FRAMEWORK EXPERIENCE OF GLOBAL ECONOMY AND CRISIS IN RELATION TO DEVELOPMENT OF SME IN ŽILINA REGION

RÁMCOVÉ SKÚSENOSTI GLOBÁLNEJ EKONOMIKY A KRÍZY VO VZŤAHU NA ROZVOJ MSP V REGIÓNE ŽILINA

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SUMMARY:
Small and medium-sized enterprises (SMEs) are considered in Europe as important pillar and stabilization factor of country economy and its regions. SMEs contribute to solutions of economic, political and social problems of the state. In the last years the number of SMEs considerably increased. In spite of that the current supporting system of the SMEs is rather non-transparent, bureaucratic and in some cases characterized by complicated relations among subjects dealing with SMEs support. In 2012, the quality of the Slovak business environment did not improved what was reflected also in the actual rating elaborated by the World Economic Forum and World Bank. Based on the reports of organizations representing business sector we can state that some problems in the Slovak business environment are persisting and they are source of the SMEs risks in Slovakia. Some of the risks are for the SMEs often liquidating. Therefore it is necessary to realize that risk management is condition of stable and successful business. The paper recapitulates realized survey of the SMEs risks identified within survey oriented on actual trends in SMEs business risks in Slovakia. The survey was part of the solution bilateral project between Slovakia and the Czech Republic FaME/2013/MSPRISK. The obtained results are the base for further tasks of the project “Solving economic risks in small and medium-sized business.

KEYWORDS: risk, crisis, SME, globalization, economics

INTRODUCTION
On the one hand the globalisation embodies great potential that uncovers some unimagined possibilities for the development of the civilisation; however, on the other hand it goes hand in hand with some new threats and risks that jeopardise its very existence. It can be understood as a revolution in the shape of the global society in the course of which a global network existing between the world regions and cultures has been formed. An increasing number of companies do business globally, enormous competition arises and the fast and cheap transfers of money and information, as well as goods and people occur. Everything becomes more and more interconnected, the events happening in a certain place affect economy of the other side of the world. A proof of this has also been observed in the effect that the economic crisis has had. The ongoing globalisation has caused the development of the world economy to be changing from one day to another.

The risks are part of the objective reality of business activities and coping with them should be an inseparable part of each company management. It is extremely important for the entrepreneurs to continuously assess all the risks that may affect them and make the crucial decisions in order to cope with them [1]. The managers who are aware of the risks that are present in their enterprises and manage them actively gain a competitive advantage. However, there still exists the persistent prejudice that an analysis and risk management are especially the preserve of the big enterprises which can afford to pay the experts. The risks nevertheless concern all the enterprises, even the small and medium-sized ones (SMEs). The SMEs are extremely

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sensitive to the changes of economic environment and considering the smaller amount of available capital, the risks neglected may have more serious consequences when compared to the large enterprises.

1. THE IMPACT OF THE GLOBAL ECONOMY AND CRISIS ON THE DEVELOPMENT OF THE SMEs

The globalisation has been considerably changing the nature of the competitive environment in the specific industries and influencing the effect of many other strategically important factors. As one of these factors it creates the opportunities as well as threats arising for the companies in an industry which concern equally the small, medium-sized as well as the large enterprises. The enterprises can make use of these opportunities, but they also have to simultaneously avoid the negative consequences of the potential risks [2,3].

The best conditions for making use of the opportunities as well as for preventing from the negative consequences of the risks exist in the case of the enterprises which become aware of the global competition’s existence early enough and following that they prepare an appropriate strategy in which they deliberately incorporate the globalisation elements.

Many enterprises nowadays quit material-intensive production and start to focus on the activities that include a high share of mental labour. The enterprises merge so as to gain a competitive advantage. They can therefore perform scientific activities, research, development, production and sales on the various continents and make use of the specific competitive advantages [4]. The approaches of the enterprises to globalisation differ. They depend on the economic and market factors, on the willingness to change of the trade unions, company owners and shareholders, company management, as well as on the attitude of the government bodies and institutions. The efficiency of an enterprise is not the matter of a short-term decision making and implementation. It requires comprehensive long-term company development. It is the art of company management to control their company in the long-run, and to simultaneously avoid enormous insecurity, uncertainty, and risk [5,6,7].

Globalisation enables the large enterprises to reach the individual markets and to gradually swallow or eliminate their local competitors. From this perspective, it really presents a threat for the small and locally oriented enterprises. In spite of the aforementioned, even the small and medium-sized enterprises can effectively address the influence of the large and strong enterprises [8]. When compared to the large enterprises, the smaller enterprises have the advantage that lies in their greater flexibility and possibility to respond to the changes. Thanks to the modern technologies, they can therefore make use of the niches on the markets and find their stable position within the future global economy. They can benefit from the possibilities of acquisitions, mergers, and various forms of strategic partnership. They become competitive by means of extending their offer, uniting their forces and sources, the quality of products and services and their flexibility to respond to the customer needs [9,10].

In connection with the accession of Slovakia to the EU, the features of the integrated European Economic Area have been reflected in its business environment. An increase in the business activity in the domain of SMEs in Slovakia was stagnating in 2009 due to the negative effects of the global economic and financial crisis. The Slovak economy is very sensitive to the changes in the external environment development and the overall economic recovery is significantly determined by an improvement in the key external markets. The development of foreign trade was favourably influenced by the implementation of some important investment projects. On the other hand, the Slovak Republic ranked 78th in the Global Competitiveness rankings by the World Economic Forum. In comparison with the previous year it dropped by 7 positions. This results from the Global Competitiveness Report 2013-2014 which was published by the World Economic Forum (WEF). The position of the Slovak Republic has deteriorated for the seventh consecutive year and this year’s 78th place is the historically worst position that the Slovak Republic has ever reached in the competitiveness rankings. Slovakia became the second least competitive country in the EU and the only country that reached a lower level in the rankings was Greece (91st place). Poland moved from the 41st place reached in 2012 to the 42nd place [11,12].

The competitiveness index says about the countries’ prospects of reaching sustainable economic growth in the short term. It evaluates
the quality of the public institutions, government policies and other factors which determine the productivity level of a country. The survey was held from January until April 2013 and more than 13,000 managers from the whole world participated [13]. The Business Alliance of Slovakia coordinated the survey in Slovakia and addressed 250 large enterprises and 250 small and medium-sized enterprises, which were randomly selected in accordance with the World Economic Forum methodology, in order to invite them to participate in the survey. The small and medium-sized enterprises mainly face the difficulties in accessing credit and bear the high reimbursement costs as the banks tightened the credit standards. On the contrary, a lack of finances also makes the payment behaviour of the enterprises less satisfactory and the enterprises then fail to repay their liabilities.

Slovakia's SBA profile (Fig. 1) is mixed, with evidence of strengths in certain areas (Single market, Entrepreneurship and Responsive administration) and weaknesses in others (Internationalisation, Second Chance and Think small first as well as Skills&Innovation). In terms of progress, the period over 2012 and the first quarter of 2013 marked a complete reversal of fortune for Entrepreneurship in respect of last year factsheet, which is now above the EU average. In fact most of the 2012/2013 measures were concentrated in this area (7 out of 21 measures) [14]. Also Environment witnessed a consistent number of measures. Limited progress was registered in other policy areas, partly also due to general elections in March 2012. In addition, the government has started a policy of fiscal consolidation, adopting several legislative acts with mostly negative impact on the SMEs: in particular the changes in the income tax (general increase of taxes, limitation of lump-sum expenses for sole traders), Value added tax (required VAT registration for risky entities, decreased limits for VAT monthly/quarterly VAT payments), Social and Health Insurance (general increase in social security and health contributions) as well as in labour law [13].

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**Figure 1. Assessing Slovakia for 2012 compared to the EU average based on the principles of the SBA [13]**

*EU average +/- standard deviations*  
*Slovakia*
The evolution from the perspective of the SMEs' (Fig. 2) share in the selected economic indicators for the last three years can be characterised as follows [15, 16, 17]:

- In 2012 the share of the small and medium-sized enterprises (legal persons: non-financial corporations) in the generated gross production and added value decreased when compared to the preceding year; however, it slightly rose as far as the reached earnings before taxes were concerned. The share of the SMEs (the legal persons) in the gross production of the non-financial business sector reached 41.3% in 2012.

- In respect of the regular prices, the gross production of the SMEs (the legal persons) in the non-financial sector grew by 0.9% when compared to the preceding year and reached the level of € 48,265 million. The gross production grew by 40.3% to the level of € 14,075.7 million in the case of the small enterprises, dropped by 23.5% to the level of € 12,228.8 million in the case of the small enterprises and rose by 0.6% to the level of € 21,960.9 million in the case of the medium-sized enterprises.

- The share of the SMEs (legal persons) in the added value creation within the non-financial business sector reached 55.1% in 2012. The added value of the SMEs (the legal persons) in the non-financial business sector rose by 0.2% in the regular prices over the year. The added value of the micro enterprises also grew by 35.8%. The added value decreased by 26.2% (€ 4,647.7 million) in the case of the small enterprises; and by 1.0% in the case of the medium-sized enterprises thus reaching the level of € 6,761.5 million.

- The share of the SMEs (the legal persons) in the earnings before taxes within the non-financial sector reached a year-on-year increase by 53.4%. It decreased by 6.1% within the non-financial sector thus reaching the level of € 4,730.1 million. The small enterprises' earnings before taxes decreased by 0.8% to the level of € 3,670.6 million and the earnings of the medium-sized enterprises decreased by 20.8% to the level of € 1,059.5 million.

- The share of the small and medium-sized enterprises in the total exports reached 31.7% in 2011 which represented € 16,420.5 million. Out of the total exports of the small and medium-sized enterprises, the exports to the EU countries represented 89.4% share (€ 14,681.6 million). The exports of the SMEs to the non-EU countries represented 10.6% (€ 1,738.9 million) out of the total exports of the SMEs in 2011. A rather low share of the SMEs' exports to the non-EU countries highlights a greater need for the SMEs to expand to these markets. The
In spite of the important position that the small and medium-sized enterprises hold within the economy of the Slovak Republic, the large enterprises remain to be dominant as regards the international trade exchange of Slovakia. Despite the fact that growth has been observed in many areas, the share of the SMEs in international trade is still lower compared to other economic indicators. The small and medium-sized enterprises still have not managed to expand to the foreign markets on a large scale. It is however necessary to support the expansion of the Slovak enterprises abroad in the long run in order to keep them competitive.

2. THE RISKS OF THE SMES IN THE ŽILINA REGION

The small and medium-sized entrepreneurs can create good conditions for risk management as they exist in close proximity of all the aspects of the individual operations and know many strengths as well as weaknesses of their enterprises. On the contrary, even if the owners of the small and medium-sized enterprises are intuitively aware of the common risk sources, which have impact on their daily lives, it is not very probable that they will realise such risk sources that they have not experienced directly. This fact implies the necessity of active and systematic work in the area of risks and this is mainly the case in the business environment which is considerably volatile due to the economic globalisation. The absence of risk management can be one of the basic causes of unsuccessful business and loss of competitive advantages.

In 2013, a statistical survey of the business risks faced by the small and medium-sized enterprises in the Žilina region was accomplished within the framework of the project FaME/2013/MSPRISK: “The recent trends in the area of business risks faced by the small and medium-sized enterprises in the selected regions of the Czech Republic and Slovakia”. This project included the cooperation between Tomáš Baťa University in Zlín, Pan-European University in Bratislava, University of Žilina and University of Trenčín [18,19].

The empirical research (questionnaires and interviews with the competent persons from SMEs) included 164 small and medium-sized enterprises from the Žilina region. Among them

- 38 % of the companies had been active for more than 10 years,
- 32 % of the enterprises had been doing business for a period of 5 up to 10 years,
- 30 % had been doing business for a period of 1 year up to 5 years.

As regards the structure of enterprises, the biggest share of 38 % belonged to the enterprises whose business activities fell under the category of “other activities” (consulting, distribution, etc.).

The remaining composition was as follows:

- 20.73 % - trade business,
- 17.07 % - production business,
- 16.46 % - construction business,
- 6.10 % - transport,
- 1.22 % - agriculture.

Considering the headcount, the survey included:

- 66% - micro enterprises,
- 20% - small enterprises,
- 14% - medium-sized enterprises.

Out of the 164 SMEs in question, up to 30 % (132) of the entrepreneurs identified the market risks to be the most important, 22 % (96) of the entrepreneurs mentioned the financial risks as the following ones, 14 % (63) of them included the personnel risks, 14 % (61) stated the legal risks, 12 % (54) included the safety risks and 8 % (37) of the entrepreneurs considered the operating risks to be the least relevant. See the percentage of the identified risks faced by the SMEs in the Figure 3.

The greatest difficulty faced by the SMEs in the Žilina region is the growing competition which threatens the existing enterprises, the financial resources are only the second most important concern. Nowadays, mainly the fight for customers is important because a fall in demand and drop in orders create even stronger pressure on the enterprises to survive in the competitive environment. The globalisation does not only make the enterprises fight against the local competitors, but also against the foreign ones, e.g. the suppliers from China.
As far as finances are concerned, the small and medium-sized enterprises use mainly business loans which result from the mutually and logically connected relations between the suppliers and customers. To a lesser extent, the SMEs take the supplier loans thanks to which they can get machines and devices that are repaid during a period longer than one year. The small and medium-sized enterprises often face difficulties in obtaining credits to be used for their financing.

A total of 37.2 % of the SMEs in the Žilina region consider the criteria for granting the credits defined by the banks to be too strict and only 3.05 % of the enterprises in question think that the banks fully accept their needs. Almost 14.02 % of the SMEs stated that the conduct of banks was “reserved”. According to 20.12% of the entrepreneurs, the way the banks act is appropriate. Strangely, almost 25.61 % of the entrepreneurs cannot judge the situation related to the financing through credits which may be due to the reason that these are the entrepreneurs with low capital power for whom the credits are not reachable. Therefore, they simply do not use them and they are poorly informed on this topic.

In this survey, the entrepreneurs were also asked to compare the manner in which the approach of banks in the area of providing credits was different in comparison with the situation in 2008. The results suggest that the approach worsened. The group unable to evaluate this represents approximately 42.07 %; 14.63 % claim that the situation has not changed; 12.2 % think that the approach of banks has improved; more than 31 % of the enterprises nevertheless state that the approach became worse what had also impact on the financial risk, in this case the risk of facing difficulty in obtaining the financial sources from credits.

The financial risks also include the low capital power of the small and medium-sized enterprises which - accompanied by the low level of diversification - increases the liquidity risk, i.e. the ability to meet their payment obligations in due time. Based on experience, lack of working capital can be often observed in the small and medium-sized enterprises. These issues occur especially when an enterprise grows without any additional investment of the owner and its growth is faster than the capacity to create internal financial sources. It is therefore necessary for the small and medium-sized enterprises to adjust the pace of their development also on the basis of the possibility to obtain some capital.

Many serious problems encountered by the enterprises during their existence are not only caused by the unfavourable financial-economic results; however, an important role is played by the human element. This was proved by the survey results as the SMEs defined the personnel risk to be the third most significant risk. They definitely realise that investing in the right selection, abilities and permanent motivation of the employees as well as the key managers of the SMEs is more important than investing in the latest technologies.

The legislation related risks are connected with the government policies in the field of economy and legislation. This category includes the laws and directives which may make arise a whole group of some unclear and contradictory regulations. Their interpretation and application may lead to adverse financial effects on the enterprises. From the SMEs' perspective, this concerns especially the tax wedge on labour which is related to the bureaucratic load of
business. The tax wedge on labour reaches almost 47 % and this is one of the reasons that often makes employing new people difficult. Tax administration simplification and the flat tax at the level of 19 % are positive elements, though.

The level of bureaucracy is very high in Slovakia. The penalties for the forms that were filled in incorrectly, late registration or change of law can be imposed to the entrepreneurs even for the period reaching back to five years ago. Nowadays, there exists a dominant opinion among the entrepreneurs that the SME support scheme is rather confusing, includes a great amount of players dealing with the matters of SME support; furthermore, the existence of complex links is also characteristic of this system. A total of 71.95 % of the small and medium-sized enterprises in the Žilina region have encountered corruption and patronage while performing their business activities. Even if the main support of the SMEs is represented by the central state administration bodies whose tasks are mainly focused on policy development, fundraising and specialised agencies, banking institutions and various funds; 38.41 % of the SMEs consider that the state does not perform its tasks and 53.05 % feel that the state bullies them (Figure 4).

![Figure 4. Evaluation of the state's approach to the needs of the small and medium-sized enterprises](image)

The survey paid attention to the level of change as regards the profitability of the small and medium-sized enterprises compared to the period before the crisis:

- 26.22 % of the enterprises stated that their profitability had considerably decreased (more than 20 %);
- 37.20 % of the enterprises had only experienced a slight decrease (0 – 20 %);
- 21.34 % of the enterprises considered their situation to be stabilised;
- 12.08 % of the enterprises claimed that their profitability had slightly increased (0 – 20 %);
- 2.44 % of the enterprises in question considered their profitability to have increased significantly (more than 20 %).

The Figure 5 shows that the performance fell by up to 50 % in case of 70.12 % of the small and medium-sized enterprises in the Žilina region in comparison with the period before the crisis and the performance of 29.88 % of the small and medium-sized enterprises decreased by more than 50 %.

Based on the results achieved, it can be stated that the level of the business risks is perceived with various levels of intensity in the Žilina region, i.e. in the Slovak conditions. However, the vast majority of the SMEs are aware of the existence of the financial and market risks. The SMEs can cope with the consequences of the crises more flexibly and more quickly and they are better able to implement the inevitable structural changes. However, they should be aware of their business risks early enough and have a ready set of measures in order to mitigate them.
CONCLUSION

The Slovak small and medium-sized enterprises seek to actively seize the emerging opportunities. New enterprises and strategic partnerships are established. Other enterprises are concerned when observing the home as well as global market development. They try to look for the ways how to at least temporarily avoid the unfavourable impact of the global competition and to avert the arising threats in the short run. The enterprises which underestimate the existence of the global competition are unexperienced or focused on other strategic factors. They hereby leave the space to those who respond to the globalisation effects appropriately and in due time. Among the managers of our enterprises, there exists the common opinion that only the large and strong enterprises can make use of the globalisation as the way of reaching competitive position in a certain industry or within a certain market.

The small and medium-sized enterprises play a significant role within the national economy of each country and this is also the case of Slovakia. The results of the SMEs business risk survey in the Žilina region in Slovakia highlight the need to get ready for the traps placed in the current business environment. It is especially required to increase the awareness of the company owners (mostly the micro enterprises are concerned) on the possible causes and consequences of the risks, as well as on the adequate measures serving to mitigate them. The improvement of the SME risk management level therefore requires the acquisition of the theoretical knowledge concerning the specific activities of the risk management process, methods and means that can be used in the field of risk management. The SMEs need to know their risks, especially due to their large share in the regional job creation as well as in GDP.

REFERENCES


