

Small and medium-sized enterprises in the global economy

Alzbeta Bielikova, Jaroslav Mazanec

Abstract— The article deals with the topic of small and medium-sized enterprises which play a significant role in shaping the market, GDP, employment and increasing competitiveness of a country in the global economy. They can be considered the backbone of the European economy and the basic pillar of the national economy of each country. In OECD countries, they represent over 95% of the total number of all businesses. Business in small and medium-sized enterprises in our country is specific mainly for its flexibility and rapid adaptation to the conditions of turbulent market environment compared to large enterprises. Each country provides different conditions for business within its capabilities and this is reflected in different quality of the business environment. This area of business has great potential, which can be further increased by the use of support at different levels, use of knowledge and implementation of innovation. The significance of these enterprises is not only at national, but it achieves international level. European Union also acknowledges importance of small and medium enterprises, which is declared in a key document for these enterprises: European Charter for Small and Medium- Sized Enterprises.

Index Terms— SMEs, micro enterprises, global economy, research and development, innovation, EU, Slovak republic

1 INTRODUCTION

SMALL and medium-sized enterprises (SMEs) are an integral part of business environment in all countries. They contribute to gross domestic product (GDP), employment and to increase competitiveness. SMEs represent majority of all companies from point of view of structure, for instance, in Europe there are more than 19 million SMEs, it means 99,8 %. For these enterprises are not typical to be owned by foreign entities. SMEs represent local capital and local ownership. In addition, SMEs are irreplaceable for economy of state and of region. The significance of these enterprises is not only at national level, but also at international level. SMEs are forced to development of innovative creativity that is essential to survive on the market. In these enterprises there are more space for individual initiative and less limited organizational conditions (European Commission, Staniewski et. al., 2016, Wickert, 2016).

2 PROS AND CONS OF SMEs

The primary advantages of SMEs are:

- the flexibility and adaptability to market changes and the ability of flexible response to changes coming from the environment,
- the possibility of specialization, involvement in division of labor and cooperation, and therefore greater potential to engage in various forms of strategic partnership in the creation of business networks and in

- the implementation of various joint projects,
- to benefit from the trends of large enterprises that have tried to get rid of uninteresting activities through outsourcing and ability to react to the offers,
- the possibility of concentrating on the segment, to be closer to the customer and thank to that achieve advantages in compared to large enterprises that act on the global market,
- simple organizational structure, personal relationship with employees and space to shape acceptable corporate culture,
- to offer space for self-fulfillment and realization of employees in various positions who are engaged in other activities,
- the ability to generate new professions at lower capital intensity,
- the opportunity to use various forms of support for SMEs at different levels - of town, of region, of government and of integration groupings, for instance, EU (Dannemann, 2016).

Managers are much closer to innovative areas, so they are more interested in innovation. It should be said that related to innovation at lower level. Moreover, creating of new working positions is domain of SMEs. The main reason is lower costs for making working position. In addition, SMEs can make decision faster than large enterprises. It associated with fewer number of owners than in large enterprises and owners are involved in executive management of company. The primary disadvantage of SMEs is limited opportunity of hiring professionals in the corporate governance (Butoracová and Šindleryová, 2007, Pollack and Adler, 2016, Hečková, 2007a).

SMEs keep the same laws and regulations as large enterprises, but often don't have enough employees to fulfill all laws and regulations, and impose increased professional and time requirements for their management. Other disadvantage is

- Bielikova Alzbeta, Associate Professor at University of Zilina, The Faculty of Operation and Economics of Transport and Communications, Department of Economics, Univerzitna 1, 010 01 Zilina, Slovak republic. E-mail: alzbeta.bielikova@fpedas.uniza.sk.
- Mazanec Jaroslav, Ph. D. Student at University of Zilina, The Faculty of Operation and Economics of Transport and Communications, Department of Economics, Univerzitna 1, 010 01 Zilina, Slovak republic. E-mail: jaroslav.mazanec@fpedas.uniza.sk.

lower credit availability, and therefore also less financial strength. Lack of capital and need of survive in competition has resulted high labor intensity and uncomfortable working conditions. In the most cases, the owner of SMEs is top manager of company. The objectives of enterprises are in the interest of ownership and target leads to concentrated working deployment. The similar working deployment is required from employees of enterprises (Hečková and Chapčáková, 2008, Sira et al., 2016, Hečková, 2007b).

SMEs can use necessary material for production only in smaller quantities than large companies. It means that small and medium-sized enterprises don't have constructive supply conditions in compare with supplies in large quantities. Other disadvantage of given enterprises is lack of money for promotion and advertising. For companies is difficult to influence your potential customers, causing barriers associated with sales growth and growth of size of the enterprises (Veber et al., 2005, Ghoul et al. 2016).

3 THE BARRIERS OF DEVELOPMENT IN SMEs

Barriers of development of SMEs can be divided into external and internal. External barriers are characterized by external environment, and internal barriers based on nature of the business entity.

The external barriers of development:

- limited access to financial resources is mainly due to the high risk of SMEs. The risk of SMEs is characterized by high debt and limited ability liability. Therefore, the acquisition of commercial loans is difficult. Mostly, SMEs have the ability to get a loan for less favorable conditions, also in case of presentation of profitable and sustainable business plan,
- high tax burden means greater share of labor costs in SMEs than in large enterprises. Therefore, negative effect in the form of tax wedge. The high tax wedge is the difference between total labor costs and net income of employees,
- another barrier is unclear legislation, which is difficult and regularly changes. Further it causes extraordinary administrative bureaucracy in the companies, mainly among self-employed and micro-enterprises (Grandinetti, 2016, Skypalova et al., 2016).

Information and institutional barriers represent underdeveloped information system, particularly in marketing and cooperative relations.

Internal barriers of development:

- lack of motivation - the motivation level may rise or decrease with increased opportunities to realize their own profit, ideas and so on,
- lack of capital is one of the most important internal barriers, because the entrepreneur is limited,
- lack of knowledge and experience can cause that entrepreneur will not be able to competitiveness against its competitors who act some time on the

market, and therefore have some experience and expertise (Almodovar et al., 2016).

4 SMEs IN THE SLOVAK ECONOMY

According to Statistical office of the Slovak republic in the Slovak republic there are 531 729 registered business entities in 2015, out of which 531 063 SMEs. In annual comparison total number of active small and medium-sized enterprises declined about 6.0 %. It is caused by new method of Statistical office of the Slovak republic for determining activity of entities. From total number of active entities was 96.9 % micro enterprises, thus 515 236, 2.4 % small enterprises, thus 12 984 in absolute terms and 0.5 % medium-sized enterprises, thus 2 843. The share of large companies is only 0.1 %. In 2015 freelancers create almost two third, thus 63.7 % of total number of active small and medium-sized enterprises in the Slovak republic. The small and medium-sized enterprises - legal entities represent 36.3 %. Since 2010 the overall number of SMEs is characterized with different development trends that are recorded in individual types of enterprises.

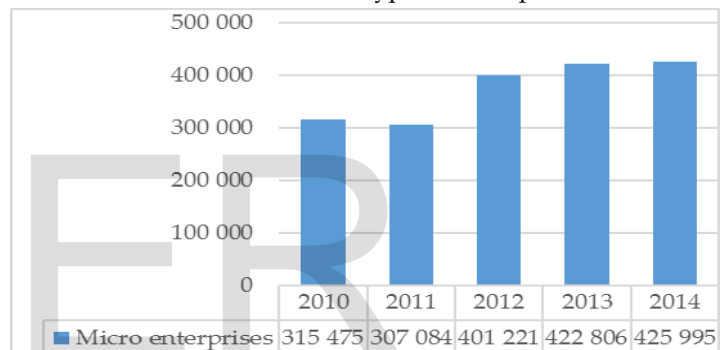


Figure 1: Development of micro-enterprises from 2010 to 2014 in the Slovak republic

Source: author based on Statistical office of the Slovak republic

As shown in Figure 1 the overall number of micro enterprises have increasing trend in Slovak republic since 2010, for instance, in 2010 in the Slovak republic there are 315 475 micro enterprises, in 2014 according to Statistical office of the Slovak republic there are 425 995 in Slovakia. It means increase about 110 520 enterprises, thus 25.94 %.

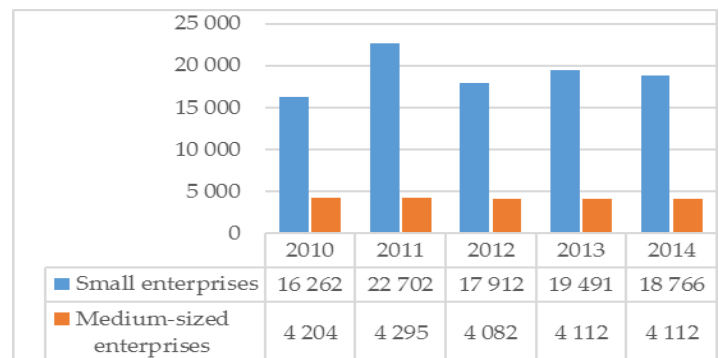


Figure 2: Development of SMEs in the Slovak republic in period of 2010-2014

Source: author based on Statistical office of the Slovak republic

The changes in number of SMEs show Figure 2. In 2010 in the Slovak republic there were 16 262 small enterprises, in 2014 there were 18 766 according to Statistical office of the Slovak republic. In annual comparison 2014/2010 we recorded increase of 2 504 enterprises, thus 15.39 %. As for the medium-sized enterprises, in analysed period we recorded slight decrease of number, while in 2010 there were 4 204, in 2014 the number was reduced to 4 112. It means decrease of 92 enterprises, thus decline of 2.2 % in annual comparison 2014/2010.

In 2015 approximately 23.6 %, thus 125 454 of active entities in small and medium-sized enterprises carried out their main activity in service area and similar share of 23.0 %, thus 122 083 entities in trade area. On the third place there is construction sector with share of 16.8 %, thus 89 427. In the transport sector, information and communication sector there are 40 197, thus 7.6 %. The small and medium-sized enterprises in other service have similar share, thus 7.6 %. The smallest share of small and medium-sized enterprises there is agriculture sector, particularly 4.4 %, thus 23 588 of entities and share of hotel and restaurant sector is 3.7 %. At the end of 2015 there were registered 338 467 of active freelancers. As dominant part of freelancers is self-employed in amount of 93.5%. The share of persons engaged in the form of the professions is 5.2% of self-employed farmers and 1.3% of the total number of freelancers.

According to Eurostat in 2015 in the Slovak republic there was of the total population engaged in business activity of 3.2% in the age group of 15 - 24 years, 37.8% in the age group of 25 - 39 years, 29.2% in the age group of 40 - 49 years, 24.4% in the age group of 50 -59 years and 5.3% in the age group of 60 - 74 years.

Based on comparison of the age structure of Slovak entrepreneurs to selected EU countries, Slovakia is characterized by the highest representation of entrepreneurs in the age group from 25 to 39 years. On the other hand, in the age group over 50 years, Slovakia belongs to countries with the lowest share of entrepreneurs. Therefore, we can conclude low business activity of older age groups in the population of the Slovak republic. Moreover, in the business there is low number of women, for instance in 2015 women are represented by only 28.4 % of total number of freelancers (Statistical office of the Slovak republic).

According to the data of the Register of organizations of the Statistical office of Slovak republic there are registered in high-tech sectors (economic activities with high R & D intensity) 17 976 of active small and medium-sized enterprises in 2015, while the total number of small and medium-sized enterprises is represented by 4.3 %. Based on assessment of representation of SMEs in the Slovak regions, for instance, the highest share of SMEs we can indicate in Bratislava region from point of view of numbers of legal entities or number of self-employed. In term of assessment of economic activity of region and participation of companies on the economy of the region, indicator of the number of active enterprises to number of active population has greater explanatory power. According to National Agency for Development of Small and Medium

Enterprises, this indicator achieves highest value in the Bratislava region, while the disproportion is more evident in the companies - legal entities. Moreover, based on assessment of small and medium enterprises on the level of trade licence has dominant position - Bratislava region (Statistical office of the Slovak republic, 2015, Valentim et al., 2015, Slovak Business Agency).

From March 2014 to June 2015 Slovak Business Agency conducted project - Improvement of Conditions in the Labour Market and Business Activities of Third-Country. The goal of project was to finding out information about business environment and conditions for nationals of third country in the Slovak republic.

Based on the survey, it was found:

- at the start of business entrepreneurs (nationals of third countries) have problem with orientation v business law of Slovak republic, particularly 50,3 %,
- entrepreneurs have problem to cope with difficult procedures at the start of business, particularly 43,7 %,
- problem related with too high tax burden and labor costs,
- according to respondents – the process of establishing company is too long and expensive, for instance, in Slovak republic there is twice or four times expensive compared with surrounding countries,
- problem associated with availability of information in foreign languages and communication with Slovak authorities in foreign language (Slovak Business Agency).

4 CONCLUSION

The SMEs represent strong economic development potential in Slovak republic. Currently, Slovakia and the European Union (EU) recognize that support of small and medium-sized enterprises is one of the key issues of the direction for our economy. Based on assessment by Slovak experts in the area of availability of financial resources for small and medium-sized enterprises lags and has deficiency in field of the tax and regulatory support of small and medium enterprises. The institutional environment of SMEs (commercial and legal infrastructure: property rights, commercial, accounting and legal services and institutions) was evaluated slight negative. Among the extreme problems (the difference between Slovakia and the EU average), we can consider position of SMEs in the context of general economic policy, the scope and quality of direct support for SMEs by the government. For small and medium-sized enterprises, use of business R & D as a source of innovation and competitive advantage is quite limited. Mainly, small enterprises have limited opportunities to invest in Small businesses in particular have limited opportunities to invest in expensive and risky research and development as well as having a low absorption capacity to use external knowledge. In the case of small enterprises play an important role of innovation in the

form of informal forms including in particular the presence of innovative suppliers and customers. In terms of a way to innovate there are giant differences between the size of enterprises in Slovakia. In terms of spending on innovation, buying technology (equipment, machinery and software) is the dominant source of innovation for innovating business, in a comparable measure for small, midsize, and large innovating companies.

Micro, small and medium-sized enterprises can be considered the driving force of the national economies, but also for the European Union, because create suitable conditions for employment growth, innovation processes. In addition, SMEs create an appropriate social environment in the regions. Their flexibility enables them to become a regional stabilizing factor, even now, in the period of increasing competitive pressures and the global economic crisis. For these reasons, it is necessary to support SMEs, whether based on financial or consulting in targeting their further development.

ACKNOWLEDGMENT

This contribution was undertaken as parts of the research project VEGA 1/0696/16 and project VEGA 1/0244/16 Personnel marketing as a new approach of the ensuring and maintaining the skilled workforce in Slovak companies.

REFERENCES

- [1] Almodovar, P.; Verbeke, A.; Rodriguez-Ruiz, O. (2016) The Internationalization of Small and Medium-Sized Family Enterprises: The Role of Human Asset Quality, *Journal of leadership & Organizational studies*, 23 (2), pp. 162-174.
- [2] Butoracová and Šindleryová, I. (2007). Rozvoj MSP v rámci teorie inovácií. In: *Sborník Obchod, jakost a finance v podnikách – determinanty konkurenceschopnosti V. Praha: ČZU, 2007. p. 37 – 41. ISBN 80-213-1661-4.*
- [3] Dannemann, G. (2016), The Position of Small and Medium-Sized Enterprises in European Contract Law, *Common market law review*, 53 (1), pp. 284-285.
- [4] El Ghouli, S.; Guedhami, O.; Kwok, Ch.; et al. (2016) National Culture and Profit Reinvestment: Evidence from Small and Medium-Sized Enterprises, *Financial management*, 45 (1), pp. 37-65.
- [5] Hečková, J. (2007) a. Rozvoj v oblasti technológií a inovácií ako determinant ekonomického rozvoja krajiny. In: *Národohospodársky obzor*, roč. VII, 2007, č. 1, p. 3-14. ISSN 1213-2446.
- [6] Hečková, J. (2007) b. Inovácie a konkurenčná schopnosť podniku. In: *Sociálno-ekonomické aspekty financovania podnikateľských aktivít subjektov súkromného a verejného sektora v etape integrácie do EÚ s praktickou aplikáciou na Košický región: Zborník z vedeckej konferencie (15. jún 2007). Košice: EF TUKE, 2007. ISBN 978-80-8073-821-1.*
- [7] Hečková, J., and Chapčáková, A. (2008). Teoretické východiská problematiky konkurenčnej schopnosti ekonomiky. In: *Zborník Katedry ekonómie a ekonomiky ANNO 2008. Prešov : PU, 2008. s. 196 – 209. ISBN 978-80-8068-798-4.*
- [8] Grandinetti, R. (2016) Absorptive capacity and knowledge management in small and medium enterprises, *Knowledge management research & Practice* 14 (2), pp. 159-168.
- [9] Pollack, J.; Adler, D. (2016) Skills that improve profitability: The relationship between project management, IT skills, and small to medium enterprise profitability, *International journal of project management*, 34 (5), pp. 831-838.
- [10] Skypalova, R.; Kucerova, R.; Blaskova, V. (2016) Development of the corporate social responsibility concept in small and medium-sized enterprises, *Prague economic papers*, 25 (3), pp. 287-303.
- [11] Sira, E.; Vozarova, Kravcakova, I.; Radvanska, K. (2016). Using of risk management at small and medium-sized companies in the Slovak Republic. *Economic annals - XXI*, 156 (1-2), pp. 71-73.
- [12] Staniewski, M. W.; Nowacki, R.; Awruk, K. (2016) Entrepreneurship and innovativeness of small and medium-sized construction enterprises, *International entrepreneurship and Management journal* 12 (3), pp. 861-877.
- [13] Valentim, L.; Lisboa, J. V.; Franco, M. (2015) Knowledge management practices and absorptive capacity in small and medium-sized enterprises: is there really a linkage? *R & D management* 46 (4) pp. 711-725.
- [14] Veber, J., Srpová, J. a kol. 2005. *Podnikání malé a střední firmy*. Praha: Grada Publishing, 2005. 304 s. ISBN 80-247-1069-2.
- [15] Wickert, Ch. (2016). Political" Corporate Social Responsibility in Small- and Medium-Sized Enterprises: A Conceptual Framework by: *Business & Society* 55 (6), pp. 792-824.
- [16] European Commission. Available on: http://ec.europa.eu/enterprise/sme/competitive_sk.html.
- [17] Eurostat. Available on: <http://ec.europa.eu/eurostat>.
- [18] Centrálny koordinačný orgán. Available on: <http://www.nsrr.sk>.
- [19] Slovak business agency. Available on : http://www.nadsme.sk/mediafiles//Publikacie/Stav_MSP_06.pdf.
- [20] The Statistical office of the Slovak republic. Available on: <http://www.statistics.sk>.