

Importance of SME's Development in Terms of Regional Competitiveness in Slovakia

INTRODUCTION

The main aim of our work is to elucidate for readers current conditions of SMEs in regions of The Slovak Republic. We used methods like description, deduction, and analyse based on statistical data. Firstly, we emphasized on the general overview of Slovakia from its establishment to the present, especially from the economical point of view. In the next chapter we focused on basic definitions connected with the business in the Slovak Republic for better getting into this problematic. Except these basic characteristics we also described functions of SMEs and manners of the state support. In the next chapter we quoted a few definitions from several authors and also described main factors which have an impact on the competitiveness. Later we worked with main ideas from global evaluation of competitiveness in regions of Slovakia. However, we worked only with results which influence the topic of our work. Finally, we summed up all information about our topic and we provided our opinion. According to this work, you should have a clear overview of current situation in The Slovak Republic.

OVERVIEW OF SLOVAKIA

The Slovak Republic was established in 1st January 1993 by separating from Czechoslovakia and Slovakia was a part of this federation from 1918 (with exception of years 1939–1945). From 1989, when was overthrown the socialist regime, to 1993 a lot of changes had been done. From our point of view the important one was the transition from the planned economy to the socially and ecologically oriented market economy.

The separation of Czechoslovakia strengthened the national pride and increased the interest in public affairs. The basis of the right development of the Slovak economy has been the legislation of the Slovak Republic. Due to this, Slovakia was prepared to become a member of the European Union in May 2004 and then in January 2009 the Slovak Republic met with all criteria for the entrance to the Eurozone.

Besides, our country is also a member of other international organisations like NATO, OECD, WTO, OSCE, and Schengen Area.

Slovakia is one from countries with the highest economic growth in comparison to other countries in the EU. In addition, Slovak economy is considered an advanced economy. The following tables show the overview of basic facts about the Slovak Republic:

Table 1. Basic characteristics

Population	5 397 036 (86% – Slovaks)
Area	49 035 km ²
Density	111,1 inhabitants/km ²
Number of regions	8

Source: Statistical office of the Slovak Republic.

Table 2. Main economic statistics

	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP growth (%)	4.8	5.1	6.7	8.3	10.5	5.8	-4.9	4.2	3.3
GDP per capita in PPS	55	57	60	63	68	73	73	74	x
Inflation (%)	8.4	7.5	2.8	4.3	1.9	3.9	0.9	0.7	4.1
Unemployment (%)	17.6	18.2	16.3	13.4	11.1	9.5	12.0	14.4	13.5
General government gross debt (% of GDP)	42.4	41.5	34.2	30.5	29.6	27.9	35.6	41.1	43.3
General government deficit (% of GDP)	-2.8	-2.4	-2.8	-3.2	-1.8	-2.1	-8.0	-7.7	-4.8

b=break in series, x=without data

Source: Eurostat.

We decided to choose data since year 2003, due to the comparison to situations before the entrance to the EU, the Eurozone and after that, and before a global crisis and now.

A relatively high GDP growth (from 4% to 9%), which causes internal and external imbalances in the economy, the GDP is expected to be near the potential of the product. The growth driven mainly by domestic demand (consumption and investment), but also foreign demand.

Decreasing, respectively low inflation rate, reflecting the reduction in the effects of regulated prices and indirect taxes and balanced nature of the dynamics of economic development.

Unemployment decrease only gradually, reflecting the evolution of employment, but the development of economically active population – the emergence of stronger market for boomers current work and raising the retirement age.

Significantly improve the current account balance surplus with the possibility, transient deepening deficit in 2005 and 2006, mainly reflecting increased imports of capital nature related to the development of new products (automotive industry) as well as increased consumption.

MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES

DEFINITION

An enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.

Staff headcount and financial ceilings determining enterprise categories. The characteristics of SMEs there are no uniform approach, according to EU criteria valid from 1st January 2005. The main factors determining whether a company is a SME are:

- a) Number of employees and
- b) Either turnover or balance sheet total.

1. The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million.

2. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million.

3. Within the SME category, a microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million [European Commission ([http](http://))].

TYPES OF SLOVAKIAN COMPANIES

As in most European countries the most common type of company in Slovakia is the limited liability, followed by general and limited partnerships and the Slovakian joint stock.

1. Slovakian Limited Liability Company (LLC)

The Limited Liability Company is the most common type of business in Slovakia, found by local or foreigner entrepreneurs. It can be formed by at least one member, and shareholders can be individuals or other limited liability companies, and cannot exceed 50. The LLC must have a minimum capital of 5.000 EUR. The contribution of the shareholders must reach a minimum of 750 EUR. The partners of a LLC are liable for the company's obligations, only to the extent of their contributions.

2. Slovakian General Partnership (GP)

This kind of business's form can be established by at least two participants, without a limit as to the maximum number of partners. The members of a general partnership are fully liable, with their whole private property, but instead do

not have to pay any initial investment to the company, as it's being founded. The partnership has no legal status, and as all members are general partners, each and one of them has the right to be involved in the management of the partnership and to represent the company.

3. Slovakian Limited Partnership

This kind of partnership has similar characteristics as a general partnership, as it has no legal status, no initial capital is required and must be founded by at least two members. In a LC at least one member is a general partner, who is held liable with his whole private property to the company obligations, and at least one limited partner whose liability depends on the contribution made, but does not exceed its value.

4. Slovakian Joint Stock Company

The Slovakian Joint Stock Company is formed either by two natural persons, either by a juristic entity. It is considered the most complicated type of company because of it's complex establishment and difficult administration. The company is liable only through its own property. The registered capital must reach at least 25.000 EUR and it is divided into shares with an established nominal value. The management and control of a Joint Stock in Slovakia is performed via a Board of Directors, or Managers, whose members are entitled to represent the company and a Supervisory Board, who supervises the activities of the Board of Directors [*Types of Slovakian Companies*, 2012 ([http](#))].

DEVELOPMENT OF SMEs IN SLOVAKIA

Features of SMEs related to the stages of development of small and medium-sized businesses worldwide. The first wave of development, especially in the 19 century ended the onset of large enterprises, the emergence of monopolies, which in time developed significant barriers of economic development and caused a gradual decline of a large number of small businesses.

The second wave of development of small and medium enterprises in the world and in Europe, particularly in 70th the 20th century was marked by a process of rationalization in response to market saturation and technological understanding of the needs of state intervention in the economy and antitrust enforcement actions.

This will ultimately create conditions for structural change in large enterprises and for service development. Small businesses represent a growing market share, increasing their share the gross domestic product. The SR is associated with the development of their transition to market economy in early nineties. Small and medium businesses meet now more and more tasks and functions [*Rozvoj malých a stredných podnikov* ([http](#))].

FEATURES OF SMES

Basic features of small and medium enterprises can be divided into the following way [Chodasová, 1993]:

1. economic functions:

- Decentralization of the economic system, while maintaining a market mechanism
- Production and raster function – developing competitiveness, technological innovation and more flexible development
- Allows you to meet the specific needs of the population (small series of contract)
- Contribute to regional development

2. social functions:

- Form a large and varied source of job opportunities, develop employment
- The realization of freedom and independence coupled with responsibility for consequences of their actions
- Develop personal initiative, enabling personal development, education and self-realization
- Their activities are involved in protection of environment.

3. political office:

- SMEs are the object of the policy objective to ensure country's economic growth
- Allow disperse economic power among a wider range of social (impact representatives of small and medium enterprises in representative bodies) and contribute to the stability of democracy, pluralism and development [*Rozvoj malých a stredných podnikov* ([http](http://)).]

SUPPORT FOR SMES

The development of SMEs is not possible without creating conditions facilitating business start-ups. In addition to state economic policy and the state regulation of competition is for a variety of support activities, focused on financial aid and to communicate the necessary information. To experience in the development of SMEs in European countries were recommended three types of state support for the Development of Small and Medium Enterprises [Geneva, 1987]:

- a) Loans – the government paid from the state budget
- b) Aid organizations from other countries and international institutions to fund (Advice, information, assistance in obtaining loans from banks and other of risk-capital aid in processing investment projects and below)
- c) Selection control to protect SMEs from competition.

Slovak Guarantee Bank was created in 1991 in the Slovak Republic by decision of the Ministry of Finance. Activities of this bank were intended for the support and

development of small and medium business. The forms of the present activities of the Slovak Guarantee and Development Bank (SZRB) to SMEs include:

- a) Acceptance of the loan guarantee business (government bank guarantees)
- b) To provide interim funding to cover the interest
- c) Providing one-time funds.

The current system of support for small and medium enterprises in Slovakia is constantly updated, although it cannot be considered fully satisfactory. The basic elements support system is made up of ministries especially the Ministry of Economy, Slovak Guarantee and Development Bank and the National Agency for Small and Medium Enterprises (NADSME).

The general form of small and medium enterprises (SMEs):

- a) Financial support – in the form of non-repayable grants, various warranty programs PHARE and etc.
- b) National and sectorial development programs (tourism, energy saving, etc.)
- c) Funds for selected institutions to support foreign trade, export financing, etc.
- d) Specific support programs (training, education, counselling)
- e) Advice for Family Business
- f) National Regional Development Plan focused on the development of families in the regions job creation, to use people's skills, etc.
- g) Activities to promote education and self-assertion are to remove subjective barriers to business.

THE COMPETITIVENESS

DEFINITION

At this stage, it is important to shift attention to regional competitiveness, a term which has been used more rarely, and that has been defined more poorly. As a starting point, a definition for regional competitiveness comes from the Sixth Periodical Report on the Regions:

“[Competitiveness is defined as] the ability to produce goods and services which meet the test of international markets, while at the same time maintaining high and sustainable levels of income or, more generally, the ability of (regions) to generate, while being exposed to external competition, relatively high income and employment levels’.” And “In other words, for a region to be competitive, it is important to ensure both quality and quantity of jobs” [*The Sixth Periodic Report on the Regions*, 1999].

The European Commission, in setting out the challenge to define a concept of regional competitiveness, states that “[The definition] should capture the notion that, despite the fact that there are strongly competitive and uncompeti-

tive firms in every region, there are common features within a region which affect the competitiveness of all firms located there”.

There are different views on the expression of the competitiveness of regions and territories and also many approaches to the very nature of existence and competitiveness of the territories, regions and nations.

The concept of regional competitiveness is increasingly appearing in the assessment of the economy, reached the standard of living and prosperity of its people. Based on the definition according to EU competitiveness, regional competitiveness describes the ability of regions generate income and maintain employment levels in the national and international competition.

FEATURES OF REGIONAL COMPETITIVENESS

The main objective of regional development is to increase prosperity in the regions by examining the determinants and tools that can contribute to increasing growth and regional competitiveness. Regional competitiveness is therefore closely linked to four main factors that are closely linked:

- The structure of economic activities,
- Level of innovation,
- Degree of accessibility of the region,
- Level of education achieved by the workforce.

In defining the factors that determine the competitiveness of the region can build on Porter's approach [Ručinská, 2008 (<http>)]. According to him a source of competitiveness of the three types of competitive advantages, that divided the economy:

- Economics and cost-oriented the factors of production,
- Economy-oriented investments,
- The innovation-oriented economy.

Regions oriented to the production or cost factors compete through low cost, thus cheap production factors, regions oriented investment compete with other regions through the range of costs, improving productivity and increase efficiency. In regions oriented innovation to produce new technologies and activities are focused on producing innovative products and services.

THE EVALUATION OF THE REGIONAL COMPETITIVENESS

According to the analytical work *Monitoring of Competitiveness in Slovak Regions* published by Karol Morvay and Ján Marušinec in 2009, there are main ideas from this analysis.

They were working with four pillars in the evaluation of regional competitiveness. The first pillar is called “The environment for development of sophisticated economic activity”. It is focused on preconditions for innovation and

sophisticated economic activity on regional level. The second pillar called “Output and Employment” is focused on the dynamics of output (investments as basis for future output increase) and employment. The third pillar is called “Productivity and Labour Costs”. From the aspect of competitiveness it is in contrary to the first pillar. Factors like industrial productivity, the relation between wages and productivity as well as level of labour costs are distinctive indicators used in predominantly industrial period of development. The fourth pillar is called “Environment for Small and Medium Enterprises” and it includes factors which create the potential for SME development and expansion.

Each of these above mentioned pillars is affected by several parameters which have different value in the evaluation. The result of this work is evaluation of the pillars and the summative assessment. However, the summative assessment should to be understood illustrative, not strictly.

The pillar “Environment for Small and Medium Enterprises” was described by parameters: “The level of urbanization”, “The dynamics of turnover in selected services”, “The number of enterprises”, and “The number of entrepreneurs”. The indicators do not reflect the results of the action of factors of competitiveness, but a chance to reflect on their occurrence. For the needs of our work we present only the evaluation of the pillar IV.

Table 3. The evaluation of the pillar IV (points)

The pillar IV			
Region	2001 (three parameters)	2004	2008
Bratislava	1,69	2,19	1,79
Trnava	0,69	-0,59	-0,05
Trenčín	0,76	1,14	-0,12
Nitra	0,64	-1,65	1,25
Žilina	0,70	-0,46	0,63
Banská Bystrica	0,73	0,37	1,25
Prešov	0,62	0,36	0,20
Košice	0,73	2,17	0,78

Source: Monitoring of Competitiveness in Slovak Regions.

Bratislava region remained on the first rung, despite the drop point score. The decrease was associated with a worsening of the relative position of counties in parameters dynamics of turnover in selected services and the number of entrepreneurs. Of course, high scores are pumped region of the parameter level of urbanization and number of enterprises (logically the presence of capital).

Trnava region finished seventh partition. The score of the region in comparison with 2004 has increased considerably. More significantly, however, was mainly the result of a negative growth in dynamics of turnover in selected services.

Trenčín region in the period 2004–2008 saw the largest drop: get out of third place at last. The negative development score was associated with parameters the dynamics of turnover in selected services and the number of enterprises.

Nitra region passed an opposite trajectory as Trenčín region: from the last partition in 2004, got the second in 2008. This happened thanks to a very significant change in assessing the dynamics of turnover in selected services, and evaluation of number of enterprises. The region is disadvantaged by very low level of urbanization.

Žilina region (5th place) recorded the stagnation of the three parameters: only score in the dynamics of turnover in selected services have been varied.

Banská Bystrica region together with the Nitra region are on the second place in the pillar IV. Banská Bystrica region obtained at this pillar of their favourable ratings. Crucially it has caused a high score for the dynamics of turnover in selected services.

The sixth rung of Prešov region is determined by adverse developments in the dynamics of turnover in selected services, the lowest number of enterprises in the conversion per capita and a low level of urbanization.

Košice region descended on pillar IV from the second partition in 2004 to fourth in 2008: in addition to stagnant points for degree of urbanization, the state point in all parameters deteriorated. This region has, however, the lowest number of points in the parameter number of entrepreneurs. This means the minimum number of businesses-individuals, calculated per capita [Morvay, Marušinec, 2009 ([http](http://))].

CONCLUSION

- Small businesses are an important part of the Slovak economy, while the gross domestic product or value added accounts for about sixty percent.
- Their importance lies in the economy that are driving power of its development, particularly its flexibility in adopting and using the most progressive technologies, creating jobs and growth as the main initiator of living population.
- With the entry of Slovakia into the European Union also increased demands on the sector of the national economy due to high competition in the European market.
- Only products and services of high quality which can satisfy the increasing demands customers are able to enforce a highly competitive EU single market.
- Therefore, the permanent innovation activity of enterprises as a key instrument to achieve competitiveness appears to be necessary.
- The Government in its policy statement in the economic sphere established one of the main tasks of promoting entrepreneurship and competitiveness and

The Government committed to improving the business environment, simplify access to business, particularly by simplifying the administrative process.

- One of the main instruments of the institutional support for small and medium enterprises is the National Agency for Small and Medium Enterprises, which aim is to expand its programs to enable the growth of the technological level of Slovak production and its quality.
- Overall, more than half (54%) surveyed SMEs carried out for customer service innovation, either by introducing a completely new service or significantly by improving existing services for customers.
- Small and medium enterprises as the most common supplier of solutions for their own innovations reported their own developmental centers.
- Most SMEs are brought together in the Slovak Chamber of Commerce and Industry Chamber.

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Summary

The study presents problems of small and medium-sized enterprises' development in Slovakia. There were discussed specific conditions for the SME's functioning at both national and regional level. The market competition as well as state interventionism were taken into account. The influence of the SMEs on the Slovak economy was described in details.

Znaczenie rozwoju MSP w uwarunkowaniach konkurencji regionalnej na Słowacji

Streszczenie

W opracowaniu zaprezentowano problemy rozwoju małych i średnich przedsiębiorstw na Słowacji. Przedstawiono specyficzne uwarunkowania dla funkcjonowania MSP na poziomie krajowym i regionalnym. Uwzględniono zarówno konkurencję rynkową, jak i państwowy interwencjonizm. Szczegółowo opisano znaczenie MSP dla gospodarki Słowacji.