEs with a strategy according to business area.

Business area	Number of enterprises	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%

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 bussines, 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 stabilization within the market but also on consolidation 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 VI. Frequency of followed strategies in examined SMEs according to the number of employees.

Number of employees	Number of enterprises	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%

Table VI shows the differences between strategies of SMEs from different categories. It can be seen that the strategy structure of examined enterprises is similar, similarity can also be seen in the 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 hand more than half (58%) of the enterprises with more than 50 employees follow this strategy. The 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. The last strategy "Profit" is followed by 5% of enterprises.

A Table VII show a similar analysis of SMEs presenting the results according to a business area. The structure of the implemented strategies is similar as above where the categories were created according to the number of employees, but some differences can be seen in the sequence 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", about half of them follow strategy focused on "development", and just 2% of the companies follow the strategy "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 sets 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 VII. Frequency of SME observed strategies according to the business activity.

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

favor of the alternative hypothesis that say that there is the 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 "Tab. VIII". 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 at 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 VIII. 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	

Causal effects of strategy choice among the observed small and medium enterprises according to the number of employees' category and the type of business activity were tested using statistical method of Kruskal-Wallis test. First, the relation between strategy choice and number of employees was tested. Based on the 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, the 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

#### IV. RESULT

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

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