

# Financial Support to Small and Medium-Sized Enterprises in Slovakia

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## Abstract

The purpose of the paper is to examine the system of small and medium-sized enterprises' support in Slovakia and to analyze how this support is perceived by the enterprises themselves. In general, there are two forms of government support to small and medium-sized enterprises (SMEs) – financial and non-financial – and the main focus of this paper is on the financial support, which matters more to entrepreneurs. In the first part, the paper deals with financial support and SMEs from a theoretical point of view. Then the selected results of the questionnaire survey focused to the perceiving of the financial support by Slovak entrepreneurs are presented. The survey realized by the end of 2016 at the sample of selected small and medium-sized enterprises operating in Slovakia, which in the past received financial support from public sources and used it to raise their business in the global environment reveal deficiencies in the system of providing financial support to SMEs and point to a lack of financial resources for this support.

**Keywords:** entrepreneurs, financial support, public sources, small and medium sized enterprises (SMEs),

**JEL Classification:** G32, G38, M21

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## Introduction

National European economies are in the process of recovery from the crisis, and the Slovak Republic is no exception. At the same time, Slovakia is still struggling with the process of transition from a command to a market economy. In this process, SMEs play a significant role as generators of growth and innovation due the fact that they contribute the largest part of the GDP and employment of EU Member States, including Slovakia. Taking this into consideration, support to SMEs can boost the economic growth and improve the living standards of the population. However, economists view this process with caution, because the support system and interventions bring discrimination and corruption and distort competition. One is known that small, medium and especially starting entrepreneurs see the greatest barrier in the lack of access to financial resources for the development of their business (Mrva, Stachová, 2014). To break down this barrier, the European Union provides a system of support in each program period. Yet, this support is hard to apply across the border, equally to all business entities.

The public sphere cannot afford to ignore the needs and development of SMEs. Countries all across the European Union (EU) pay special attention to SMEs through various governmental agencies, quangos and financial and non-financial aid and support instruments. SMEs often struggle to compete against big corporations on one hand and against imported goods from other EU and mostly non-EU countries on the other. Politicians and decision makers seem to be in unison on the need to support SMEs both financially and non-financially.

Slovakia is no exception. SMEs in Slovakia can benefit from various means of support – both private and public. Most businesses would normally consider private means of financial assistance only – the most typical one being a loan from a bank or other private financial institution. However, the paper examines public support instruments only and in particular non-repayable forms of public financial support.

## Literature review

SMEs are significant economic operators in advanced economies, because they have an important economic and stabilizing role with their positive impact on key indicators of national economies. The European

Commission unified the views on the characteristics of SMEs for the first time in 1996 in European Commission Directive no. 96/280 / EC, which takes as the basic criteria of quantitative breakdown the number of employees, annual turnover and balance sheet total of the annual balance sheet. As a criterion for quality groups, it takes the independence of the company, which is understood as holding no more than 25% of capital or voting rights of one or more businesses which are not independent SMEs (Marková et al., 2015).

This Directive was updated in 2003 by the European Commission Recommendation no. 2003/361 / EC, which lays down precise criteria for defining SMEs. These include the number of employees, annual turnover, balance sheet total of the annual balance sheet and the independence of the company (Lesáková et al., 2013). According to this recommendation, SMEs are divided into micro, small and medium-sized enterprises, as shown in Table 1.

Table 1: Classification of SMEs

Criteria	Microenterprises	Small enterprises	Medium enterprises
Number of employees	to 10	to 50	to 250
Annual turnover	to 2 million EUR	to 10 million EUR	to 50 million EUR
Annual balance sheet			to 43 million EUR

Source: Lesáková et al., 2013.

The European Commission amended this definition in its other material User guide to the SME Definition, which says that while the number of employees must be strictly respected, SMEs can choose either the size of annual turnover or balance sheet total as the ceiling (EC, 2015).

Considering the share of SMEs in various indicators of economic growth, SMEs support is undoubtedly very important in Slovakia, in Europe and all over the world. Worth mentioning is especially the above-mentioned share of SMEs in the total number of businesses (99.9%), share in total employment of the country for 2014 (59.6%) and the share of gross output of SMEs in the country's total GDP for 2014 (44.5 %) (SBA, 2015).

According to Fabová (2011), Toth and Mura (2014), business support is an effective action to increase the competitiveness, quality and innovation of SMEs, which consists of support from the state or the European Commission. This support is usually regulated at the national level, and so can be the support from the European Commission, which is often redistributed at the national level. The support to SMEs can be run in two forms – financial and non-financial or informative, where financial support can be provided directly or indirectly, and non-financial support in the form of counseling and legal services.

European Union funds are financial instruments through which blurred the differences between the Member States of the European Union. EU funds allow reallocation economically stronger partner for the development of weaker states and bring them closer to the developed European countries. The funds are used primarily to ensure increased performance of countries in various fields of sustainable economic growth, living standards and reducing regional disparities. The essential feature of EU funds help the weaker partner, thus profiting subsequently developed EU as a whole (Bondareva, Zatrochová, 2014).

Business support to SMEs is regulated mainly by the European Commission's "Small Business Act" (SBA), also known as the "Act on small and medium sized enterprises", which was drawn up in 2008 to emphasize the importance of SMEs at the highest political level. In this act, the European Commission expressed strong support to the initiative to further strengthen sustainable growth and competitiveness of SMEs. This initiative aims *"to improve the overall policy approach to entrepreneurship, to irreversibly anchor the 'Think Small First' principle in policy making from regulation to public service, and to promote SMEs' growth by helping them tackle problems which hamper their development"* (EC, 2013). The main priorities of the Small Business Act are business support, better access to finance, lower regulatory burden and better access to markets and internationalization.

## Methods

The aim of our research was to find out how small and medium sized enterprises see the possibility of using support programs. The research was based on questionnaire survey with entrepreneurs from small and medium sized enterprises, in which we cooperated with the Slovak Business Agency and the Focus Agency (SBA, 2016). With regard to the objective of this paper, we focus only on selected areas of the research rather than the whole research. We examine the issues concerning the awareness of SMEs concerning support programs,

assessment of the possibilities to use these programs, opinions on the targets of financial support, opinions on the efficiency of financial support and assessment of the transparency of the current system and structure of support programs.

The basic database of our research included all self-employed, micro, small and medium enterprises registered in Slovakia and it was created on the basis of the business register from the Statistical Office of the Slovak Republic and Albertina – the Company Register by Bisnode Ltd. The sample was subsequently selected by stratified random sampling from the basic set. The final sample consisted of 1,011 small and medium enterprises. The survey was conducted from 28 November to 13 December 2016 and the respondents were always competent persons (owners, CEOs and financial directors). The respondents were contacted by telephone, but only 69 enterprises were willing to attend the whole phone conversation.

From the point of view of legal form, two thirds of the sample (67.2%) were a limited liability company (Ltd.), almost one quarter were self-employed (24.7%), followed by joint-stock company (INC) (3.4%) and 4.7% of businesses had another legal form. According to the number of employees, more than half (54.3%) of the enterprises involved in the survey were microenterprises, about a quarter (25.9%) were small enterprises and the remainder of the sample (19.8%) were medium enterprises. The largest part of the enterprises (69.3%) were in business in Slovakia for more than ten years, so we can say that a majority of respondents were mature businesses. The second biggest group (18.9%) was made up by businesses operating in the market for more than five but less than ten years, and the remaining 11.7% were businesses whose lifespan was less than five years.

## Results and Discussion

In one part of our survey, we sought to find how the support available for SMEs is perceived, and whether companies consider it sufficient or not. The results are illustrated in Fig. 1.



Fig. 1. Awareness of respondents of the possibilities of support to SMEs

Source: Own processing of survey results.

The survey shows that 39% of respondents have sufficient amount of information about the support available for SMEs, but only 14% of them have certainly enough information. On the other hand, a lack of information is felt by 57% of respondents. The remaining 4% of respondents were not able to comment the question. This means that a majority of respondents feel a need to increase the awareness of SMEs support in Slovakia.

The following question was asking about the sources from which the respondents obtain information on SMEs support. At this point, the sample was reduced to 458 respondents who have already used, have tried to apply for, or are considering to apply for support. Each of the respondents had the opportunity to select two answers. The replies are shown in Fig. 2.

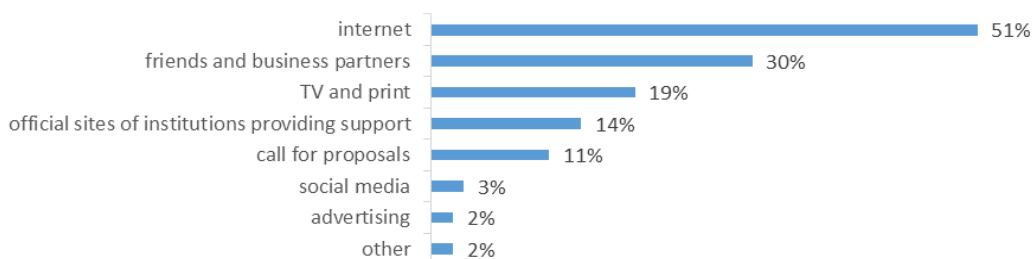


**Fig. 2. Sources of information on SMEs support**

Source: Own processing of survey results.

The largest number of respondents received information about SMEs support from the Internet. This option was selected in 51% of responses, although the Internet resources could also include social networks (3%) or official sites of institutions providing support (14%). The second most common response was information from friends and business partners (30%). This is logical, because most entrepreneurs who use some form of support try to share the know-how of utilization of support with friends, colleagues or business partners. The third biggest group (19%) of respondents drew information from television and print media.

Another part of survey was aimed at assessment of the possibilities for small and medium enterprises to use the instruments of public support. The results are shown in Figure 3.

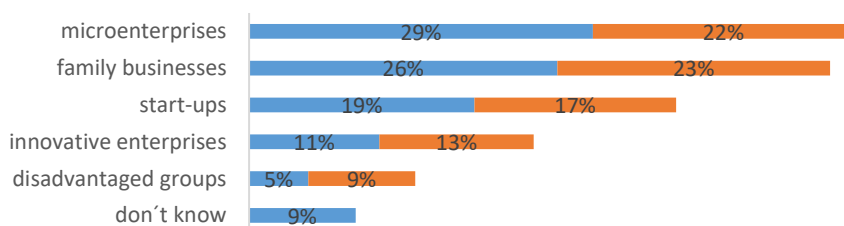


**Fig. 3. Assessment of possibilities of SMEs support utilization in Slovakia**

Source: Own processing of survey results.

Nearly a quarter (23%) of respondents evaluated the possibility of using SMEs support from public funds as sufficient, and only 1% as very good. On the other hand, a vast majority (58%) of respondents considered these possibilities insufficient. The remaining 18% of respondents were unable to comment the question.

Our survey continued with a question asking about their opinion about what SMEs in the public sector should get a stronger support. The respondents had the opportunity to select two answers. Figure 4 shows individual responses and their values. The first answers are marked in blue and the second in orange color.

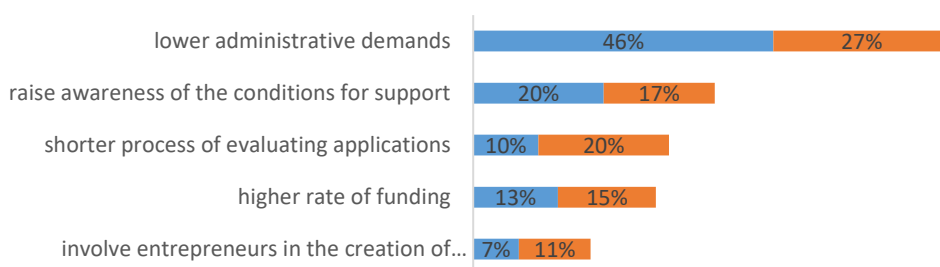


**Fig. 4. Direction of stronger support for the SMEs**

Source: Own processing of survey results

The answers of respondents indicate that stronger support should be directed toward microenterprises (51%) and family businesses (48%). These two options received almost the same number of answers. A little less but still a high response rate (36%) belonged to start-ups, followed by innovative enterprises (24%), and the least (15%) respondents would give more support to disadvantaged groups. All of these areas are equally important, so increased support should go to each of these types of SMEs.

Then the respondents were asked about their opinions on the efficiency of financial support, and had a choice of several measures to increase it. They could choose two options. An overview of options and answers is shown in Figure 5. The first answers are marked in blue and the second in orange color.

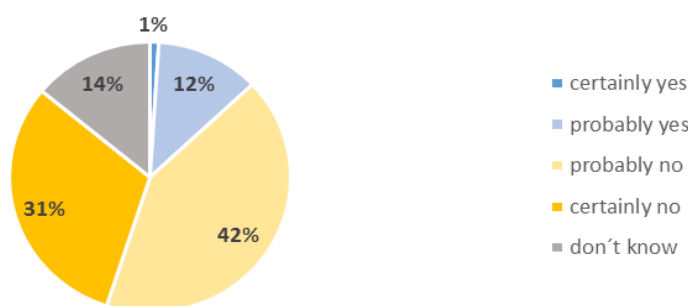


**Fig. 5. Measures for more efficient utilization of public support**

Source: Own processing of survey results.

The most respondents (73%) are for simplifying and reducing the administrative requirements when applying for support. They think that it would help to increase the efficiency of public support. The next most frequent responses were: raise awareness of the conditions of support (37%), shorten the procedure for evaluating applications (30%) and increase the rate of funding (28%). The least respondents (18%) think that if entrepreneurs were involved in the creation of programs, it would lead to more efficient utilization of the support.

The last question of the survey dealt with the transparency of the system and the structure of the support programs. The respondents were asked about the transparency of the support – whether they consider the current system and structure of SME support transparent or not. The results are shown in Figure 6.



**Fig. 6. Transparency of the system and the structure of SMEs support**

Survey: Own processing of survey results.

The survey shows that only 13% of respondents believe that the system and structure of SMEs support is transparent, and only 1% of them think that it is definitely easy to use. On the contrary, a clear vast majority (73%) of respondents think that the system and structure of SMEs support is unclear, which is a considerable difference compared to the positive responses. The last 14% of respondents were unable to comment the question.

### Recommendation

In order to increase interest in both non-repayable and repayable forms of financial support, the Slovak government through its bodies and agencies (Ministry of Economy, Slovak Business Agency) should raise awareness of these programmes. The government could support creation of information and contact offices

(both permanent and mobile) where entrepreneurs could learn about all types of repayable and non-repayable national and EU programmes, funds, grants, contributions and subsidies from ministries and other governmental agencies (e.g. Central Office of Labour, Social Affairs and Family). The government could take inspiration from the private sector. Whether it is more traditional methods of marketing used by banks and other financial institutions (TV, radio advertising) or more innovative marketing tools employed by new sources of finance such as angel investors and crowdfunding campaigns (e.g. social media advertising, viral videos). The government can use a number of these options and information policy tools to help and improve the process and the use of non-repayable contributions and other forms of public financial support (e.g. micro loans, venture capital funds, JEREMIE initiative providing repayable financial support through loans, etc.).

## Conclusion

Support to SMEs in Slovakia is based on the setting of this support in the EU, while the system itself and the concept of the Slovak supporting system is unclear and business people lack information. Overarching state institutions supporting SMEs should make more efforts in educating entrepreneurs about available support programs. In our opinion, there is a lack of overall policy for SMEs support in Slovakia, except for financial grants and other allowances. Entrepreneurs would especially welcome less bureaucracy and a reduction in taxes and fund contributions. The funds they would save could be invested in the development of their businesses. The biggest problem when applying for public funds in Slovakia is corruption. The support system is generally perceived negatively by individual entrepreneurs, as insufficient and poorly working. The only positive response is to financial contributions to the employment of the long-term unemployed, because this type of support is available for a greater number of enterprises. After all, only time will show if this measure is effective for the state and the jobs are sustainable. Seeing that micro-enterprises, family businesses and start-ups make up the largest group of businesses in Slovakia, it is not surprising that entrepreneurs ask for more financial support specifically for these types of businesses.

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