

Eniko Korcsmaros<sup>1</sup>, Monika Simonova<sup>2</sup>

## BARRIERS TO SMES DEVELOPMENT

*The main objective of this research is to explore the correlation between the barriers in the business sector and the nature of economic sector in which business operates. Based on the analysis of the collected primary data, recommendations on future development of enterprises are formulated.*

*Keywords: small and medium-sized enterprises; barriers to development; Slovak Republic; Nitra region.*

*Peer-reviewed, approved and placed: 15.08.2016.*

## Енікьо Коршмарос, Моніка Шимонова БАР'ЄРИ НА ШЛЯХУ РОЗВИТКУ МАЛОГО ТА СЕРЕДНЬОГО БІЗНЕСУ

*У статті досліджено кореляцію між бар'єрами в бізнес-секторі та особливостями ведення бізнесу в цілому. На основі аналізу первинних даних розроблено авторські рекомендації щодо розвитку підприємств з урахуванням бізнес-бар'єрів.*

*Ключові слова: малі та середні підприємства; бар'єри розвитку; Словаччина; регіон Нітра. Рис. 3. Табл. 2. Літ. 13.*

## Эникё Коршмарос, Моника Шимонова БАРЬЕРЫ НА ПУТИ РАЗВИТИЯ МАЛОГО И СРЕДНЕГО БИЗНЕСА

*В статье исследована корреляция между барьерами в бизнес-секторе и особенностями ведения бизнеса в целом. На основе анализа первичных данных разработаны авторские рекомендации по развитию предприятий с учётом бизнес-барьеров.*

*Ключевые слова: малые и средние предприятия; барьеры развития; Словакия; регион Нитра.*

**Introduction.** Small and medium-sized enterprises are the catalysts of any developed economy. Among the benefits these enterprises represent their ability to adapt quickly to changing market conditions, which can be implemented due to their simple organizational structure and close personal relationship with employees, as well as customers. Among the socioeconomic benefits of small and medium-sized enterprises their ability to generate workplaces should also be mentioned.

**Literature review.** In the context of this research problem first we need to address the definition of small and medium enterprises as such. Further, the theoretical background of disadvantages and barriers to SMEs will be identified.

It is generally known that the benefits of SMEs are reflected mostly at the regional level, as entrepreneurs invest their capital to make profit, which significantly contributes to economic development of a region and shapes its business environment. Performance of businesses is affected by various social and economic factors. Taking into account the regional aspects of business environment it can be assumed, that region's development depends on the specific features its of business environment, placing emphasis on its improvement. A well-developed business environment is essential for the development of Slovakia and its regions, as it contributes to market

<sup>1</sup> J. Selye University, Komarno, Slovak Republic.

<sup>2</sup> J. Selye University, Komarno, Slovak Republic.

economy growth. Considering these facts, the role of the state is to support and create conditions for entrepreneurship. Interaction of regions and SMEs requires the existence of institutions supporting regional development. These institutions are to help SMEs in various situations.

With an effect from 1 January 2005 European Commission recommendation 2003/361/EC is applied, also for institutions in Slovakia. The purpose of categorization was to increase the chance of enterprises for obtaining grants from national and structural funds to support SMEs and innovation, improve access to research and development options, considering different relations between the enterprises. This new categorization has brought in a new concept, the concept of microenterprise – "category of small enterprises particularly important for business development and job creation" (Odporučanie komisie 2003/361/ES, www.sazp.sk). Microenterprise is defined as an enterprise which "employs fewer than 10 people and whose annual turnover and/or annual balance sheet total value does not exceed 2 mln EUR".

Quantitative criteria for categorization of SMEs in the EU since 1.1.2005 (Nova definicia malych a strednych podnikov, 2006, ec.europa.eu) are as follows:

- a) number of employees;
- b) annual turnover;
- c) annual balance sheet total.

Considering the number of employees it is important to stick to limits, but SMEs can choose whether to comply with the maximum level set for either annual turnover, or the annual balance sheet total as it does not have to meet both criteria (it can exceed 1 limit without losing its status). If an enterprise exceeds the maximum value per number of employees and financial indicators for two consecutive reference years, it will lose its position in the category of SMEs and will fall into a new category.

*Table 1. Quantitative criteria for categorization of SMEs in the EU since 1.1.2005 (Nova definicia malych a strednych podnikov, 2006, ec.europa.eu)*

Enterprises	Number of employees	Annual turnover, mln EUR	Annual balance sheet total, mln EUR
<b>Microenterprise</b>	to 10	2	2
<b>Small enterprise</b>	to 50	10	10
<b>Medium-sized enterprise</b>	to 250	50	43

Barriers to development of small and medium-sized enterprises can be categorized on the basis of different aspects. In terms of time we can distinguish long- and short-term barriers to business development. As long-term barriers, the lack of infrastructure and inappropriate funds contribution can be mentioned. A typical short-term barrier example is conversion from the euro to other currencies. Considering the roots of barriers to business development objective (e.g., financial crisis) and subjective (e.g., poorly defined sales strategy) barriers can be distinguished (Belas et al., 2015).

According to E. Subertova, barriers affecting SMEs can be divided into external and internal factors. External factors are barriers outside the company. Internal factors are connected with the nature of business and form the internal environment of the company. The most common internal barrier is the relationship between the owner and management (Subertova et al., 2014).

Despite considerable benefits of SMEs, we can also recognize some barriers they face. J. Srpova summarized the barriers SMEs face as follows (Srpova et al., 2010):

a) negative social perception of entrepreneurs – entrepreneurs often blame the media which puts very little the emphasis on promoting examples of successful entrepreneurship;

b) poor access to capital – SMEs find it difficult to obtain a loan to finance their long-term strategic plans;

c) entrepreneurship training – SMEs are convinced that education system does not place an appropriate emphasis on entrepreneurship;

d) limited innovative capacities and low spending on R&D despite the fact that SMEs provide high number of innovations;

e) administrative burden – bureaucracy is reported to be one of major obstacles faced by SMEs.

In addition to these factors hindering SMEs in their development, sometimes mention non-functional legislation and judiciary. They argue that the growing number of SMEs in the 1990s also increased legislative requirements to them. Thus, a large number of new rules and regulations were created to ensure market economy functioning, but its enforcement and compliance has no sufficient standards, lawsuits are often ineffective (Belas et al., 2014; Popesko et al., 2016).

Barriers to SMEs M. Sobekova-Majkova (2011) development divided into two groups, whether the disadvantages result from the nature of an enterprise or specific business conditions in Slovak Republic. A substantial part of the disadvantages arising from the nature of SMEs lead to limited access to financial sources (business loans) which is caused by high-risk nature of SMEs and their limited liability. Among problems arising from specific conditions of entrepreneurship in Slovakia, the author ranked high the burden of SMEs, the often changing and non-transparent legislation and also the non-functioning capital market.

Barriers may hinder businesses from expansion, that may cause the disappearance of an enterprise as such. Failure of business can also be caused by insufficient analysis of the market, poor of quality products, inefficient handling of funds, underestimation of competition, lack of managerial skills (Belas et al., 2015; Korcsmaros et al., 2016).

**Problem statement and research objective.** The main objective of our primary research is the verification of the formulated research question, i.e.: Can significant correlation be demonstrated between the severity of barriers in the business sector and the nature of economic sector in which the business operates?

Based on the study of literature it is possible to identify a number of barriers that prevent company's from development. It can be concluded, that various economic sectors have different character, i.e. the same potential barriers affect enterprises of different economic sectors to a different extent. The aim of the research question is to highlight the most serious barriers in various economic sectors in order to easily identify possible solutions to mitigate the barriers in the business sector.

The questionnaire survey was conducted on the sample of 496 SMEs in Nitra region. The research was conducted in March-May 2015. The submitted questionnaires had been properly coded before answers were filled into a chart with coded questions.

To verify the research question a one-way analysis of variance (ANOVA) was applied, which explores the dependence of quantitative variables from qualitative reliable, i.e. dependent reliable and one, resp. more factors. The purpose of ANOVA is to detect whether different diametres of each group in our research sample are statistically significant or could be random. It is confirmed that way that the total variability (summation of squares of differences from the mean) is divided into intra-group (random error) and inter-group (group average given by the difference).

F-statistics is calculated as the ratio of inter-group and intra-group variability and is used to test the null hypothesis concerning equal diametres. At a set level of significance ( $\alpha$ ) 5 the test statistic is clarified. Degree of significance (P-value) is the estimated probability of rejection of the true null hypothesis. The lower is the P, the more convinced we are that the null hypothesis is not true and thus should be rejected. To assess the null hypothesis we need to compare the significance level ( $\alpha$ ) and the P-value. The null hypothesis is rejected, if the set level of significance is higher than the P-value. In other cases, hypothesis  $H_0$  is confirmed (Rimarcik, 2007).

**Key results.** To recognize a correlation we must examine the relationship between interval and nominal variables (factors) for each of the pre-defined factors, barriers to the development of business environment in Slovakia. The questionnaire contains the following factors affecting the business environment development of SMEs:

- a) limited access to finance, resp. credit sources;
- b) non-transparent, complicated public procurement;
- c) high contribution burden;
- d) high tax burden;
- e) non-transparent and constantly changing legislation;
- f) poor law enforcement and slow judiciary;
- g) high administrative demand, bureaucracy;
- h) high level of corruption.

While examining the views of entrepreneurs on business environment in Slovakia,  $H_0$  hypothesis and  $H_1$  hypothesis as an opposite to  $H_0$  were formulated.

$H_0$ : There is no significant relation between the severity of barriers in the business sector and the nature of an economic sector in which it operates.

$H_1$ : There is a significant relation between the severity of barriers in the business sector and the nature of an economic sector in which it operates.

Hypotheses were analysed using one-way ANOVA (Table 2).

In case of the factors, such as limited access to finance (credit sources); non-transparent and complicated public procurement and high contributions, the P-value is less than the specified significance level (sig. > 0.05), which means that for these factors null hypothesis is confirmed, so the difference measured in our sample is random. There is no correlation between the variables. For other factors (high tax burden, non-transparent and constantly changing legislation, poor law enforcement and slow judiciary, high administrative burden, bureaucracy, high level of corruption) it is rejected and thus the alternative is confirmed, i.e. there are statistically significant differences between enterprises from different economic sectors in terms of barriers' severity, non-transparent and constantly changing legislation, poor law enforcement

and slow judiciary, high administrative burden and high level of corruption, which we have identified as the factors necessary to improve the business environment. Different economic sectors represent different opinions about the impact these factors have on business environment.

Table 2. **One-way ANOVA analysis, own research results**

Indicator		Sum of squares	Level of freedom	Average of squares	F-value	Sig. (p-value)
<b>Limited access to finance (credit sources)</b>	<b>Between groups</b>	<b>6,152</b>	<b>7</b>	<b>0,879</b>	<b>1,796</b>	<b>0,086</b>
	<b>In the group</b>	<b>216,717</b>	<b>443</b>	<b>0,489</b>		
	<b>together</b>	<b>222,869</b>	<b>450</b>			
<b>Non-transparent and complicated public procurement</b>	<b>Between groups</b>	<b>5,879</b>	<b>7</b>	<b>0,840</b>	<b>1,425</b>	<b>0,193</b>
	<b>In the group</b>	<b>261,168</b>	<b>443</b>	<b>0,590</b>		
	<b>together</b>	<b>267,047</b>	<b>450</b>			
<b>High contribution burden</b>	<b>Between groups</b>	<b>1,991</b>	<b>7</b>	<b>0,284</b>	<b>0,846</b>	<b>0,549</b>
	<b>In the group</b>	<b>148,909</b>	<b>443</b>	<b>0,336</b>		
	<b>together</b>	<b>150,900</b>	<b>450</b>			
High tax burden	Between groups	4,766	7	0,681	2,064	0,046
	In the group	146,103	443	0,330		
	Together	150,869	450			
Non-transparent and constantly changing legislation	Between groups	6,787	7	0,970	2,620	0,012
	In the group	163,962	443	0,370		
	Together	170,749	450			
Poor law enforcement and slow judiciary	Between groups	6,861	7	0,980	2,124	0,040
	In the group	204,429	443	0,461		
	Together	211,290	450			
High administrative burden and bureaucracy	Between groups	7,261	7	1,037	2,219	0,032
	In the group	207,142	443	0,468		
	Together	214,404	450			
High level of corruption	Between groups	10,015	7	1,431	2,587	0,013
	In the group	244,974	443	0,553		
	Together	254,989	450			

For the first three factors  $H_0$  is confirmed, while it is rejected in case of 5 factors, where the alternative is confirmed. Considering the research question, whether there is a significant relation between the severity of barriers in the business sector and the nature of the economic sector in which it operates, it can be said that there is a partial relation between the variables, because 5 factors from out of 8 show statistically significant relation.

While examining various factors, e.g. the potential barriers to SMEs development in Slovakia, we examined the importance of the required changes in different fields (question No. 8 in our questionnaire) to contribute to business environment improvement. We have distinguished 3 key areas (taxes and contributions, financial sources; labour law; law enforcement and corruption).

In the field of taxes, contributions and financial sources we examined the necessity of changes in the fields of legislation, taxes and contributions, accessibility of bank resources and availability of financial resources from the EU funds. Almost 80% of the respondents consider it very important to make changes in taxation and con-

tributions, since high tax and contribution burden proved to be serious barriers to SMEs development (Figure 1). Entrepreneurs have long been expressing their objections towards high tax and contribution burden. As it was published on the Internet portal of SME, the state attracts businesses to the regions with high unemployment rate by offering them tax relief, providing tax holidays to the entrepreneurs who are willing to start business in such regions. Thus measures applied are rather short-term and require entrepreneurs to invest at least 100,000 EUR in the districts with over 20% unemployment rate. It is not clear yet how much it will cost the state and which entrepreneurs would benefit from this (Trebulova, 2015).

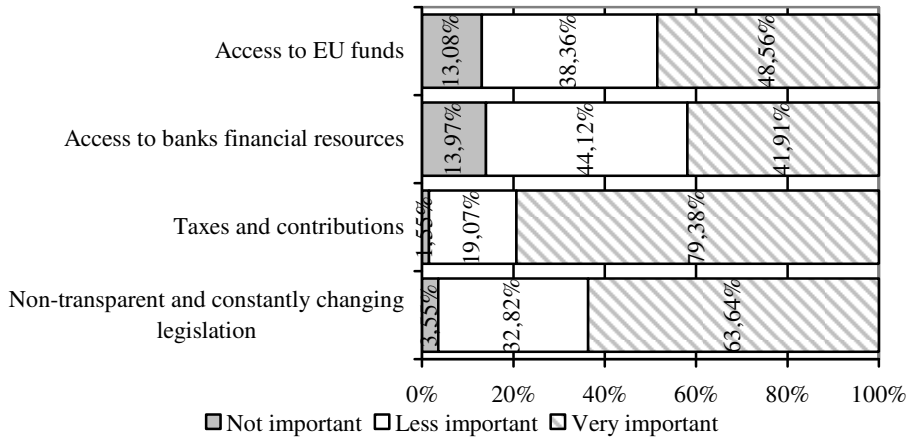


Figure 1. Opinions of the respondents about the changes in taxation, contributions and financial resources to improve the business environment, own research results

As demonstrated in Figure 1, non-transparent and constantly changing legislation is indeed an obstacle to SMEs development in Slovakia. 64% of the respondents would see changes in the mentioned field in order to improve the business environment. Entrepreneurs consider it more important to achieve, than to make accessibility to financial resources from banks or availability of financial resources from the EU.

In the area of labour law it would be necessary to make changes in the Labour Code concerning staff recruitment (43.02%). The respondents dislike the most the administrative burden that hinders the recruitment process. Changes of this type have been mainly emphasized by microenterprises. Less important and not important at all were considered the changes in collective bargaining, Act 311/2001 Labour Code, Chapter 10. In labour relation there was a significant change in January 2013 when obligatory contribution was introduced for the employees with labour agreement, since earnings without contributions are considered to be non-standard. Equalization of labour conditions is also reflected here as 49.89% of the respondents found it less important to realize further changes in equalization of labour conditions and 22.84% declared these changes are not important at all.

For each category of the third main area of factors affecting business environment, e.g., law enforcement and corruption, the respondents clearly agreed that changes are important.

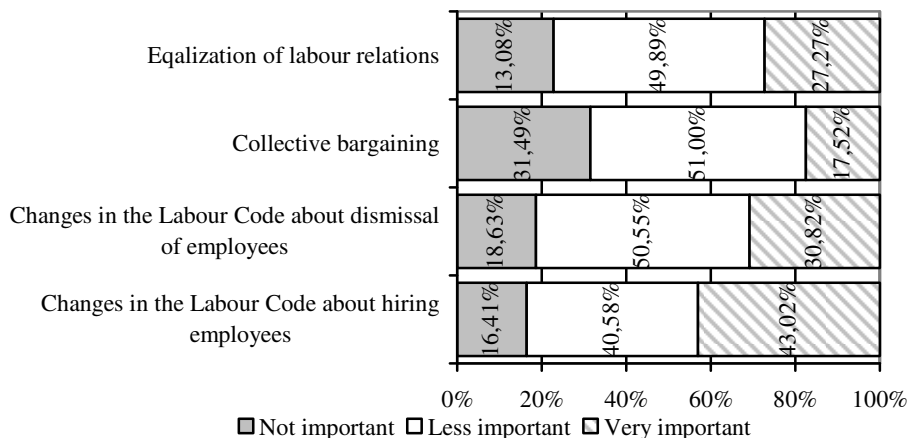


Figure 2. Opinions of the respondents about changes in labour law issues to improve the business environment, own research results

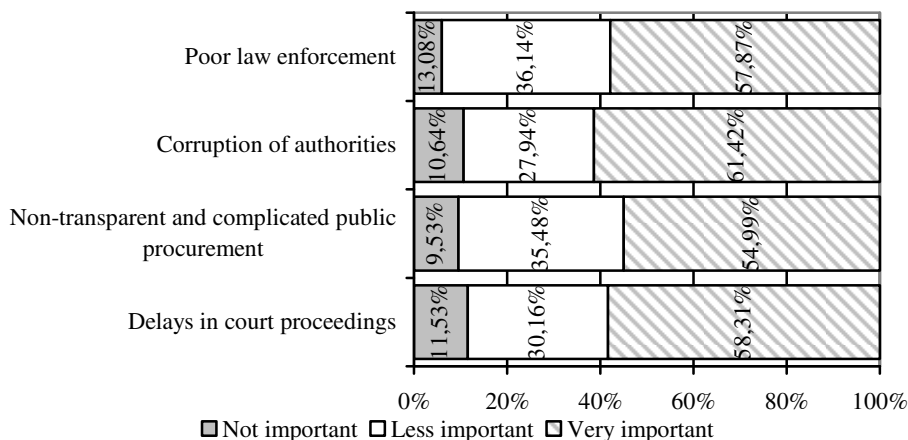


Figure 3. Opinions of the respondents on implementing changes in law enforcement and corruption fight to improve business environment, own research results

Enterprises involved in our survey found the most important the need of changes related to corruption of authorities (61.42%). The necessity of changes in this area is also emphasized by the Index of business environment in Slovakia for the fourth quarter of 2015 and by the research conducted by Transparency International, which evaluates the level of corruption in 175 countries on a scale from 0 to 100, where 0 indicates highly corrupt economy and 100 – economy without corruption. The Corruption Perceptions Index (CPI) 2015 shows that Slovakia and Hungary have the highest level of corruption among the V4 countries. Slovakia and Hungary are ranked the 50th out of 175 countries in international statistics (Poland – 30th, Czechia – 37th) and gained 51 points (Corruption Perception Index, 2015). Time-consuming court proceedings also require changes according to 58.31% of the respondents.



Figure 3 shows that over more than half of the SMEs (52.55%) found slow judiciary and poor law enforcement to be a serious barrier.

**Conclusion.** We have examined here the severity of barriers to SMEs development. Applying one-way analysis of variance, the defined barriers to SMEs development are the following: high tax burden, non-transparent and constantly changing legislation, poor law enforcement and slow judiciary, but also administrative burdens, bureaucracy and high level of corruption. In order to make administrative processes more effective, we propose to expand possibilities to decrease the bureaucratic burden on SMEs by establishing contacts with regional support institutions, to use their programmes and services. Centres for Labour and post offices would provide more possibility for entrepreneurs to help with basic tasks concerning taxation, social insurance, information about the most advantageous support programmes, which would help in implementation of their plans. Reorganization of taxation system and ease of legislative burden are also vital.

#### References:

- Belas, J., Bartos, P., Habanik, J., Novak, P.* (2014). Significant attributes of the business environment in small and medium-sized enterprises. *Economics and Sociology*, 7(3): 22–39.
- Belas, J., Bartos, P., Kljucnikov, A., Kozubikova, L.* (2015). Significant determinants of business environment in the segment of small and medium-sized enterprises. *Scientific Paper of the University of Pardubice, Series D: Faculty of Economics and Administration*, 22(35): 5–17.
- Belas, J., Sipko, J., Bilan, Y.* (2015). Regional Aspects of Business Environment Creation in the SME Segment in Slovakia. *Mediterranean Journal of Social Science*, 6(3): 637–645.
- Europska komisija (2006). *Nova definicia malych a strednych podnikov* // ec.europa.eu.
- Korcsmaros, E., Majduchova, H.* (2016). *Tvorba partnerskych vazieb malych a strednych podnikov s regionalnymi instituciami*. Brno: Tribun EU.
- Odporucanie komisie 2003/361/ES // [www.sazp.sk](http://www.sazp.sk).
- Popoesco, B., Socova, V.* (2016). Current Trends in Budgeting and Planning: Czech Survey Initial Results. *International Advances in Economic Research*, 22(1): 99–100.
- Rimarcik, M.* (2007). *Statistika pre prax*. Vydane nakladom vlastnym. 200 p.
- Sobekova-Majkova, M.* (2011). *Ako financovat' male a stredne podniky*. Bratislava: Iura Edition. 228 p.
- Srpova, J., Rehor, V. a kol.* (2010). *Zaklady podnikani (Teoreticke poznatky, priklady a zkusenosti ceskych podnikatelu)*. Praha: Vydavatel'stvo GRADA. 427 p.
- Subertova, E., Kincakova, M.* (2014). *Podpora podnikania pre male a stredne podniky*. Bratislava: Vydavatel'stvo Ekonom. 160 p.
- Transparency International (2015). *Corruption Perceptions Index 2015: Results* // [www.transparency.org](http://www.transparency.org).
- Trebulova, J.* (2015). *Fico laka podnikatel'ov do regionov, sl'ubuje im danove prazdniny, 04.08.2015* // [ekonomika.sme.sk](http://ekonomika.sme.sk).