

Behavior of small and medium-sized enterprises in terms of their strategic management and their goals

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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 size of the enterprise and the related focus on operational management. Other specificities are function accumulation, informal leadership, preference for oral communication before 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, higher quality of customer satisfaction, etc. The aim of this article is to find how much SME include principals of the strategic management. In the research project was used secondary data (financial statements of SMEs who took part in the research) and primary data which were obtained primarily through quantitative methods questionnaire supplemented by qualitative method of in-depth interviews. Majority of examined small and medium enterprises had formulated strategy. They are aimed mainly at stability, further at quality, development and profit.

Keywords—management, enterprise, SME, strategy, stability, development, profit

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 employer. In the Czech Republic performed on 31th December 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 small and medium-sized enterprises participated in 2011 is 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 [7] the small and medium-sized businesses will create and offer new and quality jobs. According to [10] 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 than written, etc. According to [11] 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. But the principle of important role of strategic management comes here in the force too [8]. Strategic management, based on long-term forecasts, helps the company to anticipate future challenges and opportunities [3]. According [9] 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. Reference [3] further states that strategic management helps improve communication in the company, project coordination, staff motivation and improve resource allocation. The strategy is the basic tool to reach advantages in the market [11]. By [5] the strategic management should be flexible to changed conditions in the market. By [2] the management should have the strategic plan and strategy.

The management of enterprises of different size and specialization are today under the press of advantages, challenges and problems connected with the function of worldwide markets. The different meaning of the term of management can be related as follows: people who wish to have a career as a manager must study the discipline of management as a means toward practicing the process of management. The process consists of certain basic management functions [13]. Global competition carries with it an ever increasing set of demands by the customers. Better quality, more features, better delivery, performance and reduced costs – all become part of the expectation for our customers [14]. Strategic management is that set of managerial decisions and actions that determines the long run performance of a corporation [15]. Strategy can be viewed as building defenses against the competitive forces or as finding a position in an industry where the forces are weaker. Changes in the strength of the forces signal changes in the competitive landscape critical to ongoing strategy formulation. In exploring the implications of the five forces framework [6].

Reference [1] gives two definitions of strategy, traditional and modern. Traditional definition 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 [4] strategies express the basic idea of which way the company goals will be achieved. There is no one best way to manage say [16].

The storied British banker and financier Nathan Rothschild noted that great fortunes are made when cannonballs fall in the harbor, not when violins play in the ballroom. Rothschild understood that the more unpredictable the environment, the greater the opportunity if you have the leadership skills to capitalize on it say.

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

II. METHODS

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 serves as one of the sources for grant GAJU 039/2013/S.

In the research project were used secondary data (financial statements of SMEs who took part in the research) and primary data 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 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.

Table. 1 Classification of SMEs

Enterprise size	Number of employees	Annual turnover	Annual balance sheet
	Number of employees (Annual Work Unit)		
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 was registered in 2011 68,826 economic entities from the selected category. 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 (Statistical bulletin- South Bohemian region, 2011). 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 constitutes 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 table 2 and 3.

Table. 2: Research Sample of Small and Medium-Sized Enterprises According to Number of Employees

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

Table. 3: 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%
Trade	22	12%
Services and Transport	24	13%

III. RESULTS

From the point of view of categories due to number of employees is evident, that the majority (always more than 60 %) of enterprises has formulated strategy. Differences concerning strategies and their formulation at individual categories of examined small and medium-sized enterprises are indicated in table 4.

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 figure number 1, 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. 4: 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%

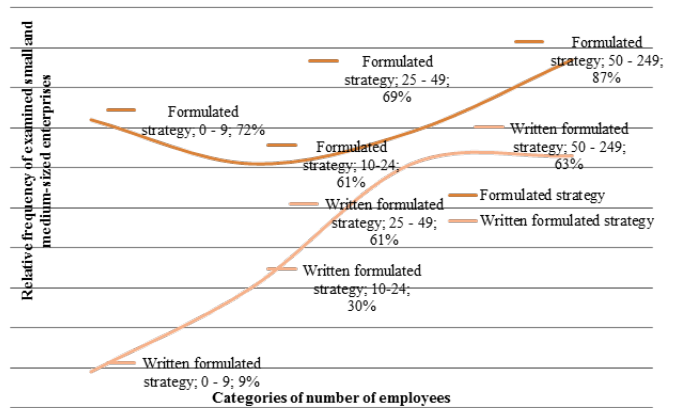


Fig. 1: Curves of Frequencies of Examined Small and Medium-sized Enterprises Having Formulated Strategy According to the Number of Employees

The formulation of strategy from the point of view of categories due to business activity is shown in the table 5. 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 figure number 2. The curves are basically copying the same line just with different values.

Table.5: 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%

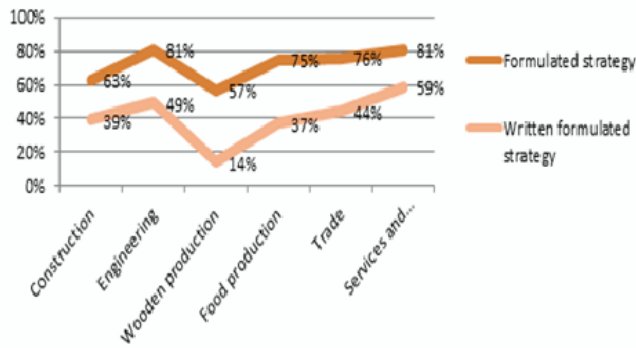


Fig. 2: Curves of Frequency of Examined SMEs with a Strategy according to Business Area

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:

- 1) "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
- 2) "Stability" (16% of examined enterprises) - enterprises focus on stability within the market but also stabilization of its internal environment, for example keeping the same number of employees
- 3) "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
- 4) "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 6 and figure 3 shows 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 "Stability" - 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.

Table. 6: 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%

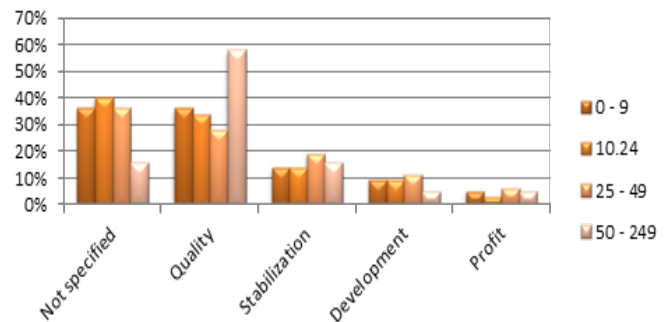


Fig. 3 : Frequency of followed Strategies in examined SMEs according to the Number of Employees.

Table 7 and figure 4 highlight a similar analysis of SMEs presenting the results according to a business activity. 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 "Stability" 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 and food production companies follow strategy of "Stabilization" similarly. Most trading companies (Trade, 52%) follow strategy of "Quality", 20% of companies are focused on strategy of "Stabilization", just 4% strive for fulfillment of "Development". 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. 7: Frequency of SME observed Strategies according to the Business Activity

Business activity	Frequency	Not specified	Quality	Stabilization	Development	Profit
Construction	51	38%	24%	23%	7%	8%
Engineering	57	36%	41%	10%	11%	2%
Wood production	22	19%	38%	33%	5%	5%
Food production	11	37%	38%	25%	0%	0%
Trade	22	24%	52%	20%	4%	0%

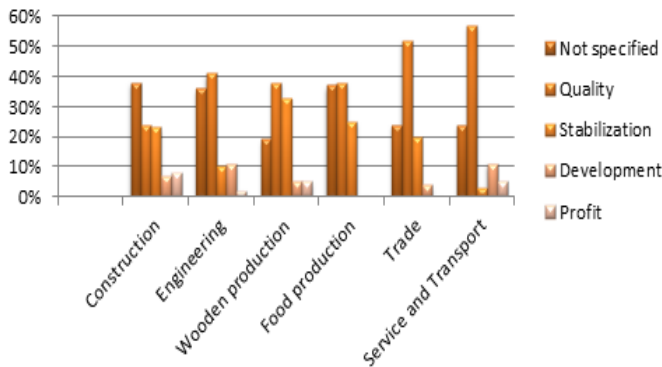


Fig. 4: Frequency of SME observed Strategies according to the Business Activity

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 -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 -value = $0,0492$). This relation was tested using correlation coefficient r . Interdependence of strategy choice and particular business activity is evident in table 8 and graphically in figure 5. 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. 8: 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	

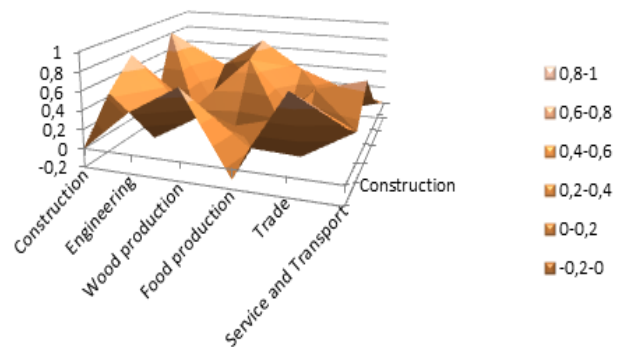


Fig. 5: Correlation Coefficient of MSE Strategy according to the Business Activity

Dedouchová [1] presented that majority of the small and medium sized companies has formally /as written document/ or not formally determined strategy. Presented research brought short term goals and brought also the similar results. Strategy has the goal to push forward the company towards to achieve short term goals and finally to achieve its basic purpose. The goals of the small and medium sized companies are often based on personal goals and preferences of the owners. Determined goals in such a way are logically very subjective, they are often not chosen correctly in comparison with the milieu where the companies create activities. The goal of the company should always correspond with the chosen mission and should put into respect strong and weak aspects of undertaking, opportunities and distress, which the company can use or must face them. In general the goal of the company should answer the basic questions of undertaking and present requested result. According to Minářová and Malá [12] target of any company consists from different aims, which management wants to reach and which should be guaranteed by performance of different activities. These targets should be ambitious, easy to accomplish, quantifiable.

In the research sample of the small and medium sized companies in the frame of research there were identified 6 categories of the company goals. The category “Quality” was dominant. The companies presented for their goal both

satisfaction of the customers (also employees) increasing the quality, good name of the company and flexibility. Following most often presented goal was “Development”, the development of the whole company and separate development of the partial parts too. Innovation was also presented as the main goal in this category. Category “Stability” has also very strong representation, the companies presented the whole stability at the market and also stability of prices. In this category the companies also mentioned keeping the number of employees. Another goal is connected with this matter and it is covering the market and Survival, which was followed in minimum cases. Concerning studying small and medium sized companies the goal Profit was, of course, dominant one.

In the table 9 and figure 6 numerousness of searching of the goals of some small and medium sized companies according to the number of employees is presented. Following characteristics can be seen from these results. Concerning micro companies the goals are concentrated on “Quality” (64 percent), further “Development” (50), and “Stability” (41) on the contrary, no company follows the goal “Survival”. The small companies to 24 employees follow the goal Stability in 57 percent cases. In the small companies with more than 25 employees the main goals were “Quality”, “Development” and “Stability” (55 percent). These companies (the same as micro companies) do not follow the goal “Survival”, in comparison with the small companies to 24 employees, that follow this goal, but only in 4 percent. The medium sized companies follow in a dominant way the goal “Profit” (55 percent), the second most often followed category is “Development” (46). 43 percent medium sized companies follow the goal “Stability” and 34 percent the goal “Quality”. Minimum medium sized companies follow the goal “Survival” and “Covering” the market.

Table. 9: Numerousness of the studying Goals of searched MSP according to the Number of Employees

Number of employees	Number of the comp.	Goal					
		Quality	Covering of market	Survival	development	Stability	Profit
0-9	20	64%	18%	0%	50%	41%	32%
10-24	69	43%	4%	6%	32%	57%	40%
25-49	35	55%	8%	0%	55%	55%	33%
50-249	60	34%	8%	8%	46%	43%	51%

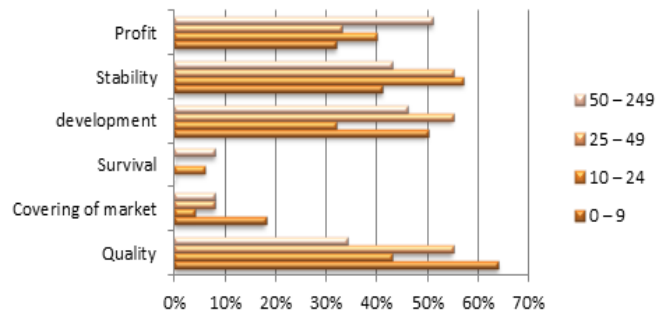


Fig. 6: Numerousness of the studying Goals searching MSP according to the Number Employees.

Table 10 and graph 7 show numerousness concerning diversity according to the activity of the studying small and medium sized companies.6 categories of goals were analysed here. Category Quality is dominant in the business companies (72 percent).Also less than 50 percent companies follow this goal in engineering production, on the contrary, food companies follow this goal minimum /18/,this group follows mainly category Stability in 73 percent cases. Companies in construction and wood working ones follow the goal very strongly .Business companies follow this goal very rarely Following the goal in the category of Covering the market was minimum in all studying activities of research of small and medium sized companies. Companies working in services including transport follow this goal in 15 percent and companies in engineering production follow this goal least of all in 4 percent. The goal Survival is minimum followed, food companies and business companies do not follow this goal at all. The rest of the companies shows only in 5 -7 percent. In total 60 percent small and medium sized companies in engineering production follow the goal Development, 48 percent in services including transport and 38 percent wood working companies. Construction companies follow this goal minimum (27).The goal Profit is strongly dominant for no category of the companies. This goal is followed by 55 percent construction companies, 43 percent woodworking companies, 42 percent companies in services. Food companies follow this goal only in 18 percent.

Table 10: Numerousness of the Goals examined MPS according to the activities.

Activity	Number of companies	Goals					
		Quality	Covering of market	Survival	Development	Stability	Profit
Construction	50	40%	7%	7%	27%	62%	55%
Engineering	57	49%	4%	7%	60%	38%	36%
Woodworking	22	29%	5%	5%	38%	71%	43%
Food	11	18%	9%	0%	36%	73%	18%
Trade	21	72%	12%	0%	36%	28%	36%
Service and Transport	23	36%	15%	3%	48%	42%	42%

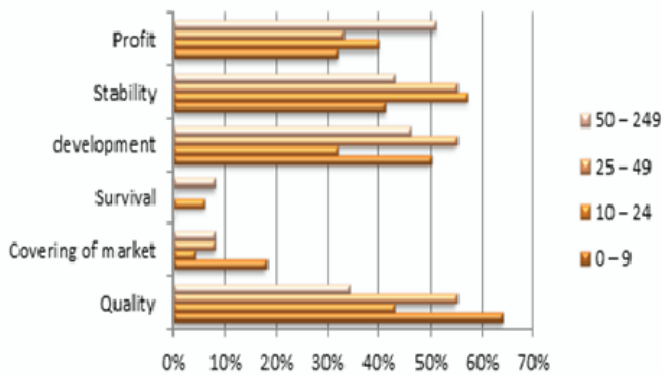


Fig. 7: Numerousness of studying Goals examined MPS according to the activities

As it was mentioned above, the goal of the company should set off the basic mission of the company with the respect to the weak and strong side. These matters were also analyzed in the examined small and medium sized companies and are presented in the figures 8 and 9. It can be seen that the companies consider very strong sides resp. Competitive advantage “Range” (38 percent), and “Quality of work” (36). 22 percent companies consider very strong page “Flexibility” and 16 percent numerousness “Know-how”. The remained strong pages that were presented by the small and medium sized companies were not more than 10 percent. There was, for example, personal approach, good name of the company, quality of employees, reliability etc.

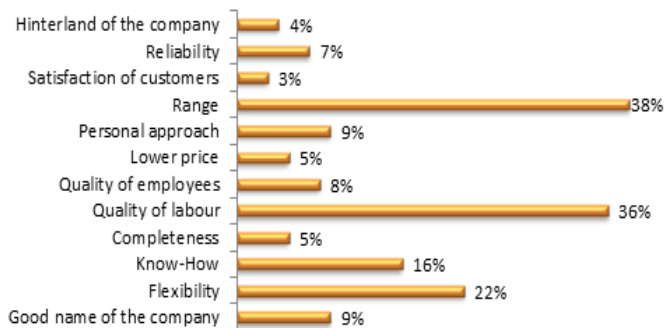


Fig. 8: Numerousness of strong Sides (competitive Advantages) examined MSP

Most often presented weak side resp. threat was insolvency of the customer-40 per cent examined small and medium sized companies. In total 25 percent companies presented decline of sale, less than policy of the state, growth of costs, and 18 percent companies presented competition. About 10 percent companies presented decline of demand, lack of qualified workers, economic crisis, but also low innovation or poor knowledge of languages of employees.

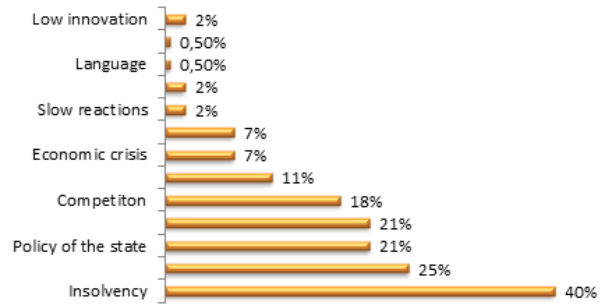


Fig. 9: Numerousness of weak Side (threats) of examined MSP

IV. 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.

In the case, the company has determined goal, it is aimed mainly at stability, further at quality, development and profit. Small companies follow more quality and development, but medium sized companies follow mainly development and profit. Examined small and medium sized companies consider their strong pages mainly range and quality of work and on the contrary as threat insolvency.

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