

# Comparative analysis of small and medium-sized enterprises in the Czech Republic

## *Komparativní analýza malých a středních podniků v České republice*

R. ZUZÁK, E. JIROVSKÁ

*Czech University of Life Sciences, Prague, Czech Republic*

**Abstract:** The contribution presents the findings of the third phase of an extensive survey, the main goal of which was the identification of factors stimulating or restricting the establishment of small and medium-sized enterprises. It comprises the outcomes of the comparative analysis aimed at the comparison of groups of small and medium-sized enterprises and the model enterprise according to areas influencing founders' entrepreneurial activities.

**Key words:** small and medium enterprises, entrepreneur motivation, one-man enterprise, comparative analysis

**Abstrakt:** Příspěvek přináší výsledky třetí etapy rozsáhlého výzkumu, jehož hlavním cílem byla identifikace faktorů, které motivují nebo naopak brání v zakládání malých a středních podniků. Obsahuje výsledky komparativní analýzy, v níž byly vybrané soubory malých a středních podniků porovnány podle oblastí, které ovlivňují podnikatelské aktivity zakladatele podniku s modelovým podnikem.

**Klíčová slova:** malé a střední podniky, podnikatelská motivace, podnikatelé, komparativní analýza

The importance of small and medium-sized enterprises for the country's economy and the society as a whole has been underestimated. This is documented in particular by the lack of suitable conditions for the beginning entrepreneurs. Small and medium-sized entrepreneurial entities are, according to Mugler (1998), important in the economic and social terms, in particular because they achieve better results than large enterprises as regards certain indicators, such as productivity, efficiency, and profit, they create new jobs, ensure competition on the market and eliminate monopolisation. These enterprises provide a wider offer of goods and services and improve the quality of life of both the entrepreneurs and their employees. The inability of large companies to respond to changes led to the development of the theory of industrial dualism (Pesquera 1996). The theory is based on the finding that no economic system can be founded solely on the existence of mass production. Every developed society requires a variety of goods

and services and small and medium-sized enterprises are able to satisfy these requirements.

The importance of small enterprises, in particular, for employment development has been scientifically grounded in the study of American scientist Birch (see Schmidt 1996). He has shown that small businesses partially absorb workers formerly employed by large companies. European surveys (e. g. Brüderl et al. 1996; Brüderl 1997; Wanzenböck 1998) are not so optimistic and underline the fact that up to one third of small companies cease to exist no later than five years after their establishment and that there is only a slight increase in the average number of employees during the period of the existence of the company.

The existence of a number of small and medium-sized business entities is based on the idea of innovation. In this context, innovation is perceived in the broad sense of the word. It is not restricted solely to product innovation, but also includes innovation in

sale and marketing, accompanying services, combinations, etc. (Schumpeter in Ripsas 1997).

## OBJECTIVES AND METHODOLOGY

The contribution summarises the output of the third phase of an international project the main purpose of which has been to identify factors that contribute to or limit the establishment of small and medium-sized enterprises in the Czech Republic. The first phase was dedicated to data collection using the method of anonymous written inquiry. The questionnaire was developed based on the questionnaire set up for a similar survey carried out in Austria (Frank et al. 1999) and modified to suit Czech conditions and to enable the subsequent international comparison. The questionnaire survey covered 887 respondents from the selected regions of the Czech Republic.

In terms of content, the questionnaire exploited the Pull-Push theory (Amit, Muller 1996) which is based on the position of a founder of a small enterprise who has to deal with two extremes: on the one hand, he is "pushed" to independence, and on the other, he is "pulled" by an attractive opportunity. The questionnaire also reflected the configuration theory (Frank et al. 1999; Gartner 1985; Miller 1987) targeted at four areas significant for entrepreneurial (establishment) activities of an individual: personality of the founder, resources, environment and the process of enterprise establishment. The result of the first phase was the identification of factors having impact on the founding of small and medium-sized enterprises in the Czech Republic and the level of this impact. Within the scope of this phase, the results were compared with a similar survey carried out in Austria.

The second phase focused on the gathering of additional data in regions with insufficient number of respondents. The goal of this phase was to identify regional differences with respect to the nationwide characteristics. Both the above-mentioned phases were part of the international project implemented by the CULS, the Wirtschaftsuniversität Wien and the HOSOZ Prague.

The third phase focused on a comparative analysis the aim of which was to verify and validate the previously obtained results and to obtain a broader picture of the enterprise establishment process. The comparative analysis covered five areas that have an effect on establishment activities: personality of the founder, resources, environment, process of enterprise establishment, and size of the enterprise.

A subgroup of successful enterprises ( $n = 109$ ) was short-listed from the group of enterprises. The

subgroup constitutes the model enterprise. The criteria for entering a company into the shortlist (the model enterprise) were as follows: the increase in the number of employees in the period from the enterprise establishment to the questionnaire presentation, the respondent's subjective assessment of its future development as "constant" or "expansive" (as defined in the questionnaire), respondent's subjective assessment of the development of business activities until the questionnaire presentation as "successful" or "very successful" (as defined in the questionnaire), and the non-existence of "Booty Capitalism" motives (orientation on short-term profit).

According to the survey, the founder of a successful business is characterised by strong motivation to performance, self-initiative, internality and self-realisation motive. He is ready to bear a medium risk, he is not significantly limited by his surroundings, in particular his family, and he is influenced by Push motives, primarily the risk of income decrease and the threat of unemployment. As regards the above criteria, the short-listed group of enterprises is fairly homogenous.

The model enterprise was subsequently compared with groups created according to the following criteria:

- Enterprise size (two extreme categories – no employees and more than ten employees),
- Age of enterprise founders (two categories: less than 25 and over 50 years of age),
- Unemployment (unemployment is the reason for enterprise establishment),
- Booty-Capitalism versus long-term goals (two categories: short-term profit and higher personal consumption and focus on enterprise growth and reinvestment),
- Business tradition (categories: with family business tradition and other enterprises),
- Experience in the field (two categories: experience in the field and without experience),
- Field of business (three categories – trade, services and industrial activities).

The prerequisite for the creation of each category was the minimum of 50 respondents. This principle was not observed only in the case of the category of the unemployed ( $n = 26$ ).

## RESULTS AND DISCUSSION

The presented results are deviations from the model enterprise discovered in the individual groups by the comparative analysis.

**Enterprise size.** When comparing the model enterprise with the less successful enterprises, the number of employees in the initial stage of enterprise establishment does not differ significantly. In the case of the successful model enterprise, the personnel consists of 5.7 persons while in the less successful enterprises of only 5.4 employees. The median for a successful enterprise is two employees while the comparable value in the rest of the group is zero.

The analysis according to size categories shows that successfully established enterprises are in 24 per cent of cases one-man enterprises while in the less successful enterprises, the percentage is 50.7%.

When comparing the size of the enterprises, there are substantial differences between the individual categories as well as between the categories and the model enterprise. The groups of founders are very different; larger enterprises have substantially higher financial means and human resources, a better family support and are able to cope with the business processes in a better way. On the contrary, small enterprises are often established with the perspective of short-term profit and as a way out of unemployment.

Furthermore, small one-man enterprises typically display lower motivation and self-realisation efforts. Only when it comes to self-realisation and income, one-man companies are comparable with the model enterprise and are far ahead of the companies with more than ten employees. Larger enterprises show a lower level of entrepreneurs' motivation to performance.

Small one-man enterprises are less restricted by families; at the same time, however, the families are less supportive. They are better motivated by positive examples (of successful entrepreneurs).

**Entrepreneur's age.** The group of businessmen younger than 25 years of age is less motivated to performance, show a low degree of self-initiative, but on the other hand, a higher income compared to the group of entrepreneurs over 50. Compared to the model enterprise, both groups have a large financial resource deficit and are less limited by families. Older businessmen use personal contacts more extensively; on the contrary, the younger group is characterised by a larger inclination to models. The size of enterprises is, in particular in the case of the younger group of entrepreneurs, below the level of the model enterprise.

**Unemployment.** The group of businessmen who started their businesses as a result of job loss was included due to the relevance of the problem. The survey and the follow-up comparative study have

confirmed that the entrepreneurs lack financial resources and contacts and are poorly supported by their families. They are willing to bear a lower level of risk, presumably because running a business is a solution to their current situation.

**Booty Capitalism.** The analysis has confirmed that in the areas measured, the entrepreneurs focusing on short-term profit do not achieve better results than the model enterprise. The most evident negative deviations regard the personality of the businessman, primarily the motivation to performance and self-initiative. When compared to the model business and to the group of entrepreneurs with reinvestment plans, extremely negative differences can be seen in the field of financial resources and mild differences in human resources. As regards the size of the enterprise, these enterprises are much smaller than both the model enterprise and the enterprises in the other group.

**Business tradition.** The values of the respondents with business tradition are closer to the model enterprise than the values of the respondents without it, first of all in the area of the motivation to performance, self-initiative and internality. When compared to the model enterprise, the group without the family business tradition did not demonstrate better results in any of the measured areas.

**Experience in the field.** Apart from other things, the comparative analysis was to confirm or reject the presumption that experience in the field was an important success-stimulating factor. The differences between the experienced and inexperienced groups lie in particular in the following: experienced entrepreneurs have more contacts and a better knowledge of the company and human resource management. On the contrary, inexperienced entrepreneurs are less limited by their families. In terms of size, inexperienced businessmen run smaller businesses than the other group. Both groups dispose of significantly lower financial resources than the model enterprise.

**Field of business.** For the purposes of the analysis, three sectors (trade, services and industry) were selected and compared among themselves and also with the model enterprise. The outcomes of the comparison show that the success potential of industrial businesses is the highest while businesses providing services are likely to be the least successful. Businessmen in the area of trade are the least motivated and have the poorest self-initiative both with respect to the model enterprise and to industrial and service companies.

All three groups show a substantial deficit of financial resources, with worse results in trade and service sectors. The respondents running an industrial business have the best equipment (even when compared to the model enterprise).

Family restrictions are more significant in the area of services and trade than in the industrial sector and in the model enterprise. Entrepreneurs in trade have a more positive approach to the potential failures than the rest of the entrepreneurs and the model enterprise.

## CONCLUSION

The conducted survey and the subsequent analyses, the comparative analysis being the last phase of the analytic work, have identified the motives and drawbacks in the process of the small and middle-sized enterprise establishment. Among the most distinct drawbacks, there are: low level of risk capital flowing to small and middle-sized enterprises, insufficient support of small businesses and lack of information on the part of entrepreneurs regarding the possibilities of obtaining support.

The motives are dependent primarily on the personality of the entrepreneur (his mentality, approach to business running, approach to risk) and the surrounding environment (in particular the support of the family). The outcomes have demonstrated the importance of the businessman's knowledge and experience for the establishment and further development of a successful business.

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### Contact address:

Roman Zuzák, Eliška Jirovská, Czech University of Life Sciences Prague, Kamýcká 129, 165 21 Prague 6-Suchbát, Czech Republic  
e-mail: zuzak@pef.czu.cz; jirovska@pef.czu.cz

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