



ECONOMIC SECURITY OF SMALL AND MEDIUM ENTERPRISES

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JEL Classification: L26

Abstract

The paper analyzes the determinants of business success for SMEs. On detail of 131 businesses there were analyzed changes in business objectives and functions, differentiation factors, business economics and economic security of small and medium-sized enterprises. In the next part of this paper there are designed critical infrastructure and indicators of economic security of companies. In that context, there was proposed organizational strategy to application of critical infrastructures and indicators of economic security of companies.

The conclusion justifies the need to set out economic security of small and medium-sized enterprises.

Keywords: *economic security, critical infrastructure, thresholds of critical infrastructure, indicators of economic security determinants of economic growth.*

1 INTRODUCTION

Business entities in the Slovak Republic found themselves before a nation-wide requirement to increase the economic efficiency of enterprises and self-governing units on the one hand and to protect and stimulate the national economy from the global financial and economic crisis on the other.

The second problem is the need for efficient and sustainable use of non-renewable resources for the needs of the population in a sustainable environment.

The third problem is the social development of communities and increasing employment of the population, while ensuring rational nutrition and energy consumption per capita.

SMEs therefore are faced with a difficult task to solve these problems in the application of austerity measures and minimalization of socially necessary costs of production. After all, small businesses participate in the employment of the economically active population with 66% and on a gross domestic product (GDP) with almost 70%. (Gozora V. , Regionalne disparity v ekonomickom a socialnom prostredi Slovenskej republiky, 2010)

Prerequisite for the successful application of the declared content of problems is economic security and sustainable development of small and medium-sized enterprises.

Therefore the aim of this paper is to assess the level of small and medium businesses, identify determinants of non-balanced conditions and to characterize the function of critical infrastructure in achieving economic security of business subjects. Finally, to design the indicators of the economic security of small and medium-sized enterprises.

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2 METHODOLOGICAL PROCEDURE

Realization of that objective sought to conduct a review of the file 131 SMEs in all regions of Slovakia. Other data were obtained from the Statistical Office of the Slovak Republic and from factsheets of Ministry of Agriculture and Rural Development of the Slovak Republic.

From the content point of view, we focused on the survey at:

- determinants of business success of SMES,
- imbalances in business subjects and their causes,
- assessment of critical structures in achieving of business subjects security,
- assessment of economic security by business subjects.

In developing the paper we used the methods of interrogation, questionnaire, and methods of analysis, synthesis, deduction and human judgment.

When evaluating enterprise groups, we used comparative method and conventional graphical methods and numerical calculations.

3 DETERMINANTS OF BUSINESS SUCCESS OF SMEs

In the last 30 years we have witnessed significant societal, social and natural changes. Gradually there is changing natural, economic and social environment of rural environment, there are changing community and ownership relations, material consumption is increasing and modifies the social consciousness of the population. Especially the rural population has undergone a complex cultural and social restructuring, in which there emerged new social features and the order of social values changed in the new

emerging socio-economic formation. (Gozora & at al, 2009)

Hi-tech society was replaced by the knowledge, economic and developing information one. Human's attitude to the environment has changed. Significant changes occurred in the corporate-economic base. Original business and economic types of businesses were replaced by new economic types and sizes of enterprises.

Dominant position in the structural composition of businesses there take small and medium enterprises that carry out their activities as legal or natural persons (see Table 1).

From a macroeconomic perspective, the development of SMEs in specific environment was very complex and differentiated both on regional and local levels. There contributed to these changes not only the turbulent economic environment, but also new principles of corporate management and the change of the economic mechanism.

3.1 Changes of Business Objectives and Functions

Changes in the business environment and the transition to a market economy made it necessary to revise the main objectives of the company, which have been designed to meet consumer demands and maximize corporate profits, the sustainable development of the company and the external environment to support the business. Social development so far confirmed the eligibility of those objectives, although in a world increase strong voices leading to representatives of management that it is necessary to abandon maximum profit and replace it with the reasonable profit.

Table 1 Development of SMEs - legal entities

Business subjects/Year	2006	2007	2008	2009	2010	2011	2012	2013	Index 2013/2007
Micro (0-9)	70908	80899	95010	102926	130144	112753	120833	132646	1.87
Small (10-49)	12956	17212	21226	20899	9549	13485	108522	98411	7.60
Medium (50-249)	2938	2805	3024	2926	2724	2761	2573	2576	0.88
SMEs totally	86802	100916	119260	126751	142417	128999	134258	233633	2.69

Source: Statistical Office of the Slovak Republic and author's own calculations

The more significant changes occurred in the number, structure and order of business functions. Indeed, a majority of production-economic function was replaced by bio-economic function as an unmistakable sign that our society pushed in business wholesome products, adequate environment, and the requirements for environmental safety of the population. Between business functions is inevitable business and economic self-governing function

3.2 Differentiation factors of Business Economics

Despite of the political decisions and power structures supporting the development of small and medium-sized businesses it did not get the required quantitative and qualitative level. SMEs adjusted rapidly to a developing market economy and increased productivity of laborer, but the lack of start-up capital, high debt, low liquidity and often intermittent cash flows negatively affected economic efficiency of SMEs.

This is caused under Klasekova, M. (2012) by a weak credit rating (25.6%), lack of equity (24.00%), absence of lien (12.40%) and other causes (38.00%). To the above determinants must also be attributed the negative impact of the informal economy, which is the result of activity of large corporations and multinational companies. Despite that SMEs have become the driving force of the Slovak economy.

The year 2004 was a breakthrough year of the Slovak economy. Slovakia's accession to the European Union formed the conditions for sustainable development of small and medium-sized enterprises and to address regional disparities in economic and social environment, but strong orientation of chain stores to foreign products and effects of the global financial and economic crisis formed conditions of non-balanced economic and social status of numerous businesses.

Whole industries and sectors of the national economy got to non-balanced status or sedation and the resulting macroeconomic indicators previously document persistent long-term economic stagnation of the country. Similar view on this issue we can see in Hudakova and Kučera's: Solution of non-equilibrium conditions in agriculture (2009).

Table 2 Causes of Failure of SMEs in Obtaining Credit

No.	Cause	Percentage of Enterprises
1	Permanent credit rating	25.60
2	Lack of capital	24.50
3	Absence of lien	12.40
4	Unknown reason	13.30
5	Other reasons	24.70
1-5	Totally	100.00

Source: Klaseková (2012) and author's own corrections

From January 1, 2013 a package of measures to enhance revenue to the state budget negatively signed under the economic situation in Slovakia. Significantly there were reduced employers' organizations, the self-sufficiency in food production and increased unemployment of rural population. It follows that there wasn't created a healthy business environment to traders. Missing macroeconomic regulatory systems to support the business environment and other macroeconomic safety features of the Slovak economy.

4 ECONOMIC SECURITY OF SMALL AND MEDIUM ENTERPRISES

Small and medium enterprises are the most vulnerable part of corporate economic base. Despite numerous recommendations on methodologies and scientific research institutions restoring of SMEs significantly fails. There lag integration and diversification of production processes and equity portfolios. Creating of strategic alliances and business networking is still at an early stage. A similar conclusion reached Gozora, V. et al. in addressing regional disparities in small and medium enterprises. (Gozora & at al, 2013)

According to those authors, the economic security of business entities is determined by disposable, material and financial resources, effective organizational structures of production and business management, the level of human resources. Last but not least is conditional by sales and encash of products in time and by reducing the cost of storing supplies, early identification and addressing of business risks.

Business risks and economic security of businesses needs to be addressed by monitoring and early identification of potential outbreaks of unbalanced state. For this purpose, there can be used proven methods of health assessment businesses:

- financial analysis ratio,
- Altman’s test of credibility of the business subject,
- quantification of the creditworthiness of the company,
- valuation of market share, brand and business subject goodwill,
- comparison of businesses in comparable conditions.

Economic security of enterprises can augment by the application of critical infrastructures with normative indicator, upgrading of staff structures, optimal utilization of the human potential, and optimal reward system based on job performance.

Effective methods of sustainability of economic security of small and medium-sized enterprises is the optimal amount of labor and social costs on administrative overhead and maintaining the security of information systems of the enterprise.

4.1 Critical Infrastructures and Indicators of Economic Security of Enterprise

In accordance with the Law on critical infrastructures Act No. 45 of February 8, 2011 on critical infrastructure (Narodna rada SR, 2011) critical infrastructures have become a part of the economic methods and tools to achieve sustainable economic imbalances of businesses. Although the majority of small and medium-sized enterprises stood skepticism to the generalized application of critical infrastructure for enterprise-economic base, there were a lot of supportive comments of company managers to exploit critical infrastructures in small and medium-sized enterprises.

The survey results on detail of 131 businesses confirm our investigation, as it is shown in the Table 3. Nearly 41.98% of managers in surveyed firms have not adopted it or do not consider appropriate to introduce the corporate practice of

critical infrastructure. However, more than 48.80% of senior executives from a largely prosperous enterprises can see in application of critical infrastructure systems the way to achieve economic security and sustainable development in small and medium-sized enterprises. For this reason, we support the use of critical infrastructures to achieving sustainable economic security of small and medium enterprise in Slovakia.

In that context, we propose to achieve economic security of the enterprise by organizational strategy consisting of the following steps:

- Step 1** - Identify key problems and barriers to economic development of businesses.
- Step 2** - To rationalize the corporate structures and in-house management system.
- Step 3** - To identify areas of critical infrastructures of SMEs.
- Step 4** - Carry out the selection of thresholds of critical infrastructure of businesses.
- Step 5** - To perform simulation of normative management in business practice.
- Step 6** – To eliminate business risks on business, local and regional level.
- Step 7** – Via indicators of economic security periodically check health condition of enterprises and keep thresholds of economic security of enterprises.

4.2 Indicators of Economic Security in Enterprises

Economic security of enterprises is necessary to check via indicators of economic security. Comparing of border standards and normative values of the economic security it is approximately possible to indicate economic condition of the enterprises and their degree of economic security. On long lasting experience, knowledge and business assessment methods we suggest to use these indicators of economic security of enterprises.

Indicating of economic security in optimal values indicates good health, adequate financial burden and sufficient own funds of enterprises. Finally, it indicates activity of enterprises and business market share. (Strelcova, 2013)

Table 3. Survey on Respondents to the Application of Critical Infrastructures in Small and Medium-sized Enterprises

Alternative	Title - response	No.	%
1	I do not agree with the application of critical structures in enterprises.	34	25.95
2	I rather do not agree with the application of critical structures in enterprises.	21	16.03
3	I rather agree with the application of critical structures in enterprises.	18	13.74
4	I agree with the application of critical structures in enterprises.	46	35.11
5	I do not know.	12	9.27
Totally		131	100.00

Source: author's own findings

Table 4 Indicators of Economic Security of Enterprises

Indicator	Optimal range/ value
Cost rate of return in %	Over 10%
Indebtedness of the company	20-70%
Turnover of capital in the days and years	Increasing
Labor productivity of net value added	Calculated per employee
Cash flow- profit	In euros
Potential market share	In %

Source: the author

5 CONCLUSION

Our results show a low level of economic security of our businesses. Most small and medium-sized enterprises reaches the minimum rate of return and the cost of labor productivity from added value. Nearly 87% of businesses financially indebted and achieves a lower degree of liquidity commitments.

It turned out that one of the causes of that condition are inefficient corporate structures,

inadequate sales of products and low price of products. Finally, it is inefficient in-house management and irregular evaluation of production and economic performance of enterprises.

Having said that there is a need for the application of critical infrastructures and limits of economic security of companies.

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Received for publication: 04.02.2014

Revision received: 20.10.2014

Accepted for publication: 29.12.2014

How to cite this article?

Style – **APA Sixth Edition:**

Gozora, V. (2015, Jan 15). Economic Security of small and medium enterprises. (Z. Čekerevac, Ed.) *MEST Journal*, 3(1), 114-119. doi:10.12709/mest.03.03.01.13

Style – **Chicago Fifteenth Edition:**

Gozora, Vladimir. 2015. "Economic Security of small and medium enterprises." Edited by Zoran Čekerevac. *MEST Journal (MESTE)* 3 (1): 114-119. doi:10.12709/mest.03.03.01.13.

Style – **GOST Name Sort:**

Gozora Vladimir Economic Security of small and medium enterprises [Journal] // *MEST Journal* / ed. Čekerevac Zoran. - Belgrade : MESTE, Jan 15, 2015. - 1 : Vol. 3. - pp. 114-119.

Style – **Harvard Anglia:**

Gozora, V., 2015. Economic Security of small and medium enterprises. *MEST Journal*, 15 Jan, 3(1), pp. 114-119.

Style – **ISO 690 Numerical Reference:**

Economic Security of small and medium enterprises. **Gozora, Vladimir**. [ed.] Zoran Čekerevac. 1, Belgrade : MESTE, Jan 15, 2015, *MEST Journal*, Vol. 3, pp. 114-119.