

SELECTED FACTORS OF STRATEGIC MANAGEMENT IN THE SME SECTOR

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Abstract: *The aim of the paper is to present significant factors of strategic management in the sector of small and medium-sized companies. Within the set goal, we quantify the weight of selected strategic management factors and compare trends in the Czech and Slovak Republics. An empirical research was carried out in 2020. In the Czech Republic, we obtained data from 454 micro, small and medium-sized enterprises and in Slovakia from 368 enterprises belonging to the segment of small and medium-sized enterprises. We used chi-square and Z-score to process the data. The basic conclusion of the research is that even though SMEs perceive the importance of strategic management in the enterprise very strongly, strategic management is not adequately implemented in the everyday life of the enterprise. Entrepreneurs in both countries are not too convinced that quality strategic management enhances the competitive ability of the enterprise. About half of the companies are involved in regular strategic management. There are statistically significant differences according to the size and age of the enterprise, or according to the education of entrepreneurs. Larger companies and more educated entrepreneurs better understand the importance of strategic aspects and the need for their application in corporate governance.*

Keywords: *Micro Enterprises, Small and Medium-sized Enterprises, Strategy, Strategic Management, Czech Republic, Slovak Republic*

JEL Classification: *L26*

Introduction

Small and medium-sized enterprises (SMEs) have important functions in the economic system and are therefore the subject of research of many authors. These enterprises have a significant impact on the basic macroeconomic indicators (especially employment and gross domestic product), but they also shape the social system in the country. The SME sector includes enterprises that are very diverse in size, shapes and structures (Svatošová, 2018). Tacogliu et al. (2019) characterize SMEs as simple organizations with flexibility and a short decision chain.

SMEs have a number of specific features, which distinguish them from large enterprises. These companies have the ability to adapt quickly to changing market conditions, usually have a simple organizational structure where an enterprise owner is often also a top manager and can generate jobs at low capital costs. These characteristics determine a closer relationship with the customer and minimal administration. In this context, Prause (2019) emphasizes that SMEs are very flexible in adapting new technologies and catering niche markets. On the other hand, their higher risk level is determined, among other factors, mainly by low capital strength, limited access to external financing, lower managerial capability, or possible management failures.

Strategic management was created in a large business environment in response to new, unknown and surprising changes in the business environment, the scope, diversity, depth and timing of which were unexpected, unusual and often fatal (Majtán et al.,

2008). In this context, Kim (2018) points out that entrepreneurship and strategic management have evolved independently and need to be explored in synergy.

Several studies (e.g. Svatošová, 2018; Grimsdottir and Edvardsson, 2018; Poór et al., 2018; Švárová and Vrchota, 2013) confirm that the application of strategic management elements in the SME sector is somewhat different compared to large enterprises, is considerably limited and questionable.

This article studies the important attributes of strategic management in the SME sector. Its originality is based on the presentation of opinions of entrepreneurs themselves on the field of strategic management.

The structure of the article is as follows. In the introductory part we present selected opinions on the field of strategic management in connection with the activities of SMEs. In the next section, we define the research objective, the methodology used and the data. Then we present the results of the research and discuss the results achieved. In conclusion, we present the basic results of the research.

1 Theoretical part

The strategy is the path to the future of the enterprise, which is based on the ability to predict the future and to reveal what will influence future success. The strategy is a prerequisite for achieving long-term success (Papula et al., 2014). In this context Majtan et al. (2008) state that the strategy provides firm and sufficiently flexible boundaries within which the company is moving towards the determined goal. The strategy addresses the fundamental issues of business existence and development.

Strategic management is an essential tool to achieve strategic competitive advantage and outstanding returns (Fotr et al., 2012). Strategic decisions are extremely important, even critical, because they are of a long-term nature and should provide sufficient support and orientation for enterprises in a difficult and turbulent economic environment.

Strategic management in the SME sector is discussed by several authors who also examine its various attributes.

According to Abosede et al. (2016) “strategic management provides overall direction to the enterprise and involves specifying the organization’s objectives, developing long-term policies and plans designed to achieve these objectives, and then allocating resources to implement the plans”. In the process of implementing the strategy, it is necessary to make decisions regarding how the organization’s resources (i.e., people, process and IT systems) will be aligned and mobilized towards the objectives. As many strategic thinking tools were developed for large enterprises, the objective of SMEs is to apply them creatively considering their specific characteristics. According to the authors, this implies that strategic management of market information, forms of ownership, strategy choice, competitive advantage formulation, planning and innovation have a significant impact on the development of SMEs.

Tacogliu et al. (2019) stress the need to create flexible business strategies in order to survive in the market. According to SME authors, they are aware of the importance of firm competencies and human resources management in the process of forming competitive advantages in the market. They also emphasize the need to build

competitive advantages in multiple areas, such as product, manufacturing, design, distribution, communication, marketing, management, and human resources.

Raymond and St-Pierre (2011) point out that strategic decisions that affect the SME's development, internationalization and performance must be related to the firm's existing capabilities in order to prevent failures. Roundy et al. (2017) stress the importance of entrepreneurial alertness in making strategic decisions. According to the authors, entrepreneurial alertness can contribute to understanding the formation of start-ups and established firms. „However, decision makers with high levels of entrepreneurial alertness are able to discover such entrepreneurial opportunities and make strategic change decisions.“ These managers are also able to overcome the barriers of uncertainty.

Yanes-Estevez et al. (2018) examined the strategic behaviour of SMEs in connection with the entrepreneurial, technological and administrative problems on a sample of 90 SMEs in Spain. According to their findings, SMEs follow any comprehensive framework in order to develop their strategies. They claim, that „SME entrepreneurs do not know how to respond strategically to the difficult times they are going through. They may not be using any comprehensive framework to develop their strategies and assess their competitiveness, implementing their strategies in an unintentional manner“. On the other hand, Klammer et al. (2017) state that SMEs that are entrepreneurial oriented and willing to learn can successfully manage strategic management. In this context, Rigtering et al. (2017) state that the combination of innovativeness and strategic planning activities leads to high performance of SMEs.

Innovation strategies represent an important area of strategic management of SMEs. According to Toomsal et al. (2019) “innovations represent an important factor for fostering the growth and development of SMEs and are likely to contribute to their overall success and economic profits.” Authors claim that SMEs should concentrate on formulating a clear innovation strategy, even though they are exposed to several obstacles (personnel, financial and administrative) in this process. Grimsdottir and Edvardsson (2018) report that in this process, communication with customers is extremely important as a source of new knowledge in conditions of small enterprises. Customer demand for new products and services and the willingness of employees and managers of SMEs to meet these requests play a major role in this process.

Ivanova et al. (2019) explored a new approach to assess the impact of the technological development of enterprises. According to authors a passive management policy of an enterprise with regard to its technological development can lead to catastrophic consequences for competitiveness in terms of innovation and development.

The issue of strategic management in the SME sector in the Czech Republic and Slovakia is not exhausted in its content.

Svatošová (2018) affirms that despite the fact that strategy presents an important factor that contributes to business success the role of strategy and strategic management in the sector of SMEs is significantly underestimated in the Czech Republic. The author also presents the possible causes of this situation, which may be seen in the specifics of SME management and individual quality of managers. The basic results of her research can be summarized as follows. Even though, the most SMEs are aware of the importance of strategic management, only a small proportion of them have a strategy. In this context,

the size of the company plays an important role. Larger companies more often formulate their strategies.

The paper by Skokan et al. (2013) deals with issues of strategic management, particularly strategic planning and its beneficial effect on the overall performance of businesses. The authors conducted the empirical research in the Czech Republic and Slovakia on a sample of 677 companies, of which 89.1% were from the Czech Republic and only 10.9% from Slovakia. Research results confirm that bigger companies pay more attention to strategic management and have more often prepared detailed strategy than smaller enterprises. Their research leads to a significant finding that „enterprises who did prepare detailed strategic document proved in 80% of observed performance parameters better results than enterprises without a written business plan“.

Švárová and Vrchota (2013) investigated the relationship between the implementation of strategic management in the SMEs segment and its market stability and financial success of the company on a sample of 176 respondents. Based on their empirical research, the authors state that the formulated strategy positively affects the financial performance of SMEs, but at the same time doesn't affect the financial success of SMEs. Authors added that “SME should more emphasis on proper configured metrics and strategy, in terms of their future development and maintaining on the market with respect to their activities”.

The issue of SMEs is addressed in Slovakia by several authors. For instance, Hudakova et al. (2018), Cepel et al. (2019), and Belas et al. (2018) discussed the issues of risk management in small and medium-sized enterprises. Authors declare that market, financial, economic and personnel risks comprise the four most important risks that negatively affect the business environment of SMEs. Cepel et al. (2018) investigated and quantified significant factors affecting the quality of the business environment in the Czech Republic and Slovakia. The authors assert the aggregated Business Environment Quality Index in the Slovak Republic reached the value of 0.460, which was higher than that of the Czech Republic (0.418).

Several authors searched specific areas of strategic management, e.g. strategic management of business performance (Rajnoha and Lorincová, 2015; Stacho et al., 2019), the relationship between business strategy and business model (Slávik and Zagoršek, 2016), strategic performance management system and Corporate Sustainability Concept (Rajnoha and Lesníková, 2016). Studies on strategic management of SMEs in Slovakia were not found.

Based on the presented knowledge it can be assumed that the research on the issue of strategic management of SMEs in the Czech Republic and Slovakia can bring interesting findings.

2 Aim, Methodology and Data

The article aims to bring new scientific knowledge in the field of strategic management in the SME sector. Within the determined aim, we quantify the weight of selected strategic management factors and compare trends in the Czech and Slovak Republics.

Empirical research in the field of strategic management of SMEs was carried out from October 2019 to March 2020 in the Czech and Slovak Republics using an on-line questionnaire. The total number of accepted questionnaires in the Czech Republic was

454 and in the Slovak Republic 368. The questionnaires were filled in by company owners and top managers. There were 354 owners and 100 managers in the Czech Republic and 285 owners and 83 top managers in Slovakia.

In the CR, the research includes 290 micro, 107 small and 57 medium-sized enterprises. Duration of business: 119 companies have been in business for up to 10 years and 335 for over 10 years. The educational level of the entrepreneurs was as follows: 231 with secondary education and 223 having a university education.

In Slovakia, there are 216 micro, 106 small and 46 medium-sized enterprises. Duration of business: 105 companies have been in business for up to 10 years and 263 for over 10 years. The educational level of entrepreneurs was as follows: 77 with secondary education and 291 having a university education.

In this article, we analyse the following statements:

ST1: Strategic management in a company is an integral part of corporate governance.

ST2: Strategic management is implemented in everyday life of our company and realised through action plans and programs.

ST3: Proper strategic management improves the competitive ability of our company and its stability in domestic and foreign markets.

ST4: Our company regularly monitors, evaluates and manages strategic risks.

Respondents could choose one of the five answers: strongly agree, agree, neither agree nor disagree, disagree, strongly disagree.

Based on the expert estimation method, we proposed the following scientific hypotheses:

H1: Strategic management is an important part of corporate management. More than 50% of respondents in the Czech Republic and Slovakia agree with this statement.

H1a: There are no statistically significant differences between the CR and SR in the overall structure of responses and positive attitudes of entrepreneurs when evaluating ST1.

H1b: There are no statistically significant differences in the positive attitudes of entrepreneurs when evaluating ST1 according to given parameters (company size, duration of business, gender and education) in the CR and SR.

H2: Strategic management is implemented in everyday business. More than 50% of respondents in the Czech Republic and Slovakia agree with this statement.

H2a: There are no statistically significant differences between the CR and SR in the overall structure of responses and positive attitudes of entrepreneurs when evaluating ST2.

H2b: There are no statistically significant differences in positive attitudes of entrepreneurs when evaluating ST2 according to given parameters (company size, duration of business, gender and education) in the CR and SR.

H3: Quality strategic management increases corporate competitive ability. More than 50% of respondents in the Czech Republic and Slovakia agree with this statement.

H3a: There are no statistically significant differences between the CR and SR in the overall structure of responses and positive attitudes of entrepreneurs when evaluating ST3.

H3b: There are no statistically significant differences in positive attitudes of entrepreneurs when evaluating ST3 according to given parameters (company size, duration of business, gender and education) in the CR and SR.

H4: Our company regularly monitors, evaluates and manages strategic risks. More than 50% of respondents in the Czech Republic and Slovakia agree with this statement.

H4a: There are no statistically significant differences between the CR and SR in the overall structure of responses and positive attitudes of entrepreneurs when evaluating ST4.

H4b: There are no statistically significant differences in the positive attitudes of entrepreneurs when evaluating ST4 according to given parameters (company size, duration of business, gender and education) in the CR and SR.

To evaluate the defined scientific hypotheses, the method of descriptive statistics (percentage), chi-square and the Z score method were used. Statistically significant differences were compared through Pearson statistics at the significance level of 5%. The calculations were made through the free software available at web.

3 Results

The following tables show the results of empirical research and their statistical processing.

Tab. 1: The importance of strategic management: Czech Republic (CR) and Slovak Republic (SR)

ST1	Czech Republic	Slovak Republic	Z-score/ p-value
1. Strongly agree	185	119	*0.2460
2. Agree	192	175	**0.1310/ 0.0093
1+2 together: % / number	83.04/377	79.89/294	***0.5353/0.3681
3. Neither agree nor disagree	64	63	****0.6455/ 0.0375
4. Disagree	8	7	
5. Strongly disagree.	5	4	
Chi-square/ p-value: 6.3743/0.1729			

Notes: * comparison of CR and SR, ** comparison by the size of enterprises (we compare micro and other enterprises), *** comparison by the duration of business (companies up to 10 years and companies over 10 years), **** comparison by education (secondary and university education).

Source: (own research)

The results of our research show that SMEs strongly perceive strategic management as an important part of corporate governance. 83.04% of entrepreneurs in the Czech Republic and 79.89% of entrepreneurs in Slovakia agree with the ST1 statement.

The chi-square test value (p-value = 0.1729) confirms that there are no statistically significant differences in the overall structure of responses of Czech and Slovak entrepreneurs. The value of the Z-score test criterion (p-value = 0.2460) confirms that

there are no statistically significant differences between CR and SR in the positive responses of entrepreneurs to the ST1 statement.

The values of the Z-score test criterion (p-value = 0.0093/0.0375) confirm that there are statistically significant differences in positive answers considering the size of the enterprise and the education of entrepreneurs in Slovakia.

H1 was confirmed. H1a was confirmed. H1b was not confirmed.

Tab. 2: The implementation of strategic management: Czech Republic and Slovakia

ST2	Czech Republic	Slovak Republic	Z-score/ p-value
1. Strongly agree	80	58	*0.1211
2. Agree	147	146	** 0.0061 /0.0629
1+2 together: % / number	50.00/227	55.43/204	***0.2420/0.1141
3. Neither agree nor disagree	153	119	****0.0751/0.4902
4. Disagree	49	37	
5. Strongly disagree.	25	8	
Chi-square/p-value: 9.2968/0.0541			

Source: (own research)

Strategic management is not vigorously implemented in everyday business. Only 50% of Czech and 55% of Slovak entrepreneurs confirm their approval of the ST2 statement.

The chi-square test value (p-value = 0.0541) confirms that there are no statistically significant differences in the overall structure of responses. The value of the Z-score test criterion (p-value = 0.1211) confirms that there are no statistically significant differences between CR and SR in positive responses of entrepreneurs to ST2 statement.

The value of the Z-score test criterion (p-value = 0.0061) confirms that there are statistically significant differences in the positive responses of entrepreneurs considering the size of the company in the Czech Republic.

H2 was not confirmed. H2a was confirmed. H2b was not confirmed.

Tab. 3: Strategic management and corporate competitive ability

ST3	Czech Republic	Slovak Republic	Z-score/ p-value
1. Strongly agree	124	94	*0.7490
2. Agree	171	149	** 0.0031 /0.0536
1+2 together: % / number	64.98/295	66.03/243	***0.8808/0.6818
3. Neither agree nor disagree	116	93	****0.4413/ 0.0340
4. Disagree	33	27	
5. Strongly disagree	10	5	
Chi-square/ p-value: 1.4571/0.8342			

Source: (own research)

65% of Czech and 66% of Slovak entrepreneurs agree with the statement that quality strategic management increases the corporate competitive ability.

The chi-square test value (p-value = 0.8342) confirms that there are no statistically significant differences in the overall structure of responses. The value of the Z-score test criterion (p-value = 0.7490) confirms that there are no statistically significant differences between CR and SR in the positive responses of entrepreneurs to the ST3 statement.

The values of the Z-score test criterion (p-value = 0.0031/0.0340) confirm that there are statistically significant differences in the positive responses of entrepreneurs in view of the size of the company in the CR and education in the SR.

H3 was confirmed. H3a was confirmed. H3b was not confirmed.

Tab. 4: regular monitoring of strategic risks

ST4	Czech Republic	Slovak Republic	Z-score/ p-value
1. Strongly agree	72	49	*0.2340
2. Agree	141	139	** 0.0004 / <0.0001
1+2 together: % / number	46.92/213	51.09/188	***0.3735/ 0.0278
3. Neither agree nor disagree	130	120	****0.2113/0.5485
4. Disagree	70	48	
5. Strongly disagree.	41	12	
Chi-square/ p-value: 15.9326/0.0031			

Source: (own research)

47% of Czech SMEs and 51% of SMEs in Slovakia agree that companies regularly monitor, evaluate and manage strategic risks.

The chi-square test value (p-value = 0.0031) confirms that there are statistically significant differences in the overall structure of responses between CR and SR. The value of the Z-score test criterion (p-value = 0.2340) confirms that there are no statistically significant differences between CR and SR in the positive responses of entrepreneurs to the ST4 statement.

The values of the Z-score test criterion ($p\text{-value} = 0.0004 / < 0.0001 / 0.0278$) confirm that there are statistically significant differences in the positive responses of entrepreneurs in view of the size of the company in both countries and age in the SR.

H4 was not confirmed. H4a was confirmed. H4b was not confirmed.

4 Discussion

The results of our research prove that SMEs strongly perceive strategic management as an important part of corporate governance. This trend was confirmed by 83.04% of Czech and 79.89% of Slovak entrepreneurs. On the other hand, only 50% of Czech and 55% of Slovak entrepreneurs confirmed that strategic management is implemented in the everyday life of the company. Only 65% of Czech and 66% of Slovak entrepreneurs confirmed the impact of quality strategic management on the growth of corporate competitiveness. Only 47% of Czech and 51% of Slovak SMEs confirmed regular monitoring and management of strategic risks.

We also found that there are statistically significant differences considering the size and age of the company, and also the education of entrepreneurs. Paradoxically, micro enterprises in Slovakia claimed that they are more aware of the importance of strategic risk in managing a company compared to small and medium-sized enterprises. Slovak entrepreneurs with university education also perceive the importance of strategic management more intensively compared to entrepreneurs with secondary education. Larger companies in the CR confirmed with greater intensity that strategic management is implemented in the everyday life of the company. Larger companies in the Czech Republic are more aware of the fact that quality strategic management increases corporate competitive ability. In Slovakia, entrepreneurs with university education are more aware of this fact. Larger companies in both countries regularly monitor, evaluate and manage strategic risks. In Slovakia, we also revealed that companies up to 10 years of their existence pay more attention to regular monitoring in the field of strategic management.

The results of our research broaden the findings of Grimsdottir and Edvardsson (2018), and Švárová and Vrchota (2013), who determine certain limits on the application of the principles of strategic management in SMEs, i.e. they stress the need for creative application of strategic management in SME management (Abosedo et al., 2016). At the same time, we add some conclusions to the research of Skokan et al. (2013), who point to a higher rate of application of advanced management methods in larger companies.

Our results are, to a certain extent, compatible with the conclusions of Svatošová (2018), who conducted the research on a sample of 278 SMEs in the Czech Republic. The author states that only 47% had a formulated corporate strategy, of which only 27.5% had formulated the strategy in written form. Unsurprisingly, the lowest score was attained by micro enterprises. On the other hand, the selected SMEs consider corporate strategy in strategic development to be important (46.76%) or very important (46.40%). The most common formulation of corporate strategy is in total oriented towards stabilization (28.24%), development (25.19%) and profit maximization (21.37%).

Conclusion

The article aimed to bring new scientific knowledge in the field of strategic management in the SME sector.

The research results show that SMEs intensively perceive the importance of strategic management in the company. On the other hand, strategic management is not adequately implemented in the everyday life of the enterprise. Entrepreneurs in both countries are not too convinced that quality strategic management enhances corporate competitive ability. About half of the companies are involved in regular strategic management.

We also found that there are statistically significant differences considering the size and age of the company, and also the education of entrepreneurs. The most significant differences in the attitudes of entrepreneurs were found when the size of the company and the education of entrepreneurs were used as sorting criteria. It can be generalized that larger companies and more educated entrepreneurs better understand the importance of strategic aspects and the need to apply them to corporate governance.

This research has certain limits in terms of the sample of respondents, i.e. from the aspect of formulating individual statements as well as other researches. On the other hand, it results in the formulation of new scientific knowledge in the field.

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