

ANALYSIS OF SELECTED ECONOMIC RELATIONS IN SMALL, MEDIUM AND FAMILY ENTERPRISES IN SLOVAKIA IN THE PROCESS OF EURO ZONE ENTRY

doc. Ing. Strážovská Lubomíra, PhD.¹
prof. Ing. Strážovská Helena, PhD.¹

Abstract: The economic life of Slovakia has required increased focus of research capacities on small and medium enterprises. On SEMPA (VŠEMVs) in Bratislava, an individual department for small and medium enterprises was established, which emphasized the need to concentrate attention in science and research on those economic subjects which have rising tendencies of contributions to the state economy. In Slovakia, small enterprises make up to 98% of the total amount, and their participation on the GDP is roughly 50%. Around 65% of family business have the form of trade entrepreneurship, and 33% are Ltd. (Limited – s.r.o.). In the text we include selected results of research of family business in Slovakia.

The economic life of Slovakia has required increased focus of research capacities on small and medium enterprises. On SEMPA (VŠEMVs) in Bratislava, an individual department for small and medium enterprises was established, which emphasized the need to concentrate attention in science and research on those economic subjects which have rising tendencies of contributions to the state economy. This has been proved statistically. Small enterprises in EU make up to 99% of all enterprises and are considered the main pillar of the union's economy. Another important fact is that they create three quarters of work positions in the private sector in the EU.

A similar contribution of small enterprises is also in Slovak economy. In Slovakia, small enterprises make up to 98% of the total amount, and their participation on the GDP is roughly 50%.

As far as classification of enterprises in Slovakia is concerned, we have accepted the European Union's system of classification after the entry into EU in 2004, foremost by the number of employees.

Type of company	Number of employees
Micro enterprises	Up to 9 emp.
Small enterprises	10 - 49 emp.
Medium enterprises	50 - 249 emp.
Large enterprises	More than 250 emp.

Comment: Other criteria of EU's classification standards are not important for our text – we do not include them.

Slovakia used to follow the classification criteria for small and medium enterprises from the Bolton Committee 1971. We believe that these characteristic features of small and medium enterprises remain even today.

¹ School of Economics and Management in Public Administration in Bratislava

Small and medium enterprises have been defined in three basic characteristics. The Bolton committee defines them as following:

- small and medium enterprises have relatively small share on the market, and practically cannot considerably influence the market.
- Small and medium enterprises are controlled by owners – entrepreneurs, families of owners or co-owners and not through a mediated formal structured management.
- Small and medium enterprises are independent, and do not form a part of a larger company.

Owners – entrepreneurs and also executive workers.

We should also mention, that in Slovakia, the government has different classifications, for example, small companies are those with less than 20 employees and so on.

The importance of small and medium enterprises has become more recognized after 1990, in connection with the privatization and transformation of the economy. Rapid development has been noticed in 1991-1992, and was conditioned by the following:

- dissolving of large state companies in the process of the first large wave of privatization.
- Return of property to citizens through restitutions.
- Liberalization of trade relationships and creation of SME with foreign members.
- Increase in private property.
- SME can be created without large investments.

Currently we have more than 400 000 enterprises of natural persons, mostly sole traders, and more than 100 000 enterprises of corporate entities. All of these companies had to pass through the process of euro zone entry, which required:

- re-education of personnel.
- Change in technical and technological equipment.
- Abilities to handle the new Euro currency.

The most difficult part was to persuade people to part with the old crown currency.

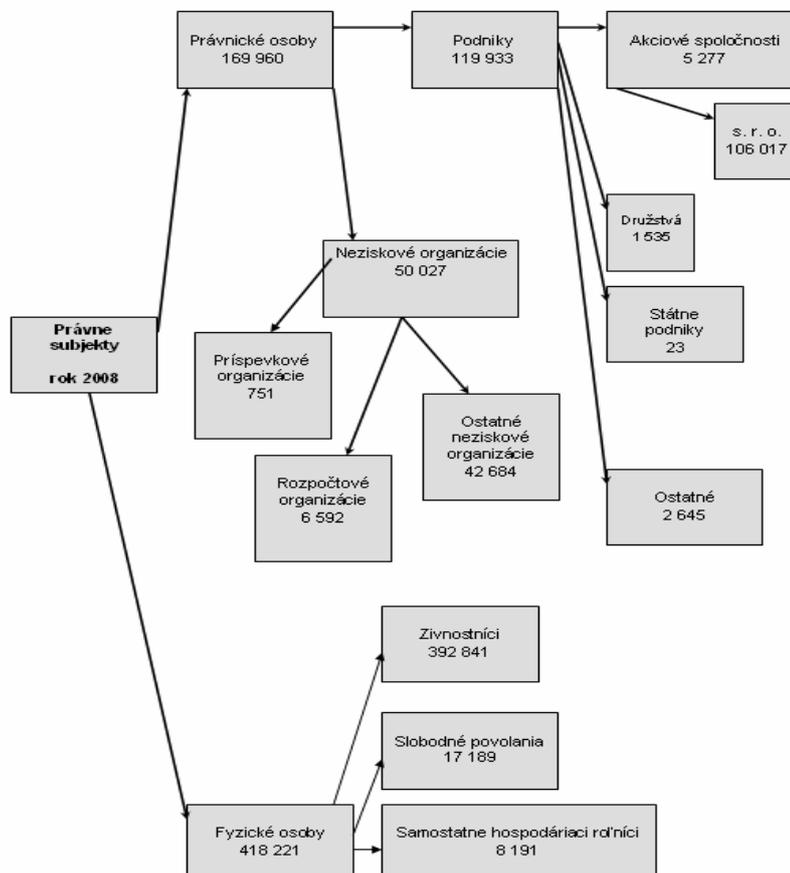


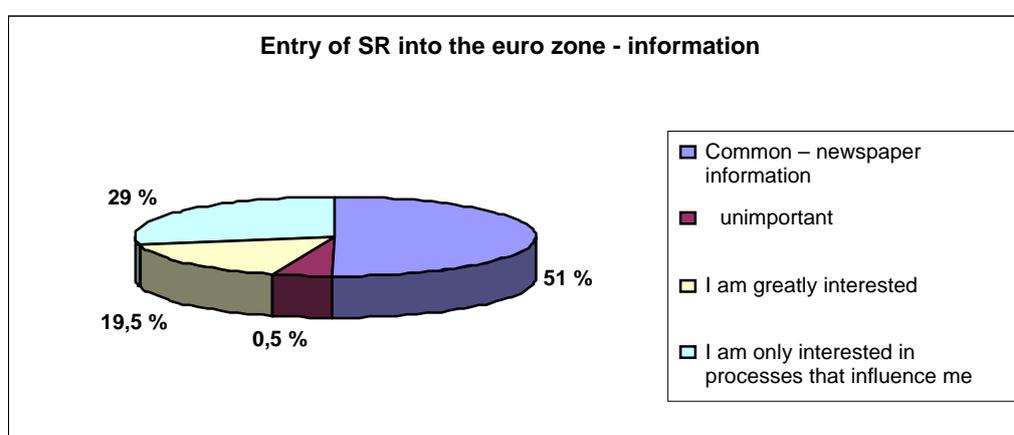
Chart 1.: Legal subjects in year 2008

If we analyze the Euro zone entry process in 2009, we come to the conclusion that small companies needed at least half a year, and medium ones needed at least one year for preparations. This was connected with countless information campaigns, research, on which the SEMPA in Bratislava also took part.

Some conclusions from the research were:

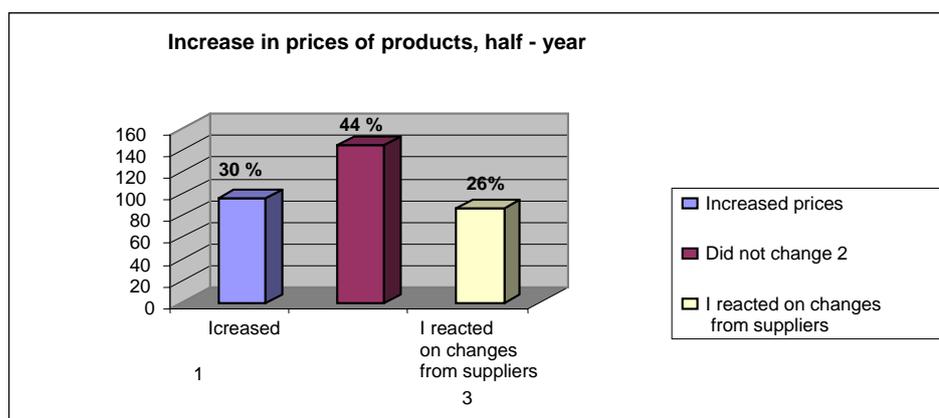
- Slovakia accepted euro without any larger objections. There were certain problems with information among risk groups of inhabitants, pensioners, ethnic minorities, as far as entrepreneur environment is concerned, it has mostly been micro companies.
- Small entrepreneurs were reminding that it is necessary to learn to operate with the new currency, since small coins were not that worthless.
- Even though most entrepreneurs signal that they see advantages in the euro, like entering foreign markets, almost 50% did not expect larger changes. They even believed that the costs for new software would not return.

Other partial results of the research – small and medium enterprises.



Prices – changes

With connection to the entry into the euro zone, the price policies of companies in fear from rising prices often mentioned.



More than one third of all companies have increased their prices. There are more reasons to it's increase, all the credit cannot be given to the change of currency, although the experience from other countries have shown, that prices have increased after entering the euro zone.

In year 2008, one year before entering the euro zone, the emphasized price increases were:

- | | |
|---|--------------------------|
| - industrial producers for the home market. | - agricultural products |
| - raw materials | - vehicles |
| - chemicals and chemical fibers | - metals |
| - cellulose and paper | - textiles |
| - electric energy | - gas |
| - food, drinks, tobacco | - prices of construction |

Year 2009 for Slovakia was not only the year of entering the euro zone, but also the year of stronger impact of the global economic crisis. Due to this fact, most prices have actually decreased in all areas, including food and groceries. This process is so far not totally evaluated.

In the following text, we offer results of some of the researches in the area of price increasing.

Increase of prices from suppliers, toward small enterprises from the beginning of 2008:

- 5% increase, 57% of suppliers.
- 10% increase, 34% of suppliers
- 15% increase, 9% of suppliers.

Increase of prices from small and medium enterprises toward consumers:

- 5% increase, most of the SME's.
- 10% increase, small part of SME's.
- 20% and more, only rarely, individual companies.

Reasons for price increase – area of small businessmen.

- Half of SME's increased prices because of increase from suppliers.
- About 10% of SME's increased prices because of general increase of expenses.
- Others increased prices because of inflation, higher prices of fuels, services and so on.

Small and medium enterprises have been criticized for not having enough initiative in the process of euro implementation, they were late with the repositories, with technological solutions, with pre-supplies of the new currency and so on. However, the small and medium enterprises also expected forms of aid, foremost better starting conditions, motivation criteria, or even simpler ones like optimism and respect for SME's. A permanent request of small and medium enterprises is also a decrease in taxes and levies.

The European Commission greatly helps the Slovak entrepreneurs, with it's measures and principles, which were defined in the Small Business Act. They contribute to decrease of bureaucracy, better access to financial sources, support of micro companies, better standing for women. It could be summarized by the "*First think small*" statement.

Family businesses also have an important position in the Slovak entrepreneur environment. A family business is controlled and owned by one or more families, or relatives. After year 1989, and the rise of the private sector, and entrepreneurship as a whole, companies have been created with direct support from families. In Slovakia, there is no law, which regulates the relations in a family business. The laws remain the same as per normal companies (Commercial law, trade law...)

Around 65% of family business have the form of trade entrepreneurship, and 33% are Ltd. (Limited – s.r.o.) This information comes from a several year research from different authors, official information could be gained from tax declarations, which are restricted.

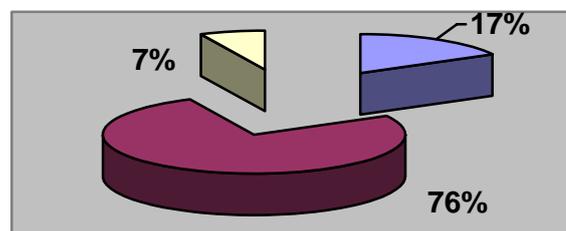
SELECTED RESULTS OF RESEARCH OF FAMILY BUSINESS IN SLOVAKIA

The respondents in the enquiry had the option to choose the rate of family members compared to non-family members in leading positions of the company.

Three quarters stated, that the leading positions are either held entirely by their family members, or that their numbers are larger than those of non-family members. On the other hand, 17% stated that leading positions in their companies are held by non-family members. 7% wrote that the numbers are about equal.

Family business neglects the possibilities to gain and maintain skilled and competent managers in the leading positions, which are not members of the family, but they could bring experience and knowledge which would not have to be separately paid for later.

Rate of family members compared to non-family members in leading positions in companies of respondents

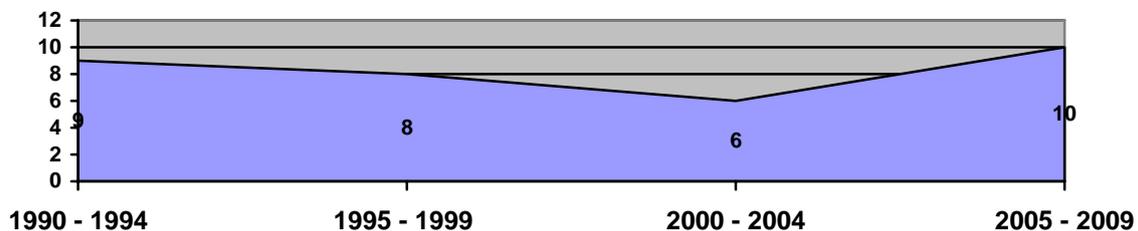


■ More non-family members ■ More family members □ Equal numbers

Since family business started to develop after 1989, an important question to ask is when did most of the family business start. The graph shows the first turning point, which came after the change of centrally planned economy to free market economy. In 1990, only 8 companies have been established. Other important years are 1992-93 when all together 25 companies were founded. From year 1998 and further, there was a fluctuation in the number of established family businesses. The results show that from the starting euphoria, even through difficult conditions, the family businesses could still survive.

The advantages of family business – as it is in other countries – is the transfer of values, principles and experience from generation to generation.

Average number of established companies of respondents



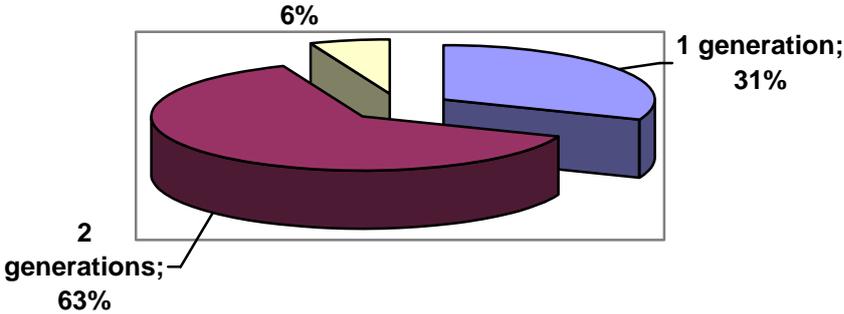
The number of generations currently working in the company reflect it's stability on the market.

Research has shown that in most of these companies (2/3), three different generations of family members work together. In the remaining one third, it is only one generation. There have also been exchanges in generations in some companies, we can suspects that this was in companies with more working generations.

The importance of this fact has also revealed that the number of generations working simultaneously in the family business influence relationships, not only in work but also at home. Not necessarily in the same household, as family members can also come from different households.

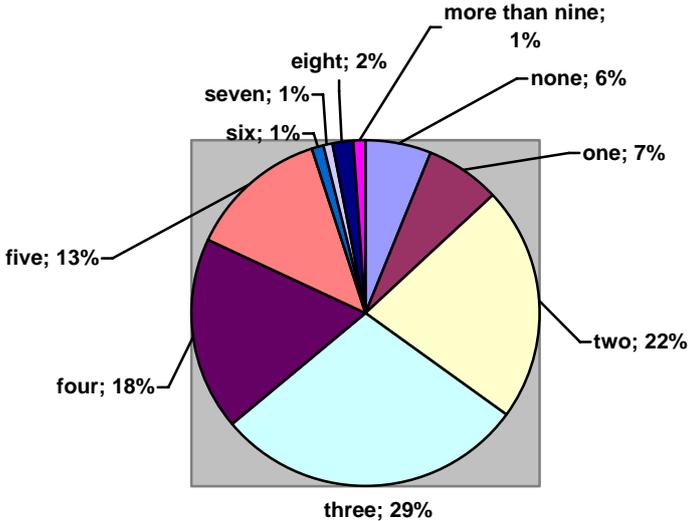
Number of generations in company	1 generation	2 generations	3 generations	together
	31%	63%	6%	100%

Number of generations currently working in the respondents company.



From this part of the research, we have also found out that 6% of family businesses do not employ any family members in a permanent job position. They instead hire family members in the forms of an agreement, or season help from family members for a fixed time. This event is connected with the size of the company. Among small and starting businesses, there are no further job positions in the business. Another extreme is a large company, which employs many people, but not any of his family member, or even children.

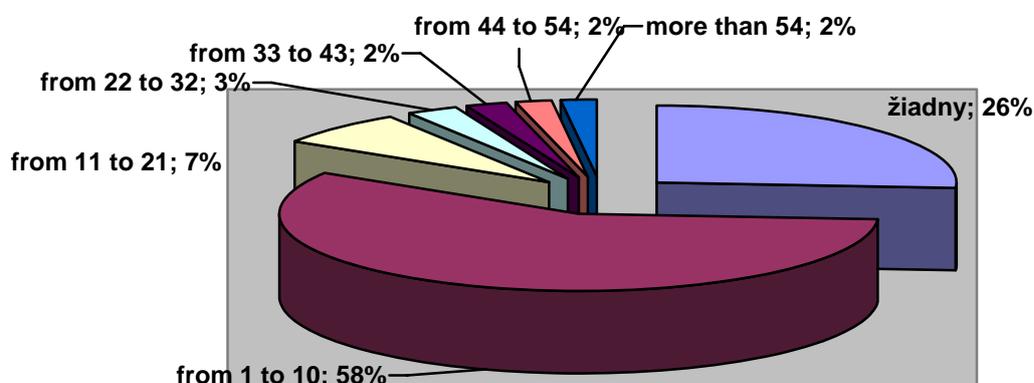
Number of family members working in family business



The second part of the question was aimed at the number of non-family members employed by the business.

More than 84% of them have only one, or no non-family employees at all. Entrepreneurs then higher mostly family members or rely on their own abilities.

Number of employees in the company, who are not family members



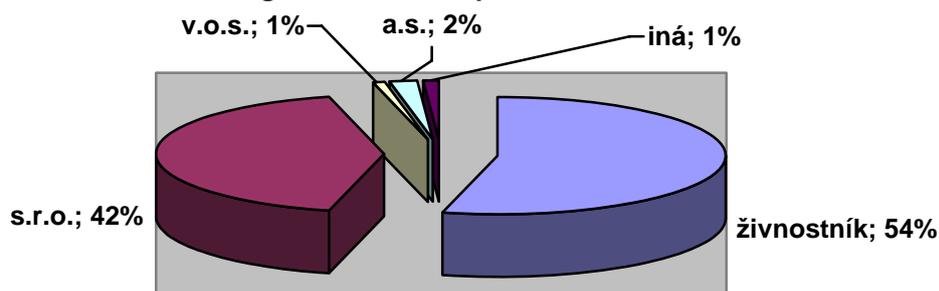
These results confirm, that family business does not necessarily have to be a small company, although according to our research, companies up to 10 employees are most common.

The legal form of organization reveals that family businesses chose to carry on a trade as a natural person, only a few chose to work as legal entities.

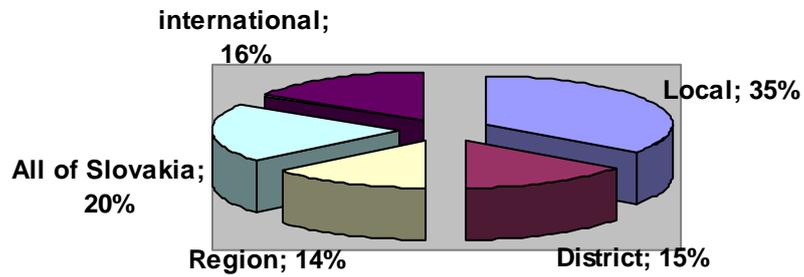
The second most favored form is the Ltd. It can be an advantageous form in the start of business, which is connected with a certain degree of financial requirements when establishing a company.

Now most family business transform into legal entities, so they have easier access to loans, lower guarantees, since a free trade person has to guarantee with his entire assets, and legal entities only with the assets of the company.

Legal forms of companies

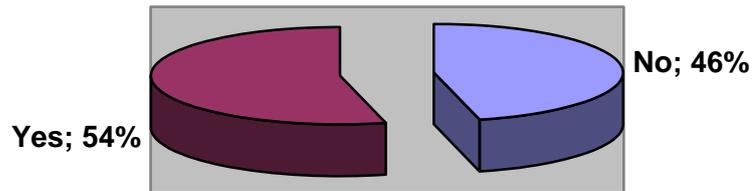


Geographical extent of business

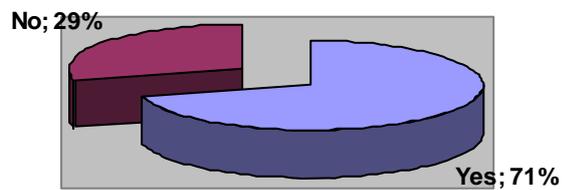


More relations with family businesses:

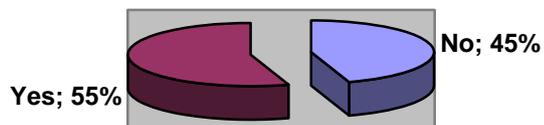
Presence of conflicts within family business



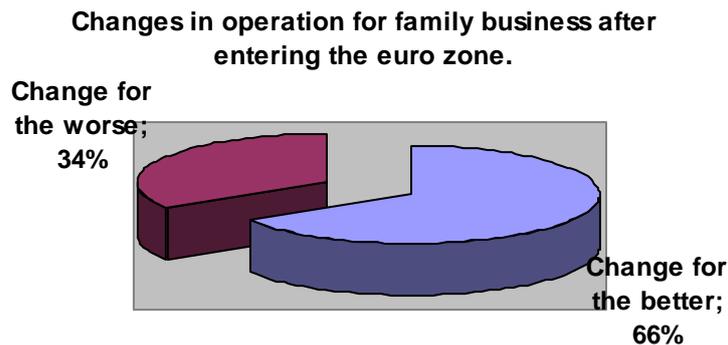
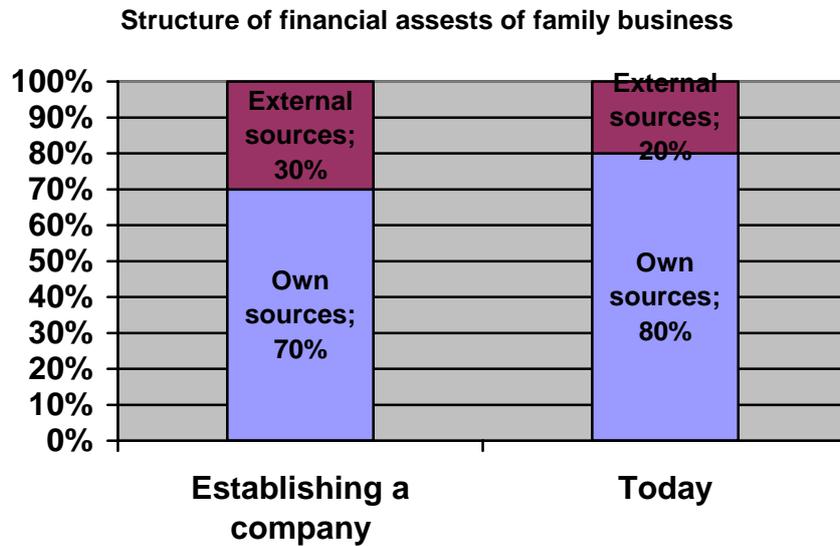
Law about family business is necessary? Yes/No



Establishing a counseling organization for family business



The most complicated is the financial question, the situation in Slovakia is:



SME's and family businesses play an important role in the economies of all developed countries. They contribute to the creation of work positions, wealth, use of human resources.

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