

# STRENGTHS AND WEAKNESSES SMALL AND MEDIUM-SIZED ENTERPRISES

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## Abstract

This paper focuses on small and medium-sized enterprises in the Czech Republic (SMEs) and their own perception of their strengths and weaknesses. The paper is based on results from a survey of 463 respondents, which was conducted in 2016 using an e-questionnaire. Small and medium-sized businesses were compared with large enterprises. SMEs believe that their main advantage against large enterprises are ability to meet individual customer wishes. As the largest weakness is seen a significant impact of unpaid receivables. Other significant negative effects belonged changes in legislation, more vulnerable of the surrounding, threats from large businesses, for example, when they sell at the predatory prizes, small financial and bargaining power. The research included a comparison of claims in the literature with the opinion of SMEs. The literature states that SMEs are making only minor innovations, but only 9.3 % of respondents agree with this statement. This was also the case in some other areas: do not look at the latest trends in our branch (5.8%), unused machine capacity (4.5%).

**Key words:** SMEs, empiric research, strengths, weaknesses

**JEL Code:** M10, M14

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## Introduction

According to the European Commission's recommendation, a small business is considered to be a company with 50 employees and medium-sized enterprises are up to 250 employees. Small and medium-sized enterprises are very important for the national economy. SMEs have 99.8 % of the total number of companies in the Czech Republic. They employ 68.5 % of employees and produce more than 32 % of GDP.

A literature often talks about the strengths and especially the weaknesses of small and medium-sized enterprises. But seldom are these general assertions supported by primary research.

## 1 Review of the literature

Hankinson (1997) write that there is only one hierarchical level in small and medium-sized enterprises. There have been few official meetings with staff, associates, advisors, etc. attitude, behaviour and adaptability is important for new staff in a typical SME.

### 1.1 Strengths

Small and medium-sized enterprises are more adaptable because they have simpler organizational structures that respond quickly to the opportunity because they are not loaded with rules, procedures and systems by large firms. (Chang, Hughes and Hotho, 2011)

SMEs focus on Individual customer demands. (Muller, Buliga, Voigt, 2018).

### 1.2 Weaknesses

SMEs are characterised relating to their having the potential for growth, struggling to access funding and being over-burdened by regulation. (Stone in Wapshott and Mallett, 2018)

Ward (1993) mentions that weaknesses comprised marketing, finance, languages and computing, unpreparedness to change (preference „the status quo is always better than the unknown“). Problem of SMEs is too survival mentality prevailed as opposed to a positive futuristic outgoing approach. But even though they are aware of their shortcomings, the managers have not made any improvements (no courses, conferences, reading literature, etc.). Managers are not educated and do not consulted.

Hankinson (1997) write that research has shown bad time management (minimal involvements in cultural, interest groups or other local activities, little time to read, go to a theatre and be with a family. „*In an average working week only five hours was spent on personal analysis, reflection, developing strategies and analysing results. The typical SME owner-manager took only two separate weeks holiday a year.*“ The lack of listening to and communicating with staff is another weakness. Hankinson identified the non-use of external sources of funding in addition to necessary cases. Therefore, they have no money to invest. Financial performance is not addressed. „*Capital insufficiency is the crucial problems among SMEs.*“

The SMES are dependent on large customers. „*The majority of the SMEs dealt with two-five customers that produced 50 per cent of turnover.*“ A poor self-reflection may also be a problem. From financial problems rather blame the recession than to be interested in their effectiveness.

*„Managers in SMEs should allocate their internal resources to ensure better decision-making processes to enable proper and effective responses to environmental changes.“* (Chang, Hughes and Hotho, 2011)

It states that small and medium-sized enterprises can only make minor innovations because they do not have as much money as large businesses. It is also difficult for them to follow new trends, such as Industry 4.0. *„Respondents have data security concerns, discussing data lacks, stolen proprietary information and the external deactivation of production systems.“* Several respondents said they were concerned about price competition from online publishing. (Muller, Buliga, Voigt, 2018).

## **2 Data**

The questionnaire survey was conducted from June to November 2016. The questions relate to the strengths and weaknesses of small and medium-sized enterprises in comparison to large enterprises. The SMEs were interviewed. It was possible to select more answers and optionally to add a custom answer.

Based on the study of literature, the potential strengths of SMEs compared to large enterprises were evaluated:

- we adapt quickly to the special wishes of the customer,
- a simpler organizational structure,
- quick business strategy decisions,
- the manager/director is in direct contact with the customer,
- the manager/director is in direct contact with employees,
- friendlier atmosphere in the workplace,
- greater employee loyalty,
- easier to apply innovations,
- minimal administration,
- greater substitutability of employees among themselves,
- knowledge of the region, its inhabitants and their needs.

We also proposed some potential disadvantaged of SMEs, in opposition to large enterprises:

- greater vulnerability to the surroundings,

- significant impact of unpaid receivables,
- limited financial resources for wages for top professionals (scientists, managers, dealers),
- limited possibilities of non-financial benefits,
- it is difficult to get to foreign markets,
- small financial and bargaining power (no price war with competitors),
- threats from large businesses, for example, when they sell at predatory prizes,
- the need to adapt to the prices of dominant enterprises in field of business,
- a difficult access to financing (credit),
- a worse position in public tenders,
- exclusion from business where large investments are needed,
- unused machine capacity (non-use of revenue from the scope),
- some marketing options (such as TV advertising) are not affordable,
- only minor innovations can be realized,
- they do not keep track of the latest trends in our branch,
- changes in legislation.

## 2.1 Strengths

On average, each respondent selected 5.4 benefits and 4.1 weaknesses points. Small and medium-sized enterprises themselves rank among their strengths (More than 50 % of SMEs choose in the questionnaire following strengths):

- we adapt quickly to the special wishes of the customer (73.4 %),
- a simpler organizational structure (69.1 %),
- quick business strategy decisions (62.2 %),
- the manager/director is in direct contact with employees (62.2 %),
- the manager/director is in direct contact with the customer (62.0 %),
- friendlier atmosphere in the workplace (55.3 %).

Only 9 respondents add „other“, custom option, it can be assumed that all the important points were covered with preselected responses. A smaller number of respondents considers the strengths of SMEs (multiple items can be labelled at the same time):

- greater employee loyalty (37.4 %),
- greater substitutability of employees among themselves (30 %),
- minimal administration (29.8 %),
- innovations easier to apply (27.9 %),
- knowledge of the region, its inhabitants and their needs (25.1 %).

A significant difference between small and medium-sized enterprises occurred in the administration, where 35 % of small businesses think that they are better than large businesses, but the same opinion was chosen by only 11 % of medium-sized businesses. Making innovations easier than large businesses perceives 30.3 % of small businesses but only 19 % of medium-sized businesses.

## 2.2 Weaknesses

As the largest weakness is seen a significant impact of unpaid receivables (52.3 % responders).

Other weaknesses with greater impact on SMEs than on large companies:

- changes in legislation (40.0 %),
- more vulnerable of the surrounding environment (38.0 %),
- threats from large businesses, for example, when they sell at the predatory prices (36.7 %),
- small financial and bargaining power (no price war with competitors) (33.5 %),
- some marketing options (such as TV advertising) are not affordable (28.1 %),
- limited possibilities of non-financial benefits (27.9 %),
- exclusion from business where large investments are needed (26.3 %),
- a worse position in public tenders (24.6 %),
- a lack of financial resources for wages for top professionals (scientists, managers, dealers) (24.4 %),
- it is difficult to get to foreign markets (20.7 %),
- the need to adapt to the prices of dominant enterprises in field of business (19.2 %),
- a difficult access to financing (credit) (15.3 %),

- we are making only minor innovations (9.3 %),
- other (6.5 %, 30 responses, no specific group of answers could be formed)
- we do not keep track of the latest trends in our branch (5.8 %),
- unused machine capacity (non-use of revenue from the scope) (4.5 %).

Similar differences like in strengths can be observed also in the perception of weaknesses. Medium enterprises are most concerned about changes in legislation (52 % vs. 42.1 % of small businesses). A larger percentage of medium-sized businesses are also dissatisfied with benefits they can offer to their employees.

On the other hand, 58.4 % of small businesses consider the impact of unpaid receivables to be significant in comparison to just 30 % of medium-sized enterprises. A similar diametrical difference is in vulnerability to the surrounding environment. This weakness is reported by almost 41 % of small businesses and only by 28 % of medium-sized businesses. Small businesses perceive more significantly than medium-sized businesses as a disadvantage an exclusion from business when large investments are needed (30.3 % vs. 12 %), a worse position in public tenders (27.8 % vs. 13 %), a difficult access to financing (17.9 % vs. 6 %), the possibility of realizing only minor innovations (11.3 % vs. 2 %).

As we can see from these strengths and weaknesses, SMEs consider their position in the market as an optimistic one, with the same number of answers (463 respondents) reporting a higher share of strengths.

## **Conclusion**

This article lists the strengths and weaknesses of SMEs compared to large enterprises. 463 respondents from different types of SMEs were interviewed. SMEs believe that their main advantage against large enterprises are ability to meet individual customer wishes (manager is in direct contact with customer), simpler changes in business strategy because they do not suffer from bureaucratic organizational structure (manager is in direct contact with all employees).

As the largest weakness is seen a significant impact of unpaid receivables. The reason is that SMEs often have few major customers who have a very significant impact on them. Other significant negative effects (more than 30% of respondents said) belonged changes in legislation, more vulnerable of the surrounding, threats from large businesses, for example, when they sell at the predatory prizes, small financial and bargaining power.

## Acknowledgment

The author thanks the questionnaire survey participants.

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