

## SELECTED ASPECTS OF STRATEGIC MANAGEMENT IN SMALL ENTERPRISES IN SERVICES

Monika Maříková<sup>1</sup>, Ladislav Rolínek<sup>2</sup>, Jaroslav Vrchota<sup>3</sup>, Petr Řehoř<sup>4</sup>

<sup>1</sup> Ing. Monika Maříková, Ph.D., University of South Bohemia, Faculty of Economics, marikova@ef.jcu.cz

<sup>2</sup> doc. Ing. Ladislav Rolínek, Ph.D., University of South Bohemia, Faculty of Economics, rolinek@ef.jcu.cz

<sup>3</sup> Ing. Jaroslav Vrchota, Ph.D., University of South Bohemia, Faculty of Economics, vrchota@ef.jcu.cz

<sup>4</sup> doc. Ing. Petr Řehoř, Ph.D., University of South Bohemia, Faculty of Economics, rehor@ef.jcu.cz

**Abstract:** Currently due to constant changes, it is imperative for the enterprises to place great emphasis on how they are managed. Changes that come from the neighbourhood are common and the enterprises need to be able to react quickly and flexibly to them. Introduced strategic management helps the enterprise to find possible starting points for changes that are so typical of today's times. The research shows that the small enterprise in the area of the services pay considerable attention to competition and track changes in the market, they can precisely define their competitive advantage, weakness, opportunities and threats. They also carry out the activities related to strategic management, rather unknowingly. The strategies of small enterprises in services are most likely either similar to those of their competitors or they are not pursuing a competitive strategy because they offer a unique product. The focus of the corporate strategy is most often either to differentiate the product from the competition or to focus on part of the market where other enterprises do not operate.

The enterprises pay close attention to competition monitoring. The enterprises see "strong competition" as their weakness. The small enterprises also report "internal processes". The other enterprises often report "dependence on inputs". "Everything about competition" is identified as the greatest threat by the other enterprises even more compared to the small enterprises in services. The other enterprises are also worried about "increased input prices".

The enterprises are well aware of their competitive advantage, stressing that it is "professionalism, expertise, experience and reliability". Interestingly, the "price" is considered a competitive advantage in one case only.

The strategy is "similar to the strategies of the competitors" for most of the enterprises. The small enterprises also mentioned the answer "totally different from the competitors" and that "they do not follow the competitors". Business strategy is most often focused on "differentiating the product from the competition", the other enterprises also focus on "cost cutting"; and the small enterprises in services "focus on parts of the market where the competitors do not operate."

**Keywords:** SMEs, strategic management, strategy

**JEL Classification:** L1

---

### INTRODUCTION

Currently due to constant changes, it is imperative for the enterprises to place great emphasis on how they are managed. These are the management methods that indicate the direction of the enterprises. As the optimal way of corporate governance is constantly changing, the management must adapt to the current needs. Changes that come from the neighbourhood are common and the enterprises need to be able to react quickly and flexibly to them. In most cases, it is not easy to create any predictions. The enterprise is not alone on the market; and many competitors are waiting for its mistakes. Competition should not be viewed at regional and state level; it must be seen by competitors from a global perspective. All these topics resonate with the enterprises of all sizes. Even small enterprises and their management are often looking for an answer to the question of how to overcome the obstacles they face every day

with an appropriate tool. Introduced strategic management helps the enterprise to find possible starting points for changes that are so typical of today's times. Modern strategic management offers many tools that can help deal with the problems of small enterprises and even to prevent such issues. In addition, there are tools that are up to date and available.

## 1. LITERATURE REVIEW

The paper deals with the strategic management of small enterprises in the area of services. Small enterprises are discussed as they are the driving force of economic growth; they absorb labour and are a social and economic asset.

Their importance is evidenced by their representation in both the Czech Republic and the European Union (in 2013, the small enterprises, including the micro-enterprises, accounted for 98.7% of all the business entities in the Czech Republic; in 2014, together with medium enterprises, they contributed to the total value added of 53.1 % and total employment from 59.4%) (European Commission, 2014; Ministerstvo průmyslu a obchodu, 2015). During the structural changes they are a stabilizing element of the economy. Service industries are largely involved in GDP (58%) and employment (57%) in the Czech Republic (Srpková, Veber; 2012).

The paper defines small enterprises as such enterprises as defined by the new definition of small and medium-sized enterprises which entered into force on January, 1st 2005, see figure 1 (European Commission, 2006). A small enterprise employs fewer than 50 employees, the annual turnover is not more than EUR 10 million and the balance sheet total does not exceed EUR 10 million. A micro-enterprise is considered to be an enterprise employing fewer than 10 employees, an annual turnover or, where appropriate, a total balance sheet total, does not exceed EUR 2 million.

Small enterprises often focus their business activities on services. Although, as a rule, services are a part of the tertiary sector, they are a significant part of the gross domestic product, and a significant percentage of people are also employed in this area. Nevertheless, the Czech Republic lags behind the European Union average. In the Czech Republic, services account for about 58% of GDP, 57% for total employment and 12% for exports, as Veber and Srpková (2012) report.

According to the Central Intelligence Agency (2014), services in the Czech Republic accounted for 60.3% of GDP in 2012, 37.3% for industry, and 2.4% for agriculture. There were 366 325 economically active small and medium-sized enterprises in total operating in services in 2013 (CZ NACE L:S).

These enterprises employed a total of 346,000 people (decreased by 4.7% compared to 2012). The performance was CZK 811,312 million in 2013 (a decrease of 0.8% compared to 2012), while the added value increased by 2.7% to CZK 8,875 million.

The definition of a service is quite ambiguous, and there is no such definitions recognized as universal. The European Union defines the services by listing the activities that do not fall within the scope of services. From a legal point of view, this is a service if it is understood to be the performance of work and performance on the basis of an agreement between the contracting partners. From the point of view of the national economy, the service sector is referred to as the "tertiary sector", which covers all sectors of human activity, the essence of which is the provision of services, i.e. labour, knowledge, finance, infrastructure, products or their combination (Managementmania, 2014). For statistical purposes and the possibility of comparison, the NACE classification system is used in the Member States of the European Union. CZ NACE is used in the Czech Republic. NACE is a classification of economic activities. There are many definitions of strategic management; some of them are listed below.

Fig. 1: Classification of SMEs

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: Own processing

“Strategic management is a set of decisions and actions that lead to the development of an effective strategy or strategies that help achieve corporate goals.” (Glueck & Jauch, 1984) “Strategic management is the process of identifying long-term goals and intentions, adapting to environmental conditions and allocating resources to the organization in relation to the goals set.” (Cole, 2004) “Strategic management is a set of management decisions and activities that determine the organization's long-term performance. This affects all basic managerial functions. Organization strategies must be planned, organized, implemented and controlled.” (Coulter, 2004)

## 2. METHODS

The paper is based on the research of 156 enterprises regardless the number of the number of their employees and the area of competence in the Czech Republic. The categorization according to CZ NACE and the number of employees was used for the selection of the sample of small enterprises operating in the service industry. In the paper, the small enterprises are considered to be such enterprises employing up to 49 employees (including enterprises without employees). Other non-service enterprises and enterprises employing more than 49 employees are considered as other enterprises.

The data was tested using the SPSS statistical software. In the first part, the dependency analysis was carried out using the contingency tables, especially for a simple description of the frequencies and percentages in the groups, and for the association of variables and homogeneity groups by hypothesis testing and measuring the intensity of the relation and the non-distributions (Řehák & Brom, 2016) If the assumption for chi-quadrade test in the contingency table is not met, then the exact tests (such as Fisher's exact test) are used (Mehta & Patel).

If the relative frequencies of the population are labelled as  $\pi_{ij}$  (their point estimators are  $p_{ij}$ ), the null hypothesis is described as  $H_0: \pi_{ij} = \pi_{ij,0}$ , with  $\pi_{ij,0}$  as the relative frequency in case of the independence expressed from  $\pi_{ij,0} = p_{i+}p_{+j}$ . Such null frequency is tested compared to the alternative hypothesis  $H_A$ . As the test criterion, Pearson's chi-quadrade statistics can be used, expressed by the relationship of:

$$\chi_P^2 = \sum_{i=1}^R \sum_{j=1}^S \frac{(n_{ij} - n\pi_{ij})^2}{n\pi_{ij,0}} \text{ or } \chi_P^2 = n \sum_{i=1}^R \sum_{j=1}^S \frac{(n_{ij} - p_{i+}p_{+j})^2}{p_{i+}p_{+j}} \quad (1)$$

$$\text{Or a possible simple description } \chi_P^2 = \sum_{i=1}^R \sum_{j=1}^S \frac{(n_{ij} - m_{ij})^2}{m_{ij}} \quad (2)$$

(Hebák et al., 2004; Chráska, 2007)

Exact tests make it possible to make reliable conclusions if the data is low, they are thin, strongly bound and unbalanced, achieved by calculating the exact p-value values. Specifically, exact tests are used when it is not possible to use an asymptotic method for failing to meet basic assumptions (Dřimal, Trunec & Brablec, 2006; Mehta & Patel).

Two groups of the enterprises were tested in the paper. One group consisted of small enterprises operating in the services and the other group all other enterprises not belonging to the first group. At the chosen level of significance  $\alpha = 0.05$  a zero hypothesis ( $H_0$ ) was tested to which the alternative hypothesis ( $H_A$ ) was formulated.  $H_0$  = both groups enterprises are not statistically significant;  $H_A$  = non  $H_0$ .

After finding the dependencies between the values, it was tested in which combinations of monitored characters the associated frequencies differ statistically from the hypothetical frequencies. For these reasons, a contingency scheme was constructed as follows: for each field of the table, a fourfold table was drawn up; significance levels were defined  $\alpha_1 > \alpha_2 > \alpha_3$  ( $\alpha_1 = 0.05$ ;  $\alpha_2 = 0.01$ ;  $\alpha_3 = 0.001$ ), rejection limits are defined  $\chi^2 = 0.095 [1] = 3.84$ ;  $\chi^2 = 0.099 [1] = 6.63$ ;  $\chi^2 = 0.0999 [1] = 10.83$ . Partial tests of  $\chi^2$  are carried out. The value of the test criterion ( $G_{ij}$ ) is calculated for each field; the difference between the empirical and theoretical variables is expressed by signs (the positive sign means that the empirical frequency is greater than the theoretical, the negative sign means the opposite), the number of signs is assigned on the basis of:

$(G_{ij}) > 10.83$	+++ or - - -
$6.63 < (G_{ij}) < 10.83$	++ or - -
$3.84 < (G_{ij}) < 6.63$	+ or -
$(G_{ij}) < 3.84$	0

Source: Blatná, 1994

The level of strategic management was determined on the basis of the LSM indicator (Maříková, 2017).

### 3. RESULTS

Knowing and identifying the threats that affect the enterprise is very important. If an enterprise knows what threatens it, it can effectively prevent and effectively defend it.

The enterprises were asked: What do you consider to be the biggest threat to your business at present? It was an open question that was subsequently categorized. Enterprises, irrespective of the area of activity, most often consider the greatest threat to "competition and everything that affects it" (39%), the threat of "laws, state intervention and EU policy" (14%) is significant. There are 11 companies in the survey who do not see any threats.

The small enterprises consider "all in terms of competition" (45%) as the greatest threat to their business", followed by "laws, state interventions, state and EU policy", with a significantly lower percentage (14%).

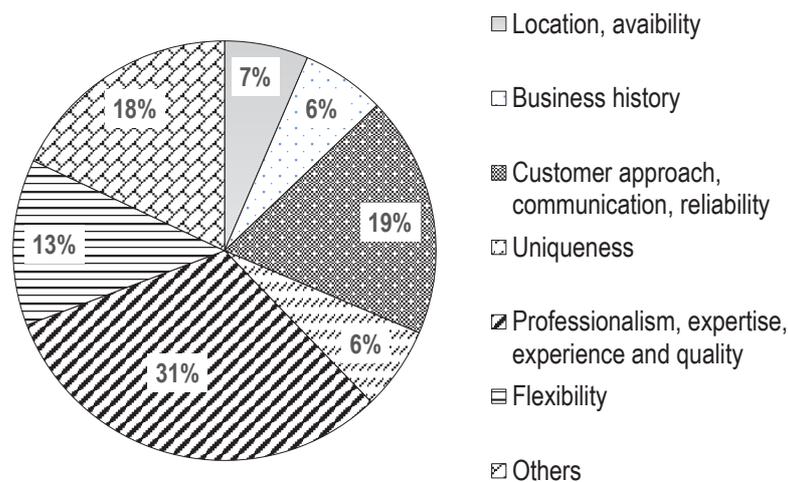
The difference between the two groups is the most common answer, "everything in terms of competition", which other enterprises also consider to be significant, but not as significant as the small enterprises operating in the service. It is obvious that the competitors are very troubled and often mentioned in all the answers. These enterprises have to constantly fight for their customers, a 100% loyalty virtually does not exist, there are no long-term contracts that are difficult to denounce, so the customer keeps track of the price / quality ratio while currently choosing the best option. On the other hand, the "increase of input prices" was significantly higher among other enterprises. There is a clear dependence on suppliers, their quality production and supply conditions, which is not so common in small service enterprises.

Based on the data, it was possible to reject  $H_0$  in favour of  $H_A$ , saying that there is a significant difference between the groups regarding the threats ( $\chi^2 = 20.363$ ,  $p$ -value = 0.02). Due to the failure to meet the asymptotic method, the exact tests were used.

Creating a competitive advantage can be considered as an alternative business objective. Competitiveness and the competitive advantage associated with it is one of the determinants of performance and value creation of the enterprise, so the participants were asked the following question: What do you consider to be your competitive advantage? It was an open question that was subsequently categorized.

Regardless of the field of activity, the enterprises most often consider "professionalism, expertise, experience and quality" (31%) as the greatest competitive advantage, followed by "customer approach, communication, reliability" with a significant distance (19%); Small service companies consider "professionalism, expertise, experience and quality" (28%) and "customer access, communication and reliability" (23%) as their biggest competitive advantage. Interestingly, the "prize" is seen by one enterprise only as a competitive advantage. The difference between the two groups is precisely the question of "customer approach, communication and reliability", which is just highlighted by small enterprises operating in the service.

Fig.2: Competitive advantage in the sample (in %)



Source: Own processing

Based on the data, it was not possible to reject  $H_0$  in favour of  $H_A$ . There is no statistical difference between the two groups of companies on the chosen materiality level in the competitive advantages of the enterprises ( $\chi^2 = 16.356$ ,  $p\text{-value} = 0.119$ ). Due to the failure to meet the asymptotic method, the exact tests were used.

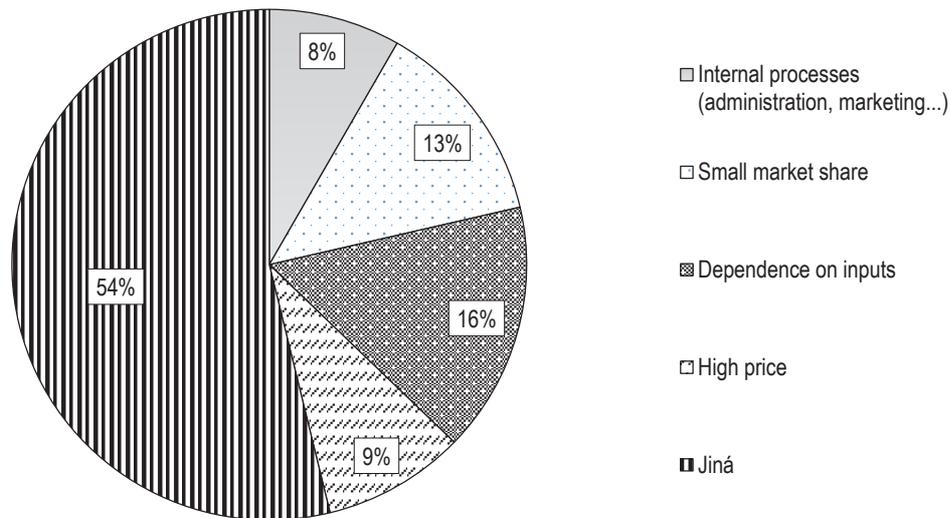
If the enterprises know their competitive advantage, they should also be able to define their weakness in their business. It is the knowledge of the weakness that moves the enterprise further and enables it to improve in the area where the enterprise is experiencing the greatest problems. The participants were asked the following question: What do you consider to be your weakness? It was an open question that was subsequently categorized.

The enterprises, regardless their areas of activity, most often consider "dependence on inputs" (16%) and "small market share" (13 %) as the potential weakness. The "other" response was represented in 54 %, but those were the different answers typical of the enterprise, see figure 3. There were 11 enterprises that do not know their weakness. The small enterprises consider "internal processes, such as administration, marketing, etc." (11%) as their biggest weaknesses.

The two groups differ significantly in the answer of "internal processes" that is consider more often as the weakness of the small enterprises because they lack the expertise and established internal methodologies and procedures in the specific areas.

On the other hand, other enterprises more often referred to "dependence on inputs" (the small enterprises in 10% of cases) as a possible weakness. Small service enterprises face less of a supplier-related problem, they are not dependent on them and they can use a wide range of suppliers because they do not require quality certification and one-time high volume orders. For both groups, the answer is "other", reporting typical weaknesses for the enterprise.

Fig.3: Weaknesses of the enterprises in the sample (in %)



Source: Own processing

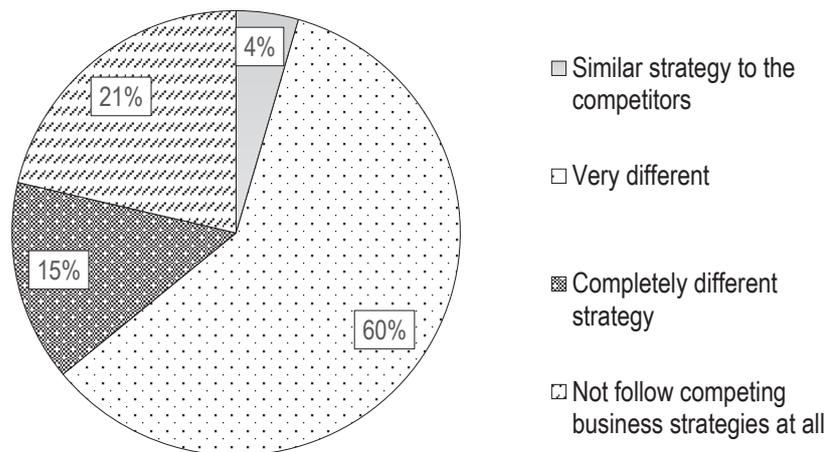
Based on the data, it was not possible to reject HO in favour of HA. There is no statistical difference between the two groups of companies on the chosen materiality level in the weaknesses of the enterprises ( $\chi^2 = 14.446$ , p-value = 0.266). Due to the failure to meet the asymptotic method, the exact tests were used.

The enterprises were also asked about more detailed information regarding the strategy, specifically comparing their own strategies with the strategies of competitors. As revealed by figure 4, the enterprises often have a "similar strategy to the competitors" (60%), "a completely different strategy" was only reported by 15% of the enterprises.

Perhaps this is the reason for the enterprises to see "competition and everything that affects it" as a major threat to the business and "trying to differentiate" would be the way to leave this strong competitive struggle. The small enterprises most often have a strategy "similar to that of competing businesses" (43%), but the other enterprises have it similar in 86% of cases.

Small service enterprises also have "very different" strategy (22%) significantly more often, due to the fact that they often specialize in niche markets, while other enterprises only account for 3% of cases. Small service enterprises are also more likely to "not follow competing business strategies at all" (30%). This is probably due to the fact that analytical efforts are directed into the business, which confirms answers to previous questions where the participants mention product uniqueness, employee qualification and customer access

Fig.4: Comparison of the enterprise strategy with the strategies of competitors (in %)



Source: Own processing

Based on the data, it was possible to reject  $H_0$  in favour of  $H_A$ , saying that there is a significant difference between the groups regarding their strategy in relation to the competitors ( $\chi^2 = 15.587$ ,  $p\text{-value} = 0.001$ ). Due to the failure to meet the asymptotic method, the exact tests were used.

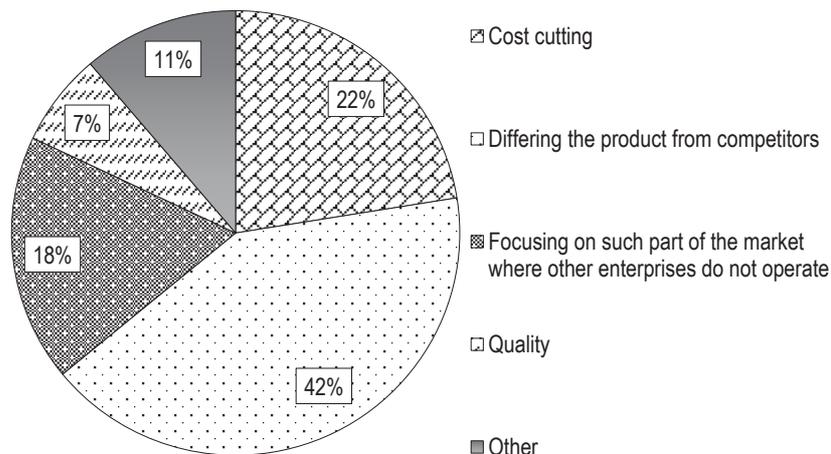
In order to find out in which combinations of monitored characters the associated frequencies are statistically significant, it would be necessary to adjust the table so that it meets the conditions for using the asymptotic  $\chi^2$  test by combining several categories, which is not possible in this case, so it was not possible to use a sign diagram.

Another important question related to business strategy issue was: What is your business strategy focused on? There were several options to choose. As revealed by figure 5, the strategy is mostly focused on "product differentiation from competition" (42%).

Regarding that the participants often see their strategy is "similar to the strategy of the competitors", it can be argued that there is a predominance among the small enterprises in services to be focused on "differentiating the product currently being offered". This in fact confirms the often-described cause of the emergence of small businesses, which often fill niches in the market that are not covered by large enterprises. It is obvious that the enterprises do not see the importance of distinguishing the strategy, but just the product (Blažková, 2007).

Even in this case, there are significant differences between the two groups. Small service enterprises most often point out that the focus of their strategy is on "modulation of production" (39%), followed by the "focus on part of the market where other businesses do not operate" (28%); chose by 3% of the other enterprise only. On the contrary, the other enterprises more often answered "cost cutting".

Fig.5: Strategy aims in the sample (in %)



Source: Own processing

Based on the data, it was possible to reject  $H_0$  in favour of  $H_A$ , saying that there is a significant difference between the groups regarding their strategy focus ( $\chi^2 = 10.045$ ,  $p$ -value = 0.036). Due to the failure to meet the asymptotic method, exact tests were used.

In order to find out in which combinations of the characters the associated frequencies differ significantly from the hypothetical frequencies, the "quality" and "other" categories were merged to meet the asymptotic  $\chi^2$  test condition, thus using the sign chart see table 1 and table 2, on the basis of which statistical dependence can be interpreted (the positive sign means that the empirical frequency is greater than the theoretical).

Tab. 1: Focus of business strategy

Strategy focus		Small service enterprises	Other enterprises	Total
Cost cutting	Cases	9	11	20
Differing the product from competitors	Cases	21	16	37
Focusing on such part of the market where other enterprises do not operate	Cases	15	1	16
Other	Cases	9	7	10

Source: Own processing

Based on the data, it was possible to reject  $H_0$  in favour of  $H_A$  ( $\chi^2 = 9.765$ ).

Tab. 2: Sign chart of the strategy focus

strategy focus	Small service enterprises	Other enterprises
Cost cutting	0	0
Differing the product from competitors	0	0
Focusing on such part of the market where other enterprises do not operate	++	--
Other	0	0

Source: Own processing

The strategy of small enterprises in services is significantly more focused on such part of the market where the other enterprises do not operate.

Strategic management has always been primarily targeted at large businesses, but today small businesses are also beginning to realize its importance. Having a vision, a mission, a goal, knowing where an enterprise is going is of no less importance to small businesses. It is therefore important for research to find out whether the level of strategic management depends on the size of the enterprise (number of employees), whether strategic management is more often used in large enterprises than in small enterprises.

On the basis of the data under review,  $H_0$  was rejected in favor of  $H_A$ , claiming that there is a statistically significant difference in the level of strategic management depending on the number of employees ( $\chi^2 = 17,534$ ,  $p$ -value = 0,011) between the two groups of enterprises. Failure to meet the asymptotic method was based on exact tests.

On the basis of a sign test, it can be argued that larger enterprises (as defined by EU medium and large enterprises employing 50 or more employees) are more strategically driven than small businesses. Partially strategically managed enterprises, on the contrary, are more often small businesses.

Regarding the dependence of the level of strategic management on business, it was not possible to reject  $H_0$  in favor of  $H_A$ . There is no statistical difference between the two groups of enterprises in the level of strategic management depending on the main business activity ( $\chi^2 = 22,811$ ,  $p$ -value = 0,613). The Monte Carlo method was used for non-fulfilment of the asymptotic assumptions as well as for the exact tests due to the scale.

## CONCLUSION

The small enterprise in the area of the services pay considerable attention to competition and track changes in the market, they can precisely define their competitive advantage, weakness, opportunities and threats. The small enterprises in services carry out the activities related to strategic management, rather unknowingly. The strategies of small enterprises in services are most likely either similar to those of their competitors or they are not pursuing a competitive strategy because they offer a unique product. The focus of the corporate strategy is most often either to differentiate the product from the competition or to focus on part of the market where other enterprises do not operate.

The research shows that some areas of strategic management are more familiar, so that closer attention is paid to them (such as the competition analysis), but there are also areas that are largely neglected and the enterprises pay little attention and time to them, which might be a problem in the future.

The enterprises pay close attention to competition monitoring. The enterprises see "small market share" as their weakness. The small enterprises also report "internal processes". The other enterprises often report "dependence on inputs". "Everything about competition" is identified as the greatest threat by the other enterprises even more compared to the small enterprises in services. The other enterprises are also worried about "increased input prices".

The enterprises are well aware of their competitive advantage, stressing that it is "professionalism, expertise, experience and reliability". Interestingly, the "price" is considered a competitive advantage in one case only.

The strategy is "similar to the strategies of the competitors" for most of the enterprises (60%), more common in the other enterprises (86%). The small enterprises also mentioned the answer "totally different from the competitors" and that "they do not follow the competitors". Business strategy is most often focused on "differentiating the product from the competition", the other enterprises also focus on "cost cutting"; and the small enterprises in services "focus on parts of the market where the competitors do not operate."

## REFERENCES

- Blatná, D. (1994). *Statistické metody terénních průzkumů II: Určeno pro stud. všech fakult VŠE Praha*. Praha: Vysoká škola ekonomická.
- Blažková, M. (2007). *Marketingové řízení a plánování pro malé a střední firmy*. Praha: Grada Publishing a.s.
- Central Intelligence Agency. (2014). *The World Factbook*. From 21. prosinec 2014, in: <<https://www.cia.gov/library/publications/the-world-factbook/geos/ez.html>>.
- Cole, G. A. (2004). *Management Theory and Practice*. Cengage Learning EMEA.
- Coulter, M. (2004). *Management*. Praha: Grada.
- Dřímál, J., Trunec, D., & Brablec, A. (2006). *Úvod do metody Monte Carlo*. Masarykova univerzita. From <http://www.physics.muni.cz/~trunec/mc.pdf>
- European Commission. (2006). *Nová definice malých a středních podniků: Uživatelská příručka a vzor prohlášení*. From: <[http://ec.europa.eu/enterprise/policies/sme/files/sme\\_definition/sme\\_user\\_guide\\_cs.pdf](http://ec.europa.eu/enterprise/policies/sme/files/sme_definition/sme_user_guide_cs.pdf)>.
- European Commission. (2014). *Přehled údajů SBA 2013*. <[http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/czechrepublic\\_cs.pdf](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/czechrepublic_cs.pdf)>.
- Glueck, W. F., & Jauch, L. R. (1984). *Strategic Management and Business Policy*. McGraw-Hill.
- Hebák, P., Hustopecký, J., Jarošová, E., & Malá, I. (2004). *Vícerozměrné statistické metody*. Praha: Informatorium.
- Chráška, M. (2007). *Metody pedagogického výzkumu*. Praha: Grada Publishing a.s.
- Maříková, M. (2017). *The strategic management in small enterprises in the field of services*. *Managementmania*. (2014). Sektor služeb (terciární sektor). From 17. srpen 2015, in: <<https://managementmania.com/cs/sektor-sluzeb-terciarni-sektor>>.
- Mehta, C. R., & Patel, N. R. (b.r.). *Exact Tests*. SPSS Inc.
- Ministerstvo průmyslu a obchodu. (2015). *Zpráva o vývoji malého a středního podnikání a jeho podpoře v roce 2014*. From <<https://www.mpo.cz/cz/podnikani/male-a-stredni-podnikani/studie-a-strategicke-dokumenty/zprava-o-vyvoji-maleho-a-stredniho-podnikani-a-jeho-podpore-v-roce-2014--164106/>>.
- Řehák, J., & Brom, O. (2016). *SPSS – Praktická analýza dat*. Computer Press, Albatros Media a.s.
- Veber, J., & Srpová, J. (2012). *Podnikání malé a střední firmy*. Praha: Grada Publishing a.s.