

How the Business Strategies of Small and Medium Sized Enterprises are Affected Based on Their Size and Business Focus

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Abstract: *The Current global environment requires that enterprises should have a clearly determined vision and direction, which they want to head for. This paper deals with the process management of small and medium sized enterprises according to the number of employees and business focus. The aim is to analytically describe the business strategies of surveyed small and medium sized enterprises and their differences based on company size and business focus. Furthermore, to statistically analyse and compare the causal effect between strategy selection and affiliation to examined categories of small and medium sized enterprises. Statistical analysis deals with relative frequencies, graphical analysis and the Kruskal Wallis test complemented by analysis of the correlation coefficient. The results show, except in the case of analytical description of strategies within surveyed small and medium sized enterprises, findings dealing with causal effects of strategy selection between surveyed enterprises according to their business activities too. This article was supported by a grant project GAJU 039/2013/S.*

Key words: Small and medium sized enterprises · Process management · Business Strategies · Company size · Business Focus

JEL Classification: L53 · M12

1 Introduction

Small and medium sized enterprises are the driving force behind business, growth, innovation and competitiveness and are also significant as employers throughout the world economy. According to Kotlárová (2011) the share of small and medium sized enterprises covers over 99% of European businesses and provides over 60% of all jobs in the Czech Republic. This is confirmed by the report on the development of small and medium sized enterprises. The proportion of small and medium sized enterprises was 99.84% (2011) in the total number of active business entities in the Czech Republic, which amounted to 1 066 787 legal entities and ordinary people. The proportion of employees of small and medium enterprises, within the total number of employees, was 60.85% (1 865 000 employees) in the business sector in the Czech Republic (Ministry of industry and trade, 2011).

The definition of small and medium sized enterprise is most often based on the Commission Regulation No. 800/2008 (European commission, 2006). The basic criteria for assessing the size of the enterprise include the number of employees, which is used in this article. Small and medium sized enterprises are considered businesses that employ fewer than 250 employees according to many authors, such as Kislingerová & Nový (2005), Dvořáková (2007), Veber & Srpová (2008) and, also, according to the European Commission.

Kleibl, Dvořáková & Šubrt (2001) state that one of the most important factors affecting the success or failure of a company in the challenging competitive environment of the market economy is

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the quality of the human factor. Since the beginning of its formation; personnel management was considered to be an important and an integral part of process management (Welch, 1994).

According to Truneček (2004) there is a positive phenomenon at present, in which there is a distinct shift of Czech companies towards procedural orientation control – more than 60% of businesses are focused on the management of complex processes as opposed to managing individual isolated operations or functions. Also, Svozilová (2011) says that process management and related process improvement has become a normal part of strategic approaches to management and they have already found their place in the corporate culture of many companies.

The main purpose of existence is to create a product output process (Rolínek, 2008). At the beginning of every process we receive some inputs, those subjected go through a transformation that is maximally adjusted to and, at the end of the process, we are getting the output that someone else needs (Svozilová, 2011). Řepa (2007) states that improving business processes are now a bare necessity to keep a firm in the market. Process management represents the systems, procedures, methods and tools, ensuring maximum performance and continuous improvement of corporate and inter-company processes, which are based on a clearly defined strategy and organization in order to meet the laid down strategic objectives (Šmída, 2007).

Strategic direction, based on the long-term forecast of company development, helps to anticipate future problems and opportunities. Its application is extended to prepare the organisation to address the main problems and obstacles to further development (Keřkovský & Vykypěl, 2006). According to Sedláčková & Buchta (2006), strategic management gives clear objectives and directions for the future of a company and feelings of security for employees. It is known that most of the people work better when they know what is expected of them and where the company is heading. Strategic management, also, helps to improve the quality of management and leads management staff to a better quality of decision-making. Keřkovský & Vykypěl (2006), also, note that strategic management helps to improve: communication within enterprise, project coordination, motivation of workers and improve the allocation of resources. According to Kotler & Keller (2007) strategies reflect the basic ideas about the way in which corporate goals will be achieved.

Dedouchová (2001), presents two definitions of the strategy - traditional and modern. The traditional one perceives strategy as the understanding of documents, which are determined by the company's long-term objectives and which set out the progress of individual operations and the deployment of resources necessary for the fulfilment of the objectives. The modern concept perceives strategy as a company's readiness to understand the future. The strategy sets out the long-term objectives of the company, the progress of the strategic operations and deployment of resources required to meet the objectives; so that the strategy is based on the business needs, takes account of the changes to its resources and capabilities, and at the same time, adequately responds to the changes in its surroundings. From the modern concept comes the premise that, strategy should represent competitive advantage, it should specify the basic parameters of the business, the product mix, production volume, etc., and, last but not least, the strategy fundamentally determines the tasks of the tactical and operational levels of management (Johnson, Scholes & Wittington, 2006). Nothing should be seen as static and unchanging within corporate strategy; every piece of strategic thinking needs to be dynamic, as is the firm itself. The consistency of the corporate vision, corporate policies and corporate strategies in ever-changing situations is indispensable. This is true now more than ever (Mallya, 2007).

2 Methodology

The aim of this paper is to analytically describe the corporate strategy of the examined small and medium sized enterprises and their differences based on company size and business focus and,

in addition, to statistically analyse the causal effect of the strategy focuses within the selected categories of small and medium sized enterprises.

The data was obtained in the framework of the grant project GAJU 068/2010/S "process management and its implementation in small and medium business", where the process management of small and medium sized enterprises was examined within a randomly selected sample of 190 enterprises in South Bohemia. A structured questionnaire was drawn up, which examined the basic characteristics of the enterprises and the elements of process management that have been examined in detail within the sub-processes and indicators. Quantitative research, by questionnaire survey, was carried out in the period from September 2010 to April 2011 and it was completed with qualitative research, in the form of in-depth interviews, with the top management of the enterprises.

The chosen sample of small and medium sized enterprises was, for the purpose of this paper, categorized by size (based on the number of employees) and by business focus. For the distribution, according to the number of employees, there were chosen 5 intervals; 1-9 employees (11% of the surveyed enterprises, micro-enterprises), 10-24 and 25-49 employees (37% and 20% of the surveyed enterprises, small enterprises), 50-149 and 150-249 employees (23% and 9% of the surveyed enterprises, medium-sized enterprises). For distribution by business focus, classification of economic activities CZ-NACE was used, but in a simplified form. Within the secondary sector of the economy there were construction industry (24% of the sample) and production (43% of the sample), and in the tertiary economy there were trade (13% of the sample) and services (20% of the sample).

The data were statistically processed and analysed, in MS Excel 2010 and Statistica 10. The relative and absolute frequencies were analysed using graphical analysis. Due to data not meeting the parameters for the use of probability (parametric) statistical methods for the analysis of the causal effect, the improbability (non-parametric) method of Kruskal Wallis test was used (statistic H (degrees of freedom df , number of observations, N)). Data were analysed on significance level $\alpha = 0.05$, so the results are presented with 95% confidence. Null hypothesis ($H_0: x = \tilde{x}$) argues that the separation of the two samples are identical (between dependent and groupable variables there is no relation), an alternative hypothesis ($H_A: x \neq \tilde{x}$) contends that there is a difference between samples (there is a relationship between variables). The validity of the hypothesis was based on the resulting value due to the *p-value*. In the case of rejection of the null hypothesis in favour of the alternative one, the correlation coefficient r (-1, 1) was used to analyse the relationship.

3 Results and discussion

Every business, as well as ones belonging to the category of small and medium sized enterprises, comes to the market with a certain strategy. The ability of firms to compete in today's business environment, which is constantly changing, requires highly competent leadership, in which Czech companies show significant gaps, according to Mallya (2007), particularly with regard to the lack of strategic thinking and feeling. The size of the company is one of the key factors in determining form and content of the strategy. Most of the small and medium sized enterprises (73%) have formulated strategy that is, often, only in the form of a certain intuitive vision of the owner, often it is not even perceived as a strategy, which can, also, be assumed for the remaining 27%. This finding corresponds with the fact that the strategy have set out in written form only 44% of the sample.

Differences, relating to strategies and their formulation, for the different categories of small and medium sized enterprises are shown in tables 1 and 2. Results, dealing with categories according to the number of employees, as shown in table 1, demonstrate that it is evident that the majority (more than 60%) of businesses have formulated a strategy. Typically, for medium sized businesses with more than 50 employees, the frequency ranges from 80% to 90%. One surprise is that 72% of micro

enterprises have also formulated a strategy. The frequency of a written formulation of the strategy logically grows with the size of the enterprise. Thus, micro enterprises have a written form of strategy in only 9% of cases; in contrast, companies with 150 to 249 employees have a written form of strategy in 83%, which corresponds to the frequency with the formulated strategy as well.

Table 1 Relative frequency of designing strategy of small and medium sized enterprises according to the number of employees

Number of employees	Representation of enterprises	Designed strategy		Designed strategy in written form	
		Yes	No	Yes	No
1 - 9	11%	72%	28%	9%	81%
10 - 24	37%	61%	39%	30%	70%
25 - 49	20%	69%	31%	61%	39%
50 - 149	23%	88%	12%	54%	46%
150 - 249	9%	83%	17%	83%	17%

Source: based on survey of 190 SME's from South Bohemia

The formulation of the strategy, in terms of categories, according to business focus is shown in table 2. Similarly, for all enterprises, at least 60% of them have a formulated strategy. A formulated strategy is most prolific in the area of services (81%), and, in which area, there is a large (59%) in written form. A little less frequency is shown in the category of trade - with 76% of formulated strategy and 44% with a written form of strategy. Businesses focus on production shows, almost, the same results – 74% of formulated strategy and 40% with a written form of strategy. The lowest frequency, within these categories, is in the construction industry, which have a formulated strategy in 63% of cases, and in a written form in only 39% of cases.

Table 2 Relative frequency of designing strategy of small and medium sized enterprises according to the business focus

Business focus	Representation of enterprises	Designed strategy		Designed strategy in written form	
		Yes	No	Yes	No
Construction industry	24%	63%	37%	39%	61%
Production	43%	74%	26%	40%	60%
Trade	13%	76%	24%	44%	56%
Services	20%	81%	19%	59%	41%

Source: based on survey of 190 SME's from South Bohemia

Strategies of small and medium sized enterprises

Definition of the objectives of the company and the determination of appropriate strategies to achieve them is the main determinant of success and a firm's survival. Mallya (2007), stated that strategy, typically, deals with the survival or demise of an organisation. The strategies of the examined small and medium sized enterprises are focused on survival. 4 unified strategies were analysed, based on the following designations.

"Quality" (the strategy's focus in 41% of enterprises): business is focused on quality in all aspects of business, business ethics, in striving the good name of the company, focusing on the customer and ensure their satisfaction, in striving reliability and flexibility in daily practice and at the same time the satisfaction of employees is ensured.

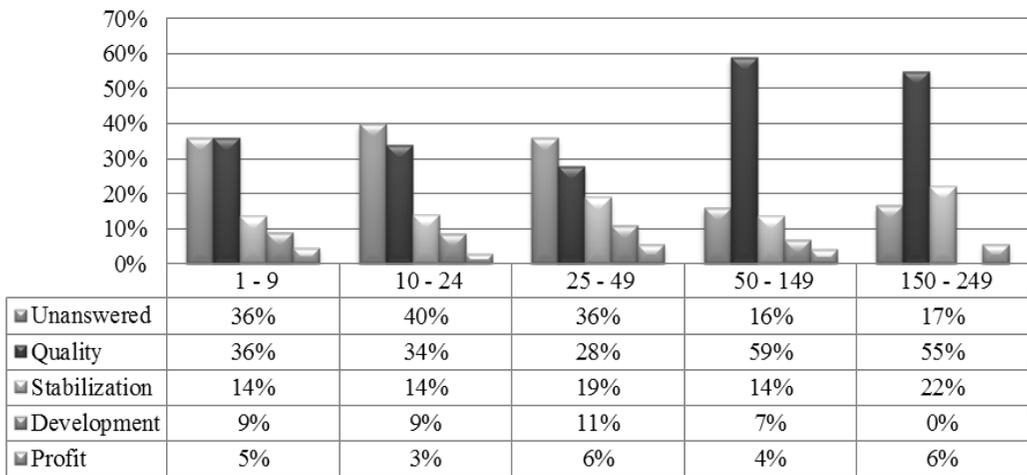
"Stabilisation" (the strategy's focus in 16% of enterprises): the intention is to stabilise the company in the market as a whole, but at the same time to stabilise the internal environment of the company, such as maintaining the existing number of employees.

"Development" (the strategy's focus in 8% of enterprises): business is focused on the development of business, whether in terms of expansion of production or services, and, also, in the context of market coverage and innovation.

"Profit" (the strategy's focus in 4% of enterprises): business is focused on maximising profits with a steady best-growing trend, which applies to both sales growth and a reduction in expenses.

Differences, concerning the specification of the strategy for the various categories of small and medium sized enterprises, are shown in figures 1 and 2. Figure 1 shows the differences between the categories of the number of employees. The dominant strategy is "Quality", which is mostly followed by medium sized enterprises with 50 to 149 employees. However, this strategy is also widely dominant, regardless of the number of employees. In second place is the strategy, "stabilisation", which is dominant for small enterprises with 25 to 49 employees. Third place belongs to the strategy, "development", which is mostly followed by the same type of enterprises and, lastly, the strategy "profit" is used by, only, 3 to 6% of surveyed enterprises.

Figure 1 Relative frequency of monitoring strategy of small and medium enterprises according to the number of employees

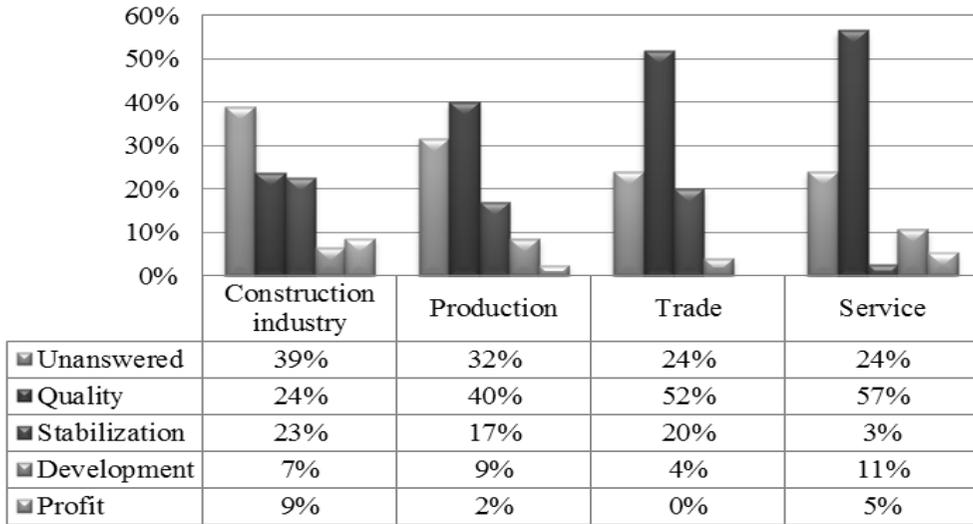


Source: based on survey of 190 SME`s from South Bohemia

Figure 2 shows a similar analysis, in terms of categories of small and medium sized enterprises, according to the business focus. There is, almost, the same composition of the strategies, but compared to the analysis of the relative frequency, in terms of categories according to the number of employees, there are noticeable differences in the order of relative frequency. Enterprises operating in the construction industry often pursue a strategy of "quality" and "stabilisation"; a strategy focus on "profit" is followed by 9% of construction enterprises and about two percent less follow the "development" strategy. For the enterprises, focus on production is, once again, the most tracked "quality" strategy, but it is more dominant, since it's a way towards meeting the objectives for 40% of businesses. 17% of businesses engaged in production follow a strategy of "stabilising", about half of this number pursue a strategy of "development" and only 2% of companies pursue a strategy of "profit". Most businesses in the area of trade (52%) follow a strategy of "quality", 20% of com-

panies focus on a strategy of "stabilisation", only 4% of businesses seek to pursue a "development strategy" and no one from this area follows a strategy of "profit". Similarly, the enterprises acting in the service area usually pursue a strategy of "quality" (57%) and, on the other hand, the least focus is on the strategies of "profit" (5%) and "stabilisation" (3%).

Figure 2 Relative frequency of monitoring strategy of small and medium sized enterprises according to the business activities



Source: based on survey of 190 SME`s from South Bohemia

The causal effects of strategy focus among categories of examined enterprises

Causal effects between strategy selections among small and medium sized enterprises in the five categories, according to the number of employees and for four different categories, according to business focus were analysed by the Kruskal Wallis test. Firstly, the relationship between strategy selection and affiliation to category according to the number of employees was tested, with the following results.

$$\begin{aligned}
 H &= 6,675946 \\
 df &= 4 \\
 p - value &= 0,1540 > \alpha = 0,05 \\
 &\text{confirmation of } H_0
 \end{aligned}$$

On the basis of data with a 95% probability, it is possible to confirm the null hypothesis that claims that there is no relationship among variables. The casual effect was also tested for a relationship between strategy selection and affiliation to category according to business focus with the following results.

$$\begin{aligned}
 H &= 7,849167 \\
 df &= 3 \\
 p - value &= 0,0492 < \alpha = 0,05 \\
 &\text{rejecton of } H_0 \text{ in favor of } H_A
 \end{aligned}$$

On the basis of data with a 95% probability, it is possible to reject the null hypothesis in favour of the alternative one that claims that there is a relationship among variables. This relationship was further analysed by using the correlation coefficient *r*.

Correlation between the construction industry and production $r = -0.017210$ (1.72%)

Correlation between the construction industry and trade $r = 0.361093$ (36.11%)

Correlation between the construction industry and service $r = -0.183739$ (18.37%)

Correlation between production and trade $r = 0.114391$ (11.43%)

Correlation between production and service $r = -0.284803$ (28.48 %)

Correlation between trade and service $r = -0.273507$ (27.35 %)

Correlation coefficients show a certain dependency in strategy selection among categories according to business focus, but it is only a small dependence. The strongest correlation is between the construction industry and trade (36%), as well as for enterprises operating in production and services (28%) and for enterprises involved in trade and services (27%).

4 Conclusion

The aim of this paper was to analytically describe business strategies of small and medium sized enterprises and their differences on the basis of the size of the enterprise and its business focus. Most of the surveyed companies have a formulated strategy, but only less than half of the enterprises in written form. Research further demonstrated that, although small enterprises showed a frequency of formulating strategies about 60%, greater frequency has been proven within micro enterprises. Strategy selection, with respect to the number of employees, was focused on survival within four key strategies; "quality", "stabilisation", "development" and "profit" in this order with respect to the frequency of monitoring. Within categories of business focus similar results were found; only, in the construction industry, there was a more noticeable effect of the current crisis in this sector. Construction companies are, mostly, focused on the strategy of "stabilising" and, at the same time, only a minimum of these enterprises are committed to a strategy of "development" in comparison with other enterprises.

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