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MANAGEMENT APPROACHES OF LARGE AND SMALL ENTERPRISES IN CZECH REPUBLIC

The time in which we live brings many problems, surprises and challenges. The firms try to deal with existential issues in different ways. Some of them take advantage of their size, some try to make use of their innovation potential to get through the critical period. We are witnessing a paradoxical change of size, economic power and the strength of entrepreneurial structures. On one hand, large firms are becoming stronger and more dominant. On the other hand, small firms are forced to agree with conditions imposed by stronger entrepreneurial subjects. Small and microfirms are losing competitiveness. Only a small number of them has a chance to make it to a higher level. The object of the paper is to focus attention to the problems of large and small enterprises and some management approaches under Czech conditions.

Keywords: enterprise size; economic power of enterprise; small enterprise management; large enterprise management.

JEL classification: L16, L26, M21.

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УПРАВЛІНСЬКІ ПІДХОДИ НА ВЕЛИКИХ ТА МАЛИХ ПІДПРИЄМСТВАХ ЧЕСЬКОЇ РЕСПУБЛІКИ

У статті показано, як сучасні проблеми, нестандартні ситуації та виклики впливають на менеджмент. Фірми підходять до вирішення проблем досить різними шляхами. Деякі з них роблять ставку на розмір підприємства, інші – на його інноваційний потенціал. У даний час триває перегляд таких управлінських категорій як розмір та економічна потужність підприємства, що впливають на процеси структурування. З одного боку, великі підприємства стають сильнішими та домінують на ринках. З іншого – малі фірми змушені грати за правилами, що їм нав'язують великі. Таким чином малі та мікрофірми втрачають конкурентні позиції. Лише невелика їх кількість вижить в таких умовах. У статті зосереджено увагу на проблемах великих та малих підприємств та деяких управлінських підходах на прикладі досвіду Чехії.

Ключові слова: розмір підприємства; економічна потужність підприємства; управління малим підприємством; управління великим підприємством.

Табл. 2. Рис. 1. Літ. 13.

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УПРАВЛЕНЧЕСКИЕ ПОДХОДЫ НА БОЛЬШИХ И МАЛЫХ ПРЕДПРИЯТИЯХ ЧЕШСКОЙ РЕСПУБЛИКИ

В статье показано, как современные проблемы, нестандартные ситуации и вызовы влияют на менеджмент. Фирмы подходят к решению проблем множеством различных путей. Некоторые делают ставку на размер предприятия, другие – на инновационный потенциал. В настоящее время происходит пересмотр таких управленческих категорий как размер и экономическая сила предприятия, что влияет на процессы структурирования. С одной стороны, большие предприятия становятся всё сильнее и доминируют на рынках. С другой – малые фирмы вынуждены играть по правилам, навязанным большими. Таким образом малые и микрофирмы теряют свои конкурентные позиции. Только небольшое количество малых предприятий способны выжить в таких

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условиях. В статье акцентируется внимание на проблемах больших и малых предприятий, а также некоторых управленческих подходах на примере опыта Чехии.

Ключевые слова: размер предприятия; экономическая мощность предприятия; управление малым предприятием; управление большим предприятием.

1. Introduction

We now can see how previously large and hierarchically organized companies are slimming and flattening their organizational charts. On the one hand, it is visible that companies transform their structure into the network of smaller, more flexible units. They try to use entrepreneurial opportunities more efficiently. On the other hand, their economic power or economic influence arise. The core company is surrounded by a net (cluster) of suppliers. The traditional pyramid of corporate management is likely to be more obsolete. Information technology influences management in two layers: the upper function with strategic and control functions and the lower (peripheral) with performing power. Under the condition of Czech Republic foreign entities enter the market games using with their dominant position, with own interests and technologies of management (management techniques).

The world of small enterprises has been also changing. There is a visible rise in the number of microfirms and self-employed. Under the contemporary crisis conditions these enterprises are very vulnerable. On the top of that the big problem is their viability from the innovation trends and rapidness of development. Otherwise, these enterprises would appear at the periphery.

The aim of the paper is to characterize enterprise structure in Czech Republic as well as newly appearing trend in managing and organizing companies. We use the official data (Czech Statistical Office), expert data and a research sample. The paper also brings characteristics of enterprise structure and the ways of their management by the example of two particular firms.

2. The research methodology

Probe is usually used in the cases, when we do not have enough relevant information on a certain object (relation). There may be more reasons, for example a relatively new area of cognition, high dynamics of environment changes, considerable breadth and range for the complete examination of a certain process, a new viewing angle, the onset of a new development trend etc.

The meaning of the research probe is to collect information and findings that would clarify, confirm or on the contrary lead to corrections, certain changes etc. of ideas or hypotheses.

A brief procedure of the research probe can be described as follows:

- the choice and selection of suitable resources (issues of the size of an enterprise and approaches to management);
- the choice of a particular object, where the probe should be used (in our case, we understand the object on two levels: the basic sphere is business sphere in Czech Republic, the basic level – a particular enterprise);
- obtaining the suitable data (in our case, economic and statistical data of the Eurostat and CSU, then the collected data of the selected enterprises, own investigation, expert sources);
- the analysis and interpretations of the collected data;

— conclusions of the research.

Statistical data were mostly evaluated using common descriptive statistical methods and techniques for time series and comparison of phenomena and processes (rate of growth, influence of factors in monitored time).

We tried to apply the research probe to a research idea — a hypothesis that in the deteriorated (emergency) economic conditions there appear changes in size structure of enterprises and approaches to their management. The question is, whether there are any difference between large and small firms. Two selected enterprises are our economic sample.

3. Definition of large and small enterprises

It is obvious that the concept of enterprise size has a relative meaning since, it evolved historically, and is changing. The scale of assessment of a large enterprise has enormously changed during the last 100 years — from approx. 1 bln USD of sales at the beginning of the 20th century to 200 bln at the end of the current century (Jirasek, 2006; Donald, 2009). Increase in the size of an enterprise is associated with the possibility to better link and combine its techniques, capital and people. It gives a chance to deal with partial and temporary loses in a better way. At present, it is associated with better control of markets. It deals with preparations and realization of new and complicated products. Also the preparations of fundamental innovations fall in this issue. It is an opportunity to employ highly specialized and skilled people for leading and creative functions in an enterprise etc. If we take a look at global entrepreneurial environment, we will find out that 50.000 enterprises take part in global operations (Economist, 2001). Dominant firms create roughly one fifth of the total. They are remarkable for their exceptional size or superior intellectual and innovation performance.

The size and growth of an enterprise has its economic reason. Greater repeatability of production unit produces cheaper production. Large scale production and trade are more favourable as far as price and profit are concerned. At present, there is a tendency to be successful globally, control global markets, use progressive technologies, involve specialists in to creative work, have the most competent people in management. The driving force of today is the growth of profit, often without scruples (Appleby, 1994).

3.1. The size structure of enterprises in Czech Republic. There are more than 1.1 mln businesses (2011) in Czech Republic active in entrepreneurship. This means that one company gets 10 residents. Over the past 5 years (2007–2011), the number of active entrepreneurial subjects has increased by almost 24%. The statistical distribution of enterprises by size is very uneven (Table 1). The biggest share belongs to microenterprises (nearly 95%). Small enterprises (10–49 employees) represent about 4%, medium-sized enterprises — 1%. Only two enterprises out of a thousand belong to the group of large enterprises. Over the past 5 years, the most noticeable growth has been seen in the group of microenterprises (more than 25%), within which enterprises without employees have been on the increase (by 33%). The remaining groups have stayed more or less in the same numbers.

A group of micro, small and medium-sized enterprises, known as SMEs, represents 99.8% of all enterprises in the country. In addition, significant abundance and diversity are their special features. Corporate sector produces about 60% of the total

employment. In value added, as an important indicator of economic activity, it is involved in approximately 54%, in performance – 50%, and 50% – in exports etc.

Table 1. The development of enterprises quantity by the size groups

Enterprises by size		Number of enterprises in particular years*				
		2007	2008	2009	2010	2011
Micro enterprises	0–9 employees	862171	999377	1031711	1059092	1082453
Small enterprises	10–49 employees	46239	47692	46790	45966	45341
Medium enterprises	50–249 employees	11709	12088	11658	11656	11548
Large enterprises	250 and more employees	2143	2181	2063	2160	2220
The total		922262	1061338	1092222	1118874	1141562

* Active enterprises which demonstrated their size in the number of employees.

Source: Own elaboration according to the data of the Czech Statistical Office.

Large enterprises represents only 0.2%, creating the second "half" of performance of the Czech economy. They have decisive influence on real economic events. We can say they create significantly different entrepreneurial world. It concerns especially firms which are the subsidiaries of large transnational corporations.

4. Management approaches in Czech Republic

Enterprises see their architecture and management in different ways: if they want to cover a larger market and be successful, they put emphasis on not to miss any opportunity. Paradoxically, there are other contradictory requirements influencing management in a way that management would be both global and local at the same time, centralized and decentralized, diversified and integrated, orderly and loose, long-planned and flexible, so that employees would be more autonomous and be capable of team work etc. – see for instance the findings of (Styblo, 2010). Enterprises are forced to do so because of the shortage of orders, affordable energy and labour.

Entrepreneurial activity had and still has its influence on the establishment of various structured forms of enterprise. Different organizational structures have been formed (Dedina and Maly, 2005) and various entrepreneurial structures have been developed. They are concerned with organization of resources and individual work at an enterprise to achieve a common purpose. From a narrowly economic point of view the core is management of the value creation process.

With the growth of complexity and size of an enterprise, the meaning of management and labour division grows. With the development of engineering and technology, with the growth of size and complexity of enterprise processes, practical experience has grown as well as possibilities to study management processes more deeply. There is a shift from hard to soft factors of enterprise management. These conditions occur mostly within large enterprises. They influence directly or indirectly the way of management of small and. microfirms.

At present, in our opinion, enterprise management is strongly influenced by the fact, whether it is a speculative or value-orientated focus of entrepreneurial activity. It is estimated that the impact of speculative entrepreneurship has the upper hand. The relation between investment and speculative use of financial capital is estimated in the world, so that 1 USD of real investments accounts for 39 USD of speculative transactions. Speculative forms of entrepreneurship have come so far that they even tunnel their own firms. This can be considered as a pathological phenomenon of entre-

preneurship, entrepreneurial seriousness and the character of entrepreneurial environment are thus damaged. Czech Republic is not an exception.

Since the middle of the last century there has been a talk about big changes in organization and management of large enterprises (Jirasek, 2008). There has been a discussion whether the pyramid has to be lower with less floors, but wider, so that information on opportunities could be collected, or a pyramid with narrower base so that more attention would be focused on the strategic concept of an enterprise. With the advent of information and communication technologies, two layers have been crystallized in enterprise management. The upper consists of power, strategic management and control functions, the lower is operational management (Ireland, 2009).

4.1. Holding structures and network structures. Since the mid 1990-s, an increased interest in large and very large enterprises for holding structure and the method of holding proceedings can be found in Czech Republic. We can see that 3 layers of holding structure have been gradually crystallized.

The first form power, property and financial structure of the core holding. It consists of a parent company. Besides having the function of determining the share capital to control other (subsidiary) companies, strategic function is focused on creating, renewal, transformation and expansion own portfolio of business and non-business type. Financial services for holding enterprises are considerable. There is also a central enclosure of holding group activities, e.g. in the form of purchases of selected items of goods, services, etc. This strategic "headquarters" is a separate legal entity.

The second layer consists of holding companies (daughters) of the first or further order. They are selected to a holding according to what a parent company prefers, whether it is financial (e.g. short-term gain) or technological and marketing aspects (usually resource linking, technological, manufacturing and marketing verticals). These companies are legally separate entities.

Third – in fact added layer of a holding structure consists of a special type of non-profit organizations. Their mission is to create a favourable image of a holding company for public. They can take the form of foundations, non-profit organizations, charitable activities. These can also be various fan clubs etc.

The holding structure enables to join the advantages of large enterprises (economic strength, position at a market etc.) with the advantages of smaller units (flexibility, knowledge of local conditions etc.). Holding structures are built due to minimizing the tax burden, security of the owned property etc. On the other hand, the setting of the holding structure requires expertise in terms of management. The popular wave of the 1990-s in Czech Republic brought in many one-side orientated holding structures, which dealt with high costs needed to be spent on management of a holding, they experienced a high degree of chaos etc. Some of them survived and grew stronger.

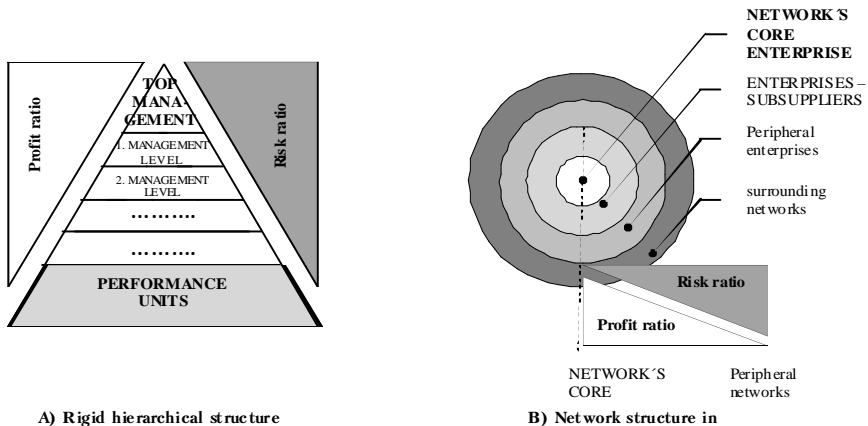
Opposing holding structures is network entrepreneurship bringing much expectations and hopes to small and medium firms in Czech Republic. There was an opportunity to increase their economic potential and influence and also use the local specifics of small entrepreneurship. The initial idea of a better competitiveness thanks to the profit of mutual interest of connected subjects in a network was very lucrative. There were great examples abroad, clusters especially.

The rules were formed for newly emerged small and medium enterprises. It was emphasized that network formations, compared to individual firms, have better

access to specialized suppliers, employees, information, education, that this kind of entrepreneurship would lead to higher competitiveness and innovation opportunities.

Large foreign firms and their subsidiaries in Czech Republic reacted very quickly to the network form of entrepreneurship. They change their relatively stable hierarchical organization concepts to a concept of more flexible, highly specialized units, able to use market opportunities.

The original concept of equal opportunities for network members, however, gets a crack. Economically powerful entities take control over entrepreneurial network and become the core of network. The asymmetry deepens among network members (Keller, 2011). The core, which organizes and controls a network, accumulates the maximum profit, semiperipheral or peripheral network is forced to face increasing market risks. Peripheral partners are granted access to a network when they accede to dominant members. Credibility is converted into power pressure in the effort to exhaust the competitive potential of non-dominant firms, see Figure 1. We find other negative consequences of major core enterprises, e.g. labour market for their privileged position in a region may be an unwelcome burden on transport and other infrastructure etc.



Source: Own elaboration.

Figure 1. Paradoxes in management of solid and network structures in entrepreneurship

4.2. Self-employing firms. However, when we have a look at other size structures of enterprises, then there is the most numerous and very diverse group of self-employing firms (about 85% of the total number). The subject of entrepreneurship outweighs simple activities, there are firms that focus on specialized and highly skilled and sophisticated activities. Knowledge of the control sphere is different – from the intuitively implemented control schemes to a funded enterprise models, corresponding knowledge of microfirms (usually these are independent consultants and advisers in business and management). A vital factor in management is the ability to communicate and cooperate.

We can observe a new phenomenon in the form of the so-called Svarc system in Czech conditions for 20 years. Czech entrepreneur named Svarc devised a way to save on taxes and levies for particular social and health insurance. He began to implement

his enterprise model so that all of his employees were laid-off. Then they began to work for the entrepreneur with a business license and supply agreement for a self-employed. The Svarc system is an example of how economically powerful entrepreneur optimizes (minimizes) entrepreneurial risks and tax burden. It is not just that a country loses certain tax revenues from entrepreneurial activities. This entrepreneurial model leads to deterioration of socioeconomic status of economically disadvantaged persons (originally employees of an entrepreneur). These conditions make self-employed persons search for more acceptable position. Certain defence is for instance clustering of self-employed persons, restoring of guilds, forming professional associations etc. It is actually the creation of the simplest shallow structures based on low-cost contracts (and cheap labour power).

5. Practical examples of enterprise structures and actual management approaches in Czech Republic

Holding group "Agrofert" can represent an example of a holding structure in Czech Republic. This holding group has its subsidiary firms in the field of chemistry, agriculture, food, ground techniques, renewable resources, forestry, mining and wood processing. An example of cluster structure was chosen from Moravian-Silesian Region (North-Eastern part of the Republic), it is Moravian Silesian Wood Processing Cluster. Information on these enterprise structures have been obtained from publicly available sources and from own survey activities and probes.

5.1. Holding group "Agrofert" was founded in 1993 as a limited liability company. At the beginning it had only 4 employees. One year later this company transformed into a joint stock company. Today it belongs to the biggest employers in Czech Republic (27 thousand employees). Through acquisitions this company became a holding, containing about 200 companies. "Agrofert" group has been growing by 11 firms a year. The basic entrepreneur philosophy of the holding development is acquisition activity considering creation of production vertical using land, agriculture, chemistry, animal production, plant production and food.

In the time of starting business the company was focused especially on trade in fertilizers at Czech market. This company gradually extended the offer with another commodity such as agriculture commodity, food, pesticides, chemicals, raw materials, fuel etc. In 2011 the whole holding acquired 118 bln CZK in sales and profit about 9 bln CZK.

Holding group "Agrofert" is formed by controlling company "AGROFERT HOLDING", Inc. and subsidiary companies that realize their activities in the branches of chemistry, agriculture, food, building techniques, renewable resources, forestry, mining and wood processing. Subsidiary companies are on one hand controlled (controlling company possesses more than 50% of the voting rights) and on the other hand co-controlled (controlling company possesses directly or indirectly at least 20% and 50% of the voting rights). Owner of the holding doesn't intervene in managing subsidiary companies, but focuses on verification of the required results.

In the holding group we can clearly recognize 3 layers of organizational architecture and 3 specific ways of management. The first layer is formed by controlling company "AGROFERT HOLDING", Inc. This company is focused especially on acquisitions of companies that conform to the concept of building integrated agriculture-food complex in the Central Europe. Another activity is extending production

capacities. Also at the central level this company keeps trade with pesticides, bates and agriculture commodities. At the same time this company arranges central activities for the whole group in the sphere of purchase of selected items of goods and services. It also provides financial services.

The second layers are formed by subsidiary companies. These companies are selected in the holding according to their sources, techno-production and distribution verticals. They form agro-food-chemical-wood processing complex.

The third layer of the holding structure is formed by Foundation "AGROFERT HOLDING". This foundation tries to create a picture or impression of social corporate responsibility in the whole holding.

It can be observed that with the growth of size and economical power of the holding power and political motives are more and more evident (at this time we witness that owner of the holding enters political scene).

5.2. Cluster form of entrepreneurship in Moravian-Silesian Region. The emergence of new cluster initiatives in Moravian-Silesian Region started in 2005–2008. Cluster forms of entrepreneurship were started both in the region's traditional industries (engineering, automotive industry, wood and energy industry) and also in new dynamically developing sectors (information and communication technologies, hydrogen technologies, waste processing etc).

Today there exist 10 clusters in this region (Safety Technology Cluster, The ENVICRACK cluster, IT Cluster, KLACR – Moravian-Silesian tourism cluster, The Hydrogen Cluster, Knowledge Management Cluster, The Moravian-Silesian Automobile Cluster, Moravian-Silesian Wood Cluster, Moravian-Silesian energy cluster, National Machining Cluster). This is the highest number of clusters from all the regions of Czech Republic.

The authors of this paper in 2008 realized a survey into the life of 7 clusters in the Moravian-Silesian Region (Ludvik, Peterkova, 2008). The main reason for performing this survey was to get an overview of the clusters, their activities and development trends. For this purpose there was worked out a list of questions and the heads of these clusters gave the data considering their clusters. We found out that the cluster representatives are concerned about the success of this form of enterprises especially in the regional context. Behind the main motive of cluster emergence was their own initiative to create suitable relationships with partners in order to achieve better competitiveness. In the leading process most time was spent on the activities towards the members of the clusters. Much time was spent to administrative agenda and contacts outside the cluster. The biggest number of clusters emerged around big dominant companies.

In 2012 the similar survey was performed again. This survey was focused on one of the first (established in 2005) and stable cluster called Moravian-Silesian Wood Cluster. Because of the comparison of the results from these two years we can notice some changes in the activities and also management of the wood cluster. The main differences are noticed in Table 2.

Major changes were observed in the performance factors of the cluster, in uniqueness of the activities of the cluster and the cluster success. The basic factor behind cluster success is the strong vision of the dominant members of the cluster instead of the previous emphasis on cooperation between the members. Uniqueness of the activities of the cluster is definitely connected with product and technological

changes. At the same time the endeavour after success in European dimension (year 2008) has changed and cluster found its success in regional applications.

Table 2. Changes in main characteristics of the Moravian-Silesian Cluster

Spheres	Cluster situation 2008	Cluster situation 2012	Comments
1. Performance factors of the cluster: – strong vision of dominant members of the cluster – the level of cooperation of the cluster	X	X	There exists a difference. The performance of the cluster is connected especially with strong vision. Cooperation between cluster members is no more so important.
2. Uniqueness of the cluster: – innovation – working with people – marketing	X X X	X	There exists a difference. The uniqueness of the activities of the cluster is connected with innovations. On the other hand, working with people and marketing are sufficiently managed.
3. Success of the cluster: – in regional dimension – in European dimension	X	X	There exists a difference. The original intention leads to success in European dimension. But gradually it became obvious that success is more regional.

Source: Own results based on the research surveys, 2008 and 2012 realized in the Cluster.

6. Conclusion

Dominant and big enterprises are searching for new management approaches. They create conditions to keep their positions. They try to reach other markets and strengthen their economic and non-economic influence. Dominant enterprises focus on organizational structure of the holding type. Holding is formed by controlling company and subsidiary companies that are controlled by controlling companies (controlling company has more than 50% of voting rights) or subsidiary companies that are under co-controlled (controlling company owns directly or indirectly at least 20% but maximum 50% of voting rights).

Subsidiary firms are selected to join a holding based on techno-production or distribution verticals. Foreign enterprises create networks utilizing their dominant position. After the first wave of cluster initiative in Czech Republic there is some stagnation. Foreign enterprise branches that are dominant in these clusters are starting to think about leaving the entrepreneurial environment of Czech Republic and relocate to Asian regions because of costs. It was found out that those members of branch formations endeavour the success of clusters especially under regional conditions. Innovations are the basic element of uniqueness. In the managing process most activities are oriented on cluster members rather than on activities connected with administrative agenda and contacts outside a cluster. The major group of vital clusters was formed around big dominant enterprises.

Under the current Czech conditions and on the basis of management paradigm inside enterprises and also in the relationships among enterprises we can identify significant decrease in the confidence level. In the case of the weakest firms, their business models are based on cheap contracts. Big dominant firms have verbally implemented in their models also social, ecological, ethics aspects, but they often transfer business risks to weaker enterprises.

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