

# COMPETITIVE STRATEGIES OF THE SMES: EMPIRICAL EVIDENCE FROM THE CZECH REPUBLIC

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## ABSTRACT

Entrepreneurial activities in international markets bring significant changes in strategy and strategic management of SMEs. This paper aims to investigate the competitive strategies of Czech SMEs at their first foreign market entry. The paper based on data collected in interviews with managers and founders of Czech SMEs. The companies included in the study are those that have already undertaken internationalization activities and incorporated in the Czech Republic. Strategies of the Czech SMEs researched while using the method of questioning: the main primary data collection instrument was a questionnaire-interview.

## KEY WORDS

Czech SMEs, internationalization, international markets generic competitive strategy.

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## Introduction

The term internationalization of entrepreneurial activities refers to all those activities which involve cross-border transactions of goods, services, and resources between two or more nations. The internationalization of entrepreneurial activities is represented by a geographic expansion of activities across national borders (Lopez et al., 2009). Companies go international for a variety of reasons, but still, the typical goal is the company growth or expansion. The internationalization of entrepreneurship activities ranks among long-lasting strategic decisions; these decisions result in significant changes, running the company being the most relevant. Studies of international entrepreneurship often focus on the pattern and speed with which new enterprises break into foreign

markets (Jones et al. 2011; McDougall et al. 1994; Sapienza et al. 2005; Zhou et al. 2010). For more than three decades the academic community has studied internationalization and its implications for the company performance (Peng 2001; Fong, Ocampo 2010; Roxas, Chadee 2011; Jiang et al. 2014, Bialek-Jaworska, Gabryelczyk 2016). In the last decade, the strategies of internationalization included among most relevant topics in managerial literature. New perspectives are flourishing, and new approaches combine different methods, knowledge, and competencies. Studies on the internal factors on the internationalization process and competitive strategy focus on having strong leadership on top, strong management team (Ghosh et al. 2001; Wijewardena, De Zoysa 2005), entrepreneur

(Knight 2000; Benzing et al. 2009), management team's international experience (Reuber, Fischer 1997) and product quality (Wijewardena, De Zoysa 2005). Other studies focus on satisfying customers' needs, the ability to develop and sustain technological advantage, the capacity to identify and focus on one or several market niches/regionalization (Ghosh et al. 2001), the availability of financial and technological resources, strategic alliances (Hoffmann, Schlosser 2001; Wijewardena, De Zoysa 2005; Al-Mahrourq 2010), and competitive strategy (Lavie, Fiegenbaum 2000; Pertusa-Ortega et al. 2008).

Michael Porter revolutionized the thinking about competitive strategies more than thirty years ago with the development of three generic strategies that the companies may adopt to outperform industry rivals: overall cost leadership, differentiation, and focus (Porter 1980a). Porter (1980a) transformed the theory, practice, and teaching of business strategy. He described competitive strategy as taking offensive or defensive actions to create a defendable position in the industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the company. When engaging in cost leadership, the company produces products for a broad customer group with lower costs resulting from the economies of scale. When following a differentiation strategy a company attempts to differentiate the offered product to be perceived by industry-wide as unique, thereby increasing and capturing consumers with relatively inelastic price sensitivity of demand. The third generic strategy is the focus strategy by which the company targets at a particular buyer group, a segment of the product line, or geographic market. Many companies have ignored any strategy (Porter 2001; Barney 1997),

some companies only define price as the primary and in many cases the only competitive variable (Stark et al. 2002). There are always external and internal factors behind the choice of the competitive strategy in international markets.

The objective of this paper is to investigate empirically competitive strategies of selected Czech SMEs at the moment of their first entry to the international market. The ambition is to answer the central research question: "which factors affect the choice of competitive strategies for the first international entry"? In the research study, capabilities of the company (resources, knowledge or experience) defined and investigated as the internal factors, influencing the selection of competitive strategy (Porter's competitive strategies). The analysis aimed at better understanding of the relationship between international competitive strategy and selected factors, such as the company size, industry, resources, knowledge, and experience with international activities. The study based on primary data collected from a recent survey of Czech SMEs; the data analyzed by appropriate regression techniques. The paper structured in three parts. The first part of the paper outlines selected theories dealing with the internationalization strategies and competitive strategies of enterprises. The second section of the contribution presents and interprets results of the survey carried out among Czech SMEs. Finally, the last section provides the conclusion of the research results and offers the discussion of the most important implications. The results of the analysis discussed, and recommendations provided for managers in the last section.

# 1. Competitive strategies on the international markets

When a company hires foreign employees or searches for new markets abroad, an international strategy can help diversify and expand a business (Twarowska, Kakol 2013). The progress and speed of business activity internalization depend on the importance and role that is assumed to the international entrepreneurship within the corporate strategy of the particular company. The strategy is a process that can allow an organization to concentrate its resources on the optimal opportunities with the objectives of increasing sales and achieving a sustainable competitive advantage (Kotler 2012). According to Chaffee (1985), the strategy is the determination of the primary long-term goals of the enterprises, and the adoption of courses of action and allocation of resources necessary for carrying out these goals. The corporate strategy applies at the level of a company engaged in different business segments: the multi-business corporation. It essentially defines the portfolio of enterprises in which the company wants to be and the resource allocation pattern among those businesses. If the company operates internationally, the corporate strategy will be an international corporate strategy which will incorporate the choice of regions and countries in the company portfolio (Lasserre 2007). A business strategy is then used as an umbrella term to denote the broad range of strategic options open to the company, including both organizational and functional management strategy, product/market strategies, and diversification strategies (Barringer, Greening 1998). It consists of integrated decisions, actions or plans that will help to achieve target goals. A business strategy is a set of fundamental choices which define its long-

term objectives, its value proposition to the market, how it intends to build and sustain a competitive business system and how it organizes itself. If the market in which the company operates is foreign, its business strategy will be an international business strategy that defines the way to compete across the world (Lasserre 2007).

In the competitive strategy framework, a successful business is the one, which sustains an attractive relative position for the company. The success of the process of internationalization of company depends in large part on the formulation and implementation of the competitive strategy (Knight 2000). According to Sliwiński (2012), a permanent competitive strategy is obtained through synergy. When a company has the permanent competitive advantage, its resources and capabilities are durable, hard to identify and hard to copy. The organization of domestic economic activity and the integration of the company in the domestic markets (Dunning 2000) is an important factor for the definition and success of an internationally competitive business strategy (Feio 1998). For companies seeking benefits from international markets, the type of competitive strategies they choose may represent a primary vehicle by which they build a unique business position at the international level and achieve superior financial returns (Allred, Swan 2004; Luo, Zhao 2004).

Competitive strategies can be classified according to their level and types. There are various competitive strategy typologies. This research study focuses on Porter's typology of competitive strategies. Michael Porter has described a category scheme consisting of three general types of strategies that are commonly used by business to achieve and maintain the competitive advantage. Porter (1980, 1985, 1991) suggests two approaches, but fundamentally

different ways to creating and sustaining a competitive advantage: lower cost than its competition and differentiation about its rivals. These competitive advantages lead to three generic competitive strategies: cost leadership strategy, differentiation strategy, and focus strategy. These three generic strategies defined by two dimensions: strategic scope and strategic strength. Strategic scope is a demand side dimension and looks at the size and composition of the market to which company intends to concentrate. Strategic strength is a supply side dimension and looks at the strength or core competency of the company. In particular, Porter identified two competencies that he felt were most important: product differentiation and product cost (Tanwar 2013). The two basic types of competitive advantage (differentiation and lower cost) combined with the scope of activities in international markets for which a company seeks to achieve them lead to four generic strategies for achieving above average performance in an industry: cost leadership, cost focus, differentiation, and differentiation focus (Porter 1985).

With strategy cost leadership, the objective is to become the lowest-cost producer in the industry. The sources of cost advantage are varied. They may include the pursuit of economies of scale, appropriate technology, preferential access to raw materials and other factors. Many segments in the industry supplied with the emphasis used to minimize costs. The lowest-cost producer will enjoy the best profits if the achieved selling price can equal the average for the market. This strategy is usually associate with large-scale businesses offering standard products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximize sales, particularly if it

has a significant cost advantage over the competition and, in doing so, it can further increase its market share. Maintaining this strategy requires a continuous search for cost reductions in all aspects of the business. The associated distribution strategy is to obtain the most extensive distribution possible. Promotional strategy often involves trying to make a virtue out of low-cost product features. The product is often an essential product that is produced at a relatively low cost and made available to a vast customer base. By producing high volumes of standardized products, the company hopes to take advantage of economies of scale and experience curve effects. The strategy usually requires considerable market share advantage or preferential access to raw materials, components, labor or some other valuable input to be successful. Without one or more of these advantages, the strategy can easily be mimicked by competitors.

With the cost focus strategy companies compete by the following cost leadership strategies to serve narrow market niches which targeted at the smallest buyers in an industry (those who purchase in such small quantities and those industry-wide competitors cannot serve them at the same low cost). Here a business seeks a lower-cost advantage in just one or a limited number of market segments. The product will be primary, perhaps a similar product to the higher-priced and featured market leader, but acceptable to a sufficient number of consumers.

Strategy differentiation involves selecting one or more criteria used by buyers in the market and then positioning the business uniquely to meet those criteria. This strategy is usually associate with charging a premium price for the product (often to reflect the higher production costs) and extra value-added features provided by the

consumer. Differentiation is about charging a premium price that more than covers the additional production costs, and it is about giving customers clear reasons to prefer the product to others, less differentiated products. Often, companies that succeed in a differentiation strategy have the following internal strengths: access to leading scientific research; highly skilled and creative product development team; strong sales with the ability to communicate the perceived strengths of the product; corporate reputation for quality and innovation successfully. Vargas and Tagle Rangel found out (Kumlu 2014) that the SMEs whose particular business strategy emphasizes innovation and knowledge creation, which are the basis for differentiation strategy, have been able to participate in global contexts successfully. Differentiation strategy can allow small companies to minimize harmful interaction with competitors, giving rise to export in international markets.

In the differentiation focus strategy, a business aims to differentiate only within just one or a small number of target market segments. In this strategy, a company seeks to be unique in its industry while introducing in some dimensions which are widely valued by buyers and perceived to be better or different from the competition. Exceptional customer needs of the particular segment mean that there are opportunities to provide products that are clearly different from competitors who may be targeting at a broader group of customers. Companies following focused differentiation strategies produce customized products for small market segments. They can be successful if the quantities involved are too small for industry-wide competitors to handle them economically, or if the extent of differentiation requested is beyond the capabilities of the industry-wide differenti-

ator. The important issue for any business adopting this strategy is to ensure that customers do have different needs and wants, in other words, that there is a valid basis for differentiation and that existing competitor products are not meeting those needs and wants. It rewarded for its uniqueness with a premium price (Porter 1980).

All competitive strategies appear to be sensible, logical and coherent, highlighting the advantages and benefits the company could gain if applying any of the approaches mentioned above. A more common approach is to differentiate where possible and reduce the cost where necessary. Besides that, Porter's thesis of "stuck in the middle" (Porter 1980, 1996) argues that these two strategies cannot be combined. While a company focusing on cost leadership has to maintain a certain standard of its products, thus reducing the possibility to create economies of scope, a company focusing on differentiation may find it difficult to keep low costs and compete with other companies producing more standardized products for the same market. Unlike Porter, many suggest that a combination of cost leadership and differentiation is not only a feasible option (Hill 1988; Miller, Friesen 1986). However, also a successful approach to improve competitive position and to cope with rapid and complex changes in the market environment (Acquaah, Yasai-Ardekani 2008; Pertusa-Ortega et al. 2008). Unlike Porter (1991) they argue that it is false to make a choice between two orientations (differentiation and cost leadership), and they advise to follow up both Cheaper and Better strategy which will gain sustainable competitive strategy. Chetty and Campbell-Hunt (2003) argue that companies must develop their strategies that are capable of capturing as many economies of scale as they can, while also supporting multiple product variants.

By this new, hybrid strategy, companies do not rely on a single generic strategy, but companies integrate the generic strategies and successfully pursue the cost leadership and differentiation strategies simultaneously. Differentiation enables the company to charge premium prices, and cost leadership allows the company to charge the lowest competitive price.

Man and Wafa (2009) revealed the significant relationship between differentiation strategy type and business performance of SMEs. According to Pottingia and Vescovi (2012), the size effects can observe on two levels: on the first level there are the resources to invest to gain new foreign, overseas markets (not limited to marketing and sales but also manufacturing and logistics). On the second level, there are the organizational capabilities to combine quickly and to move faster than multinational enterprise, typical for smaller and medium companies. In international competitive strategy, the company size plays a significant role in determining the innovation requested. Based on the above discussion it is proposed that:

**Hypothesis 1: Competitive strategy in international markets at the first international entrance is affected by the company size.**

Porter's generic strategies describe how a company pursues competitive advantage across its chosen market scope. A company also chooses one of two types of scope, either focus (offering its products to selected segments of the market) or industry-wide, offering its product across many market segments (Porter 1980). Porter describes an industry as having multiple segments that can be targeted by a company. The depth of its targeting refers to the competitive scope of the business. The intensity of competition in an industry de-

termines the ability of the enterprise in the industry to sustain above average returns. According to Porter (1980), the characteristics of the industry determine the strength of the five basic competitive forces. The goal of competitive strategy for a company is to find a position in its industry where these competitive forces will do it the most good or the least harm. The success of a company's competitive strategy depends on how it relates to its environment. Not all industries have equal potential. They differ fundamentally in their ultimate profit potential as the collective strength of the forces of competitive. Based on the above discussion on competitive strategies, it may propose that:

**Hypothesis 2: Competitive strategy in international markets at the first international entrance is affected by the industry.**

Enterprises seem to operate in international markets exploiting the advantage coming from its relative flexibility of governance and routines, and flexibility to overcome some of the issues created by insufficient resources. The resource-based theory of the firm (Penrose 1959; Wernerfelt 1984; Barney 1991, 2001) suggests that the allocation of organizational resources is a key determinant of companies' strategy, performance, and maintenance of competitive advantage in the markets. The lack of resources for internationalization, according to Pottingia and Vescovi (2012), is for many companies the obstacle to develop and to implement international strategies. The needs to join resources among different companies or to enter new markets while using inter-organizational relationships and agreements, or institutional mechanisms of alliances suffer from many limitations. Resource availability can define as the level of resources available to

companies from the environment (Sharfman, Dean 1991). Since the resources are limited, companies often have to fight for these resources with their competitors. Resource limits bring two important aspects: the availability of resources and the competition for resources. According to Manev et al. (2015), the strategic role of resource commitments is explored in various economic models. Based on the above discussion on competitive strategies, it may propose that:

**Hypothesis 3: Competitive strategy in international market at the first international entrance is affected by the company's resources.**

According to North and Kumta (2014), the knowledge retains rationalization potentials (through the transfer of best practices) and differentiation potentials (through the combination knowledge combination). Dixon (2000) defines knowledge as the knowledge that employees learn from doing the organization's tasks. Davenport and Prusak (1998) define knowledge as a fluid mix of framed experience, values, contextual information and expert insights that provide a framework for evaluating and incorporating new experiences and information. Knowledge developed in a particular context. Knowledge in organizations takes many forms and can classify from different perspectives. It includes the competencies and capabilities of employees, a company's knowledge about customers and suppliers, know-how to deliver specific processes, intellectual property in the form of patents, licenses and copyrights, systems for leveraging the company's innovative strength, and so on. Knowledge is the product of individual and collective learning and embodied in products, services, and systems. The creation and transfer of knowledge play a significant role in the op-

erative management of international companies. Operative management decisions on which knowledge created, and where and how knowledge can transfer efficiently. Multinational companies are turning into worldwide knowledge networks with their customers and suppliers. The availability of knowledge is also a criterion for decisions about where business activities located. Deciding on the location of activities involves not only the creation of local market knowledge but also the availability of corresponding qualified employees and suppliers. Knowledge managed through knowledge transfer mechanisms. Based on the above discussion on competitive strategies, it may propose that:

**Hypothesis 4: Competitive strategy in international markets at the first international entrance is affected by the knowledge about international markets.**

Knowledge transfer in a company can define as the process by which one unit of knowledge is influenced by the experience. Experience is built through shared hands-on experience amongst the members of the organization and between the members of the organization and its customers, suppliers and affiliated companies. Skills and know-how are acquired and accumulated by individuals through experience at work. International experience makes necessary resources for enhancing the international competitiveness of companies. Based on the above discussion on competitive strategies, it may propose that:

**Hypothesis 5: Competitive strategy in international markets at the first foreign entrance is affected by the experience of managers with international activities.**

## 2. Methodology

This research study is a part of the research focused on the internationalization process of Czech SMEs. The objective of the research study is to present the results of primary research focused on the specification of competitive strategies of Czech SMEs at their first international market entry. Based on the research results, essential characteristics of competitive strategy of Czech SMEs will be specified. The method of the oral questioning and a questionnaire as the principal instrument applied for researching the competitive strategies of Czech SMEs. The research was carried out in the Czech Republic in the period between May 2015 and May 2016.

### 2.1. Data

The research includes primary data collection from top managers of selected Czech SMEs. The sample consists of 450 Czech SMEs located in the Czech Republic. Selection of companies under research based on the method of non-probability purposive sampling, by assumption and occasional selection. The researched companies have already started their internationalization operations, all of them were incorporate in the Czech Republic, and all of them are private SMEs.

The instrument used in the survey, a structured questionnaire, contains five fields of varying degrees of complexity relating to the area of internationalization. The questionnaire consists of closed, semi-closed and open questions. The questions were designed while based on the information gained from experts from business and universities and previous research. In some questions, particularly those related to the entry mode choice and market choice, simple and complex scales were used, mostly the Likert-type scale (5 = strongly agree to 1 = strongly disagree).

Also, the questionnaire also included four questions related to the company background (the type of a business sector in the domestic market and international markets; the size of the company measured by the number of employees, and the revenue; the year of company foundation; the year of the first foreign market entry). The questionnaire was pre-tested for the instrument validity by 20 managers. In interviews, the managers were asked to respond to the items measuring the theoretical construct. They were also requested to identify any ambiguities revealed in the questionnaire draft. Based on the feedback some minor changes of wording were made.

Because of the relatively low response rate in mail surveys in the Czech Republic, and sensitivity to Czech managers' concerns about industrial espionage, a high level of personal involvement consisting of telephone calls and personal delivery and pickup of questionnaires was necessary. First, telephone calls were made with general managers or CEOs of the Czech companies to explain the purpose of the study and to ask for their participation. The questionnaire was hand-distributed to the general managers and CEOs after a telephone appointment. Trained research assistants helped the managers and CEOs complete the questionnaire, and explained any items that the respondents wished to have clarified. This procedure resulted in 600 matched questionnaires, out of which 150 were eliminated due to the incompleteness of responses. Thus 450 (a response rate of 75.0%) questionnaires were used in the subsequent data analysis and statistical processing.

### 2.2. Variables

*The dependent variable* is the competitive STRATEGY of Czech SMEs in international markets at the first foreign market entrance.

Interviewers presented to respondents a list of nine possible strategic approaches to establishing the strategic plan in foreign markets. Respondents indicated their approach used. As shown in Table 2, the majority of respondents used the strategic differentiation approach.

The group of *independent variables* consists of available RESOURCES for international activities, KNOWLEDGE of international markets, EXPERIENCE with international activities (number of years of work on international markets), company SIZE, and INDUSTRY. Resources were measured via the list of eight the most significant available resources (tangible and intangible resources) for international activities. Respondents indicated the most valuable resources that have been available for international activities. Most of the resources among sampled companies were international contacts and specialized knowledge. Knowledge of international markets by company management measured using the five-item scale (Cronbach's  $\alpha = 0.802$ ). The level of knowledge of international markets was assumed to be the above average. Experience with international activities measured by the number of years of management work in international markets. The median number of years of sampled companies was five. The number of years of experience with international activities ranged from zero (39%) to 60. The number of employees determined the size of the company. The mode of a company size among sampled companies was a medium sized company. The statistical classification of economic activities in the European Community NACE classified industry of the companies. The mode of industry among sampled companies was manufacturing.

### 2.3. Sample

The final research sample consisted of 27% of companies representing manufacturing, 19% of service enterprises, and 54% of the commercial enterprises. The companies differed in their size assessed by the number of employees: 26% of the sample consists of micro enterprises, 41% of the sample consists of small enterprises, and 33% of medium. The Eurostat (2011) and Czech Statistical Office (2013) classify enterprises by a wide range of variables such as sales revenues and the number of employees. This research study follows the conventional idea (European idea) that the size of companies is defined according to EU norms. A company with 1 to 10 employees and 2 million euro of turnover per year referred a microenterprise. A company, which has 11 to 50 employee and at most 10 million euro of turnover per year, is called a small enterprise. A company, which has 51 to 250 employees and at most 50 million euro of turnover per year, is known as a medium enterprise. A company, which has more than 250 employees and more than 50 million euro of turnover per year, is called a large corporation. The average age of respondents is twenty-two years.

### 2.4. Analyses

The analysis was made by the method of logistic regression to test hypotheses. The normality of all the variables was checked while using skewness, kurtosis, and outline analyses, which indicated that no transformations were required. Variance inflation factors (VIF) associated with each regression coefficient showed a range of 1.005-1.777 and factor of tolerance showed a range of 0.344-0.850. These values indicate no serious problems with multicollinearity. The representativeness of the research sample was verified by using the

criterion of geographical representation of businesses in the current research. A chi-square test also verified the representativeness of the research sample. Based on the level of significance  $\alpha = 0.05$ , the p-value accounted for 0.128, which means that the research sample was the representative of the location of the business units. Us-

ing the IBM SPSS statistical program, we processed the data obtained via the questionnaire research.

The analysis began by examining the correlation between variables. All variables were screened to reveal their distribution through Pearson correlation coefficients (Table 1).

**Table 1. Descriptive statistics and Pearson correlations**

| Variables  | Mean  | SD     | 1        | 2       | 3       | 4       | 5       | 6 |
|------------|-------|--------|----------|---------|---------|---------|---------|---|
| Strategy   | 1.93  | 0.261  | 1        |         |         |         |         |   |
| Size       | 51.52 | 56.738 | - 0.109* | 1       |         |         |         |   |
| Industry   | 7.66  | 7.176  | 0.123*   | - 0.035 | 1       |         |         |   |
| Resources  | 2.21  | 0.461  | - 0.035  | 0.065   | - 0.004 | 1       |         |   |
| Knowledge  | 3.88  | 0.875  | - 0.039  | 0.305** | 0.052   | 0.107*  | 1       |   |
| Experience | 6.40  | 8.540  | 0.062    | 0.091   | - 0.102 | - 0.031 | 0.161** | 1 |

\* Correlation is significant at the 0.05 level; \*\* correlation is significant at the 0.01 level.

Source: Own research.

### 3. Results

The competitive strategies of Czech SMEs in international markets at the first foreign market entry were monitored regarding Porter's competitive strategy (generic strategies). The author found out that Czech SMEs used for their first entry to the international market primarily differentiation focus strategy.

Cost leadership strategy was most frequently reported by medium-sized enterprises (55%) from the manufacturing industry. Companies with cost leadership strategy have declared their dominant tangible resources and below common knowledge about international markets by their management. About half of the companies with cost leadership strategy reported that their managers had no experience with international activities, while the remaining managers had experience ranging from 5 to 18 of years. The average number of years of experience with the international activities of managers in these companies is ten years.

Cost focus strategy was most frequently reported by medium-sized enterprises (67%) from agriculture, manufacturing and retail trade. Companies with cost focus strategy have declared their dominant intangible resources (specialized knowledge and knowledge of markets) and below average level of knowledge about international markets by their management. Approximately one-third of the sample reported that their managers had no experience with international activities, while the remaining managers had experience ranging from 12 to 15 of years. The average number of years of experience with the international activities of managers in these companies is 14 years.

Differentiation strategy was most frequently reported by small (34 %) enterprises from manufacturing. Companies with differentiation strategies have declared their dominant tangible and intangible resources (specialized knowledge and international contacts), and above average level

of knowledge about international markets by their management. About 30% of the sample reported that their managers had no experience with international activities, while the remaining managers had experience ranging from 1 to 23 of years. The average number of years of experience with the international activities of managers in these companies is nine years.

Mostly, micro enterprises and small enterprises (34%) from manufacturing used differentiation focus strategy. Companies with differentiation focus strategy have declared their dominant intangible resources (specialized knowledge and international contacts) and the average level of knowledge about international markets by their management. Approximately 40 % of the sample reported that their managers had no experience with international activities. Moreover, the remaining managers had experience ranging from 2 to 60 of years. The average number of years of experience with the international activities of managers in these companies is 13 years.

Logistic regression models were used to test the research hypotheses (Hypothesis 1 – Hypothesis 5). The logistic regression mod-

els were created with competitive strategies (cost leadership, cost focus, differentiation, differentiation focus) as the dependent variable and with five independent variables. Therefore, five models were created.

The results of formal tests of the hypotheses are provided in Tables 3-7. Goodness-of-fit tests for each successive model were conducted. The results show that the Pseudo  $R^2$  (defined by McFadden) is improved at the 0.05 and 0.01 significance level when the explanatory variables are included in the model. Also, the results from the Pearson and Deviance measures were used to assess the goodness of fit. The results from the Wald  $\chi^2$  statistic also confirm that the predictive power of successive models increased significantly.

### Model 1: Strategy and company size.

The logistic model was fitted to the data to test the research hypothesis on the relationship between the likelihood to choose a competitive strategy and the independent variables – company size. Table 2 describes the variables of logistic regression models.

**Table 2. Logistic regression results for Hypothesis 1**

| Independent variables   | Dependent variables |            |                 |                       |
|-------------------------|---------------------|------------|-----------------|-----------------------|
|                         | Cost leadership     | Cost focus | Differentiation | Differentiation focus |
| Intercept $\alpha$      | - 3.521**           | - 2.943**  | - 0.616*        | 0.510**               |
| SIZE $\beta_1$          | 0.471               | - 0.188    | 0.159           | - 0.179               |
| Wald                    | 3.763               | 0.235      | 2.297           | 2.153                 |
| Odds ratio              | 1.602               | 0.829      | 1.172           | 0.836                 |
| Pearson                 | 17.136              |            |                 |                       |
| Deviance                | 21.161              |            |                 |                       |
| Pseudo $R^2$            | 0.02                |            |                 |                       |
| Wald $\chi^2$ statistic | 5.897               |            |                 |                       |

\*  $p < 0.05$ , \*\* $p < 0.01$

Source: Own research.

The analysis shows that the SIZE of the company is not a statistically significant predictor for the selection of international

competitive strategy. The hypothesis H1 is not supported.

## Model 2: Strategy and industry

A logistic model was fitted to the data to test the research hypothesis on the relationship between the likelihood to choose a competitive strategy and the independ-

ent variables – industry of company. Table 3 describes the variables of logistic regression models.

**Table 3. Logistic regression results for Hypothesis 2**

| Independent variables   | Dependent variables |            |                 |                       |
|-------------------------|---------------------|------------|-----------------|-----------------------|
|                         | Cost leadership     | Cost focus | Differentiation | Differentiation focus |
| Intercept $\alpha$      | - 1.163**           | - 2.203**  | - 0.235         | - 3.366**             |
| INDUSTRY $\beta_1$      | - 0.214*            | - 0.266    | 0.005           | - 0.278               |
| Wald                    | 5.953               | 2.043      | 0.112           | 2.215                 |
| Odds ratio              | 0.807*              | 0.766      | 1.005           | 0.757                 |
| Pearson                 | 89.826              |            |                 |                       |
| Deviance                | 106.175             |            |                 |                       |
| Pseudo $R^2$            | 0.06                |            |                 |                       |
| Wald $\chi^2$ statistic | 17.413**            |            |                 |                       |

\*  $p < 0.05$ , \*\* $p < 0.01$

Source: Own research.

Overall, the Model 2 explains little variance in the dependent variable (pseudo  $R^2 = 0.06$ ), but this is statistically significant. The analysis shows that INDUSTRY of company is a statistically significant predictor for the selection of international competitive strategy. The hypothesis H2 is supported only for cost leadership strategy (negative link), the hypothesis H2 is supported partially. According to the significance of the Wald statistics (5.954 at  $p < 0.05$ ), the INDUSTRY is a significant variable. The realization of cost leadership strategy is associated with a decrease

-0.214 in the variable INDUSTRY. For cost leadership competitive strategy, variable INDUSTRY has projected impacts of 0.807 (decrease 0.193) for one standard deviation change in the explanatory variable.

## Model 3: Strategy and resources

The logistic model was fitted to the data to test the research hypothesis on the relationship between the likelihood to choose a competitive strategy and the independent variables – industry of company. Table 4 describes the variables of logistic regression models.

**Table 4. Logistic regression results for Hypothesis 3**

| Independent variables   | Dependent variables |            |                 |                       |
|-------------------------|---------------------|------------|-----------------|-----------------------|
|                         | Cost leadership     | Cost focus | Differentiation | Differentiation focus |
| Intercept $\alpha$      | - 1.420             | - 5.107*   | - 1.354*        | 1.001                 |
| RESOURCES $\beta_1$     | - 0.364             | 0.759      | 0.521*          | - 0.437               |
| Wald                    | 0.416               | 0.807      | 4.591           | 0.955                 |
| Odds ratio              | 0.695               | 2.137      | 1.684*          | 0.646                 |
| Pearson                 | 1.612               |            |                 |                       |
| Deviance                | 2.516               |            |                 |                       |
| Pseudo $R^2$            | 0.12                |            |                 |                       |
| Wald $\chi^2$ statistic | 6.340*              |            |                 |                       |

\*  $p < 0.05$ , \*\* $p < 0.01$

Source: Own research.

Overall, the Model 3 explains little variance in the dependent variable (pseudo  $R^2 = 0.12$ ), but this is still statistically significant. The analysis shows that RESOURCES of the company is a statistically significant predictor for the selection of international competitive strategy. The hypothesis H3 is supported only for differentiation strategy (positive link), the hypothesis H3 is supported partially. According to the significance of the Wald statistics (4.591 at  $p < 0.05$ ), the RESOURCES is a significant variable. The realization of the differentiation strategy is associated with an increase 0.521 in the variable RESOURCES. For the

competitive differentiation strategy, the variable RESOURCES has projected impacts of 1.684 (increase 0.684) for a one standard deviation change in the explanatory variable.

#### Model 4: Strategy and knowledge

This logistic model was fitted to the data to test the research hypothesis on the relationship between the likelihood to choose a competitive strategy and the independent variables – the knowledge of international markets. Table 5 describes the variables of logistic regression models.

**Table 5. Logistic regression results for Hypothesis 4**

| Independent variables   | Dependent variables |            |                 |                       |
|-------------------------|---------------------|------------|-----------------|-----------------------|
|                         | Cost leadership     | Cost focus | Differentiation | Differentiation focus |
| Intercept $\alpha$      | - 1.837             | - 2.892    | - 1.517**       | 1.058*                |
| KNOWLEDGE $\beta_1$     | - 0.096             | - 0.137    | 0.338**         | 0.264*                |
| Wald                    | 0.137               | 0.090      | 6.560           | 5.255                 |
| Odds ratio              | 0.908               | 0.872      | 1.402**         | 1.768*                |
| Pearson                 | 13.429              |            |                 |                       |
| Deviance                | 14.667              |            |                 |                       |
| Pseudo $R^2$            | 0.03                |            |                 |                       |
| Wald $\chi^2$ statistic | 7.975*              |            |                 |                       |

\*  $p < 0.05$ , \*\* $p < 0.01$

Source: Own research.

Overall, the Model 4 explains little variance in the dependent variable (pseudo  $R^2 = 0.03$ ), but this is statistically significant. The analysis shows KNOWLEDGE of international markets is a statistically significant predictor for the selection of international competitive strategy. The hypothesis H4 is supported for the differentiation strategy (positive link) and the differentiation focus strategy (positive link), the hypothesis H4 is supported partially. According to the significance of the Wald statistics (6.560 at  $p < 0.01$ ; 4.542 at  $p < 0.05$ ), the KNOWLEDGE is a significant variable. The realization of the differentiation strategy is associated with an increase 0.338, respectively with in-

crease 0.264 in the variable KNOWLEDGE. For the competitive differentiation strategy, the variable KNOWLEDGE has projected impacts of 1.402 (increase 0.402) for one standard deviation change in the explanatory variable. Moreover, also for the differentiation focus competitive strategy, the variable RESOURCES has projected impacts of 1.768 (increase 0.768) for a one standard deviation change in the explanatory variable.

#### Model 5: Strategy and experience

This logistic model was fitted to the data to test the research hypothesis on the relationship between the likelihood to choose

a competitive strategy and the independent variables – experience with international activities. Table 6 describes the variables of logistic regression models.

**Table 6. Logistic regression results for Hypothesis 5**

| Independent variables   | Dependent variables |            |                 |                       |
|-------------------------|---------------------|------------|-----------------|-----------------------|
|                         | Cost leadership     | Cost focus | Differentiation | Differentiation focus |
| Intercept $\alpha$      | - 1.997**           | - 3.552**  | - 0.092         | - 0.069               |
| EXPERIENCE $\beta_1$    | - 0.034             | 0.019      | - 0.016         | 0.016                 |
| Wald                    | 0.959               | 0.278      | 1.460           | 0.457                 |
| Odds ratio              | 0.966               | 1.019      | 0.984           | 1.016                 |
| Pearson                 | 122.152             |            |                 |                       |
| Deviance                | 85.277              |            |                 |                       |
| Pseudo R <sup>2</sup>   | 0.09                |            |                 |                       |
| Wald $\chi^2$ statistic | 2.706               |            |                 |                       |

\*  $p < 0.05$ , \*\* $p < 0.01$

Source: Own research.

The analysis shows that the variable EXPERIENCE of international activities is not statistically significant predictor for the selection of international competitive strategy. The hypothesis H5 is not supported.

## 4. Discussion

The above results show that competitive strategy choices of Czech SMEs vary according to various factors. The research results suggest that we must be careful in making overall conclusions even if based on the investigation of international activities in general or of a single activity. The results of the research study show competitive strategies of Czech SMEs in the international market at the first foreign market entrance. The majority of Czech SMEs chose the differentiation strategy and differentiation focus strategy as their international competitive strategy. It turns out; those different Czech SMEs are associated with resources and costs in international activities.

The selection of competitive strategy in international markets is affected by several variables: industry, resources, and knowledge of international markets. The industry is a variable statistically significant only for

cost leadership strategy. The variable is negatively related to the dependent variables, while the variables of resources and knowledge are statistically significant for the differentiation strategy and differentiation focus strategy. Resources and knowledge of international markets are positively related to the likelihood of a competitive strategy. The variable knowledge of international markets has the largest projected impact. The remaining variables such as company size and experience with international activities are not statistically significant for the selection of competitive strategy in foreign markets.

It is important to note some limitations of the research. First, the findings may apply mostly to medium-sized companies and large enterprises. The author cannot say whether the results would apply to micro-enterprises and small enterprises.

Several other implications also emerge from the research study findings. For international business researchers, the results suggest that investigation of the internationalization process in aggregate, or international activities in a single activity provides the best and multifaceted picture of multinational managerial decisions and

the internationalization process. The paper contains information on the international activities (international strategy) of Czech companies. There appear to be some potential areas for further research work such as performance in international markets. The research could be focused on activity located in one region of the world with a good deal of variation regarding market size, growth rates, levels of development, openness, tax rates, and other features.

## Conclusions

The globalization of economy offers new opportunities to companies, resulting from their access to bigger markets, scale economies and exposure to best practice management and technology. However, globalization also poses and invites new competitive challenges, either by local and international competitors, with new productive processes and innovative products and services. In response to these challenges, companies try to conquer new international markets and expand their present ones and operate in the global market (Pereira et al. 2009). Internationalization is a fundamental element of competitiveness for companies, reflecting on the performance, determined by own business, industry and environment factors.

The present paper investigates the determinants of the competitive strategies of Czech SMEs in international markets at the first foreign market entrance. It has become evident that the competitive strategy is more than only the selection of suitable entry modes or selection of location; it shows how the company competes. Porter's generic competitive strategy is the basis for a variety of modern business strategy. The results indicate that the strategy of most Czech SMEs in international markets at the first foreign market entry is driven by the differentiation strategy and differentia-

tion focus strategy. A differentiation focus strategy is appropriate where the target customer segment is not price-sensitive. The market is competitive or saturated, and customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable the company to satisfy these needs in just those ways that are difficult to copy (Porter, 1985). The selection of the appropriate competitive strategy in international markets by Czech SMEs is affected by industry, company resources and knowledge of international markets.

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