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FINANCING OF INNOVATION ACTIVITIES OF SMALL AND MEDIUM – SIZED ENTERPRISES

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Abstract

It is generally acknowledged, that small and medium – sized enterprises (SMEs) are important for bringing innovative products to the market. Despite the profound role, which the SME sector plays in economic indicators of the Slovak republic, these economic actors are often underestimated, esp. in the area of finance. The aim of this article is to present innovation activities of SMEs and their funding in the Slovak Republic (SR). The article presents current position of Slovakia in foreign surveys assessing its innovation activities. It is analyzed by the use of data of Statistical Office of the SR. In this regard, they deserve more attention and assistance from the state. We recommend the measures to increase innovation activities of SMEs.

Key words

SMEs, innovation, financing

JEL classification

G14, G31

1. Introduction

Small and medium – sized enterprises (SMEs) are nowadays classified as a basis, or a backbone of the Slovak economy. They represent 99.9% of the business sector. They are a key source of economic growth, dynamism and flexibility. Moreover, SMEs are particularly important for bringing innovative products or techniques to the market.

The aim of this article is to present innovation activities of SMEs and their funding in the Slovak Republic (SR).

The level and intensity of innovation activity in individual enterprises depends not only on the willingness, or the ability of an enterprise to engage in innovation, but it is also influenced by external factors. In this regard, SMEs must overcome many obstacles in the implementation of innovative processes so they are often prevented from realizing their innovative ideas. Cost factors, particularly lack of finance and high innovation costs are considered by Slovak enterprises to be the most important factors hindering their innovative activities.

Market and knowledge factors are also important barriers to innovation. Most of these barriers, enterprises are not able to overcome with their own power and they need help from the state. In this article, therefore, we pay attention to the possibilities of SMEs to finance their innovation activities and to the possibilities of their support offered by the state / EU in this respect. At the end we propose some measures for improvement of innovation activities of SMEs, esp. measures connected with their funding.

2. Innovation activities of SMEs

There are many surveys assessing the innovation activities which reveal that Slovakia is moderate innovator and the innovation activity of Slovak SMEs is low and does not show any signs of improvement.

The most recent edition of the European Innovation Scoreboard which was published on 14 July 2016, revealed that the performance of Slovakia as well as of Croatia, Cyprus, Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Malta, Poland, Portugal, and Spain is below that of the EU average. These countries are Moderate Innovators.

The Regional Innovation Scoreboard 2016 revealed that Europe's most innovative regions are located in the most innovative countries, although regional innovative hubs exist in moderate innovator countries: Piemonte and Friuli-Venezia Giulia in Italy, País Vasco in Spain and Bratislavský kraj in Slovakia.

Based on the SBA's profile compiled for 2016, the European Commission assessed that one of major concerns in the core areas of the SBA for Slovakia is the area of Skills and Innovation.

According to the results of the survey "Community Innovation Survey (CIS) 2014" the decline in innovation activity of SMEs in Slovakia continued.

Eurostat data show that the share of small and medium-sized enterprises with innovative activity in 2014 was 30.5%. The achieved representation of innovative SMEs in 2014 was lower than in 2012 (32.3%) and 2010 (33.4%).

The innovation activity of Slovak SMEs does not show any signs of improvement nor in comparison with other EU countries. Slovakia is still included among countries with under-innovative innovation activity of SMEs. According to Eurostat, almost every third SME (30.5%) was innovative in Slovakia in 2014. However, in the EU - 28, nearly every second SME (48.0%) reports on the implementation of innovation activities.

SMEs in Estonia (25.6%), Hungary (25.3%), Latvia (24.3%), Bulgaria (24.2%), Poland (19.4% (12.2%) were placed behind Slovak SMEs. On the other hand, the most innovative SMEs are from Germany (65.6%), Luxembourg (64.2%), Belgium (63.2%) and the United Kingdom (59.9%).

The Statistical Office of the Slovak Republic reports that the highest measure of innovative activities is characterized by SMEs operating in the industry and services sectors. The lowest innovation activity is reported by SMEs in construction.

Analysing the development of innovative businesses in the Slovak Republic, we can find that the number and share of innovating businesses in Slovakia from 2001 to 2008 (except in 2003) had a rising trend. In 2010 the number of innovative businesses in comparison with the 2008 decreased from 3 494 to 2 106 and the share of innovative businesses of all enterprises decreased from 36.1% in 2008 to 35.6% in 2010. The reduction of innovation activity was influenced by depression in the years 2008 – 2010.

In the years 2010 - 2012, 31.3% of innovative enterprises were in the Slovak Republic. In industry and selected services, they were 34% together. However, the average level in the European Union stood at 48.9%. Compared to the previous period 2008-2010, when the share of innovative enterprises in Slovakia was 35.6%, the situation has become worse.

Compared to the previous survey in 2010, the share of innovative enterprises in industry decreased by 3.5 pp. and in the service sector increased by 0.6 pp., i.e. the overall decline in innovation activities was mainly due to the reduction of innovation activities within industry.

In individual sectors of economic activity, the share of enterprises with innovation activity was different and ranged from 11.1% to 85.7%. On average, it reached 32.4% in industry and 35.8% in services.

As in the period 2008 - 2010, innovation activity of enterprises was directly proportional to their size, although compared with this period in industry, there was a decrease in all enterprise size categories, most in the group of medium-sized enterprises. In this context, there was a stronger decline in innovation activities in large enterprises only, with small and, above all, medium-sized enterprises growing.

Although the share of the number of enterprises with innovation activity in industry and services together represented only 34% between 2010 and 2012, their share in total revenues was 66.9% and 58.3% in the total number of employees. This suggests that the economic weight of enterprises with innovative activity is higher than their number.

The share of revenues from sales of new or significantly improved products (market or business innovations) in total sales is an important indicator of the impact of innovation activity. This share was 40.2% in 2012, i.e., enterprises with technological innovation have achieved more than a third of their revenues for innovative products.

On average, 42.4% of product innovations in industry and selected services were developed by innovating enterprises themselves. 30.8% of innovations were realized by modifying or changing products or services originally developed by other businesses or institutions, with 14.1% of product innovation in industry and 10.8% of service innovation being developed by other businesses or institutions.

An important aspect of the evaluation of the development of innovating enterprises in the SR is their belonging to the individual branches of the processing industry and services according to the intensity of research and development and not by the characteristics of their products. According to the definition of the technological sectors mentioned in the revised OECD / Eurostat classification, the levels of high, medium, low and low technology, and the level of knowledge-intensive services and knowledge-intensive services are differentiated in the manufacturing industry.

Of the total number of manufacturing enterprises, almost 36% belong to the low technology group, more than three quarters to a low and medium-tech group. Only a third of manufacturing enterprises were innovative in 2010-2012, with 61% of those enterprises' innovation being technological in nature (the remaining 39% being non-technological innovations). Secondary technology enterprises were 21.2% in the manufacturing and 3.3% high technology. Innovation was most active in the medium-tech sector.

In the service sector, 28.8% of all enterprises are in the knowledge intensive sector, and 10.3% of them are in knowledge intensive, high technology services. In this technology sector, 48% of enterprises were innovative and 64.1% of them implemented technological and 35.9% non-technological innovation. The knowledge-intensive sector of services includes almost three quarters of service enterprises. Only a third of them developed innovation activity, with more than half of these activities being technological in nature.

According to the results of the Statistical Survey of the Statistical Office of the Slovak Republic in the period 2008-2010 the low share of innovating enterprises in the Slovak Republic is a result of the innovation barriers, which inhibit innovative activities in both innovating and non-innovative companies. Innovation barriers in Slovak enterprises are mainly costly, market and knowledge factors. Slovak companies consider cost factors as the main obstacles to their innovating activities. In particular, it is a lack of one's own resources to

finance innovation, lack of finance from outside the enterprise and too much high innovation costs that significantly restrict business innovation activities in industry and services.

The highest item of innovation expenditure in 2012 was the purchase of machinery and equipment (62.8%). This expenditure item in industry accounted for 62.1%, 66% for services, and 47.1% for total innovation expenditure in construction. Compared to 2010, the share of spending on the purchase of external R & D, which was 20.8% on average, increased by 13.2 pp in technology innovation enterprises in 2012. 13% of the total expenditures on innovations were allocated for internal research and development in enterprises in the Slovak Republic, which represents a decrease of 4.5 pp compared to the year 2010. There was 1.8% of the external knowledge allocated and spending on all other innovation activities reached 1.6% of total innovation expenditure (Belanová, 2015).

3. Funding

In Slovakia, there are currently both state and private institutions that cooperate with each other to support SMEs.

Government instruments for financial assistance to entrepreneurs in the field of innovation include in particular:

a) the microloan programme
b) venture capital funds
c) business loans
d) projects cofinanced from the EU funds
e) funds of repayable financial assistance (Belanová, 2012).

Among them, especially the help of the EU plays a significant role. EU 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.The EU gives small companies the possibilities of financing in various forms such as grants, loans, financing of the particular projects, guarantees, and other forms. At present, Slovakia is in the 2014–2020 period, for which the European Union approved Slovakia support from European Structural and Investment Funds through 9 national and regional programs of nearly EUR 15.32 billion. With a national contribution of EUR 4.72 billion, the SR has a total budget of EUR 20 billion to be invested in different areas from job creation and growth through promoting sustainable transport to protecting the environment and investing in research and innovation. Nevertheless, in drawing of the euro-funds, the Slovak Republic is on the lash of the EU member states.

We can talk about these basic forms of private financial support for entrepreneurs and their innovative activities (Belanová, 2014):

1. venture capital,
2. crowdfunding,
3. mezannine financing,
4. commercial bank products – business loans and so on.

4. Conclusion

The position of SMEs in national economy regarding the job creation, promotion of the local economy, balancing disparities in regional development, is important in the long run in Slovakia.

In 2016 they represented 99.9% of the total number of enterprises in the Slovak economy, offered job opportunities to nearly three quarters (74.1%) of the active work force in the corporate economy and participated with more than half (52.7%) in the creation of the added value. In the same year, the downward trend in the establishment of small and medium-sized enterprises has stalled.

Compared to other EU countries, Slovakia is characterized by high entrepreneurial activity and the dominant presence of microenterprises.

In 2016, it was not only the macroeconomic development, resp. a stable rate of economic growth that had a positive impact on SME business conditions, but also a range of support measures implemented within Slovakia's economic policy and its operation in the structures of the European Union. However, in the area of foreign trade and the introduction of innovations in economic practice, there has been no improvement in the position of Slovak SMEs, not only compared to larger enterprises but also compared to SMEs in EU countries. Expansion of these gaps can, in view of the aforementioned position of SMEs in the national economy, significantly affect the future socio-economic development of Slovakia. Stepping up the implementation of addressing national strategies and policies, creating a legal environment that takes into account the needs of SMEs as well as increasing the effectiveness of project implementation in the context of EU Structural Fund resources absorption in the 2014-2020 programming period presents the potential for reducing the gap.

To increase SME innovation activities, we recommend:

- ✓ to raise the awareness of entrepreneurs about the importance of innovative activities for SMEs;
- ✓ systematically support regional governments and regional structures created in previous periods to support innovation;
- ✓ to apply more effective incentives to continuously increase innovation activity in the business sector;
- ✓ to implement instruments to promote closer cooperation between the private sector and academia / research, using the best examples from the EU;
- ✓ to implement the measures from the Start-up Support Concept and the Development of the Start-up Ecosystem in the Slovak Republic into practice;
- ✓ to use innovative financial instruments to support the expansion and innovation of growth potential companies;
- ✓ to create tools to systematically support the participation of Slovak companies and organizations in European and international research and innovation programs (Horizon 2020 and similar);
- ✓ to support the establishment of cluster organizations.

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