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## GLOBALIZATION TENDENCIES IN THE CZECH SME'S – HISTORICAL APPROACH (1997-2004)

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### **Abstract:**

The main purpose of this paper is to present historical development of SME's in the Czech Republic between years 1997-2004. It covers sections about changing strategy approach to prepare SME's to EU entry and nearly two years in the European Union. The Czech economy made big changes especially in SME field, because before year 1989 in the state managed economy were used only big companies forms.

SME's sector in Czech Republic is now a dynamic growing phenomenon, which has influence on regional labour market, foreign trade and investment possibilities. It is the purpose of making year-to-year research, which has as a main goal to map changes in a SME structure, adaptability and influence of changing factors in our business environment.

Research section presents a part of final doctoral thesis about finding main factors, which make impulses to change strategy to be innovative and on the way to knowledge society after the EU accession.

As a conclusion is SME suggested to use some development strategies or support cooperation way to be more adaptable on wide European market. Reason is - SME's have to change their point of view – to think European not only local market orientation. It is the way to continue their business by the innovative direction.

Paper covers not only historical data, but also some experience with SME preparation process on strategy changes in time of globalization from management point of view.

### **1. SME'S POSITION IN CURRENT ECONOMIC ENVIRONMENT**

Entrepreneurship in small and medium sized enterprise (SME) has not long history and tradition in Europe. European economic we could characterize by enormous growth of big

companies until the 1970<sup>th</sup> with centralization and seeking advantage from mass production. Main idea was that innovations and research are possible only in these companies.

Important influence on changing European meaning was an increasing competition from Japan and the U.S., where SME play principal role in country development and employment rate. After that time SME sector is still dynamically growing. We could mention first steps to stimulate and motivate SME's from the public politics here.

From the late 1980's have arisen first supporting programs for starting business and export SME support. Politicians highlight the benefits from cooperation, risk capital support and human resources development with emphasis on SME sector.<sup>1</sup>

Considerable factors on changes in business environment were Single European Market (1.1.1993) and democratic changes in East Europe and EU enlargement in 2004. This change business mind and philosophy in advance. If you want to survive on the market with more than 500 millions of consumers, you have to think globally. The development of international competition is still business threat.

EU supporting policy firstly mentioned SME's in "first common action plan" in 1983, when this year was proclaiming as a European year of SME. Second programme links to the action plan in 1987. European Commission prepared first integrated programme for SME development as a "White book" in 1993 and established a government body - *DG Enterprise*. Main goals are following:

- Supporting SME entrepreneurship as a life experiences,
- SME's as a source of innovations,
- SME as a component of economic growth

Third step was „SME supporting programme" in years 1997-2000 as an Amsterdam agreement. Main document about SME and their importance in economic is „European Charter for SME support from 2000. This document specializes on 10 points to improve business environment:

1. *Entrepreneur's education*
2. *Cheaper and quicker business start*
3. *Legislative improvement and market regulation*
4. *Counselling work and network* „The Business to Europe" (B2Europe), Euro Info Centres, Innovation relay centres(IRC), The organizations for the promotion of energy technologies network (OPET), European Employment services (EURES)
5. *On-line services improvement* – eGovernment portal *Your Europe*, available from: [http://europa.eu.int/youreurope/index\\_cs.html](http://europa.eu.int/youreurope/index_cs.html))
6. *Business Utility maximization*
7. *Taxes and finance access* – tax simplifying, investment support, tax harmonization

Table 1 Comparison of tax rates and real taxation in new EU members states - companies (in percentage rate) - year 2005

<i>country</i>	<i>tax rates</i>	<i>real taxation</i>	<i>country</i>	<i>tax rates</i>	<i>real taxation</i>

<sup>1</sup> Analýza MSP ve Zlínském kraji, <http://extranet.krzlinicky.cz/vismo/dokumenty2.php?ID=120205>, [Accessed 15.08.2005]

Malta	35	32.81	Poland	19	18.02
<b>CZ</b>	<b>28</b>	<b>24.73</b>	Slovak rep.	19	16.67
Estonia	26	22.52	Cyprus	15	14.52
Slovenia	25	21.60	Latvia	15	14.35
Hungary	17.60	18.08	Lithuania	15	12.82

Source: České firmy měly loni jedny z nejvyšších daní ve střední Evropě, [www.idnes.cz](http://www.idnes.cz), [Accessed 17.3.2005]

Another step to harmonize European business environment is convergence of VAT rates in all EU countries.

Table 2 VAT rates in EU countries (2005)

<i>country</i>	<i>VAT standard rate</i>	<i>Reduced VAT rate</i>	<i>country</i>	<i>VAT standard rate</i>	<i>Reduced VAT rate</i>
Belgium	21	6	Malta	18	-
Denmark	25	-	Germany	16	7
<b>CZ</b>	<b>19</b>	<b>5</b>	The Netherlands	19	6
Estonia	18	5	Poland	22	7
Finland	22	8	Portugal	19	5
France	19.6	5.5	Austria	20	10
Ireland	21	12.5	Greece	18	8
Italy	20	10	Slovak rep.	19	-
Cyprus	15	5	Slovenia	20	8
Lithuania	18	5	Spain	16	7
Latvia	18	9	Sweden	25	6
Luxemburg	15	6	U.K.	17.5	5
Hungary	25	12			

Source: Sazba DPH v zemích EU činí od 15 do 25 %, v České republice je průměrná, [www.tiscali.cz](http://www.tiscali.cz), [Accessed 11.7.2005]

8. *SME technical capacity reinforcement*

9. *e-business models support*

10. *Establish representative body to promote SME in EU*

### 1.1 Situation in European Union

SME's are key players in transformation process of European economics and its development from economy based on information to knowledge society. SME sector we could consider as a basis of the national economy followed these reasons:

- flexible, adaptable on market requirements,
- creative for the new labour opportunities,
- support and develop better competitive environment.<sup>2</sup>

High dynamic sector level has another point of view. Each year is established 1.4 millions of new small business units, but 10% of them not survive on the market a few years. More business-oriented people are on the south Europe because of tourism places.

<sup>2</sup> [www.europa.eu.int/comm/enterprise](http://www.europa.eu.int/comm/enterprise) [Accessed 17.5.2005]

There is the question about your business role – to be an owner or employee. In EU countries said only 45% to be an owner (according to 61% of American people), more than 51% prefers to be an employee and European are less “business people”, only 41% thinks about their own business. Main reason is the fact about business risk and wage rate stability.<sup>3</sup>

## 1.2 Czech Republic

Actual and future EU members from the spring 2002 agreed the Charter for SME support. It was confirmed in Maribor (Slovenia) on April 23th 2002. You could find it in Czech law in Act Nr. 42/2002 „*O podpoře malého a středního podnikání*“ (Supporting SME), which replaced the Act from 1992 by ministerial regulations Nr. 1/2004 and Nr. 690/2004 of Collection of Czech Law.

SMEs establishment depends on many important factors. Big problems we could see on the labour market, when many unemployed people are narrow-specialized or without education. On the other hand, the highest unemployment rate is between school-leavers. In the Czech Republic are working these people in 40% in other profession which have not studied.

First type of historical evaluation is concerned on changes in business subject structure. Statistical research said us that more than 4 % woman and 12 % of man from the Czech population have their own business in an industry and services field. We could compare with a percentage difference in SME having employees. It is only 1% of women enterprises in comparison with 3% in man owned companies. People prefers having their own business in more specialized fields – tax and accounting counselling work or in services – hairdressers, craftsmen and they established many “micro” companies over 10 people.

Table 3 SME’s structure in CZ in years 1993-2005 as a percentage share of total employment rate

Year	Men total	Women total	Entrepreneurs without employees		Entrepreneurs with employees	
			Men	Women	Men	women
1993	6.47%	2.54%	4.38%	1.94%	2.08%	0.59%
1994	7.36%	2.70%	4.87%	2.00%	2.49%	0.69%
1995	8.18%	3.16%	5.30%	2.25%	2.87%	0.91%
1996	8.56%	3.11%	5.40%	2.20%	3.16%	0.91%
1997	8.70%	3.19%	5.60%	2.27%	3.11%	0.92%
1998	9.56%	3.59%	6.37%	2.62%	3.20%	0.97%
1999	10.08%	3.77%	6.91%	2.83%	3.17%	0.93%
2000	10.44%	3.98%	7.25%	3.02%	3.19%	0.96%
2001	10.53%	3.98%	7.49%	3.08%	3.04%	0.90%
2002	11.28%	4.11%	8.16%	3.19%	3.12%	0.92%
2003	12.01%	4.43%	8.78%	3.50%	3.23%	0.93%
2004	11.91%	4.25%	8.82%	3.36%	3.10%	0.89%
2005	11.63%	3.95%	8.68%	3.11%	2.95%	0.84%

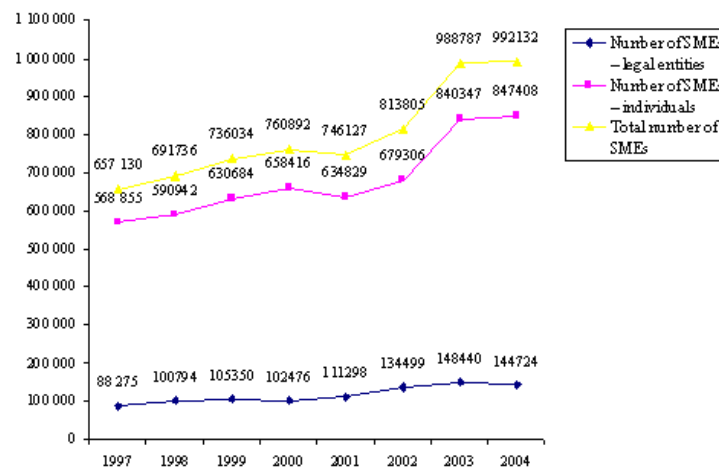
Source: [www.czso.cz](http://www.czso.cz), own calculation

<sup>3</sup> MSP - Evropané mají méně odvahy začít podnikat, [http://www.cebre.cz/informace\\_43/mop.asp](http://www.cebre.cz/informace_43/mop.asp) [Accessed 7.3.2005]

The conclusion of these SME's analysis is that main impact for Czech economy is in trade and service specialization. Main reason, why Czech people establish their own companies, is regional employment support and retail services provision for population.

The most significant period (high percentage growth) is before Czech accession to EU (between years 2001-2003) – approx. 15%.

Graph 1 Development of the number of SME's pursuing business activities in the Czech Republic in 1997 – 2004



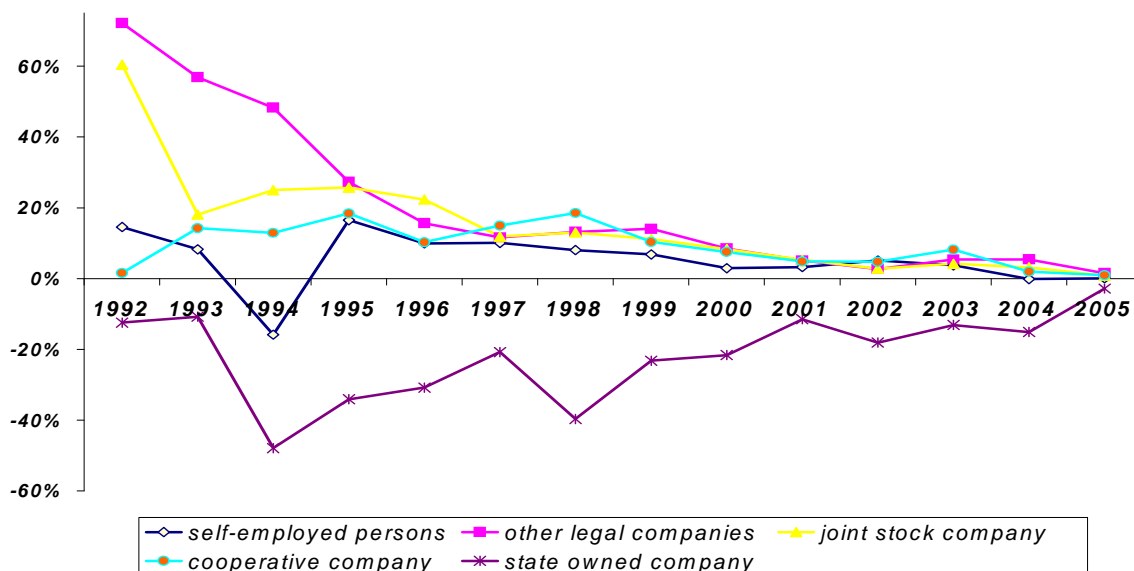
Source: www.mpo.cz, access: 4.1.2006

This trend could be illustrated by the graph below (see graph 2), it is possible to compare SME structure progress according to main forms – self employed persons, other companies like limited liability company, partnership, joint stock companies, state owned companies and finally cooperative companies.

We could observe some other development trends in the Czech entrepreneurship. The most positive factor is a good way of economic transformation in reference of ownership type – decline of state owned companies, the main was in 2004 and closing the state government body “State property fund” to date 31.12.2005. This step closed a process of long time large-scale privatization and transformation of the Czech important companies (gas, electricity, railways).

Another form that is growing up is cooperative company, not only specialized on agriculture, but also in retail trade or services in SME's field to be more competitive. The decline you could see in self-employed persons. It is the globalization tendency to be stable on the market. Therefore, they are cooperating with other people and then they prefer to establish other forms.

Graph 2 Changes in the Czech entrepreneur subjects structure, sort by legal form in years 1992-2005



Source: [www.czso.cz](http://www.czso.cz), own calculation

The decline of entrepreneurs is by the point of view of economic counsellors as a conclusion not of the problems in Czech business environment, but from growth of administrative business costs – minimum tax rate of all entrepreneurial subjects. The self-employed person which does not earn money (their income was below zero) paid the same tax as some employee earning 50% of average Czech wage rate per month. There are growing a minimum tariff of health and social insurance, which change the costs rate for entrepreneurs too.<sup>4</sup>

Second way, how to evaluate SME's contribution to the economical system of the Czech Republic is to compare their share on Macroeconomic indicators. We could comment it as changes in business environment. Business subject are mostly isolated, small and do not cooperate or not initiate to create some "chain".

It seems to apply the Pareto's principle in SME's productivity 80:20, so 80% of SME produces only 20% of exports or GDP. Therefore, finally we could illustrate it in table below (see Table 4).

Table 4 the percentage Share of SME's in Chosen Macroeconomic Indicators

Indicator	Year							
	1997	1998	1999	2000	2001	2002	2003	2004

<sup>4</sup> ČSSZ: od začátku roku ubylo 25 000 podnikatelů, online: <http://www.novinky.cz/05/43/46.html>, 18.4.2005

Number of businesses	99.77	99.78	99.80	99.81	99.81	99.79	99.81	99.85
Number of employees	59.82	56.35	59.12	59.47	59.73	60.94	62.21	61.50
SME's Output	52.91	51.73	53.34	52.85	51.44	52.02	52.01	52.15
Value added (VA)	57.36	51.35	53.03	52.60	51.33	52.69	52.06	52.90
Share VA on Output	32.1	32.5	32.8	32.5	31.5	32.3	32.2	32.8
Labour cost /no benefits/	1)	1)	54.69	54.67	55.72	55.50	56.18	55.67
Investment	1)	1)	41.66	40.56	37.81	44.52	49.55	50.50
Exports	36.40	36.25	36.54	36.15	35.74	34.16	34.0	34.3
Imports	48.00	48.84	50.74	49.43	47.12	50.33	49.8	52.5
GDP	1)	1)	34.78	31.74	31.12	32.24	35.22	34.92

Source: <http://www.mpo.cz>, 1) data not available, access: 17.1.06

According to table 4 we could make some hypothesis by the time series point of view:

- number of SME depends on number of employees
- SME value added have an influence of GDP trend,
- Investment in SME's field depends on export orientation.

We could evaluate them by traditional statistical method – correlation and summarize solutions in a table.

Table 5 Hypothesis testing

Hypothesis	Correlation coef.	T -test value	T-Sig.value. $\alpha=0.05$
Number of SME depends on number of employees	0.525	1.51, df=6	2.447
SME value added have an influence of GDP trend	0.479	1.24, df=4	2.776
Investment in SME's field depends on export orientation	-0.798	4.44, df=4	2.776

Source: own calculation, statistical data from table 5

As a partial conclusion we could say, that globally oriented SME's has a significant position for development and they use typical strategy – from supplier to be a foreign partner. Many SME's does not care about export policy, which could bring the benefit from integration or clusters system support.

## 2. CZECH SUPPORTING POLICY

SME's supporting system has two main pillars in the Czech Republic; it means legislative framework and institutional framework:

- *legislative framework*

Prepare supporting rules in the form of law and support SME sector from the state budget. Main rules are:

1. Act Nr. 299/1992 Col., about state SME's support;
2. Act Nr.218/2000 Col., about state budget rules,
3. Act Nr. 59/2000 Col., about public support.



These Acts harmonize EU policy in SME's field (*source is European Commission Recommendation Nr.96/280/EC from 3. 4. 1996, which defined SME's subject and Directive EU Nr. 96/C 213/04 from 23.7.1996, about state supporting policy in SME's field*). Full application is from the year 2000.

- *Institutional framework*

Czech supporting system has divided competences between Ministry of Industry and Trade and Ministry of Regional Development and the system connect network of local supporting offices.

Financing sources supported from Czech state budget would be divided into two groups:<sup>5</sup>

- *General grant system*

- *SME's support* - they are in a form of security for banking loans, business support, counselling work, export support. The final support sum in 2005 was about 550 millions CZK (approx. 19 millions EUR);
- *Regional reconstruction after flooding*;
- Research and development support (programmes Technos, Park, technology development);
- Employment support;

- *Specially oriented grant areas*

- energetics (10 programmes for saving energy and renewable resources);
  - participation on fair-trades, exhibitions and promotional activities;
  - export support (agency Czech Trade, Czech Export Bank);
  - environmental responsibility support ( State environmental fund);
  - travel movement support.

Third financial source is grant system from private sources and organizations, non- profit making organizations or Public Private Partnership or from foreign partnership (not includes direct EU programmes financing), for example, they cover these areas:

- risk capital resources (Czech Venture Partners);
- innovation support (Association of innovative entrepreneurship);
- quality development ( Czech quality association);
- Environmental friendly products (Czech Centre of cleaner production).

## **2.1 SME's supporting programmes before EU accession**

European Union has a wide range of supporting programmes in many problematic and hard to develop areas, which needs additional financial support or combination of more financing

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<sup>5</sup> Podpora českého průmyslu a podnikání před vstupem do EU , [www.businessinfo.cz](http://www.businessinfo.cz)

types. Some of them have been developed specially for countries in transition period. Main reason why this financial source exists is preparation for EU entry.

### 2.1.1 Phare programme

Phare established European Union in 1989 as a reaction on changes in a structure of the central and East Europe as a supporting tool to empower democracy and economic transformation. Czech Republic receives first grants in 1990. Phare finish work in 1999. Main purpose for Phare financing was infrastructure development, integration process in a context of EU law and rules implementation. Phare programme covered these areas:

- a. *national programmes* - 80% - programmes for business sector – SME, patents, research programmes, European network support, education support;
- b. *multinational programmes* – 5% of budget, wide range of developing countries – environmental policy, energy, telecommunications - *Cross Border Cooperation – CBC* – for example CBC Phare CZ/Austria, CBC Phare CZ/Germany.

We have to mention other funds as:

- SAPARD (agriculture),
- ISPA (infrastructure and environmental policy)
- SAVE II, ECOS-Ouverture, EUREKA (labour market)

## 2.2 Czech SME's support after EU accession

The situation of supporting policy does not changed after the Czech Republic access to European structures, only was adapter on the new conditions. Czech SME's are not interested on supporting programmes specialized on labour market, employment and education. There are other programmes with lack of interest – founding new industrial zones or transferring technologies. On the other side, they are interested in cities regeneration, infrastructure modernization<sup>6</sup>.

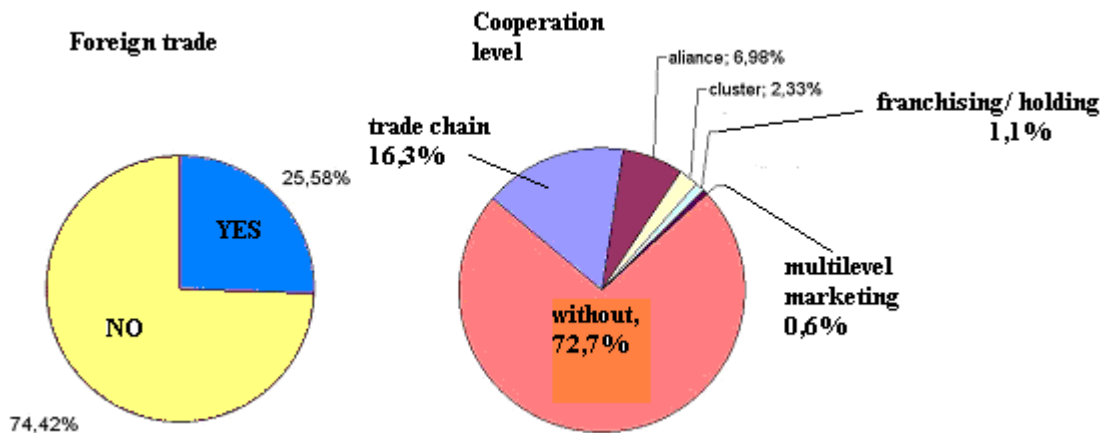
Low interest of information about EU funds worsen the situation that 1/3 of SME's from research group in 2005 did not know that funds exists and others prefers only marketing support. Finally, a percentage share of SME's which used EU money are 6, 4%<sup>7</sup>.

Graph 3 Cooperation and foreign trade orientation of the Czech SME's in 2005

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<sup>6</sup> HN: Česku hrozí, že nestihne utratit peníze z unijních fondů, dostupné z [www.hnihned.cz](http://www.hnihned.cz), 16.8.2005

<sup>7</sup> ŠEBESTOVÁ, J.(2005): *Analýza faktorů ovlivňujících podnikání českých firem po vstupu do EU se srovnáním trendů v regionech s vysokou mírou nezaměstnanosti*, First Edition, Karviná: OPF SU 2005, ISBN 80-7248-328-5



Source: ŠEBESTOVÁ, J. (2005): Analýza faktorů ovlivňujících podnikání českých firem po vstupu do EU se srovnáním trendů v regionech s vysokou mírou nezaměstnanosti, First Edition, Karviná: OPF SU 2005, ISBN 80-7248-328-5

The main government support is nowadays oriented:

– *Access of Small and Medium-Sized Entrepreneurs to Funding*

The Government SME support programmes facilitate the access of small entrepreneurs to funding and what is more, the Operational Programme Industry and Enterprise keep all associations and unions of entrepreneurs kept informed on the loans of commercial banks that are intended for small and medium-sized enterprises. The Ministry of Industry and Trade continues to implement a system of SME support via programmes finances out of the resources of the EU Structural Funds and national resources, with the aim of promoting the development of the business environment infrastructure, facilitating the access of SMEs to finances for the implementation of their business projects, improving the quality of consulting and training services, and promoting the access of SMEs to foreign markets, including their participation in foreign trade fairs and exhibitions.

The Ministry of Industry and Trade has prepared **Government programmes** for the support of small and medium-sized enterprises, the aim of which is to enhance the competitiveness of SMEs in the Czech Republic. The following programmes are at issue, which are financed out of national resources:

1. **GUARANTEE** – a programme to ease the implementation of SME business projects via special-rate bank guarantees, especially for bank credit or leases.
2. **MARKET** – the main aim of the programme is to help small and medium-sized enterprises acquire ISO certification and support investment projects of small starter enterprises.
3. **PROGRESS** – this programme allows for the implementation of more extensive development business projects of small and medium-sized enterprises in selected sectors of Czech economy.
4. **GUIDANCE** – this programme should enable people preparing to launch business and small and medium-sized enterprises in the Czech Republic to obtain special-rate general training and special-rate consulting services provided by external consultants. Services are provided that support enterprises that at the stage of setting up new business entities, the launch of their business, their development and growth while improving the quality of their management and enhancing their economic stability.

5. **DESIGN** – this programme helps increase the competitiveness of SMEs by creating top-class design.
6. **REALITY** – support for projects to prepare, develop and regenerate industrial zones, business properties;
7. **TRAINING CENTRES** – support of projects for the structural reconstruction and modernization of existing structures of corporate training centres, projects for the construction and fitting-out of new professional training centres for the training of multiple business entities;
8. **DEVELOPMENT** – support for the development of the competitiveness of SMEs in their growth phase, i.e. support for an increase in the technological standard and refinement of process such as the introduction of certification and international standards;
9. **ENERGY SAVINGS** – support of projects leading to a reduction in energy intensity in industrial enterprises by reducing the energy intensity of processes connected with the generation, conversion and distribution of energy etc.;
10. **RENEWABLE ENERGY SOURCES** – support of projects for the introduction of power or heat generation from renewable energy sources etc

Besides the national support activities, there is the possibility for companies to become involved in support programmes of research and development announced by the EU. In the 2002-2006 periods, the Sixth Framework Programme for Research and Technological Development (FP6) is being implemented. To support the participation of SMEs in FP6, a *'Programme for the support of small and medium-sized enterprises actively participating in the Sixth Framework Programme of the European Union for Research and Technological Development in 2005 to 2007'* was drawn up by the Ministry of Industry and Trade and approved under Government Resolution No 739 of 15 June 2005.

One of the main problems of small and medium-sized enterprises in the Czech Republic remains *access to capital*. The Czech-Moravian Guarantee and Development Bank, or CMZR Bank (the bank set up with a view to implementing State aid programmes) continues to develop its products, which are used to improve SME access to capital.

A standard product is **soft loans**, especially interest-free credit in the **START** programme (part of the IEOP as of 1 May 2005) – intended for beginner entrepreneurs without history or experience. In order to reduce the risk in credit provision, the granting of credit in this programme is contingent on the completion of a course for entrepreneurs organized in the regional counselling network under special conditions.

A new development in the last period was **subordinated credit with a maturity period of up to eight years**. This credit facilitates the acquisition or commercial bank loans in the scope of the portfolio of resources for the financing of an entrepreneur's given project where the enterprise has a longer history or is in a stage of development. Interest in this product is rising fast and therefore its scope of application has been expanded; besides the **CREDIT** programme, it has also become an instrument of the **PROGRESS** programme this year.

– *Support for the Competitiveness of Small Enterprises*

**ALLIANCE SME support programme** (announced for the 2005-2006 period), is working in association with Czech Trade to try to sharpen the competitiveness of small and medium-sized enterprises on foreign markets by:

- promoting the international marketing activities of an alliance, i.e. a group of at least three and a maximum of 25 small and medium-sized enterprises whose production programmes or product/service ranges complement each other for supplies in specific branches of economic activity and which have concluded a Cooperation Agreement in the scope of the Alliance programme.
- promoting the idea of reinforcing the cooperation of small and medium-sized enterprises abroad.

With a view to eliminating obstacles hampering the entry of small enterprises into new markets, the Ministry of Industry and Trade has also announced the **MARKETING** programme, another SME support programme for the above-mentioned period, the implementing agency for which is Czech Trade. This is a programme to increase the competitiveness of Czech companies on foreign markets by supporting the acquisition of marketing information, producing publicity documents, attending exhibitions and trade fairs abroad, etc.

– *Entry of Small Enterprises into New Markets*

Czech Trade mediates assistance so that small enterprises can exploit opportunities to penetrate new markets by offering individual solutions for successful exports by companies from the Czech Republic (especially in the field of informatics, consulting, assistance, and training); the agency cooperates closely with the Ministry of Industry and Trade, the Ministry of Foreign Affairs and the Ministry of Agriculture. Some projects are implemented with regional authorities, the Economic Chamber of the Czech Republic, the Confederation of Industry and other professional institutions, such as the Exporters Association, Česká exportní banka and Exportní garanční a pojišťovací společnost.

Since 2005, a Czech Trade project (co-financed out of the resources of the European Union) has been run which focuses on the creation of a network of **Czech Trade Regional Managers**, designed to make the agency's services even more accessible for undertakings from the regions of the Czech Republic.

The free Czech Trade service called **Euro-service for Exporters** has opened up the opportunity for companies to obtain information about business in the European Union's internal market. The Euro-service covers all aspects of business in the EU's internal market. It encompasses customs and tax issues, the free movement of goods within the EU, legislation, the evidencing of conformity with the technical requirements of the EU, the protection of competition, and other themes.

### **3. INNOVATIONS – GROWTH SOURCE**

In the first half of 2005, two significant economic-policy documents were adopted which define the path of further development in the innovation policy of the Czech Republic. The first is the **National Innovation Policy of the Czech Republic for 2005-2010** ('NIP'). It was adopted under Resolution of the Government of the Czech Republic No 851 of 7 July 2005; it follows up on the National Innovation Strategy (adopted in March 2004) and processes the

strategic objectives of the Czech innovation policy to the level of individual measures and instruments of implementation.

At present, the NIP is a fundamental document in the Czech innovation policy for the next five years. The adoption of the NIP was preceded by the publication of the document *Concept of Innovations for Industry and Enterprise 2005-2008* (approved by the Council for the Development of the Business Environment on 9 February 2005). The concept presents the conceptual focus of the policy of the Ministry of Industry and Trade on support for the development of innovations in the Czech Republic, with a link to areas falling within the competence of other ministries. Both the above-mentioned documents are closely interlinked together with the National Innovation Strategy and the Economic Growth Strategy, constitute a compact system of economic-policy documents for innovations in the Czech Republic

### 3.1 Own research on innovation potential

During November and December 2005, we made some research in SME in our Moravia-Silesian region. Main objects to describe were following:

- Common business form type, main specialization (according to the EU definition about SME size valid from 1.1.2005),
- Type of organizational structure,
- Business stage and strategy ,
- Innovative potential and its impact on current strategy approach

We collected data without financial indicators, because SME ´s owners were afraid of disclosing information. We used to fill in a standardized questionnaire and our direct visit. SME was not been chosen before.

Table 6 Entrepreneurial structure by the number of employees

SME type	Number	Percentage share
Micro size	34	33,7%
Small size	30	29,7%
Medium size	29	28,7%
Large size	8	7,9%
<i>Total</i>	<i>101</i>	<i>100%</i>

Source: own research

How do they look like? Searching data were compared and structured by the main identification, by the size. Therefore, we are able to say, that number of employees is in all mentioned forms near the average value for each group. We could say that used legal form depends on company size (see table 7).

Than, people established their companies mainly in “gold years” (1992-1997) after the democratic change in CZ, so now they have more stable position. After these period came to Czech economy banking system crisis and higher unemployment rate so as conclusion people did not prefer to establish their own companies.

Table 7 SME's basic characteristics

	Average number of employees	Dominating year of founding	Year of founding in average	Commonly used legal form
Micro size	5	1992	1997	82.3% SE
Small size	26	1994	1995	60% LLC, 39% SE
Medium size	106	1992	1994	62.1% LLC, 31% JSC
Large size	506	1992	1994	75% JSC

Legend:  
SE-self employed person,  
LLC – limited liability company,  
JSC – joint stock company

Source: own research

Development of managerial skills and information source for creative climate making depends on chosen organizational structure. You could compare it in table 8.

Table 8 Type of organizational structure

	Structure type	Average number of hierarchy levels	Average number of Span	Organizational shape
Micro size	Simple centralized	2	3	Wide
Small size	Simple centralized	3	4	Wide
Medium size	Simple centralized	4	5	Wide
Large size	Bureaucratic, divisional	8	4	High

Source: own research

Innovation source came from the main specialization in a company and the current company's stage. It would be clear by making simple comparison between tables 9 and 10.

Table 9 Entrepreneurship specialization

	Specialization		
	<i>Production</i>	<i>Trade</i>	<i>Services</i>
Micro size	14.7%	38.2%	47.1%
Small size	30%	16.7%	53.3%
Medium size	48.3%	6.9%	44.8%
Large size	75%	0%	25%
<b>SME total(line 1-3)</b>	<b>31%</b>	<b>20.6%</b>	<b>48.4%</b>

Source: own research

Table 10 Current entrepreneurial stage

<i>Size / main specialization</i>	<i>Current stage</i>			
	<i>Starting level</i>	<i>Growth, expansion level</i>	<i>Development level</i>	<i>Stagnation level</i>
Micro size	8.8% production	20.6% services	23.5% services	47.1% trade
Small size	3.3% production	33% services	36.7% services	27% production
Medium size	0%	31% services	38% services	31% production
Large size	12.5% production	0%	75% production	12.5% services

Source: own research

On the other hand, successful business depends on innovation standard in global approach and framework. Main results are summarized in tables 11-14. There is possible to compare an innovative level for each group and than made it into used strategy context and as a result, you discover competition influence on each unit development or market position.

Table 11 Innovative SME's potential

	<i>Direction of innovation</i>			
	<i>Without = status quo</i>	<i>Technology development</i>	<i>Enlargement of the unit</i>	<i>New product development</i>
Micro size	29.4%	8.8%	8.8%	52.9%
Small size	17.2%	20.7%	24.1%	38%
Medium size	17.2%	13.8%	0%	69%
Large size	0%	0%	45%	55%

Source: own research

Table 12 Main innovation type and used implementing strategy

	<i>Commonly used innovation type</i>	<i>Commonly used innovation strategy</i>
Micro size	Assortment enlargement, e-shop	Competition observing (followers), CRM
Small size	Retail manufacturing, services pack, unique style	Orientation on public project competition, CRM, TQM, network development
Medium size	Product certification , ISO, KlasA (food products), technology franchising, cooperation	Strategic alliance building, CRM, MBO
Large size	Assortment enlargement according to customer's	CRM, CSR, TQEM

Legend: CRM=custom relationship management, TQM=total quality management, MBO= management by objectives, TQEM=total quality environmental management, CSR=corporate social responsibility  
Source: own research

Table 13 Competition level around SME unit

	<i>Competition concentration</i>			
	<i>Without</i>	<i>Small</i>	<i>Medium</i>	<i>large</i>
Micro size	0%	29.5%	35.2%	35.3%
Small size	0%	13.8%	55.2%	31%
Medium size	0%	31%	27.6%	41.4%
Large size	12.5%	25%	25%	37.5%

Source: own research

Table 14 SME strategy evaluation

	<i>Strategy type</i>			
	<i>Offensive</i>	<i>Status quo</i>	<i>Defensive</i>	<i>D-O Combination</i>
Micro size	35.2%	55.9%	2.9%	6%
Small size	58.7%	31%	6.9%	3.4%



Medium size	69%	24.2%	3.4%	3.4%
Large size	87.5%	0%	0%	12.5%

Source: own research

As a conclusion we able to apply statistical data evaluation by hypothesis testing. They were oriented on factors, which have importance for innovation development.

Table 15 Innovation impact factors (correlation analysis)

<i>Hypothesis</i>	<i>Correlation coef.</i>	<i> T - test value</i>	<i>Sign. value, df=98, <math>\alpha=0,05</math></i>	<i>Conclusion True/false</i>
Innovation is independent on current stage	-0,2856	2,951	2,01	<b>False</b>
Innovation is independent on competition environment	0,0998	0,9929	2,01	<b>True</b>
Innovation is independent on strategy	-0,148	1,48	2,01	<b>True</b>
Innovation is independent on size	0,146	1,47	2,01	<b>True</b>
Innovation is independent on legal form	0,037	0,367	2,01	<b>True</b>

Source: own research

Innovative approach in global environment is depends only on your current stage, because without innovation you lose you market position and is only time factor, which could cut-off your business. Another factor mentioned above only support SME's creativity approach. An innovation is a new idea, but you need a place for realization, capital source and some cooperation level to be competitive.

### **3.2 Support of the Innovation Infrastructure**

Support for the construction and functioning of entities in the innovation infrastructure is a significant element of measures to reinforce services for the promotion of innovations. These entities include science and technology parks, incubator units, and technology transfer centres). These entities foster conditions conducive to the formation and development of small innovation enterprises by providing professional consulting services, special-rate rent, and instrumentation. A core measure for the support of innovation infrastructure entities is the **PROSPERITY** programme announced on 12 May 2004 as part of the Industry and Enterprise Operational Programme for 2004-2006 (IEOP). This programme includes the establishment and development of science and technology parks, incubator units and technology transfer centres, and plays a significant role in supporting the creation of links between universities, science and research institutions, and the business sphere.

Other significant instruments in the direct support of the development of innovations in enterprises are the **INNOVATION** programme (IEOP), the support of projects intended to increase the technical and utility values of products and services and to improve the efficiency of processes in manufacturing and service provision, and projects focusing on the implementation of progressive management methods, the implementation of significant changes in organizational structure, and changes in the strategic orientation of an entrepreneur, or other non-technical innovations. Although this programme is open to all size categories of undertakings, experience to date has shown that Czech small and medium-sized enterprises (SMEs) realize the significance of innovations for the future development of their market position.

An important measure to promote cooperation between SMEs and large undertakings is the announcements of the **CLUSTERS** programme (IEOP), which is designed to seek out undertakings with the potential to exploit the positive effects of participating in a cluster, and subsequently to support the emergence of clusters in individual regions.

Measures to promote innovations at SMEs include, among others, support for the development of consulting services for undertakings. This measure is implemented via the **CONSULTANT REGISTER** project (IEOP), which is managed by Czech Invest, the agency for the support of enterprise and investments.

Besides the measures already implemented for the reinforcement of innovations at small and medium-sized enterprises, a number of other measures have been appointed within the NIP, which should stimulate innovation processes at undertakings. These include support for the protection of intellectual property rights, the support of emerging innovation enterprises, the creation of technological platforms, and support for the introduction of information and communication technology (ICT) at SMEs<sup>8</sup>.

#### 4. CONCLUSION

Small and medium sized enterprises create a big power and potential in the Czech republic development. They could have a huge innovative potential but without training and using supporting programmes, they do not develop their own identity. They have to discover a specialization field, which could make them more different then others one. SME's analysis by using historical approach supported by statistical methods discovered many trends, which we could change by appropriate education and training all the time.

Finally, the research discovers these main problems:

- **disintegration of the SME's market, low rate low rate of international trade, cooperation , partnership, due to lack of business ethics like reliance on cooperation, flexibility, innovations.** All these items absent in business environment and they suffer from the competition from EU. On the other way, cooperation create new possibilities to make a new job places, reduce regional unemployment, take the opportunity to develop the best solutions or ideas and create a network with highly skilled labour force to be competitive.
- **the same specialization without innovations,**
- **Unused chance to develop their firms by projects and structural funds,**
- **Language barriers** –language and communication skills are not developed yet, it illustrates the graph below. Main language knowledge is language of our neighbours – Slovak, German, and Polish. However, is dominating only one language in one enterprise.

Their main problems would be definitely lack of capital, big competition and lack of state motivation for make another job places and new membership in EU is in nowadays not the main influencing factor, which cuts-off the business.

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<sup>8</sup> 2005 IMPLEMENTATION REPORT ON THE EUROPEAN CHARTER FOR SMALL ENTERPRISES, [www.mpo.cz](http://www.mpo.cz), 12.1.2006

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