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## DIFFERENCES IN INNOVATIVENESS AND RISK-TAKING BETWEEN MICROENTERPRISES AND SMES: CZECH REPUBLIC CASE STUDY

*The aim of this article is to examine the approach to innovativeness and risk-taking between microenterprises and others (small and medium-sized) in Czech Republic. The findings revealed that the researched entrepreneurs consider innovation policy being part of corporate policy as important. 62% of them regularly develop new products and services, and 38% invest a lot of money into the development of new methods and technologies. The results regarding the approach to risk have shown that 28% of the surveyed business owners can properly manage financial risks in their companies and 45% of them are trying to minimize the negative impact of financial risk by means of reserves creation. Statistically significant differences between microenterprises and SMEs were found both in the approach to innovation and in risk-taking, except the evaluation of ability to manage financial risk.*

*Keywords:* microenterprises; small and medium enterprises; innovativeness; risk-taking; Czech Republic; survey of business owners.

*JEL codes:* L26.

Людмила Козубікова

## РІЗНИЦЯ В ІННОВАЦІЙНОСТІ ТА СПРИЙНЯТТІ РИЗИКІВ МІЖ МІКРО-, МАЛИМИ ТА СЕРЕДНІМИ ПІДПРИЄМСТВАМИ: ЗА ДАНИМИ ЧЕСЬКОЇ РЕСПУБЛІКИ

*У статті досліджено підходи до інноваційності та сприйняття ризиків мікронідприємствами Чеської Республіки у протиставленні до малих та середніх. Результати показали, що всі досліджені підприємства вважають інноваційну політику складовою власної корпоративної політики. 62% опитаних регулярно розробляють нові продукти, 38% – інвестують значні суми у розвиток нових методів та технологій роботи. З приводу ризику результати опитування виявили, що 28% власників бізнесу вважають, що вміють керувати власними фінансовими ризиками, 45% – намагаються мінімізувати фінансові ризики шляхом створення резервів. Значна статистична різниця між мікронідприємствами та МСБ існує у підходах до інновацій, а також до ризиків, за виключенням оцінювання власної здатності керувати фінансовими ризиками.*

*Ключові слова:* мікронідприємства; малі та середні підприємства; інноваційність; прийняття ризиків; Чеська Республіка; опитування власників бізнесу.

*Рис. 1. Табл. 5. Літ. 28.*

Людмила Козубікова

## РАЗЛИЧИЯ В ИННОВАЦИОННОСТИ И ПРИНЯТИИ РИСКОВ МЕЖДУ МИКРО-, МАЛЫМИ И СРЕДНИМИ ПРЕДПРИЯТИЯМИ: ПО ДАННЫМ ЧЕШСКОЙ РЕСПУБЛИКИ

*В статье исследованы подходы к инновационности и принятию рисков микропредприятиями Чешской Республики в противопоставлении с малыми и средними. Результаты показали, что исследуемые предприятия считают инновационную политику составляющей своей корпоративной политики. 62% опрошенных регулярно разрабатывают новые продукты и услуги, 38% – инвестируют значительные суммы в развитие новых методов и технологий работы. По поводу риска результаты опроса выявили, что 28% собственников бизнеса считают, что умеют управлять собственными финансовыми рисками, 45% – стараются минимизировать финансовые риски путём создания резер-*

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*вов. Значительная статистическая разница между микропредприятиями и МСБ наблюдается относительно подходов как к инновациям, так и к рискам, за исключением оценки собственных способностей управлять финансовыми рисками.*

*Ключевые слова:* микропредприятия; малые и средние предприятия; инновационность; принятие рисков; Чешская Республика; опрос собственников бизнеса.

**Introduction.** Globalization has exerted huge pressure on organizations, especially on SMEs. Economic turmoil increased risks and uncertainty in the business world and that in turn has increased the existing pressure on firms (Hussain et al., 2015). Considering that many firms die during the early years of operation or really struggle to survive, understanding the dynamics of business behavior is essential for both managers and policy analysts (Bhattacharya, 2015).

In Czech Republic SMEs play a vital role and are especially important for social and business connections within regions. As a whole, SMEs in Czech Republic represent more than 1 mln businesses and employ almost 2/3 of all employees. SME segment is a major driving force of growth, innovation and competitiveness and is also a major employer. The proportion of the added value of SMEs to the total of Czech Republic was 54.8% in 2013 (MPO, 2014).

In this context (Smekalova et al., 2014) stated that majority of governmental policies, including Czech policies, focus more on financial support, however support for entrepreneurs can be broader and may include the efforts to influence individual perception and the society so that they have a more positive attitude to entrepreneurial activities.

SMEs face a number of business risks, such as: market, financial, operational, production, personnel and security risks. SMEs owners and competence managers should create such assumptions by which risks assessed will be controlled by adequate measures and do not out grow into the crisis, which could seriously affect enterprise operation (Buganova, Hudakova and Dvorsky, 2014). The research by (Belas, Bilan, Kljucnikov, Vincurova and Machacek, 2015) revealed that the most important business risk in 2013 in Slovakia was the market risk. Based on their calculations, it was found out that there are no regional differences in the perception of market risk in Slovakia. Market risk was identified as the key one by 79.44% of entrepreneurs in Czech Republic (Belas et al., 2014).

Because of SMEs' size they also experience many problems, especially when they need external capital. According to (Belas, Bilan, Demjan and Sipko, 2015) one of the most complicated issues for SMEs is the one connected to financing and fundraising. SMEs normally have limited fundraising options and have almost no access to external sources. The same authors also note that banks' practices in relation to financing of the corporate sector, especially SMEs, were significantly tightened due to the global financial crisis.

According to (Kozubikova et al., 2015) the situation can be explained by the fact, that small companies tend to have lower credit risks due to their small size and mostly unlimited guarantee of their legal form: commercial banks provide commercial personal guarantee for loans.

*Innovativeness and risk taking* represent two important constructs here. Innovativeness implies open-mindedness that to what extent the organization has the

tendency to deviate from traditional ways of doing business. Risk taking refers to the propensity of organization's top management to take bold decisions (Hussain et al., 2015).

This article has the following structure. In the theoretical part SMEs and microenterprises, innovativeness and risk taking and the role of firm size are introduced. In the next section we present the objectives, methodology and data resources. Important recommendations, both theoretical and practical are stated in the final part.

**Microenterprises, small and medium enterprises.** Micro-, small and medium-sized enterprises are the engine of European economy. They are an essential source of jobs, entrepreneurial spirit and innovations in the EU and are this makes them crucial for fostering competitiveness and employment. In the enlarged European Union of 25 countries, 23 mln SMEs provide around 75 mln jobs and represent 99% of all enterprises. Therefore, support for SMEs is among the priorities of the European Commission's economic growth, job creation and economic and social cohesion (European Commission, 2006).

The category of microenterprises, small and medium-sized enterprises consists of the companies which employ less than 250 employees and their annual turnover does not exceed 50 mln EUR or whose annual balance sheet in total does not exceed 43 mln EUR. Within this category a small enterprise is defined as an enterprise employing less than 50 people and whose annual turnover or annual balance sheet in total does not exceed 10 mln EUR. Microenterprises are defined as the enterprises which employ less than 10 people and whose annual turnover or annual balance sheet in total does not exceed 2 mln EUR (European Commission, 2006).

*Table 1. Categorization of small, medium and microenterprises*  
(European Commission, 2006)

Enterprise category	Number of employees	Annual turnover	Annual balance sheet
		mln EUR	
Medium	< 250	≤ 50	≤ 43
Small	< 50	≤ 10	≤ 10
Micro	< 10	≤ 2	≤ 2

**Entrepreneurial orientation, innovativeness and proactivity.** *Entrepreneurial orientation (EO)* is considered to be an essential element of high firms' performance and it is significantly influenced by *entrepreneur's personality* (Lim and Envick, 2013). EO is usually understood as a five-dimensional construct consisting of *innovativeness, risk-taking, proactivity, autonomy and competitive aggressiveness*. G. Lumpkin and G. Dess (1996) have contributed significantly to extension of knowledge regarding EO, they enriched the original three-dimensional concept of D. Miller (1983) with autonomy and competitive aggressiveness. They defined EO as "the processes, practices, and decision-making activities that lead to new entry". In general, EO represents a tendency of firms to explore new market opportunities (Lumpkin and Dess, 1996; Matsuno et al., 2002).

EO should drive the market through new product development, product innovation, creating new buying behavior of customers and creating competitive advantage (Zortea-Johnston et al., 2012).

*Innovativeness* reflects the tendency of companies to promote new ideas, new experiments and creative processes that may result in new products, services or technological processes. There are some important issues to be considered when analyzing innovation in SMEs: forms of innovation, resources designated to innovations, influencing factors either as barriers or incentivizing ones, specific context of SMEs, besides the use of IT and related technologies (Nicolescu and Nicolescu, 2012). T. Boyer and R. Blazy (2014) examined the determinants of survival of non-innovative and innovative enterprises; the survival of these companies is associated with personality characteristics, such as gender, age, association with a national minority, professional experience and financial resources. The outcome of this research is that younger individuals, women and persons belonging to national minorities have a significantly higher risk of failure of their businesses than other entrepreneurs.

*Risk-taking* represents an important construct of EO. More precisely, by P. Kreiser et al. (2013) there exists predominantly positive relationships between innovativeness-performance and proactiveness-performance, and a predominantly negative relationship between risk-taking and performance. *Business risk* has a complex form, since it includes more partial risks that are interconnected. All business risks have impact on financial performance of a company and could lead to default. According to M. Caliendo et al. (2014) growing *tolerance of risk* as another essential characteristic of EO increases the probability to become and to be an entrepreneur. Risk-taking, respectively willingness to abandon it already known and right ways and get down to business with uncertain income should be important for achieving the objectives of international level. A reasonable optimism is desired from the perspective of company development. Excessive optimism may have harmful effects because entrepreneurs are making strategic errors or plunge into a large number of tasks at once (Frese and Gielnik, 2014).

A subject of interest for many authors is the relationship between EO and corporate performance. According to S. Kraus (2013) there is a significant relationship between company performance and EO. S. Gudmundson and C. Lechner (2014) state that EO has a positive effect on firm performance with both cost leadership and differentiation strategies. Their results show that innovativeness and autonomy have a positive relationship with product differentiation strategy whereas risk taking and competitive aggressiveness have a negative relationship with innovativeness, but no significant relationship was found for proactiveness.

According to R. Nason et al. (2015) organizational size is an important factor contributing to corporate entrepreneurship. They suggest that small firms are more likely to utilize corporate entrepreneurship for growth to overcome liabilities of smallness, while large firms are more likely to utilize corporate entrepreneurship for learning to overcome inertia. R. Blackburn et al. (2013) revealed that small firms are more flexible and when they find any new opportunities they hire new employees to penetrate the market. Their study revealed that older firms, small in size, perform better than large firms in terms of profitability and small firms are very careful about growth and business expansion.

E. Canton et al. (2013) revealed that the youngest and smallest SMEs have the worst perception of access to bank loans. SMEs in the countries with concentrated banking sectors are more positive about loan accessibility. It is believed that SMEs

may be especially sensitive to informational asymmetry, because of greater perceived opacity of small and young firms.

**Objectives, methodology and data.** The aim of this article is to examine the approach to innovativeness and risk taking between microenterprises and others (SMEs) in Czech Republic. We want to find out whether company size plays a role in the approach to selected elements of EO.

The research of business environment was prepared in 2014 and was conducted in Czech Republic in 2015. The companies were chosen from the Albertina database and totally 1650 randomly selected firms were addressed by e-mail or phone to fill in the questionnaire in a Google doc form. The data was provided by 1141 owners of SMEs in 14 regions of Czech Republic. The questionnaire consisted of 52 questions. In this context, in the first 9 questions structure the respondents by their education, gender, age, the residency and firm size, duration and area of conducting business, motives for starting business and the most important characteristics of an entrepreneur were analyzed. The rest of the questions were questions on the 1–5 scale (1 – totally agree, 2 – agree, 3 – do not hold a position, 4 – disagree, 5 – completely disagree) focusing on 5 elements of entrepreneurial orientation.

The structure of the companies according to 14 regions of Czech Republic was as follows: Zlin Region (28.3%), Moravian-Silesian Region (24.2%), Olomouc Region (11.7%), South Moravian Region (10.2%), Liberec Region and Prague had equal representation (5.1%), Pardubice Region (4.8%), Pilsen region (2.7%), Central Bohemian Region (2.1%), Kralovehradecky Region (2.0%), Highlands Region (1.6%), South Bohemian Region (1.0%), Usti Region (0.9%) and Karlovy Vary Region (0.3%).

The structure of the sample by business areas was as follows: trade companies (33%), manufacturing companies (23%), construction (14%), transport (6%) and agricultural companies (3%), and the largest portion of companies operated in other sectors (39%).

By the duration of doing business from the total number of 1141 companies, 62% were doing business for more than 10 years, 21% were at the market between 1 and 5 years, and 17% – between 5 and 10 years. It can be said that most of the owners were quite experienced entrepreneurs.

From the total number of 1141 of the surveyed, 65% were microenterprises, 27% were small enterprises and 8% were medium enterprises. Most entrepreneurs in the sample (48%) had secondary education, 34% of them had a university degree and 18% – secondary education without diploma.

In relation to gender, 75% were men and 25% were women.

The major motivation to run own business was the desire for money (29%). The second place was occupied by the desire for having a job and perceiving entrepreneurship as a mission (equally 22%). 8% of the total number of the businessmen have stated they didn't have any other choice and 18% of the respondents had other reasons.

While implementing the research our own structural model was used, shown in Figure 1.

In line with previous findings and taking in account the size of the firm we state the following hypotheses:

H1: At least 50% of entrepreneurs reported they were regularly developing new products and services in their companies. There were no statistically significant differences between microenterprises and other businesses.

H2: Entrepreneurs recognize the importance of innovation policy. More than 50% of them invested relatively a lot of money into the development of new methods and technologies. There are significant differences between microenterprises and other businesses.

H3: The maximum of 30% of entrepreneurs think they can correctly manage financial risks. There is a significant difference between microenterprises and other businesses.

H4: Businessmen use various protection measures against risk. At least 40% of entrepreneurs minimize the negative impact of financial risks by creating reserves. There are significant differences between microenterprises and other businesses.

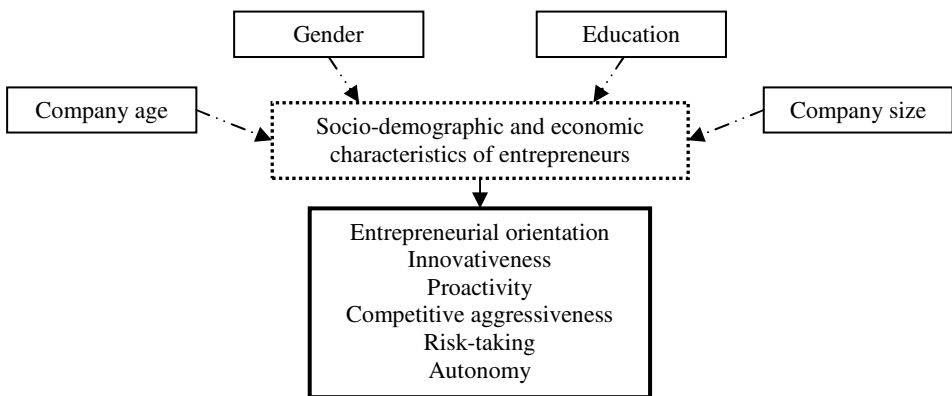


Figure 1. The structural model of the influence of socio-demographic factors on entrepreneurial orientation of companies, author's

The associations in contingency tables were analyzed using Pearson statistics. P-value has been compared to standard 5% confidence level. P-value lower than the confidence level leads to the rejection of the null hypothesis. The null claims there is no association between variables. The calculations have been performed using software available at: <http://www.socscistatistics.com/tests>.

Statistically significant differences in the responses we examined through the Z-score. Calculations were carried out by means of freely available software at: <http://www.socscistatistics.com/tests/ztest/Default2.aspx>

**Results and discussion.** In this chapter we present the results on innovativeness and risk-taking among entrepreneurs surveyed in Czech Republic by calculating the chi-square, p-value and Z-scores in order to confirm or refute our hypotheses.

The results in Table 2 are related to innovativeness construct, specifically the question on regular development of new products and services.

In the research performed 704 entrepreneurs (61.7%) from the total of 1.141 have agreed with the statement that in their companies they regularly develop new products and services. The first part of H1 is thus confirmed. The second part of H1 is not confirmed. The resulting values of test criteria (chi square = 14.1606, p-value



= 0.0068) show, that there are statistically significant differences between microenterprises and other enterprises in the development of new products and services. In terms of individual parts of the five-point scale the differences were observed in concordant (p-value = 0.0124) and the dissenting answers (p-value = 0.0078). SMEs agreed (55.86%) with the development of new products and services in their firms more often than microenterprises (48.11%), which corresponds with a more frequent disagreement by microenterprises (17.7%) than SMEs (11.72%). SMEs develop significantly more new products and services than microenterprises. H1 is confirmed partially.

**Table 2. Entrepreneurs opinion on regular development of new products and services in their companies, author's**

<i>We regularly develop new products and services in my company</i>	Microenterprises	SME	p-value
1. Completely agree %	73 9.86	51 12.72	0.1389
2. Agree %	356 48.11	224 55.86	0.0124
3. I do not hold a position %	152 20.54	70 17.46	0.2077
4. Disagree %	131 17.7	47 11.72	0.0078
5. Completely disagree %	28 3.78	9 2.24	0.1615
Chi square	14.1606		
p-value	0.0068		

The results in Table 3 are related to assessment of innovativeness in terms of investing funds into new methods and technologies.

**Table 3. The opinion of entrepreneurs in relation to investing money in new methods and technologies, author's**

<i>We invest a lot of money into the development of new methods and technologies</i>	Microenterprises	SME	p-value
1. Completely agree %	33 4.46	26 6.48	0.1416
2. Agree %	187 25.27	187 46.63	0
3. I do not hold a position %	219 29.59	79 19.7	0.0003
4. Disagree %	252 34.05	97 24.19	0.0006
5. Completely disagree %	49 6.62	12 2.99	0.0093
Chi square	62.6996		
p-value	< 0.00001		

37.95% of the respondents answered that they spend a lot of money on the development of new methods and technologies. The first part of H2 is not confirmed. We found statistically significant differences in this area between microenterprises and

SMEs (chi-square = 62.6996, p-value < 0.00001). From the perspective of individual responses, microenterprises statistically significantly more disagree or completely disagree (40.67%) rather than other companies (27.18%). H2 is partially confirmed.

According to S. Laforet (2013), organizational innovation results in enhanced productivity, margin, market leadership, and working environments and has greater impact on small firms.

Table 4 shows the opinions of entrepreneurs on the ability to manage financial risk in their business.

**Table 4. The opinions of entrepreneurs in relation to knowledge how to properly manage financial risks, author's**

<i>Businessmen can properly manage financial risks</i>	Microenterprises	SME	p-value
1. Completely agree %	8 1.08	6 1.5	0.5419
2. Agree %	190 25.68	121 30.17	0.1031
3. I do not hold a position %	280 37.84	143 35.66	0.4654
4. Disagree %	238 32.16	121 30.17	0.4902
5. Completely disagree %	24 3.24	10 2.49	0.4777
Chi square	3.4458		
p-value	0.4862		

From the conducted research it follows, that 325 entrepreneurs (28.48%) believe they can properly manage financial risks in their companies. First part of H3 is confirmed. There are no statistically significant differences between the responses of microenterprises and SMEs (chi square = 3.4458, p-value = 0.4862). H3 is thus partially confirmed.

Table 5 shows the results on minimizing the negative impact of financial risks by creating reserves.

**Table 5. The opinions of entrepreneurs on minimizing the negative impact of financial risks by creating reserves, author's**

<i>Businessmen minimize the negative impact of financial risks by creating reserves</i>	Microenterprises	SME	p-value
1. Completely agree %	18 2.43	12 2.99	0.5755
2. Agree %	309 41.76	175 43.64	0.5419
3. I do not hold a position %	237 32.03	102 25.44	0.0198
4. Disagree %	152 20.54	108 26.93	0.0139
5. Completely disagree %	24 3.24	4 0.998	0.0193
Chi square	14.3382		
p-value	0.0063		



During our research, we found that 514 respondents (45.05%) try to minimize the negative impact of financial risks by creating reserves. In the overall structure of the answers we found statistically significant differences (chi-square = 14.3382, p-value = 0.0063). In terms of individual responses statistically, significantly and more differently they disagreed with the creation of reserves to minimize the risk for SMEs (27.93%) in comparison with microenterprises (23.58%). H4 is thus confirmed.

This attempt to protect against financial risk corresponds to the idea of (Frese and Gielnik, 2014) that it is better to be reasonably optimistic than excessively optimistic, because it can have a harmful effects on firm's results.

**Conclusions.** European Commission (2013) states that innovativeness of the EU as a whole, despite the ongoing economic crisis is increasing every year, although the innovativeness of individual countries' differences is deepening. The overall ranking of the EU countries remains relatively stable: first goes Sweden, followed by Germany, Denmark and Finland. Growth drivers of innovation in the EU are SMEs, commercialization of innovations, as well as excellent research systems. Innovation performance results, however, were negatively affected by the decline of investing by firms and venture capital investments in the period of 2008–2012. According to the comparative overview by the Innovation Union 2013, the EU member states are divided into 4 groups: excellent, successful, moderate and weak innovators. Czech Republic is ranked among moderate innovators, alongside such countries as Italy, Greece, Spain, and Portugal, the results of which are below the EU average. The possibility to move up above the EU average can be supported by using EU projects and funds. In this context the analysis of EU funds allocation showed the regions with the concentrated state support show a little lower financial allocation from EU money per 1 resident in comparison to other regions (Hajek et al., 2014). Success of the most innovative countries lies in the fact that, in many aspects they have advanced research and well development innovation systems, and that the key role there belongs to innovative activities of enterprises and the higher education sector. All these countries also have highly developed university sector and strong links between industries and science.

Our results confirmed that the surveyed entrepreneurs in Czech Republic are aware of the importance of innovative policy for their companies. 62% of the entrepreneurs reported that in their companies they develop new products and services on a regular basis, while SMEs were statistically significantly more active in this area than microenterprises. Furthermore, our findings revealed that 38% of business owners support the development of new methods and technologies by investing their funds, which is less than we expected (we assumed 50%). With this issue, the size of company has caused statistically significant differences in the answers (microenterprises disagreed more frequently).

In the area of risk attitudes the results revealed that 28% of entrepreneurs believe they can correctly manage their financial risks. No statistically significant differences have been found between microenterprises and SMEs. Although this result confirms the hypothesis, it also shows that the percentage of entrepreneurs able to manage financial risks is relatively low. The researched entrepreneurs are at the same time trying to be proactive to minimize the negative impact of financial risk in every possible

way, and also to create reserves. 45% of them stated they are using this method of protection against risk, microenterprises statistically more often (46.63%) than SMEs (44.19%).

Our research showed that size of company plays an important role in relation to the researched constructs of EO. This confirms the conclusions of (Nason et al., 2015; Blackburn and Wainwright, 2013) who emphasize the flexibility of small companies and also M. Bhattacharya (2015) on that the maturity and firm size are important in explaining growth, variability of growth and their function in creating job opportunities.

It is clear that there are certain limits to our research (e.g., uneven representation by the region or by company size), we still expect that this article has brought interesting findings and new incentives for further research. Our research in the future will concentrate on examination of other constructs of EO in relation to firm's size.

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Стаття надійшла до редакції 21.09.2015.

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