



## THE CONFLICT BETWEEN STRATEGIC METHOD APPLICATION AND THEORETICAL KNOWLEDGE IN SMALL AND MEDIUM SIZED COMPANIES: THE CASE OF THE CZECH REPUBLIC

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**Abstract.** The purpose of the paper and presented research is to discover the potential conflict between often used managerial methods and the recommended methods for small businesses to find the gap between theory and practice in order to support cooperation between entrepreneurs and the university in the area of management education. The survey was conducted as a two phase project, in the first phase with 529 SMEs and with 214 SMEs in the second phase in the Czech Republic in 2012–2013 within the own research project. The main findings, presented in this paper focus on the conflict between practical knowledge, used in small businesses, when only 48.2% of companies in the first phase and 54.21% in the second phase used some of the methods commonly taught at university level such as controlling, benchmarking or TQM.

**Keywords:** entrepreneurship, education, management, methods, small business, strategy.

**JEL Classification:** L21, L26, M10, M16.

### Introduction

In the ever changing economic environment of the world, characterized by continuous structural changes and enhanced competitive pressures, the importance of small and medium sized enterprises (SMEs) has increased. The sector of small and medium sized enterprises in the economy plays a very important role; it is the driving force of business, growth, innovation and competitiveness. It plays a crucial part in job creation, and is generally a factor regarding social stability and economic development. The main barriers to the effectiveness of the strategy implementation can be named as (Strnad 2009):

- Barrier to vision – only 5% of employees understand what the strategy means;
- Barrier to human resources – only 25% of managers have personnel motivation connected with the business strategy;

- Barrier to managers or owners – 85% of them dedicate no more than one hour per month to improving or discussing changes in this document;
- Barrier to resources – 60% of business units do not have a connection between the budget and the strategy.

This brings about weak results in strategy implementation and the adaptability process, because 90% of businesses cannot fulfill their goals according to their vision. This means that they learned lessons from their business strategy failures. Since the manager is an agent of a business and not a passive observer, he is required to develop a strategy by management techniques using (Stacey *et al.* 2000).

This approach can be expanded with the resource-based approach of managing a company (Barney 1991) by adding components of knowledge to provide strategic flexibility. The successfulness of each strategy depends on behavioural

models, but all models need the below stated four significant steps (Tidd *et al.* 2007; Rylková, Chobotová 2011):

- Copy the main goals from the strategy;
- Effective internal and external linkage with other subjects in the market;
- Support for conducting changes in an organization;
- Supportive environment.

The challenge for the next stage of the analysis is to find the gap between the knowledge of strategic methods and their implementation. This could enrich both theoretical and practical economic crisis type entrepreneurial education so that in the case of such a crisis they would be more adaptable to changing conditions. Furthermore, the time delay is an obvious reaction to the changing conditions in the market, also meaning that if there is confusion between strategic and operational management, problems and difficulties are addressed immediately so that major problems do not occur from a business perspective.

The main purpose of this paper is to discuss the current difficulties between the entrepreneurial needs in the area of graduate knowledge and management style and the methods used in common business practice, according to the business stage. The methods of evaluation were based on a face-to-face standardized survey and a comparison with previous findings in this area. Two quantitative hypotheses were developed, one for each research group. According to the chosen part of the questionnaire we set up two main quantitative-based hypotheses to evaluate the strategic methods using the whole sector.

- H1: There is a connection between the strategic methods and the business stage. The main method users will be in the start-up or stagnation stage, due to difficulties in the business area.
- H2: Enterprises will confirm that the graduate must have the same knowledge of the methods, which they use. The main emphasis will be placed in the area of Controlling.

## 1. Previous research

According to Synek *et al.* (2007) and Kislingerová *et al.* (2010) the advantages for SMEs result from the disadvantages of large enterprises. Small and medium-sized enterprises play an important economic and inevitably also political and stabilizing role in developed market economies. The current trend is to focus assistance on SMEs and Czech executives also devote considerable attention particularly to start-up companies, mainly in the early stages of their development. Support from the state budget or from EU subsidies is mediated by the respective fund in most countries (the Czech Republic is no exception). Thus, from a competing (competitive) perspective, companies must be able to adapt to the new requirements of the market, society

and stakeholders and they must follow new trends. This often allows them to have a flexible and personal disposition.

A quick response to these changes is often possible for most SMEs, because they can identify and seize market opportunities more easily than many larger businesses. Practice in the business area allows becoming familiar with problems and avoiding a turbulent and non-dynamic decisional spiral. Traditional models of skills cover only a few variables such as the structure of an organization, climate, processes and leadership without dynamic points such as the behaviour of other elements (Burke, Litwin 1992; Damanpour 1991; Kimberly, Cook 2008).

However, if changes occur, the process may be referred to as an improvisation, which is directly dependent on the previous experiences and skills of the strategy creator, because mostly the strategy is not in written form. Subsequently, enterprises, particularly small businesses, where the non-formal manner of the strategy development prevails, will also have a non-formal manner of progress and control monitoring (March 1991; Nelson 1991).

Research on the influence of the attribute of competency on the adoption and use of innovation usually suffers from a variety of measured issues. In these types of organizations there are well positioned highly skilled people, but the result of learning by innovation or knowledge activities is very limited. Strategy preparation and the measurement of its effectiveness is very difficult and brings about certain dilemmas – the variables of which are dependent on each part of the business plan, whether the selected variables have an impact only on the desire of the company – as if artificial, trying to look like a target, or are truly measurable and objective values.

Companies often do not actively respond to changes in the external environment due to their dependence on attractive resources, more likely they will confront compliance in order to make something less necessary. Turbulent times bring about not only new technologies but well-informed people, who use their potential in business practice. They create their own business repertoire which causes dynamic behaviour in the market on any level of the organization. In particular these tendencies are observed in the area of services such as banking, professional services and legal services, which require consistency and conformity (Dobni *et al.* 2001).

In the relevant literature we should find significant models, based on empirical studies, which describe dynamic factors to protect businesses from uncertainty and a crisis environment. The most used business models for the performance of firms are the – SSP model (strategy-structure-performance model); SCP model (strategy-conduct-performance model) and RBV model (resource-based view model) as a response for interaction between company, environment and performance (Lo 2012). The difference

in responding to the business environment and the self-interests of companies brings about constraints on being dynamic. Many companies have as the main goal for their future not innovation, but merely survival (Porter 1996; Porter, Kramer 2002).

The availability of various models and methodologies supporting the implementation of strategic management methods and their adoption in SMEs is still low, and it is necessary to identify approaches that meet the specific needs of these companies (Garengo 2009; Garengo, Biazzo 2012; Hudson-Smith, Smith 2007).

Each quality level of entrepreneurial orientation exerts influence on a specific entrepreneurial structure such as a combination of a high quality entrepreneurial orientation level with the entrepreneurial structure of a developed region. This is the case in the richest regions of the European Union, such as northern Italy, southern Germany or the southeast of England.

A combination of low quality entrepreneurial orientation with the entrepreneurial structure of an underdeveloped region is very difficult to alter, and this is the case in many countries from Central and Eastern Europe such as Poland, the Czech Republic and Hungary. Low levels of economic conditions, education and the legal situation still brings disparity into regional development.

In fact, several typologies of firms or regional productive systems refer to different characteristics of the entrepreneurial structure and the quality of the entrepreneurial functions. Still weak areas such as bureaucracy and access to financing, which are similar in such countries according to all levels of the analysis, will still remain barriers to the sustainable development of business.

The Global Entrepreneurship Monitor (Amorós, Bosma 2014) mentioned twelve indicators, which have a significant connection with small businesses and their development (Fig. 1). The responses of the items follow a five-point Likert scale, where 1 means the statement is completely false according to the expert and 5 means the statement is completely true. We compared the business environment in the Czech Republic and Lithuania within the EU context.

As shown in the figure above, the main weakness of SMEs is in the area of cultural and social norms, which cover norms that encourage or allow actions leading to new business methods or activities that can potentially increase personal wealth and in-come. This situation corresponds with another indicator – education, which shows low marks in the Czech Republic.

According to this we found a research gap between the theoretical and practical use of management techniques in Czech SMEs – high level of physical infrastructure, but low level of education and motivation to implement new methods and norms. These findings confirm the long-term trend in the area of strategic management, when in 2011



Fig. 1. Global Entrepreneurship Monitor Indicators (source: Amorós, Bosma 2014)

stated that only 22.6% know something about modern methods and techniques in strategic management (Association of SMEs 2011). Consequently we have developed two further research questions:

- What are the main gaps between theory and practice in the area of strategic methods used in SMEs?
- What are the SME requirements for education that may influence these gaps?

## 2. Theoretical framework and methods

Entrepreneurs as individual entities in the market, require resources such as labour, information, skills and capital for their businesses. They often use friends or informal contacts to acquire these and to contribute to knowledge generation. During the period of economic crisis, the role of the entrepreneur has changed. Entrepreneurship is based on decision making in an environment full of uncertainty whilst pushing businesses into an innovative but risky strategy application and finally acquiring new knowledge (Nijkamp 2003).

Most previous studies simply describe the effect of new business formation activity using a performance measure with some control variables; however, some studies have applied an explicit production function framework that also contains indicators for the contribution of other inputs to growth (Wong *et al.* 2005; Audretsch, Keilbach 2004; Audretsch *et al.* 2006). Finally, SMEs planning is usually absent or limited only to the internal operational levels where performance is measured (Cagliano *et al.* 2001).

Monitoring the degree of flexibility can encourage greater creativity and a focus on strategic planning and management in small and medium sized enterprises, which is so often underestimated. Any subsequent delay in introducing changes could cause major changes in behaviour and may influence the ultimate effectiveness of the strategy. However, strategic behaviour requires an understanding of today's corporate need to create future value rather than control

costs. It requires not only the manager's knowledge of their enterprise but also the entire economic chain, markets, and present and future competitors (Vlček 2002).

### Research Sample

In this survey we aim to identify the effect of strategy changes and the relationship between the implementation of managerial methods. To test the propositions, a field survey using questionnaires was conducted in 2012–2013 with a second round in 2014. The questionnaire survey was conducted with owners and managers of small and medium size businesses (fewer than 250 employees) in the Czech Republic, operating between the years of 2009–2011. The companies fulfilled the criteria of (1) being designated as small and medium sized companies by their number of employees – fewer than 250, and (2) agreeing to a personal visit.

The flexibility of the management will be monitored particularly in the areas of: crisis and risk management, strategic and project management methods, personnel policy, production and services and innovation activities. Data obtained from questionnaires (529 companies in the first phase, 214 in the second phase) will be analyzed through the SPSS statistical packet program. The applicability of data was examined by Bartlett's test of sphericity with the values of the presented results being under  $P < 0.05$  and for all of the data we used the Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) with a recommended minimum value of 0.6 (Sharma 1996).

Results were graded using the Likert scale (1–5 for non-numerical data) so as to be comparable with other sections of the questionnaire (61 items). As a supporting analysis, cross-tabs were used to identify significant and non-significant values. In the next stage we provide analysis of data reliability, presented by Cronbach  $\alpha$  and with a recommended value above 0.5 (Nunnally 1978), other items were deleted.

The aim of these comparisons was to identify the differences in adaptability factors between high – and

low-strategy developed organizations and to explore how the business stage influences the specific strategic approaches taken. The sample size (n) was calculated by using the formula recommended by Olaru *et al.* (2010: 15). The sample size corresponds to recommended minimum value with a probability of 0.95.

As seen (Fig. 2), we obtained exactly the same structure of the sample, which was very important for future analysis. The businesses were sorted by size (number of employees in the last three years).

### 3. Results, discussion and limitations

In this study, the sample consists in the first round of 50.1% of limited liability companies, followed by 29.4% of sole traders who slightly exceeded the threshold for representation, other forms did not exceed 19.5% (joint stock companies or no answer given). To properly portray the current situation, we were interested in the average annual gross turnover in the period of 2009–2011, which shows that nearly 29.7% of the companies had an annual turnover of up to CZK 10 million (Czech crowns, almost €400,000.00; exchange rate of €1.00 per CZK 25.00).

On the other hand, 21.7% had a turnover up to CZK 1 million (€40,000.00). The third main group of 22.1% of the companies achieved a turnover up to CZK 100 million. In the area of managerial methods, we examined the most used method in the sample. We offered the most frequent method used across businesses and the results are in Figure 3.

It is no surprise that most of the companies (51.8%) did not use any of the methods offered in the questionnaire. A closer connection was found between ISO norms and supporting methods of quality such as EFQM, TQM, Six sigma. According to this, we divided companies into sub-groups by the business cycle, which was statistically significant, using current methods.

The high potential is in start-ups and growth companies (both 26% of the sample) and surprisingly in companies in stagnation (29% of the sample), who could see the opportunity for the next stage of development. A lack of motivation in using a portfolio of methods could be seen if a company is developing, in this case the average number of methods declines (compare general findings in Fig. 3 with Table 1). We must although *reject* hypothesis H1, because the main method users are organizations in the start-up stage and the second group could be found in growth-based entities.

To investigate the above research questions in depth, we provided exactly the same survey after a 1.5 year break. Unfortunately only 214 companies from the previous study participated. The situation dramatically changed, the number of companies using none of the methods declined to 45.79%. After economic crisis experiences, SME owners re-calculated their potentials, priorities and main methods which can be compared in Figure 3 and 4.

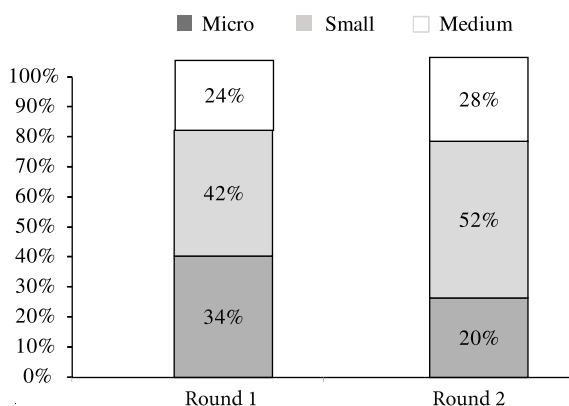


Fig. 2. Research sample by company size (source: own research data)

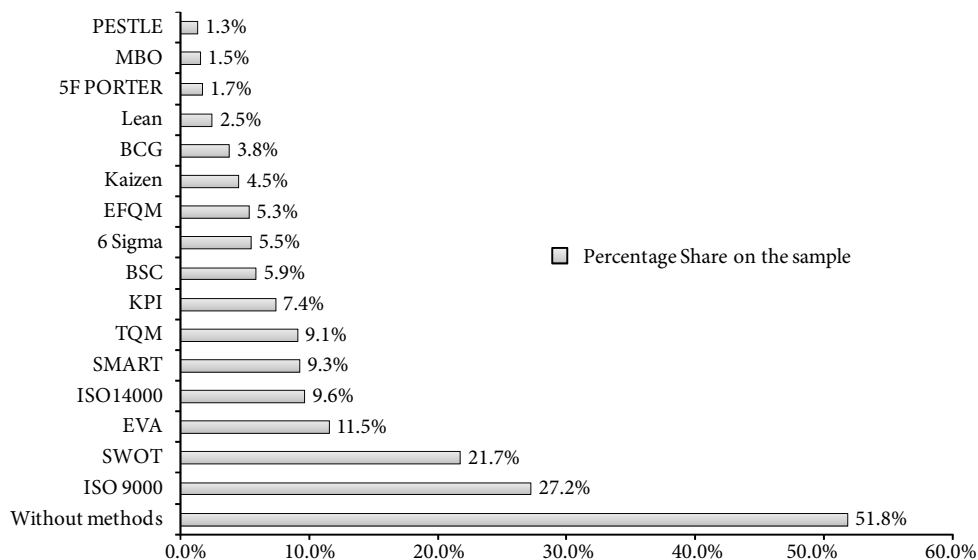


Fig. 3. Key Methods in SMEs (source: own research data)

Table 1. Key Methods in SMEs within the Business cycle (source: created by the authors)

Business stage	Without method	ISO 9000	SWOT	EVA	ISO 14000	Average number of methods per unit
Start-up	33%	9%	13%	0%	0%	2
Growth	24%	14%	12%	8%	7%	1.89
Peak	30%	14%	14%	9%	0%	1.85
Stagnation	34%	19%	12%	0%	5%	1.66
Decline	43%	14%	14%	7%	0%	1.4
Average	33%	14%	13%	5%	2%	2

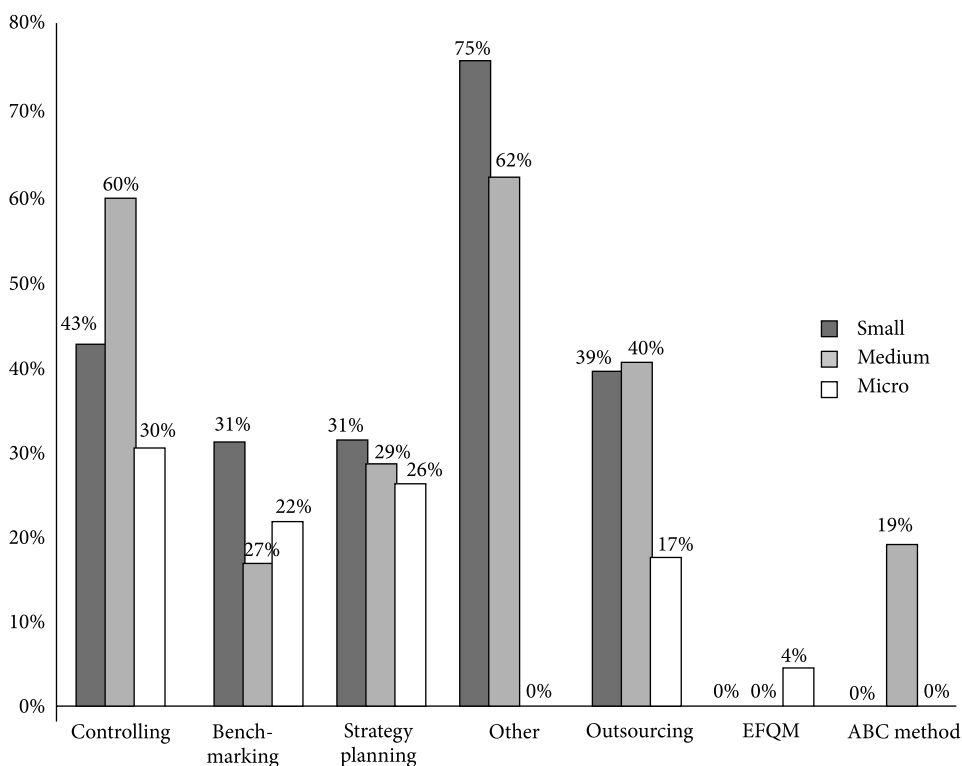


Fig. 4. Key Methods in SMEs, round 2014 (source: SU OPF Karviná 2014)

Firstly, the results confirm the tendency of SMEs to devote their attention to financial and operational activities within the planning process. They often neglect external and internal communications and evaluate external factors that may affect their business as “short term priorities” (Garengo, Bititci 2013).

In small and medium-sized enterprises one person is usually in charge of knowledge management, combining both the ownership and managerial function. Usually they learn from what they are best at and this has an influence on their requirements on future employee or entrepreneurial education. During our survey models of standard requirements were evaluated in the area of business education (see Fig. 4 and compare with Fig. 5).

In common entrepreneurial practice, the extent of the knowledge of the entrepreneur is not only limited to the above mentioned scope, but surprisingly they see the main area of education in presentation skills and the emphasis placed on knowledge from Business Economics is very low (due to the knowledge of the owner).

Finally, we have to *reject* hypothesis H2 due to the different approach of the owners regarding the model of graduate’s skills, which is based on “soft skills”, not on controlling and financial knowledge.

This corresponds with results from Gomezelj Omerzel and Boštjan (2012) where they confirm that businesses with an entrepreneur who nurtures his or her own knowledge and skills are more likely to have higher growth and profitability than organizations in which entrepreneurs lack such characteristics.

### 3.1. Limitation of the study

All of our work is limited by the intervals of company evaluation and the availability of data which is a common problem among other studies (von Stein, Ziegler 1984), but further research must be conducted to improve the quality and predictive power of the presented models to avoid bias.

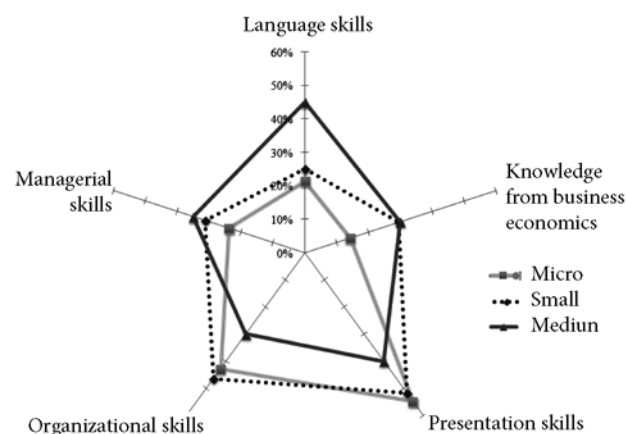


Fig. 5. Model of Graduate skills in area of Entrepreneurship (source: SU OPF Karviná 2014)

There were very limited resources available to compare our findings. The most important sources (Association of SMEs 2011; Moderní řízení 2011) state in agreement with us, that “the active knowledge of modern management methods is on a relatively low level”. Only 22.55% of respondents stated any management method. The most used methods are Lean, 6-sigma and BSC in combination with ISO 9000 or ISO 14000 (Pawliczek, Piszczur 2013).

Those most experienced in the utilization of modern management methods are companies active in manufacturing (Association of SMEs 2011). Other studies evaluated different sets of methods as for example TQM, JIT, core competence, outsourcing, network organizations and benchmarking, so the results are neither compatible nor comparable (Dölarsan 2009).

From a wider perspective the usage of modern management methods creates “competitive intelligence” – disposal of information and knowledge about customers, competition and other aspects of the external surrounding, where an organization operates for the sake of competitive advantage, risk limitation and mapping of potential opportunities (Molnár, Štrelka 2012). Even in the area of the measurement of enterprise performance companies prefer to use the simple “comparison of plan and reality” method, rather than BSC, EFQM or other advanced quality management techniques (Strítěská, Svoboda 2012).

## Conclusions

The analysis of the level and usage of managerial methods in small businesses in the Czech Republic asked why developing a theory requires both a strategic component and an operational component. The effectiveness of the analysis is therefore closely connected with overall stability, respectively the ability and the possibility of the prediction of individual factors.

In times of turbulent changes (which is unfortunately the present) analysis can be used as a tool for more negative recommendations (“what not to do”) rather than positive options (“what to do”) to provide sustainable business in a given area. Consequently, estimates of the impact of individual factors for closer time periods must be formulated as inherently unquantifiable statements, therefore, only in the form of a qualitative determination of decreasing or increasing influence.

To answer the main research questions, the two phased research confirmed a slow development in this research area. At an individual level, the factors that influence learning requirements may be different for entrepreneurs compared to employees. In brief, the application of strategic methods is still weak and the portfolio of methods somewhat different from the usual methods taught at University level (main emphasis placed on analytical methods versus requirements on soft skills development), this

would be a good starting point for the next comparison, when entrepreneurs have to explain how they use certain methods (not only by the name).

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