

THE STRATEGIES AND THEIR ROLE IN IMPROVING THE MANAGEMENT OF A COMPANY FROM THE SME SECTOR UNDER GLOBAL CONDITIONS

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Abstract:

The year 2008 ended in Poland and other EU countries under the sign of the Great Depression, which began on the other side of the ocean but it covered almost the whole world. The most vulnerable to the crisis turned out to be companies from the SME sector which, in the European Union SMEs represent 99.8% companies operating within the Union, and their sales account for about 56.2% total revenues. EU small and medium-sized companies employ more than 66% workforce and they are the ones most heavily affected by the crisis. In Poland the company from the SME sector accounts for over 90% of all businesses operating in our country. And they were faced in front of the huge challenge which was how to survive during the crisis. One of the effective tools of business management has become a strategic activity. This article presents a strategic activity as the way to survive in times of crisis and egress from having a much stronger position in the market.

Key words: MSP, zarządzanie przedsiębiorstwem, aktywność strategiczna, kryzys globalny, zarządzanie strategiczne

Clasification: M11, F63.

1. Introduction

A market economy is mainly characterized by the dominance of private ownership and significant involvement in manufacturing and services, mainly provided to small and medium-sized enterprises, known as SMEs. They are essential in a market economy, since it is they, not the big companies, decide on the economic strength of highly developed countries. Their advantage is that very

effectively invented and come into market niches, they can also quickly adapt to customer needs and requirements. They, however, proved to be most vulnerable to the global crisis that was felt most strongly in 2008. Their main objective was to survive in the market. To achieve this, some companies were forced to release some people from their crew, other froze their money, and others cut their profitability thresholds. Many companies, in turn, has set a strategic activity, which skillfully used was strongly influenced by the crisis and the continuation of the company.

2. SME – Basic concepts and definitions

There is no unique definition of small and medium-sized enterprises. The definition¹ differs from country to country, depending on the purpose of its usage, the economic development level and the application of different criteria regarding employment and investment capital. However, the most common definitional basis used is employment. The enterprises differ in their levels of capitalization, sales and employment. Accordingly, the definitions employing the measures of size (number of employees, turnover, profitability, net worth, tec.) when applied at a single sector may provoke the classification of all its enterprises as small, while the same definitions when applied to another sector result in a different way.

Table 1 – Alternative Definitions of SMEs

	Definition
OECD	Micro – firm with 1-4 employees Very small – firm with 5-19 employees Small – firms with 20-99 employees Medium – firms with 100-500 employees
USAID in the 1990s	Firms with less than 50 employees
UNIDO's Definition for Developing Countries	Large – firm with 100+ workers Medium – firms with 20-99 workers Small – firms with 5-19 workers Micro – firms with < 5 workers
UNIDO's Definitions for Industrialized Countries	Large – firms with 500+ workers Medium – firms with 100-499 workers Small – firms with <99 workers

Source: Author's elaboration based on Quartey P., *Regulation, Competition and Small and Medium Enterprises in Developing Countries*.

¹ Based on Kozetinac G., Vukovic V., Kostic D., *Corporate finance and monetary policy: The role of small and medium-sized enterprises*, Czestochowa University of Technology, Czestochowa 2010.

Using the concept of small and medium enterprises, generally takes into account companies that¹:

- have relatively little capital and employ a small number of employees;
- have a small market share, and often the owner is the manager (or group of persons), which eliminates complex administrative and bureaucratic structures;
- are financially and legally independent from the other operators.

Given the ambiguity of these characteristics describe the size of the enterprise, in practice, most quantitative criteria are used, ie the average number of employees, the average size of income and the value of fixed assets. As defined by the EU, enterprises²:

A small company is the operator, in which:

- employs fewer than 50 employees;
- annual net revenue from the sale of goods, products and services and financial transactions may not exceed the equivalent in PLN 7 million or total assets of its balance sheet at the end of the previous financial year should not exceed 5 million Euros;
- the independence of the company can be extracted;

Medium-sized enterprise is a company, in which:

- are employed on average less than 250 employees'
- annual net revenue from the sale of goods, products and services and financial transactions may not exceed 40 million or total assets of its balance sheet at the end of the previous financial year should not exceed 27 million Euros;
- the independence of the company can be extracted;

The condition of this classification is to meet all the criteria together.

3. SME's strategic activity and its agents

In many studies, business strategies, the majority declares usually have explicit strategic objectives.

However, a clear set of strategic objectives is not sufficient to conclude that the company is active strategically. According to the authors for the same purpose should be offensive in nature, as well as the necessary processes are achieving these objectives ranging from the preparation of policy options, their selection,

¹ Piasecki R., *Ekonomia Rozwoju PWE* Warszawa 2007.

² Czech-Rogosz J., Pietrucha J., Żelazny R., *Koniunktura Gospodarcza* GH Beck Warszawa 2009.

implementation and possible correction, or a whole string of strategic management¹.

Note that the process of developing strategies in the SME sector is considered in the literature to be lame. This also confirms the conclusions of the research strategies of enterprises with foreign participation in Poland. A large part of the answer to the question of opportunities perceived by the company over the next three years related to the strengths of the company (19 indications, which represents 31% of responses), the similar situation occurred in the responses to the question of risk, where the firms surveyed formed weaknesses (6 indications ie 10% of responses)².

Among the key issue affecting SME strategic activity include³:

Legal system: tax reporting, customs - the simplification of tax reporting and the changing tax laws should be made in order to reduce the differences in the construction of the balance sheet profit (determined for accounting purposes) on the one hand and the other tax revenue and standardize the approach to this problem in both tax laws and Accounting Act. It is also important introduction to the Civil Code, lease or amendment of a law on public procurement in order to reduce the amount of security brought by a trader, joining the tender and take action to allow easier access to external financing sources⁴.

This will improve the competitiveness of SMEs and facilitate the legislation will allow businesses to use the time for education and discussion related to the strategic development of their own business. A factor was the most frequently mentioned among the main obstacles to the activities of the enterprises with foreign participation. The variability of regulation indicated 55% of respondents, and the complicated and inconsistent regulations, particularly tax and customs indicated 52% of the companies surveyed⁵.

Quality certificates, certificates - Polish SMEs must be aware of the need for certification or approval. These factors demonstrating their strategic activities and giving the opportunity to enhance their competitiveness and to provide services

¹ Samuelson P. A., Nordhaus W. D., *Ekonomia*, PWN Warszawa 2006.

² Strużyna J., Orman D., *Zarządzanie strategiczne w małych firmach w Metody zarządzania strategicznego*, prace naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości Wałbrzych 2000.

³ Based on Dankova A. *Problemy rozwoju maleho a sredneho podnikania v Slovenskej Republike* w materiałach konferencyjnych nt. *Wyzwania rozwojowe a restrukturyzacja przedsiębiorstw* pod redakcją R. Borowieckiego Warszawa-Kraków 2003.

⁴ Strużyna J., Orman D., *Zarządzanie strategiczne w małych firmach w Metody zarządzania strategicznego*, prace naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości Wałbrzych 2000.

⁵ *Polskie Przedsiębiorstwa w perspektywie członkostwa w Unii Europejskiej*, praca zbiorowa pod redakcją Tadeusz Kołodzieja, PWE, Warszawa 2001.

at a high level. Lack of approval, certificate, certificates, authentication, authorization (eg ISO certification in Poland, has only 1,700 SMEs) constitutes a threat both to SMEs, hoping to expand into EU markets, as well as the integration of skeptical because on the domestic market will also be new competition from EU countries¹.

Trust in suppliers or contractors - Reduced confidence in the partners with whom the company cooperates directly results in the construction of corporate networks is becoming very difficult. This is a worrying phenomenon because in Poland there is significant potential to create groups and companies networks. Joint activities in the trade network of small and medium-sized enterprises may be helpful in overcoming such problems as²:

- lack of physical ability, which is often characterized by limited capacity, inadequate or too little storage space and a poor distribution network;
- lack of suitably skilled workforce, this may be the result of a slowdown in development even though the current favorable market conditions. The cooperative network is possible through the precise definition of common objectives included in its business, sharing possessed facilities and related costs;
- low availability and high cost of obtaining financing.

Reducing the level of trust between the participants in the exchange is also of the great importance for use by SME operating a niche market strategy, limiting the possibility of its use.

Managerial skills of entrepreneurs - a significant impact on the activity of strategic are management skills. In the small business range of possible reactions and behavior is defined personal abilities, knowledge and motivated by one or two key people. In the growth of companies developing the capacity, knowledge and values of groups. These skills are determined by two factors:

- a power - range of capabilities that control can contribute to the strategic behavior of firms,
- capacity - means the volume of a strategic effort that the head can bear.

High levels of these factors is characterized by business activity were shown to be strategic³.

Management style, organizational culture - An entrepreneur plays a key role in shaping the organizational culture of SMEs. This is due to the specificity of

¹ Matuszak K. *Zagrożenia i szanse polskich przedsiębiorstw*, Euro Info listopad-grudzień 2002.

² Kożuch B., Plawgo B. *Wyzwania rozwojowe małych i średnich przedsiębiorstw* w materiałach konferencyjnych nt. *Wyzwania rozwojowe a restrukturyzacja przedsiębiorstw* pod redakcją R. Borowieckiego Warszawa-Kraków 2003.

³ Kalinowski T. B., *Innowacyjność Przedsiębiorstw a Systemy Zarządzania Jakością*. Wolters Kluwer Polska 2010.

the management of small and medium business, which consists contact between staff and the manager, or easier to identify opportunities for workers with the objectives of the company¹. This is particularly important in the process of increasing labor productivity, as this level is far lower than in EU countries. This is shown previously discussed the results of surveys of enterprises with foreign capital². Low employee productivity, or lack of work ethos in Polish conditions indicated 24% of respondents. Yet the lack of trust staff determines the management style also translates into the company's image in the environment, hinder the introduction of modern methods of management and organization of work³.

Communication infrastructure, technical and information - Communication infrastructure, and technical information in Poland is less developed than in the EU, highlights what the fifth, the test company with foreign participation in Poland. This factor contributes to the increase in logistics costs, and thus reduces the competitiveness of Polish SMEs in the European Union markets.

These factors do not exhaust the set of conditions that affect the strategic activity of SMEs. However, are considered by the authors as the most important from the perspective of strategic behavior⁴.

4. SMEs in global crisis

In the context of current economic situation it is import and to stress that SMEs are generally more vulnerable in time of crisis for many reasons among which are:

- It is more difficult for them to downsize as they are already small;
- they are individually less diversified in their economic activities
- they have a weaker financial structure
- they have a lower or no credit rating
- they are heavily dependent on credit
- they have fewer financing options.⁵

¹ Targalski J., *Innowacyjność Przedsiębiorstw Małopolskich i Śląska*, Wydawnictwo Uniwersytetu EKO w Krakowie Kraków 2008.

² Lichniak I., *Wyzwania Ekonomiczne w Warunkach Kryzysu*, Szkoła Główna Handlowa w Warszawie Warszawa 2009.

³ Strużyna J., Orman D., *Zarządzanie strategiczne w małych firmach w Metody zarządzania strategicznego*, prace naukowe Wałbrzyskiej Wyższej Szkoły Zarządzania i Przedsiębiorczości Wałbrzych 2000.

⁴ Kalinowski T. B., *Innowacyjność Przedsiębiorstw a Systemy Zarządzania Jakością*, Wolters Kluwer Polska 2010.

⁵ Tvrdon M., Bernatik W., *Economic crisis and its impact on smes: The case of visegrad group countries*, Czestochowa University of Technology, Czestochowa 2010.

In Poland¹ SMEs have several advantages which are particularly precious during a crisis and fall in demand. These companies are not involved in risky financial operations; they do not try to access unknown market segments. This conservative approach is often under fire of criticism during economic expansion but when crisis loomed it showed that SMEs avoided mistakes which led bigger companies into troubles thanks to that. Micro-enterprises are also very flexible. They can increase and decrease the scale of their operation to reasonable extent relatively quickly. Moreover, since Polish SMEs are particularly active in service and trade, so they depend on the domestic demand rather than exports. Small businesses in Poland operate in relatively safe market niches. However, despite these advantages SME sector has not been totally able to avoid troubles related to crisis. One in four companies reports problems due to downturn and among their biggest “headache” in the difficult times they list:

- too high taxes,
- administrative burdens;
- lack of institutional aid;
- credit crunch.

Small companies which co-operate with bigger ones are often heavily dependent on their big clients, usually one and only. On the other hand – 42% of Polish SME’s have not noticed so far the impact of the crisis on their economic conditions and 7% of them even report increase in turnover. In a case like that the affected companies cannot count on a significant support from the state or state institutions. They have to rely on themselves and their own abilities to survive.

5. Strategic activity in the enterprises from SME sector during the crisis

Company X is a small horticultural business, which has its seat in Czestochowa. This is a small company, ideally suited to the SME sector - is permanently employed 11 people (not counting the owner who is also general manager of the company) and its annual net income does not exceed the sum of 7 million Polish zloty. The company has been on the market for over 20 years. It started before 1989 when all activity and entrepreneurship has not been welcomed by the government. Years of the 90th brought an action against the company to consolidate its position in the local market and now it has more than one third of

¹ Based on Grabara J., Skowron-Grabowska B., Hanic, H., Dejan E., *Global Crisis in the Central-Eastern European region*, Czestochowa University of Technology, Czestochowa 2010.

public procurement which gives it a significant advantage over other companies in the same industry.¹

Year 2007 for Company X, as for many companies in the SME sector, was a year of great economic recovery, as compared with previous years the volume of orders has doubled which resulted in a significant increase in turnover. To meet all the orders the company hired another 5 people on temporary work conditions. Unfortunately, in 2008, the company recorded a significant drop in orders, which was precisely the cause of the crisis which struck hardest in all - ranging from finance to the town until after the wallets of its inhabitants. The city wants to reduce its expenditure has been forced to reduce the number of submitted orders for lawn maintenance and landscaping which strongly affected the company's financial condition. In order to survive the raging crisis and emerge from it on their own, business manager took many steps for doing so:

- first of all, called a meeting of all employees and then clearly presented a situation in which they are undertaking. He explained why the company has not renewed contracts with temporary workers and the company's finances look like. Then called for patience and understanding for the next steps taken by him, as a result of which was to be the company's safe exit from the crisis.
- Manager's next step was to cut costs - slowed down the book and, instead, the company began to use the services of external accounting office, which resulted in lower maintenance costs per employee. Another two people were sent for outstanding leave and offered them to move to half-time.
- Were frozen any increases, bonuses and allowances. In addition, the company refrained from any purchases and investments.
- While the company launched the advertising campaign depicting her as a company that is best able to take care of green areas and lawns. This campaign was designed to maximize the acquisition of new customers. As the order book is significantly lower, the company was forced to turn to private customers. To this end, participated in the Agricultural Fair Gardenia, in Piotrkow's Agricultural Fair and Exhibition of Horticultural Your Garden in Bielsko-Biala.

All these steps, both big and small have produced tangible results - the company has survived the crisis and the year 2009 began with a significant portfolio of contracts, both public and private.

¹ Dima, I.C., Marcincin, I.N., Grabara, J., Pachura, P., Kot, S., & Man, M. Operational management systems of the production achieved in flexible manufacturing cells. Presov, Slovakia: Technical University of Kosice 2011.

6. Conclusion

Each company is active strategically in some way, one more and the other less. Begin a business is a strategic activity, since taking the challenge of running a company alone is just one manifestation of a strategic activity.¹ Do not assume companies without having any purpose. For some, the aim will be to stay in the market and for the second extension and expansion activities. The objectives pursued by the companies in the SME sector may not be as far reaching as the goals pursued by the great concerns and as they do not have faculty involved in strategic management, but even to a certain extent must be an active strategy. Even if they are not the business end so aware. A good example of the activity of strategic companies in the SME sector was precisely the time of crisis in which they found themselves in 2008-2009. This crisis has affected almost all industries and businesses wishing to stay on the market were forcing to take certain actions, whose aim was just to survive. These activities included, among others, the reduction of employment, suspend all investments, freezing of capital. Some activities may have an entirely different nature - like investments, according to the saying "buy cheap," but that opportunity is reserved only for companies with a significant excess cash. All of the above actions can be classified as a strategic activity, due to the time of crisis, but some increased activity, however, always present in a powerful enterprise.

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