

## COMPETITIVENESS OF SLOVAK SME'S IN THE CONTEXT OF COMPETITIVENESS OF SLOVAK REPUBLIC

Peter Malega<sup>1</sup>

**Abstract:** *Entrepreneurship has become the basic point of effective operation of the market economy, respectively the segment that makes from the economy the market economy. For the Slovak Republic, whose main objective is to reach the level of developed European countries in the shortest possible time, has business development extraordinary importance. The main objective of this paper is to describe the situation of SMEs in Slovakia as well as competitiveness of these enterprises. This paper consists of three main sections. The first section deals with competitive advantage, which is the necessary factor in competitiveness building. The second section is about competitiveness in general and competitiveness factors for SMEs. In the key third section you can find information about competitiveness of Slovak SMEs, while there is information about GCI index, SWOT analysis of SMEs competitiveness in Slovakia, most important factors of Slovak enterprises competitiveness and also problems of Slovak SMEs.*

**Key words:** Small and medium enterprises (SMEs), competitiveness, Slovak SMEs, GCI index

### 1 INTRODUCTION

Small and medium enterprises (SMEs) have an irreplaceable contribution to the economic growth, employment and competitiveness of each country, but because of their size, they are sensitive to changes in the external environment and their productivity is disturbing with the existence of barriers of entrepreneurship. [3] Because small and medium enterprises are unable to maintain control over the markets on which they operate, they face a higher business risk and have insufficient capital, it is necessary to realize active and effective support to maintain or increase their competitiveness and then subsequently help to increase the competitiveness of the country as a whole. [17, 30]

It can be said that the development of small and medium enterprises is one of the priorities of the Slovak economic development. The most important factor of this development is the creation of an appropriate business environment, which supposes simplification and clarification of legislation, reduction of administrative and tax burdens, reinforcement of the supporting infrastructure and improvement of access to capital. On the entrepreneurship development assist various factors such as, state support, cost-related investments and investments related to company operation. In the Slovak Republic, entrepreneurship, and especially entrepreneurship of small and medium enterprises, has an irreplaceable role, especially in the area of job creation and regional development. [21]

### 2 COMPETITIVE ADVANTAGE AS THE NECESSARY FACTOR IN COMPETITIVENESS BUILDING

Business success in a transparent and harmonic market economy is generally linked to the acquisition and maintenance of a competitive advantage. The structure of the competitive advantage is also adapted to

the growing complexity and dynamics of the business environment, and thus traditional perception, which emphasizes only some of the competitiveness components in a one-sided way, is currently inadequate. The competitive advantage is transformed into a phenomenon that is multi-component, multi-layer, dynamic and complementary. [1, 2]

The competitive advantage can arise only under favourable conditions that create disparities between enterprises. Disparities between enterprises cause the characteristics of their external and internal environment. [9, 25]

External conditions in many sectors are, for example, price indices of input raw materials, changes of exchange rate, tighter specification of environmental standards and others. These changes of external conditions result in a competitive advantage only when they have different effects on enterprises due to their different resources and capabilities. The ability to create a competitive advantage depends on the size, variability and complexity of external change, and on the size of the differences in quantity and the quality of internal business environment. [4, 5]

The requirement of competitive advantage existence is the defectiveness of competitive processes. In the markets can raise deficiencies that provide opportunities for competitive advantage creation that closely related to the existence of available resources. This includes deficient disposal with information, transaction costs and systematic trends in the behaviour of market participants. [8, 27] The temporary and unstable nature of the competitive advantage in the trading markets is the consequence of the resources nature that is necessary for competition, such as finance and information. Because finances are a relatively homogeneous resource, they provide a competitive advantage in the markets in case of unusually large transactions. Information is highly differentiated and offers bigger potential for the competitive advantage. Because they are easily portable (like the finances), the

competitive advantage from this resource tends to collapse quickly. [7, 28]

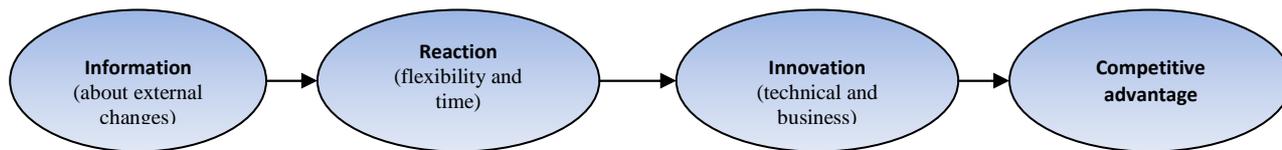


Fig. 1 Sequence information – reaction – innovation – competitive advantage [6]

Internal conditions that are important for competitive advantage creation are represented by innovations. Innovations are commonly identified with technology and are the materialization of new knowledge in the form of new products or production processes. In the wider meaning (business context) represents innovations also new approaches to doing business. [11, 26] Innovative business strategies include new ways of competing. Unconventional strategies are becoming an instrument for achieving excellent results. Modern successful enterprises are increasingly giving up those activities that aren't the source of a competitive advantage, and they concentrate only on those activities, in which they are excellent in comparison with their competitors. Sequence information – reaction – innovation – competitive advantage is in Fig. 1.

### 3 COMPETITIVENESS AND COMPETITIVENESS FACTORS FOR SME'S

Competitiveness in the field of entrepreneurship is very actual topic and is the subject of discussions at national, respectively international level, and especially in the EU context. The concept of competitiveness is very common nowadays. Despite the fact that more and more authors are concerned with the analysis of competitiveness, so far there is no uniform definition of competitiveness in the literature. This is because of the fact that it is possible to look at competitiveness from a number of perspectives. [10, 20, 29]

It can be analysed at different levels, e.g. at level:

- Product.
- Enterprise.
- Sector.
- Country.

Significant factors of increasing competitiveness at the enterprise level (including SMEs) include the application of modern methods in management and marketing, increasing labour productivity, application of modern research, science and technology into practice. Providing services includes a better work organization, the ability to implement innovations in a timely manner, work improvement with human resources, increasing the value of human capital for employees, effective motivation to work and work with prospective and talented employees. [13] The individual vertical levels of competitiveness and their factors M. E. Porter combines and thus provides a systematic approach to explain and predict the business competitiveness, as shows Fig. 2

The flexible and efficient organization of business processes positively influences the business competitiveness. Traditional approaches and concepts are no longer sufficient to ensure future competitiveness. A German survey conducted by 175 SMEs managers was aimed at assessment of the factors impact on the business competitiveness. Particularly important factors of competitiveness were identified the factors that are listed in Table 1. [16]

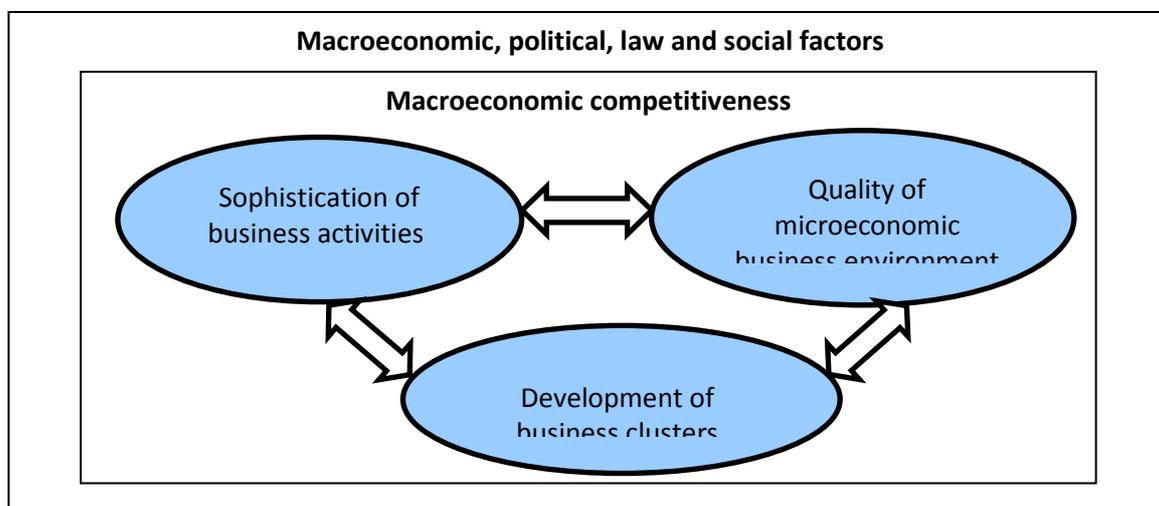


Fig. 2 Business competitiveness [12]

Table 1 Factors of competitiveness of SMEs [23]

Factors of competitiveness of SMEs	The importance of the factor for SMEs
Customers	96%
Competence of co-workers	93%
Quality	84%
Costs	79%
Innovative ability	76%
Internationality	55%
Organizational structure	54%

#### 4 COMPETITIVENESS OF SLOVAK SME'S

The measurement of competitiveness is carried out by the World Economic Forum through the Global Competitiveness Index (GCI). The index is built on 12 pillars of competitiveness and provides a comprehensive picture of the competitive environment in countries of the world at various stages of development. The basic pillars are [14, 22]:

1. Institutions.
2. Infrastructure.
3. Macroeconomic environment.
4. Health and primary education,
5. Higher education and training,
6. Goods market efficiency,
7. Labour market efficiency,
8. Financial market development,
9. Technological readiness,
10. Market size,
11. Business sophistication,
12. Innovation.

In Table 2 is the Global Competitiveness Index (GCI) in 2016. The Slovak Republic ranked in the place 65th.

Table 2 Global Competitiveness Index (GCI) in 2016

Country/Economy	Score (0-100)	Position
Switzerland	5,81	1
Singapore	5,72	2
USA	5,70	3
Netherlands	5,57	4
Germany	5,57	5
Sweden	5,53	6
United Kingdom	5,49	7
Japan	5,48	8
Hong Kong	5,48	9
Finland	5,44	10
---	---	---
Czech Republic	4,72	31
Poland	4,56	36
<b>Slovak Republic</b>	<b>4,28</b>	<b>65</b>
Hungary	4,20	69

Over the last twenty years, the Slovak Republic has worsened severely from its position and since 2000 it has dropped up to 40 places (2013) and now is the 65th position, as it is documented in Table 3.

Enterprises in Slovakia (including SMEs) are in the environment that is characterized by increasing market openness and integration of the economies. This causes importance growth of mutual comparison of individual enterprises, countries and regions. To ensure successful and long-term progress of SMEs and also their competitiveness, it is important to objectively evaluate the current situation in which are now Slovak SMEs.

According to the EU rules is a decisive factor of competitiveness the innovation, which is reflected in these forms [23]:

- Restoring and improving the range of products and services and expansion of relevant markets.
- Creation of new methods of production, supply and distribution.
- Indication of changes into management, work organization, working conditions and know-how.
- Skilled labor force.

SWOT analysis of SMEs competitiveness in Slovakia graphically displays Table 4.

Based on the research study of Research Department of the National Bank of Slovakia were identified the most important factors of Slovak enterprises competitiveness, which is clearly shown in the Table 5, while factors of competitiveness are arranged according to their importance, from most important to least important.

Table 3 Development of Slovak Republic position from the perspective of GCI index [15]

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Position SR</b>	38	40	49	43	43	41	37	41	46	47	60	69	71	78	75	67	65
<b>Change</b>		-2	-9	+6	0	+2	+4	-4	-5	-1	-13	-9	-2	-7	+3	+8	+2

Table 4 SWOT analysis of SMEs competitiveness in Slovakia [23]

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>Labour flexibility.</li> <li>High motivation to performance at the owners.</li> <li>General advantage of SMEs as the knowledge of local markets, respectively ability to flexible responds to market development.</li> </ul>	<ul style="list-style-type: none"> <li>Production with high energy intensity.</li> <li>Lack of orientation in the support for SMEs.</li> <li>Backwardness in the area of new technologies.</li> <li>Lack of knowledge and experience in the area of management and marketing.</li> <li>Prevalence of production with low added value.</li> <li>Lack of available financial resources in the enterprise in the field of intellectual property and business laws.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>Higher utilization of support programs for SMEs.</li> <li>Wider penetration in the European single market.</li> <li>Extension of cooperation between enterprises in area of common interest, building of cooperation networks and clusters.</li> <li>Support of SMEs through the development of research, innovation and technological development, respectively collaboration with research institutions.</li> </ul>	<ul style="list-style-type: none"> <li>Enhancing technical and technological backwardness of enterprises due to lack of financial resources.</li> <li>Impact of the financial and economic crisis.</li> <li>Competition from the large enterprises.</li> <li>Departure of highly skilled workers abroad.</li> </ul>

Table 5 Most important factors of Slovak enterprises competitiveness [24]

<b>Intradepartmental factors</b>	management professionalism, quality of enterprise management, focus on costs reducing (production price), efficiency of business management, range of communication technologies utilization,
<b>Branch factors</b>	customers' requirements, availability of qualified and experienced managers, nature of competitive advantage, offer an adequately skilled labour force, existence of developed customer industries,
<b>Macro-level factors</b>	EU membership, energy costs, euro utilization, exchange rate stability, quality of transport infrastructure.

The results of the most diverse surveys conducted on a sample of SMEs indicate that Slovak SMEs don't fully utilize the benefits offered by EU membership. Access to the EU markets is not obvious for Slovak SMEs, but nearly 1/3 of surveyed enterprises operate in the EU market.

The paradox is that, despite the fact that small businesses don't have sufficient financial resources, as revealed from these surveys, nearly 97% of enterprises didn't use the financial, respectively non-financial assistance from the EU. Slovak SMEs perceive constantly increasing competition in our market. The positive is the fact that they know that on the influx of competitors must respond. Almost 65% of enterprises react to increasing competition by improving the quality of their products and services.

Table 6 Share of export in total turnover in selected Slovak SMEs [23]

<b>Share of export in total turnover</b>	<b>Number of SMEs</b>
enterprise doesn't export	66
more than 70%	7
less than 70%	2
less than 50%	4
less than 30%	9
less than 10%	12

The most frequent response was that the enterprise doesn't export, which introduced 2/3 of respondents. This response was significantly represented in the category of micro enterprises with up to 9 employees (80%) and also in all business sectors except for businesses oriented on industrial production (27%).

It can be said, that despite the significant changes that occur in recent years in the field of SMEs in

Slovakia, there are still several problems that is very important to face (particularly small enterprises in Slovakia). Biggest problems of Slovak SMEs are named in Table 7. [19]

*"Controlling innovation of the industrial companies for the sustaining and improving their competitiveness".*

Table 7 Problems of Slovak SMEs

<b>Problems of Slovak SMEs in the phase of business start-up</b>	Lack of input capital, Contracts obtaining, Obtaining the place in the market, Provision of materials, machines, respectively workers, Legislative problems (registration, authorization), Passing distrust.
<b>Problems of Slovak SMEs in the phase of business development</b>	Financial difficulties, Tax and other burden, Sale difficulties, Insufficient infrastructure, Relations with local government.

Other barriers that decrease business success in Slovakia are:

- Relatively small capacity of Slovak market for specialization.
- Low purchasing power of the population.
- Recession and disruption of certain markets.
- Insolvency of large state-owned enterprises, public sector, educational system, respectively public health.
- Insufficient market protection.
- Difficulties with capital.

## 5 CONCLUSION

Available statistics about SMEs show that more than 40% of small business owners will end their business in the first year and 80% in five years. From these statistics logically results the fact that, if an entrepreneur makes a strategic mistake, he can expect end of his business in a very short time. Errors that occur at the beginning can decide about the very fast end of the business. And these errors have committed thousands of people and are well known and thus business can avoid these errors. If a beginning entrepreneur learns from the mistakes of others, he can eliminate a number of problems before they arise.

In principle, there is no way to eliminate all the risks associated with the establishment and operation of SMEs. The chances for success can entrepreneur increase by good planning. A good starting point is to evaluate your strengths and weaknesses as well as the opportunities and threats that are on the market that the entrepreneur decides to enter. [18]

Experiences in business are coming gradually, so it's good to learn from others – especially from those successful. This is not just related to the beginning of a business when the entrepreneur usually consults problems with friends, family or acquaintances, but especially the stages that start after the beginning of the business.

*Acknowledgements: This article was created by implementation of the grant project VEGA 1/0741/16*

## REFERENCES

- [1] Altomonte, C., Navaretti, G. B., di Mauro, F., & Ottaviano, G. (2011). Assessing competitiveness: how firm-level data can help. *Bruegel Policy Contribution*, 16.
- [2] Annoni, P., & Dijkstra, L. (2013). EU regional competitiveness index. Luxembourg, Europe.
- [3] Belás, J., Demjan, V., Habánik, J., Hudáková, M., & Sipko, J. (2015). The business environment of small and medium-sized enterprises in selected regions of the Czech Republic and Slovakia. *E+ M Ekonomie a Management*, (1), 95.
- [4] Bialková Šimová, D. (2014). Efficiency of amount incurred to support small and medium enterprises from EU funds. Bratislava, Slovakia: TU SjF Košice.
- [5] Bristow, G. (2010). Critical reflections on regional competitiveness: Theory, policy, practice. Routledge.
- [6] Brockhoff, K. (2012). Industrial research for future competitiveness. Springer Science & Business Media.
- [7] Camagni, R., Capello, R. (2010). Macroeconomic and territorial policies for regional competitiveness: an EU perspective. *Regional Science Policy & Practice*, 2(1), 1-19.
- [8] Delgado, M., Ketels, C., Porter, M. E., & Stern, S. (2012). The determinants of national competitiveness (No. w18249). National Bureau of Economic Research.
- [9] Dijkstra, S., & Giaccaria, P. (2013). Local development and competitiveness (Vol. 59). Springer Science & Business Media.
- [10] Eggers, F., Kraus, S., Hughes, M., Laraway, S., & Snyckerski, S. (2013). Implications of customer and entrepreneurial orientations for SME growth. *Management Decision*, 51(3), 524-546.

- [11] Grandori, A. (Ed.). (2012). *Interfirm networks: Organization and industrial competitiveness*. Routledge.
- [12] Hillary, R. (2000). *Small and Medium Sized Enterprises and the Environment: Business Imperatives*. UK: Greenleaf Publishing.
- [13] Hitt, M. A., Ireland, R. D., & Hoskisson, R. E. (2012). *Strategic management cases: competitiveness and globalization*. Cengage Learning.
- [14] <http://ec.europa.eu/COMMFrontOffice/PublicOpinion/index.cfm/Survey/getSurveyDetail/instruments/FLASH/surveyKy/2090>
- [15] [http://www.sbagency.sk/sites/default/files/msp\\_v\\_cislach\\_v\\_roku\\_2016\\_0.pdf](http://www.sbagency.sk/sites/default/files/msp_v_cislach_v_roku_2016_0.pdf)
- [16] Kováč, M., Malega, P., Spišáková, E. (2013) *Small and medium enterprises*. Košice, Slovakia: TU, SjF
- [17] Kráľovič, J., Vlachynský, K. (2002). *Financial management*. Bratislava, Slovakia: IURA EDITION, Ltd.
- [18] Lasagni, A. (2012). How can external relationships enhance innovation in SMEs? New evidence for Europe. *Journal of Small Business Management*, 50(2), 310-339.
- [19] Májková-Sobeková, M. (2011). Analyse of barriers and factors of SMEs funding in Slovak republic. *Economic magazine*, (10), 1033-1049.
- [20] Malega, P. (2010) External business environment searching as the important tool for decision-making. *Managerial Forum*, 8(2), 79-81.
- [21] Malega, P. (2012) Competitiveness of Slovak enterprises and possibilities of the comparison. *Managerial Forum*, 12(1), 17-22.
- [22] Malega, P. (2014) Entry strategy into foreign markets of small and medium enterprises. *Management of Companies*. 4 (2), 89-93.
- [23] Malega, P. (2017) *Small and Medium Enterprises in the Slovak Republic: Status and Competitiveness of SMEs in the Global Markets and Possibilities of Optimization*. In: *Optimal Management Strategies in Small and Medium Enterprises*. - Hershey : IGI Global, 102-124.
- [24] Malega, P., Janeková, J. (2015) *Economics of SMEs*. Košice, Slovakia: TU, SjF.
- [25] Martin, R., Kitson, M., & Tyler, P. (Eds.). (2012). *Regional competitiveness*. Routledge.
- [26] Nummela, N. (2011). *International Growth of Small and Medium Enterprises*. New York, USA: Routledge.
- [27] Rugman, A. M., Oh, C. H., & Lim, D. S. (2012). The regional and global competitiveness of multinational firms. *Journal of the Academy of Marketing Science*, 40(2), 218-235.
- [28] Smit, A. J. (2010). The competitive advantage of nations: is Porter's Diamond Framework a new theory that explains the international competitiveness of countries. *Southern African Business Review*, 14(1), 105-130.
- [29] Soinenen, J., Martikainen, M., Puumalainen, K., & Kyläheiko, K. (2012). Entrepreneurial orientation: Growth and profitability of Finnish small-and medium-sized enterprises. *International Journal of Production Economics*, 140(2), 614-621.
- [30] Zajko, M., Chodasová, Z., Jemala, Ľ., Materák, M. (2010) *Management of SMEs*. Bratislava, Slovakia: STU in Bratislava.

#### AUTHORS ADDRESSES

<sup>1</sup> Ing. Peter Malega, PhD.

Technical University of Kosice, Faculty of Mechanical Engineering, Institute of Management, Industrial and Digital Engineering, Park Komenskeho 9, 042 00 Kosice, Slovak Republic

E-mail: peter.malega@tuke.sk