

ECONOMIC CHARACTERISTICS OF SMES IN SLOVAKIA AND IN CZECH REPUBLIC

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Abstract

The paper focuses on highlighting the importance of small and medium-sized enterprises in the European Union as well as in Slovakia and the Czech Republic. We have documented their significant place by computing selected indicators that have a high level of ability to express the power and significance of this segment of the business sphere. Among the selected indicators we included: the size and size structure of SMEs, employment in SMEs, the share of SMEs in value added and the export performance of SMEs. By using scientific data sorting methods, we divided the article into 4 chapters that formulate the speech objectives of the synthesis by the synthesis method. By using mathematical and graphical methods, the results are clearly shown in charts and tables. The rapid growth of SMEs in our conditions was recorded in 1991/92 and their birth was conditioned by several factors: the gradual breakdown of large state-owned enterprises in the process of the first wave of large privatization and the emergence of a larger number of SMEs, the return of property to citizens in restitution, and the emergence of a larger number of SMEs with foreign ownership.

Key words

Small and medium-sized enterprises, number of SMEs, employment, added value, export performance

JEL Classification: D0, D20, F11

Introduction

Small and medium-sized enterprises are traditionally referred to as the pillar of the market economy or as an important building block for a well-functioning economy. In this part of the contribution, we will clarify the truth of these claims, as we will highlight the importance of SMEs in terms of their number, share in employment, value added and show their involvement in international trade.

From the territorial point of view, apart from Slovakia and the Czech Republic, we will also focus on the EU as a whole, assessing the values of selected economic indicators, indicating trends in their development and comparing the results we calculated. Our analysis period covers the years 2010 to 2016, with the exception of the analysis of the territorial structure of SME exports which, due to unavailability of up-to-date data, will only be applied until 2013. From an economic point of view, we will characterize SMEs using the following indicators:

- the size and size structure of SMEs,

- employment in SMEs,
- the share of SMEs in value added,
- export performance of SMEs.

1 Size structure and SME size

In terms of size structure, we mean the share of individual size classes of SMEs in the total number of enterprises in the country (Strážovská et al., 2016). It is "a basic quantitative indicator that reflects the overall quality of the conditions for doing business." (Report on the state of the SME 2012 page 126). The data point to the fact that out of a total of 22 mil. entrepreneurial entities operating in the non-financial business economy within the EU 28 accounted for 99.8% of SMEs. Representation of micro-enterprises reached 92.8% in 2015, small enterprises 6.0% and medium-sized enterprises 1.0% (Horvátová, Gregová, Hrašková, 2012).

Table 1. Size structure of the SME segment - the share of micro, small and medium-sized enterprises in the total number of enterprises in Slovakia, the Czech Republic and the EU in 2015

| Size category | SR | | ČR | | EÚ | |
|---------------|---------|-------|-----------|-------|------------|-------|
| | Number | Share | Number | Share | Number | Share |
| Micro | 515 236 | 96.9% | 1 096 736 | 96.1% | 21 356 252 | 92.8% |
| Small | 12 984 | 2.4% | 35 379 | 3.1% | 1 378 702 | 6.0% |
| Middle | 2 843 | 0.5% | 6 847 | 0.6% | 224 647 | 1.0% |
| MSP together | 531 063 | 99.9% | 1 138 963 | 99.8% | 22 959 600 | 99.8% |

Source: own processing

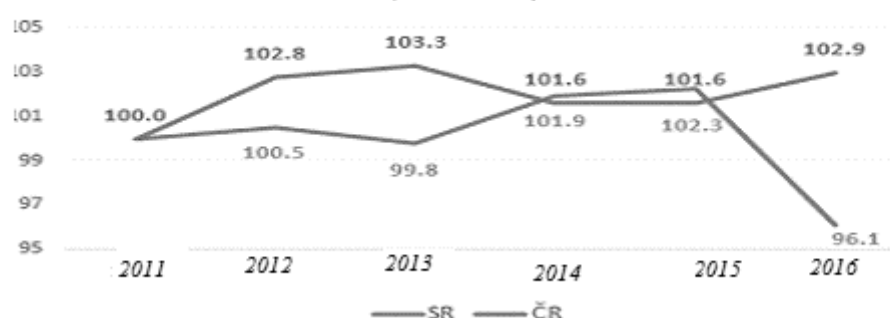
Note: The data presented in the table show some methodological differences that have to be taken into account in the comparison. EU 28 data are compiled according to Eurostat's methodology for Structural business statistics and cover the non-financial business economy sectors.

The size structure of enterprises in the Slovak Republic and in the Czech Republic is very similar to the size structure of the business sector in the EU countries. In both cases, SMEs create for more than 99% of all enterprises (99.9% in the SR, 99.8% in the Czech Republic and in the EU 99.8%). The main difference between the Slovak Republic and the Czech Republic on the one hand and the EU on the other hand is the share of micro-enterprises and small enterprises in the business sector. Average EU values refer to the lower representation of micro-enterprises compared to Slovakia and the Czech Republic (about 4 pp) and higher share of small enterprises (by 3 to 3.5 pp). In the year 2016, 531,000 SMEs in Slovakia, of which more than 96% were micro-enterprises, represent, in absolute terms, 515,236 entrepreneurial subjects. The share of small enterprises was only 2.4% (12 984 subjects) and medium enterprises accounted for only 0.5% of all enterprises (2 843 subjects). The size structure of enterprises in the Czech Republic is

very similar to Slovakia, 96.1% of enterprises in 100 are microenterprises, 3.1% of enterprises in the Czech Republic for each size category are roughly twice as many companies as compared to Slovakia (Veber, Srpová, et al. 2005). From the point of view of SME development, we can see that there was a fluctuating trend in their development between 2011 and 2016. In Slovakia, we can see a significant year-on-year decrease in the number of SMEs till to 2017, which was "mainly due to the introduction of a new methodology by the Statistical Office of the Slovak Republic for determining the activity of the entity." (SME in Numbers 2015, page 7). In this year, the number of SMEs accounted for only 96.1% of 2010. In the Czech Republic, the number of SMEs did not fall below the level of the base year in 2012. In this year we can see the year-on-year increase in the number of SMEs compared to the base period and the number of SMEs increased by 2.9% (in absolute numbers it was roughly 32 000 business entities).

Fig. 1. Trend of SME Growth in Slovakia and Czech republic (2012 = 100)

Graph 2: Trend of SME Growth in Slovakia and the Czech Republic (2012 = 100)
(2012=100)

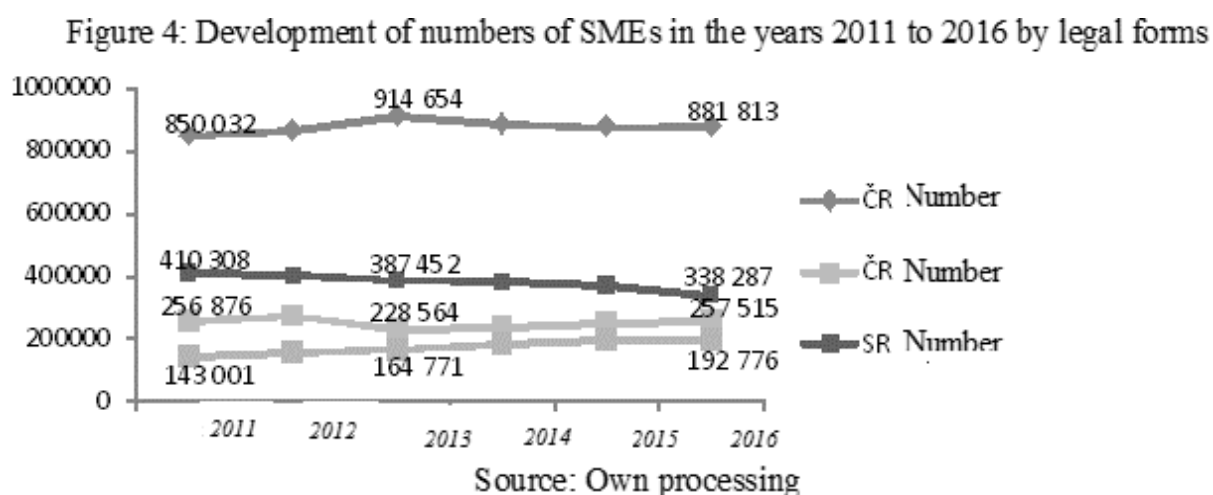


Source: Own processing

The development of SMEs can also be seen in terms of legal forms of business. In the period 2012-2016 the number of legal entities (hereinafter referred to as "natural persons = NPs") in the SR increased and the number of SMEs of individual NP) decreased. The number of SME legal persons=LPs increased from 143,001 entities to 192,776 entities, an increase of 34.8%. The average annual rate of increase in the number of SMEs in the legal entities in 2013 to 2016 was 6.16%. On the contrary, the number of SMEs in the SR decreased in the monitored period. Every year, their number decreased by 3.79% on average. The

drop in NP of entrepreneurs is related mainly to the trend of decreasing the number of tradesmen in the SR. In the case of the Czech Republic, we can also observe the developmental tendency of the number of SMEs in terms of legal form. In 2016 we see a year-on-year increase in the number of business entities in both categories. For the whole of the period under review, the number of SMEs was increased by an average of 0.50% per year, while the number of SMEs NP grew similarly at a low rate on average by 0.74% per year.

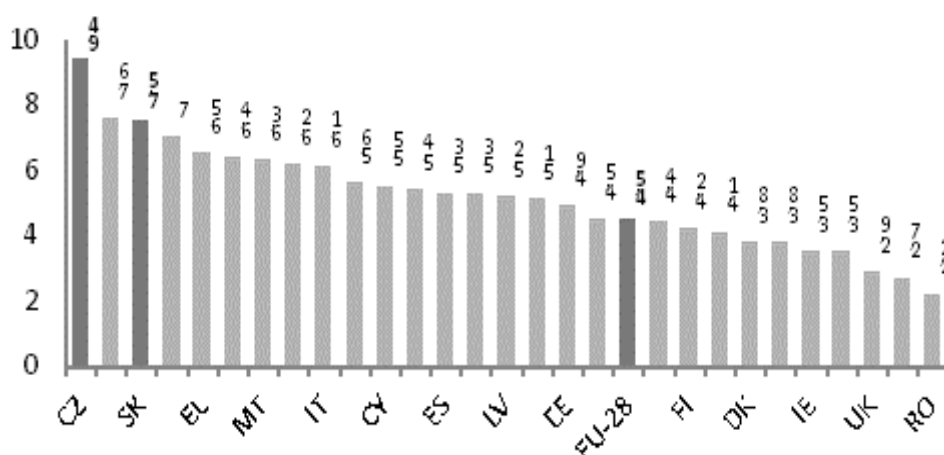
Fig. 2. Development of numbers of SNEs in the years 2011 to 2016 by legal forms



A fascinating view of the number of SMEs is also provided by the following graph, which shows the number of SMEs per 100 inhabitants in each EU country in 2016. The Czech Republic ranks first with 9.4 SMEs per 100 inhabitants. Slovakia did not

hesitate for it and ranked third with 7.5 SMEs per 100 inhabitants. The EU average is well below these values, with about 4.5 micro, small and medium-sized businesses in the EU accounting for every 100 inhabitants.

Fig. 3. Number of SMEs per 100 inhabitants in EU countries in 2016



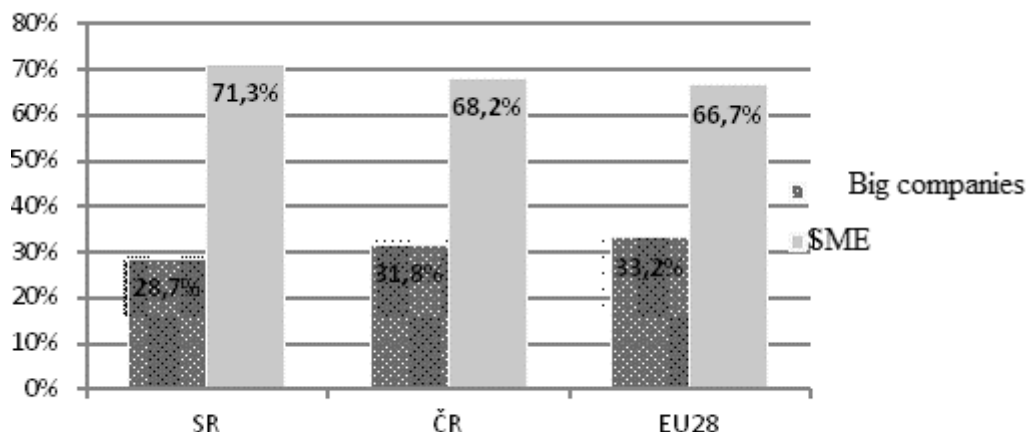
Source: Own processing according Annual Report on European SMEs 2016..

2 Employment Characteristics in SMEs

The importance of the SME segment for the economy can be also supported by data on the SME share of employment. (Belanova, 2013) In 2016, small and medium-sized enterprises in the Slovak Republic provided 71% of employment in the business

economy, in the Czech Republic this share was only slightly lower and reached 68%. The average employment in the SME segment in the EU in 2010 reached 67%, ie by 3 pp. less than in the SR.

Fig. 4. Share of SMEs in employment in the corporate economy in 2016



Source: own processing on the basis of data from the SME database Interactive

Employment developments within the SME sector showed a very similar trend in the countries surveyed. By 2013 there was a slight increase and a consequent decrease in employment, but then the

employment in SME started to grow and in the year 2016 it reached 103.8% in relation to basic, base year 2011, in the Czech Republic it was 101.8%.

Fig. 5. The trend of employment development in SMEs between 2011 and 2016 in Slovakia and the Czech Republic



Source: own processing based on MIT data - "Small and Medium Business Development Report 2015" p. 8 and SMEs in figures in 2015, p. 32

3 Added value of SMEs

The added value of the company is defined by the Slovak economist Lisy as "the difference of gross production and costs of the company expended for the

purchase of raw materials, materials, services, energy (ie intermediates) from other companies." (LISÝ, J. et al. Adding the added value produced by all business entities operating in the territory of a given country we receive a gross domestic product (GDP) as the macroeconomic variable. (Šúbertová, Kinčáková,

2014) In this part of the contribution we will show to what extent the contribution of the SME to the generated added value in the SR and the Czech Republic, ie the GDP, and the development trend of this indicator in the years 2011 to 2016 .

In 2015, the share of micro-enterprises in value added creation in the Slovak Republic was 27%, the share of small enterprises 13.5% and the share of medium-sized enterprises 16.8%. The sum of the added value created by these business segments represented 57.3%. In the EU, this share was almost

identical in 2015 when it reached 57.4%. In the Czech Republic, the value of this indicator was the lowest and reached 54.9%. Just as we have seen the prevalence of microenterprises in the number and employment of SMEs, we are seeing a similar phenomenon even in the case of added value. Here, however, the difference between size categories is not very significant (micro-enterprises share 41.1% of employment in the SR, 96.9%, the added value is just 27%).

Fig. 6. Share of individual enterprise size categories to added value added in the SR, CR and EU28 in 2016

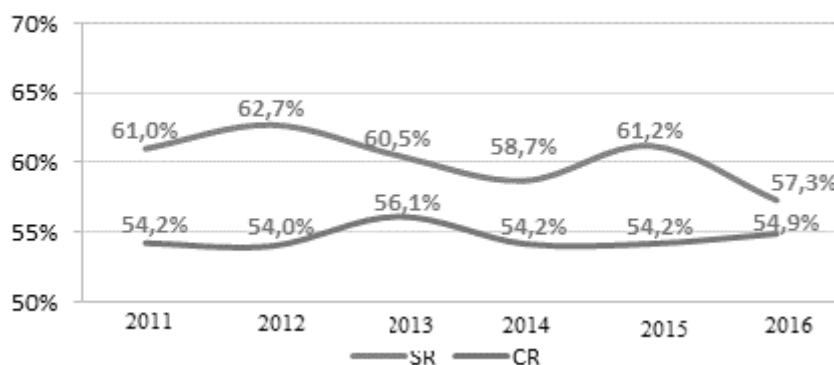


Source: own processing on the basis of the 2016 SBA Fact Sheet

From the point of view of the trend of the development of the added value of SMEs in the years 2011 to 2016, we see decreasing fluctuations around 60% in Slovakia. Compared to 2011, this indicator decreased by 3.7 pp. In the Czech Republic, the share

of the added value of SMEs in the period under review was not significantly changed. Excluding 2012, when it rose to 56.1%, it reached values ranging from 54% to 54.9%. This trend is clearly illustrated in the following chart.

Fig. 7. Share of value added SMEs in 2010 - 2015 in Slovakia and the Czech Republic



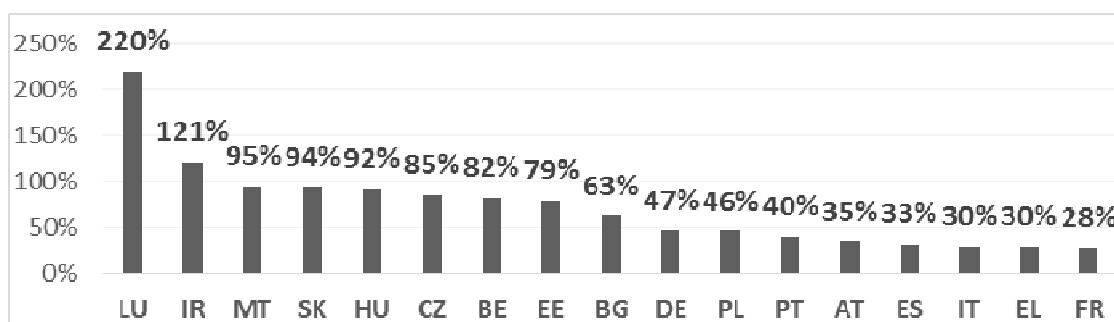
Source: Slovakia SBA Fact Sheet and Report on the development of small and medium-sized enterprises and their support in 2015 p. 9

4 Export performance of SMEs

Foreign trade and the involvement of SMEs Production in foreign trade are important factors of economic development. This is especially true for small economies with a limited internal market scope, such as Slovakia and the Czech Republic, characterized by high openness and pro-export orientation. Export performance of the Slovak

economy, measured as the share of exports of products and services to GDP at current prices, and reached 93.8% in 2016, the overall openness of the Slovak economy, which we measure "the share of foreign trade turnover in GDP at current prices, reached 2016 185.2%." In the Czech Republic, exports of goods and services reached 85% of GDP in 2016, the overall openness of the economy was 165% of GDP. Notably, Luxembourg and Ireland are the most pro-export-oriented countries in the EU.

Fig. 8. Export performance of European countries

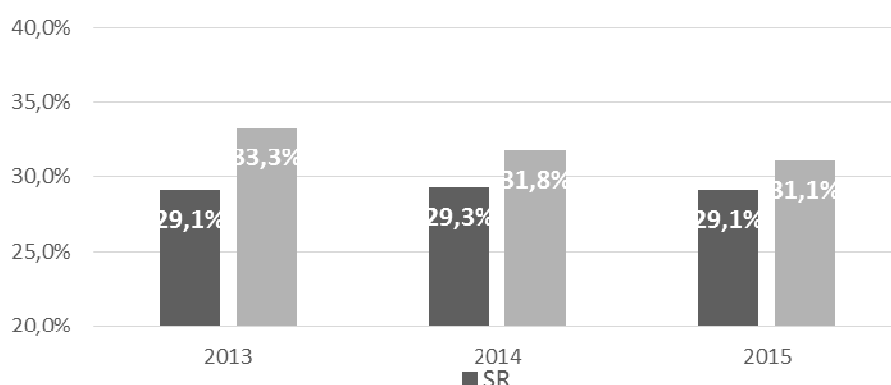


Source: own processing according to *Macroeconomic Analysis - theory and practice*

In the previous part of the paper, we highlighted the irreplaceable role of Czech and Slovak SMEs in job creation, more than two thirds of the active labor force in the business economy, with a high share in the added value or share of all entrepreneurial entities

in both countries 99%. In terms of export performance, however, both large companies maintain a dominant position in both countries. (Synek M., Kislinger, E., et al., 2015).

Fig. 9. Share of SMEs on exports in Slovakia and the Czech Republic (2013, 2014, 2015)

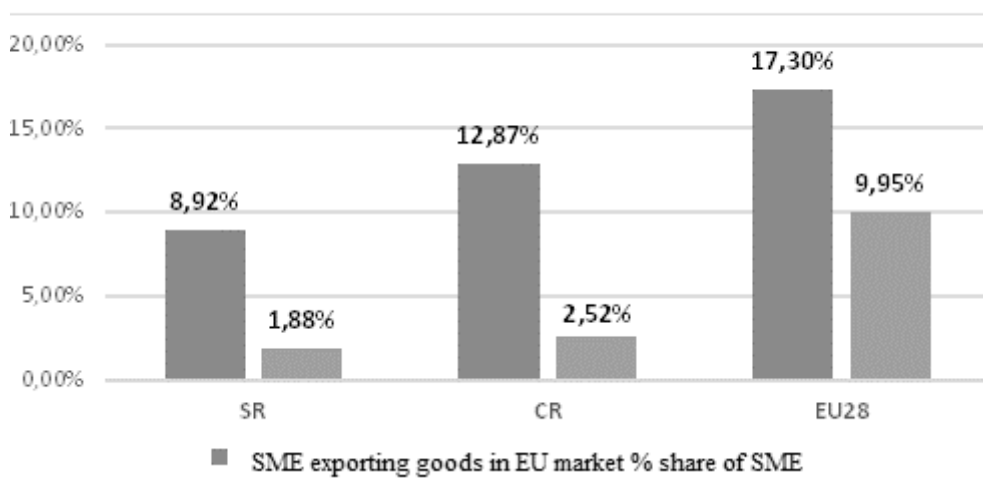


Source: own processing according to "Report on SME Development and its Support in 2015", p.11 and "The Position of Small and Medium-Sized Enterprises in Foreign Trade of Slovakia in 2015", p.8

The trend of export development of Slovak SMEs is stable and in the monitored period its share in the total volume of exported goods ranged from 29.1% to 29.3%. In 2015, this share was 29.1%, with a year-on-year decline of 0.2 p.b. The share of exports

of Czech SMEs to the total volume of exports shows a decreasing trend over the monitored period when their value decreased from 33.3% in 2013 to 31.1% in 2015.

Fig. 10. Percentage of SMEs exporting goods within EU and non-EU countries in 2013

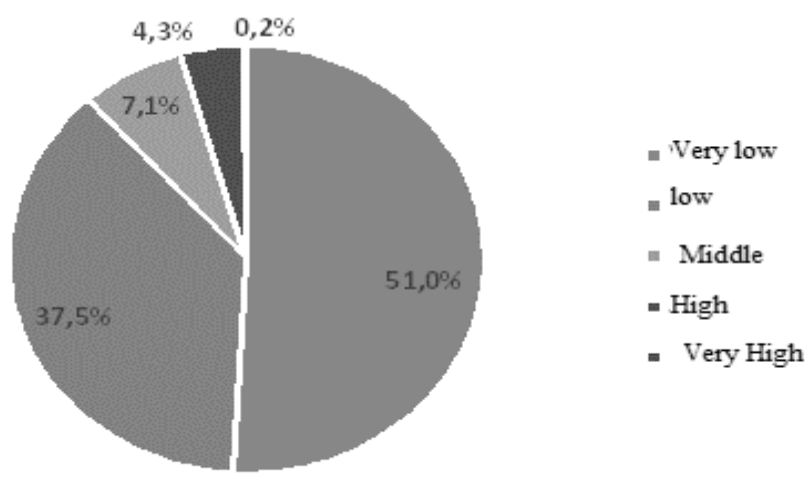


Source: 2016 SBA Fact Slovakia a 2016 SBA Fact Sheet Czech Republic

This graph presents the territorial aspect of the export of SMEs in Slovakia, the Czech Republic and within the EU countries. Of the total number of Slovak SMEs, only 8.92% of the enterprises exported goods to EU countries in 2013 and only 1.88% of all SMEs exported goods to third countries. These values are lower than the values measured for the Czech Republic and significantly lower compared to the average European values. We can say that only 10.8% of Slovak SMEs (8.92% + 1.88%) export goods abroad, while in the Czech Republic it is 15.39% of SMEs and in the EU 28 even 27.25%, which is almost triple compared to Slovakia and almost twice the

value for the Czech Republic. In general, the weaker SME export orientation compared to large enterprises is justified by the fact, that most SMEs operate in sectors of the economy that are not traditionally considered to be proexport oriented. In this context, the Report is divided the sector by intensity of export into five categories: sectors with very low to highly export-intensive sectors. The results of this report, which are presented in the following chart, point to the fact, that up to 88.5% of total employment in the SME segment in the EU is for sectors with very low or low export orientation.

Fig. 11. Share of employment of SMEs according to the degree of export intensity of the sectors



Source: Annual Report on European SMEs 2015/2016, p. 36

Conclusion

Small and medium-sized enterprises have traditionally attributed a large amount of benefits to the economy. Their importance transcends regional or national borders and is at a transnational level, so the importance of SMEs is not only the EU that recognizes it in a number of documents, whether it be the European Charter for Small and Medium Enterprises or the Small Business Act for Europe. These documents characterize small and medium-sized enterprises as "the basic economic support of the EU, but also as a key source of employment. In addition to these aspects, SMEs attribute a high innovation and development potential. The economic

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